

As filed with the Securities and Exchange Commission on December 1, 2020.

Registration No. 333-250037

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

AMENDMENT NO. 1 to

FORM S-1
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Hydrofarm Holdings Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5191
(Primary Standard Industrial
Classification Code Number)

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

**2249 South McDowell Boulevard Ext.
Petaluma, California 94954
(707) 765-9990**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Cogency Global Inc.
850 New Burton Road, Suite 201
Dover, Delaware 19904
(800) 483-1140**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Kenneth R. Koch, Esq.
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
Chrysler Center, 666 Third Avenue
New York, New York 10017
Tel: (212) 935-3000

Byron B. Rooney
Deanna L. Kirkpatrick
Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017
Tel: (212) 450-4000

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

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
Non-accelerated filer

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.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered ⁽¹⁾	Proposed Maximum Offering Price per Share ⁽²⁾	Proposed Maximum Aggregate Offering Price ⁽¹⁾⁽²⁾	Amount of Registration Fee ⁽³⁾
Common stock, par value \$0.0001 per share	9,966,667	\$16.00	\$159,466,672	\$17,397.82

- (1) Includes shares of common stock issuable upon exercise of the underwriters’ option to purchase additional shares of common stock.
- (2) Estimated solely for purpose of calculating the registration fee according to Rule 457(o) under the Securities Act of 1933, as amended (the “Securities Act”).
- (3) The registrant previously paid \$10,910 of this amount in connection with a prior filing of this registration statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED DECEMBER 1, 2020

Preliminary Prospectus



Hydrofarm Holdings Group, Inc.

8,666,667 Shares of Common stock

This is an initial public offering of common stock of Hydrofarm Holdings Group, Inc.

Prior to this offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share will be between \$14.00 and \$16.00. We have applied to list our common stock on the Nasdaq Global Select Market under the symbol "HYFM."

We will be treated as an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, for certain purposes until we complete this offering. As such, in this prospectus we have taken advantage of certain reduced disclosure obligations that apply to emerging growth companies.

Investing in our common stock is highly speculative and involves a high degree of risk. See "Risk Factors" beginning on page 23 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of the disclosures in this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	\$	\$
Underwriting discounts and commissions ⁽¹⁾	\$	\$
Proceeds, before expenses, to Hydrofarm Holdings Group, Inc.	\$	\$

(1) See the section titled "Underwriting" for a description of the compensation payable to the underwriters.

We have granted the underwriters an option for a period of 30 days from the date of this prospectus to purchase up to an additional 1,300,000 shares of our common stock to cover over-allotments, if any.

Certain entities, including entities affiliated with one or more existing stockholders, have indicated an interest in purchasing up to approximately \$30.0 million of shares of our common stock in this offering at the initial public offering price. However, because these indications of interest are not binding agreements or commitments to purchase, the underwriters may determine to sell more, less or no shares in this offering to any or all of these entities, or any or all of these entities may determine to purchase more, less or no shares in this offering. The underwriters will receive the same underwriting discount on any shares purchased by these entities as they will on any other shares sold to the public in this offering.

The underwriters expect to deliver the shares against payment in New York, New York, on or about _____, 2020.

J.P. Morgan

Stifel

Deutsche Bank Securities

Truist Securities

William Blair

The date of this prospectus is _____, 2020

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.



ACTIVE AIR™
Floor | Pedestal | Wall Mount

Heavy Duty

PHANTOM

STRONG · VERSATILE · RELIABLE

GROW!T™

COMMERCIAL GROWING MEDIA CLASSIC GROWING MEDIA

PE-DAT

autopilot®
Environmental Controllers

OPTIMAL GROWING CONDITIONS

PHOTOBIO

NOW AVAILABLE!

Introducing the All-New **PHOTOBIO-MX** LED Light Fixture

XTRASUN

GREAT FEATURES... GREAT VALUE!

digilux

HIGH OUTPUT DIGITAL BULBS

QUANTUM Horticulture

COMMERCIAL T5 LIGHTING SYSTEM

Take a quantum leap with Quantum Horticulture products.

Get Your **OXY CLONE** Clone On

BY HYDROFARM

JUMP START
Start your plants off right!

The Future is Looking Brite

agrobrite FLOODLIGHT GROW LIGHTS




HYDR FARM

TABLE OF CONTENTS

	<u>Page</u>
Prospectus Summary	1
Risk Factors	23
Special Note Regarding Forward-Looking Statements	54
Use of Proceeds	56
Dividend Policy	57
Capitalization	58
Dilution	61
Selected Consolidated Financial and Other Data	63
Management’s Discussion and Analysis of Financial Condition and Results of Operations	66
Business	86
Management	108
Executive and Director Compensation	115
Certain Relationships and Related Party Transactions	124
Principal Stockholders	126
Description of Our Indebtedness	129
Description of Capital Stock	133
Shares Eligible for Future Sale	140
Material U.S. Federal Income Tax Consideration for Non-U.S. Holders of Common Stock	142
Underwriting	146
Legal Matters	155
Experts	155
Where You Can Find More Information	155
Index to Consolidated Financial Statements	F-1

Through and including _____, 2020 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer’s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission (the “SEC”). You should not assume that the information contained in this prospectus is accurate on any date subsequent to the date set forth on the front cover of this prospectus even though this prospectus is delivered or shares of common stock are sold or otherwise disposed of on a later date. It is important for you to read and consider all information contained in this prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you under “*Where You Can Find More Information*” in this prospectus.

Neither we nor any of the underwriters have authorized anyone to give any information or to make any representation to you other than those contained in this prospectus. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any of our shares of common stock other than the shares of our common stock covered hereby, nor does this prospectus constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions as to the offering and the distribution of this prospectus applicable to those jurisdictions.

Emerging Growth Company

We are an emerging growth company, as defined under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). The JOBS Act provides that an emerging growth company can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Subject to certain conditions set forth in the JOBS Act, if, as an “emerging growth company,” we choose to rely on such exemptions we may not be required to, among other things, (i) provide an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board (“PCAOB”) regarding mandatory audit firm rotation or a supplement to the auditor’s reporting providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the CEO’s compensation to median employee compensation.

We could remain an “emerging growth company” for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1.07 billion in non-convertible debt during the preceding three-year period.

Presentation of Financial Information

Pursuant to the applicable provisions of the Fixing America's Surface Transportation Act, we are omitting our financial statements for periods prior to the year ended December 31, 2018.

Industry and Market Data

This prospectus includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information.

Trademarks

Our primary trademarks include "Hydrofarm", "PHANTOM BALLAST", "ACTIVEAQUA", "ACTIVE AIR" and "PhotoBio" and all of which are registered in the United States with the U.S. Patent and Trademark Office.

Dear Prospective Shareholders,

As a veteran of the consumer packaged goods (“CPG”) industry, I have had the privilege of leading many great companies through transformative periods. Harnessing the power of brands, delivering innovative solutions and achieving supply chain excellence are core principles I have followed over the past 30 plus years. In my experience, these principles were always key to driving superior long-term growth, profitability and shareholder value.

When I joined Hydrofarm in 2019, it was clear that the Company already had world-class brands and a 40-year reputation as a trusted partner in what has been, until the last decade, a cottage industry. Since its inception, Hydrofarm has been at the forefront of bringing together a complex supply chain ecosystem to serve the specialized needs of its customers. Yet today, in many ways, I see that Hydrofarm is just getting started. The right playbook will unlock opportunities to move the Company into a new phase of growth. I took the opportunity to invest my time and resources in Hydrofarm and am deeply proud to have joined the Company on its journey towards realizing its potential.

What got me so excited? Hydrofarm sits at the intersection of two of the most compelling market opportunities of our time: the consumer-led movement towards the legalization of cannabis in the U.S. and its legalization in Canada, and a revolution in controlled environment agriculture (“CEA”). I believe the first of these will result in the formation of the most substantial new consumer category we have seen in a generation. The second is a key pillar for re-engineering the global agricultural supply chain to focus on local, high-quality, equitable and sustainable farming practices through continued innovation in agricultural technologies. Hydroponics is squarely at the core of both.

CEA empowers farmers to operate more efficiently and sustainably. CEA requires less land and less water, and substantially eliminates chemical run-off. The result is superior crop yields with reduced levels of carbon emissions, water usage and environmental impact, while providing for significant optimization throughout the value chain. Sustainability is at the heart of what we do and why I believe Hydrofarm is an exciting growth opportunity for investors, and in particular, those focused on environmental, social and governance factors. From indoor production of medical-grade cannabis, to innovative vertical farming techniques in densely populated areas, entrepreneurial farmers are just beginning to explore the vast global potential of CEA, and we anticipate that the global CEA market will grow to \$100 billion or more over the next several years.

Cannabis in North America is also at an exciting juncture. The majority of American citizens now support having legal access to medical and/or adult-use cannabis. Legislative momentum has hit an inflection point in 2020, driven by evolving popular opinion and substantial budget shortfalls at all levels of government resulting from the pandemic. With such change and progress underway, the North American cannabis industry is expected to approximately double over the next five years.

Our leadership team often refers to Hydrofarm as a “40 year-old start-up” — we are proud of both our strong heritage and our entrepreneurial culture focused on growth. To bring this to life, we have put in place the right team, comprised of both company veterans and new leaders with fresh perspectives. This team has developed a strategic framework to invest in our competitive strengths and capture the massive opportunity that stands ahead of us. We are in the early innings of this growth plan and are highly energized by the significant progress we’ve made to date. Our leadership team’s broad experience with highly successful CPG and other consumer-facing businesses helped shape our strategic priorities — we believe there is significant opportunity to bring these CPG best practices to this fragmented, rapidly growing industry:

1. **Build trusted brands:** Gold standard brands in CPG bring with them a trusted promise of great product quality and consistency. In hydroponics, growers must carefully control all key environmental variables or risk jeopardizing both yield and product quality. When growers find an approach that delivers quality results, they become strong brand loyalists and even advocates. Brands matter in this category, and we need to continue to strategically invest in ours.
2. **Drive innovation:** We believe hydroponics is in its early stages, and there remains tremendous opportunity for innovation. Entrepreneurs around the globe are driving game-changing innovations that are delivering meaningful environmental and financial returns. We are investing in product innovation within our leading proprietary brands and through working with our exclusive brand partners. The goal of our

innovation efforts is to provide customers with differentiated agricultural technologies and solutions that keep us at the leading edge of our industry.

3. **Deliver best-in-class service:** The core of our business is to provide best-in-class service to hydroponic retailers and growers. We can deliver to almost 90% of the U.S. population within 48 hours of receiving an order. Our retail partners are the backbone of what Hydrofarm has delivered for over 40 years. However, the growth of hydroponics and cannabis is giving birth to a second major customer segment: large-scale, professional multi-state operators. Hydrofarm has built a platform to serve the unique needs of both markets. We have built a dedicated team and a proprietary commercial solution that brings highly efficient supply chain management best practices into an otherwise unstructured and fragmented industry. Our distributor managed inventory platform draws parallels to CPG's vendor managed inventory system. This technology-enabled solution delivers improved inventory management and better pricing for end customers, while empowering our organization to increase throughput, deepen customer relationships and get early visibility into demand.
4. **Capitalize on fragmentation:** Across the value chain, the hydroponics industry remains highly fragmented. With a strong, well-capitalized balance sheet in place, we expect to be able to opportunistically add to our brand portfolio, expand our market share and further strengthen our competitive "moat". Our leadership team has extensive experience executing M&A, and we are eager to capitalize on our standing as the acquirer of choice in a fragmented industry.

Our mission is clear: bring innovative solutions, trusted brands and gold standard service to the rapidly expanding and complex CEA industry. To do that, we need to invest in our brands, optimize the supply chain and drive innovation while continuing to expand our operating platform and go-to-market model. I am very excited by what we have achieved with respect to these initiatives, but we are just getting started. I believe we will be successful in these efforts and hope you choose to join us on this exciting journey.

With gratitude,

Bill Toler

Chairman and Chief Executive Officer

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the notes thereto and the information set forth under the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections of this prospectus. Unless the context otherwise requires, we use the terms “Hydrofarm,” the “Company,” “we,” “our,” “us,” or similar terms in this prospectus to refer to Hydrofarm Holdings Group, Inc. and, where appropriate, our consolidated subsidiaries. Unless we specifically state otherwise, the information in this prospectus assumes a 1-for-3.3712 reverse stock split of our common stock effected on November 24, 2020.

Introduction

We are a leading independent distributor and manufacturer of controlled environment agriculture (“CEA”, principally hydroponics) equipment and supplies, including a broad portfolio of our own innovative portfolio of proprietary branded products. We primarily serve the United States 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. For the trailing twelve months ended September 30, 2020, we had net sales of \$308.5 million; from 2005 to 2019, we generated a net sales compound annual growth rate (“CAGR”) of approximately 16%.

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

We reach commercial farmers and consumers through a broad and diversified network of over 2,000 wholesale customer accounts, who we connect with primarily through our proprietary eCommerce marketplace. Over 80% of our net sales are into the specialty hydroponic retailers, through which growers are able to enjoy specialized merchandise assortments and knowledgeable staff. We also distribute our products across the United States and Canada to a diversified range of retailers of commercial and home gardening equipment and supplies that include garden centers, hardware stores, eCommerce retailers, commercial greenhouse builders, and commercial resellers.

How We Serve Our Customers

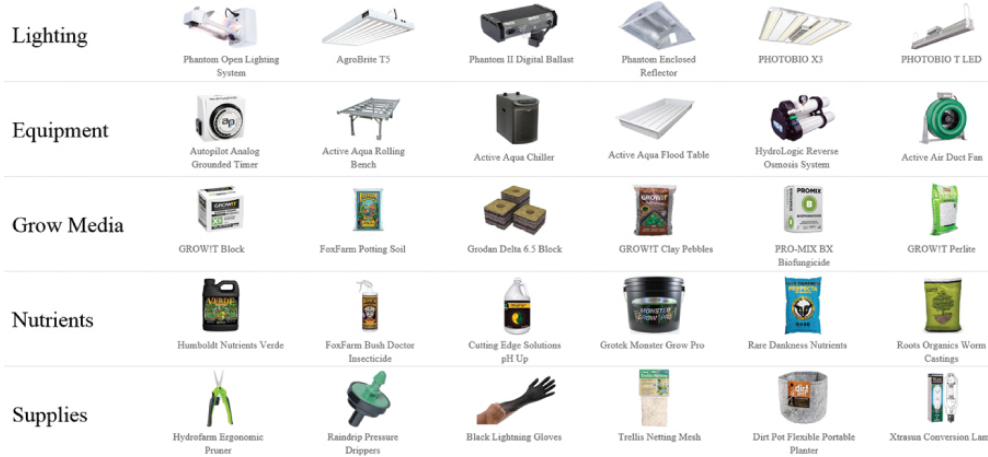
Our customer value proposition is centered around two pillars. First, we strive to offer *the best selection* by being a branded provider of all CEA needs. Second, we seek to be *the gold standard in distribution and service*, leveraging our infrastructure and reach to provide customers with just-in-time (“JIT”) delivery capabilities and exceptional service across the U.S. and Canada.

Complete Range of Innovative CEA Products

We offer thousands of innovative, branded CEA products that are supported by 24 patents and 60 registered trademarks. Our product offerings span lighting solutions, growing media (i.e., premium soils and soil alternatives), nutrients, equipment and supplies and includes more than 6,000 stock-keeping-units (“SKUs”) sold under leading proprietary, exclusive/preferred brands or non-exclusive/distributed brands. Some of our most well-known brands include Phantom and Active Aqua as well as in-licensed brands such as FoxFarm and Grodan. We estimate that approximately two-thirds of our net sales relate to recurring consumable products, including growing media, nutrients and supplies that require regular replenishment. The remaining portion of our sales relate to durable products such as hydroponic lighting and equipment. The

majority of products we offer are produced by us or are supplied to us under exclusive/preferred brand relationships providing for attractive margins and a significant competitive advantage as we offer retailers and resellers a breadth of products that cannot be purchased elsewhere.

The following graphic illustrates a representative set of our market-leading products across key CEA product categories:

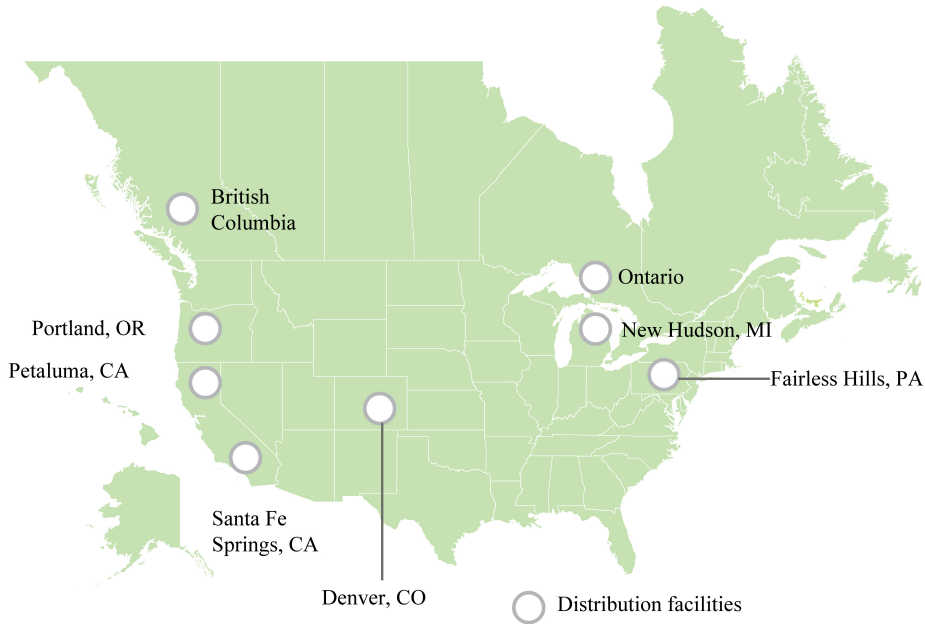


Infrastructure and Reach for Fast Delivery, High In-Stock Availability and Exceptional Service

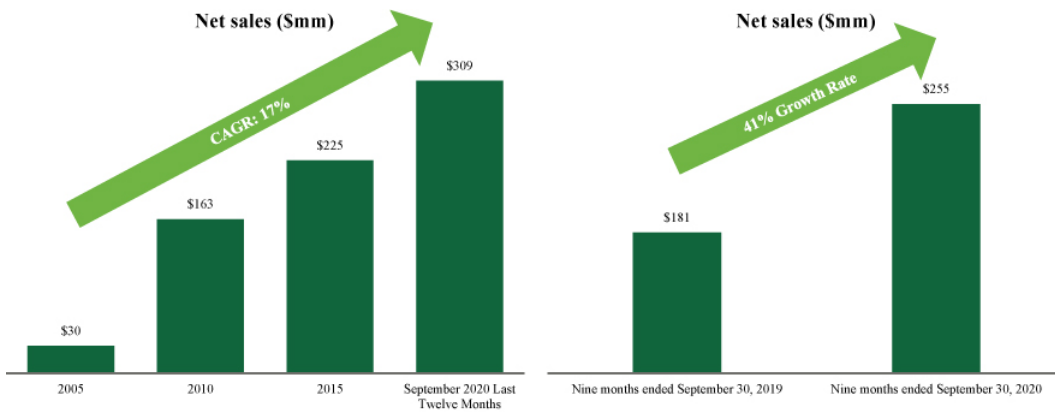
Our infrastructure and reach enable us to provide delivery and service capabilities to a highly diverse group of customers across the U.S. and Canada. We believe that our six U.S.-based distribution centers can reach approximately 90% of the U.S. population within 24 to 48 hours and that our two Canadian distribution centers can provide timely coverage to the full Canadian market.

In the U.S., we operate distribution centers in Petaluma, California; Santa Fe Springs, California; Portland, Oregon; Denver, Colorado; Fairless Hills, Pennsylvania; and New Hudson, Michigan. In Canada, we have distribution centers in Langley, British Columbia and Cambridge, Ontario. Outside of North America, we operate a distribution center in Zaragoza, Spain, and we have an office for product quality assurance and supply chain management in Shenzhen, China. We partner with a network of third-party logistics companies that facilitate expeditious delivery to our customers across the globe. The majority of customer orders are received through our business-to-business e-commerce platform. Through our differentiated Distributor Managed Inventory (“DMI”) Program, we partner with our network of retailers and resellers to create customized, JIT supply chain solutions for large commercial end users.

The following illustration provides an overview of our operating footprint.



Over the past fifteen years, we have grown our net sales at an approximate 17% CAGR. This historical growth is largely due to the growth in CEA growing across several end-markets, including cannabis, and our ability to continuously develop, manufacture and distribute innovative branded products on timely basis.



We believe our industry is poised to grow significantly. Expanding populations, limited natural resources and a focus on the environment and the security of our agricultural systems have illuminated the benefits of CEA compared to traditional outdoor agriculture. We believe the adoption of CEA will continue to accelerate, particularly in the commercial agriculture industry, where CEA can be deployed to achieve grows that are simultaneously more efficient for the planet and profitable for growers. Furthermore, certain of our end-markets are experiencing significant growth, including cannabis. The global cannabis industry is a rapidly developing business opportunity for us, particularly as the legal market in the United States continues to expand.

To support this significant growth opportunity and to improve our profit margin profile, we recruited a new Chairman and Chief Executive Officer, William (“Bill”) Toler, in early 2019. In turn, over the past 18 months, Mr. Toler recruited over five new executives and quickly put in place several management initiatives intended to support growth and improve our profit margins. These initiatives include, but are not limited to,

further developments of proprietary brands, freight cost management and distribution network optimization, and the expansion of our commercial segment and DMI.

Given our strong historical net sales growth, the accelerating growth in our primary end-markets, and the strength of our new management team, we believe that we are well positioned for significant and sustained net sales and earnings growth.

Our Industry is Large and Rapidly Growing

The Expanding Controlled Environment Agriculture Market

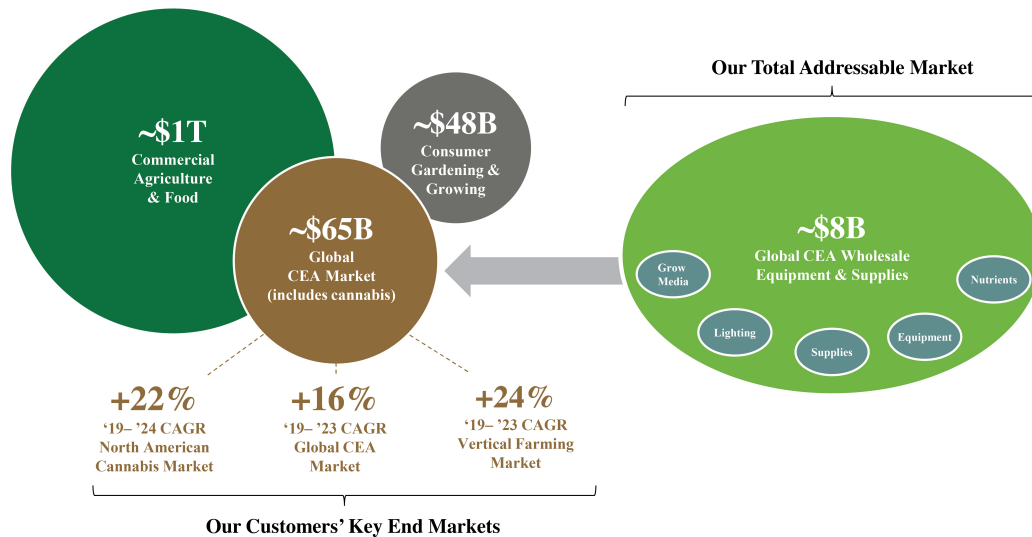
Our principal industry opportunity is in the wholesale distribution of CEA equipment and supplies, which generally include grow light systems; advanced heating, ventilation, and air conditioning (“HVAC”) systems; humidity and carbon dioxide monitors and controllers; water pumps, heaters, chillers, and filters; nutrient and fertilizer delivery systems; and various growing media typically made from soil, rock wool or coconut fiber, among others. Today, we believe that a majority of our products are sold for use in CEA applications.



Pictured: PHOTOBIO LED Light, Active Aqua Grow Flow 5 gal system, Active Aqua Flexible Air Stone, OxyCLONE 20 Site System with Timer and Light Kit, Active Air CO2 System with Timer

CEA is an increasingly significant and fast-growing component of the expansive global commercial agriculture and consumer gardening sectors. According to the USDA and National Gardening Survey, the agriculture, food, and related industries sector produced more than \$1 trillion worth of goods in the U.S. alone in 2017, and U.S. households spent a record of approximately \$48 billion at retail stores on gardening and growing supplies and equipment.

According to industry publications, the global CEA industry totaled approximately \$65 billion in 2019, and is expected to grow at a CAGR of 16% from 2019 to 2023. The rapid growth of CEA crop output will subsequently drive growth in the wholesale CEA equipment and supplies industry. According to industry publications, the global wholesale CEA equipment and supplies industry totaled approximately \$8 billion in 2019 and is expected to grow at a CAGR of 12.8% from 2019 to 2025.



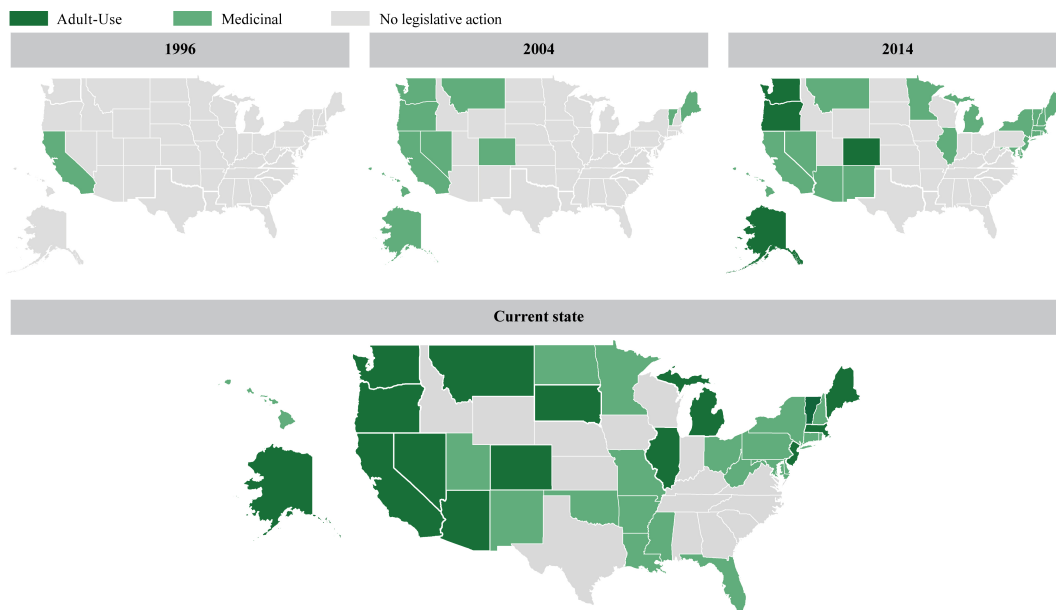
Powerful Trends are Driving Significant Industry Growth

We believe that the growth in the wholesale distribution of CEA equipment and supplies is driven by a broad array of factors including:

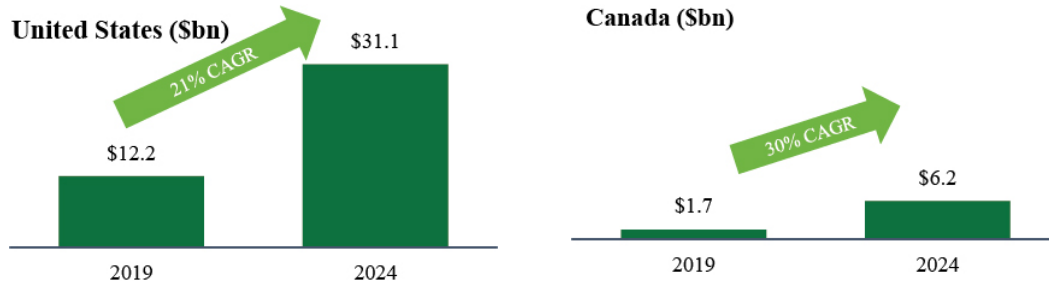
Significant Growth in the Cannabis Industry

Today, we believe that a majority of the CEA equipment and supplies we sell to our customers is ultimately purchased by participants in the cannabis industry, though we do not sell to participants in the cannabis industry directly. The North American cannabis industry is massive and growing rapidly, driven largely by state-level legalization efforts in the U.S. and federal-level legalization in Canada. The current and expected growth in the size of the cannabis market has and will continue to have a very significant, positive impact on our business.

The following map illustrates the state-level progression of cannabis legalization in the U.S., differentiating states that have fully legalized cannabis for medical and adult-use purposes and states that have partially legalized cannabis for medical purposes only. Importantly, though Canada and several U.S. states have taken significant steps towards cannabis legalization, we believe the North American legal cannabis market is still in the nascent stages of realizing its growth potential. As of the date of this prospectus, only 15 U.S. states and the District of Columbia had legalized cannabis for adult-use. The aggregate population of those states is only around one third of the total U.S. population. Furthermore, in U.S. states that have passed cannabis laws, many such laws remain restrictive to consumer access. As an example, we believe significant suppressed demand would be unlocked in Texas, should the state adopt a medical cannabis law that more closely resembles that of their neighboring state, Oklahoma, where we have seen significant growth since cannabis was legalized for medical use in 2018. In Canada, the governments of every province and territory have enacted laws allowing for the distribution and sale of cannabis for adult-use purposes; however the market remains in early stages of market development.



According to industry publications, the U.S. cannabis market is projected to reach approximately \$31.1 billion by 2024, up from approximately \$12.2 billion in 2019, representing a 21% CAGR. In Canada, the cannabis market is projected to reach approximately \$6.2 billion by 2024, up from approximately \$1.7 billion in 2019, representing a 30% CAGR. The following chart illustrates the forecasted growth of the cannabis industry in the United States and Canada:



This significant growth in the U.S. cannabis market is expected due to (i) state initiatives for new adult-use and/or medical-use programs in additional U.S. states, (ii) expanded access for patients or consumers in existing state medical or adult-use cannabis programs, and (iii) increased consumption driven by greater product diversity and choice, reduced stigma, and real and perceived health benefits in states with existing adult-use or medical use programs.

- State initiatives for new adult-use or medical-use programs.** We believe support for cannabis legalization in the U.S. is gaining momentum. According to a November 2019 poll by Pew Research Center, public support for the legalization of cannabis in the U.S. increased from approximately 41% in 2010 to approximately 67% in 2019.¹ According to a 2019 poll by Quinnipiac University, 93% of Americans support patient access to medical-use cannabis if recommended by a doctor. Furthermore, due to the recent socio-economic changes across the U.S. since early 2020, many state government budgets are increasingly under pressure to identify additional revenue sources, such as the potential revenue streams from the taxation and job creation that state legalized adult-use cannabis may offer. Accordingly, a number of states are at various stages of considering implementing laws permitting cannabis use or further liberalizing their existing laws permitting such use. Our sales per capita in U.S. states with legalized adult-use programs are on average several multiples higher than our sales per capita in states without adult-use programs. We believe this fact points to the significant opportunity available to us if or when additional U.S. states legalize adult-use programs.
- Expanded access for patients and consumers in existing state medical and adult-use programs.** The cannabis business in states with existing cannabis laws is in nascent stages in many cases and will continue to grow, creating jobs and opportunities for workers and entrepreneurs. Cultivators, manufacturers, dispensaries, delivery providers, labs and other cannabis-related businesses will continue to grow in these regions. As these businesses proliferate, consumers will benefit from easier access to cannabis products.
- Greater product diversity and choice, reduced stigma and real and perceived health benefits in states with existing adult-use or medical use programs.** Several key developments have contributed to an increase in cannabis product availability and breadth, including the proliferation of CBD and other cannabis-infused products, including edibles, oils, tinctures, and topical treatments. We believe that the historical stigmatization of cannabis use has diminished significantly, driven by a more supportive legislative environment, a rise in progressive sociopolitical views and greater consumer awareness of the potential health benefits of cannabis consumption. According to industry publications, real and perceived health benefits extend into areas including cancer treatment, pain management, the treatment of neurological and mental conditions, and sleep management. According to industry publications, the use of cannabis

¹ Daniller, Andrew. "Two-thirds of Americans Support Marijuana Legalization." *Pew Research Center*, Washington, D.C. (Nov. 14, 2019).

in the U.S. by adults aged 65+ has increased sharply in recent years from 0.4% in 2006 and 2.9% in 2015 to 4.2% in 2018 (JAMA Internal Medicine).²

Acceleration of CEA Adoption

Both the commercial agriculture and cannabis industries are increasingly adopting more advanced agricultural technologies in order to enhance the productivity and efficiency of operations. The benefits of CEA include:

- Greater product safety, quality and consistency;
- More reliable, climate-agnostic year-round crop supply from multiple, faster harvests per year as opposed to a single, large harvests with outdoor cultivation;
- Lower risk of crop loss from pests (and subsequently lower need for pesticides) and plant disease;
- Lower required water and pesticide use compared to conventional farming, offering incremental benefits in the form of reduced chemical runoff and lower labor requirements; and
- Potentially lower operating expenses from resource-saving technologies such as high-efficiency LED lights, precision nutrient and water systems and automation.

CEA implementation continues to increase globally, driven by the factors listed above as well as growth in fruit and vegetable farming, consumer gardening and the continued adoption of vertical farming. Vertical farming, a subsector of CEA, has gained popularity mainly due to its unique advantage of maximizing yield by growing crops in layers. Industry publications project that the global vertical farming market will reach approximately \$6 billion in 2023, up from \$3 billion in 2019 and representing a 24% CAGR from 2019 to 2023.³

While a small portion of cannabis cultivation may be grown in non-CEA settings, given the multitude of benefits of CEA cultivation, we believe CEA will continue to be the primary method of growing cannabis, driving demand for our products. The movement towards the legalization of cannabis in the U.S. and its legalization in Canada also comes with a corresponding increase in regulatory oversight and statutory requirements for growers and their products. These regulations enhance product safety and transparency to consumers but usually necessitate the use of CEA in cannabis cultivation in order to meet mandated THC content or impurity tolerances.

Increased Consumer Home Growing

We perceive consumer gardening to be a significant driver of future CEA growth. According to the National Gardening Survey, in 2017, 77% of U.S. households participated in lawn and garden activities, spending on average a record of \$503 per household. We expect this growth in consumer gardening and growing spending to continue, driven by both increased participation by millennials and strong continued participation by married households, adults over age 55, and adults without children. We believe that these demographic dynamics will result in an increase in the number of consumer gardening category participants, resulting in the purchase of more CEA products.

Strong Demand for Hemp for CBD Production

Hemp cultivation in North America has grown significantly since the passage of the U.S. Farm Bill in December 2018. Consumers are increasingly using hemp-derived products such as CBD for their therapeutic benefits. According to industry publications, the U.S. hemp-derived CBD market is expected to grow from \$1.2 billion in 2019 to \$6.9 billion in 2025, representing a six-year CAGR of 33.8%. We have experienced strong demand for our products from growers that solely harvest hemp and from cannabis growers who are adding hemp to their offerings. We are very well positioned to continue to capitalize on the growth of industrial

² Reproduced with permission from *JAMA Intern Med.* 2020. 180(4):609-611. Copyright © 2020 American Medical Association. All rights reserved.

³ Sinnarkar, Makarand. *Allied Market Research Reports*. "Green Technology and Sustainability Market is Expected to Reach \$44.61 Billion by 2026." (Feb. 2020).

hemp cultivation in North America especially as cultivation is increasingly done indoors. Both our current product portfolio and our pipeline of new products tailored to the needs of hemp cultivators will help us serve this burgeoning market.

Increased Focus on Environmental, Social, and Governance (“ESG”) Issues

We believe the growth and change in our end-markets is in part driven by a variety of ESG trends aimed at preserving resources and enhancing the transparency and safety of our food supply chains. Overall, CEA delivers superior performance characteristics versus traditional agriculture when compared on select key ESG performance criteria:

- **More efficient land usage.** CEA allows for greater crop production per square foot, reducing the amount of land needed to grow crops. Certain types of vertical farming are 20 times more productive than traditional farming per acre.
- **More efficient fresh water usage.** CEA allows for the management and recycling of water inside of a closed-loop system and therefore generally require less water than traditional outdoor agriculture. In certain instances, CEA can grow plants with up to 98% less water than soil based agriculture.
- **Decreased use of fertilizer and pesticides.** As CEA takes place in a controlled, often indoor environments, the need for pesticides application is reduced, allowing growers to apply less pesticide with more precise application compared to traditional outdoor agriculture.
- **Reduced carbon emissions.** CEA, especially vertical farming, allows large farming operations to be located significantly closer to end-users, thereby reducing the transportation distance of ready-to-use crops.
- **Reduced food waste.** Similar to the above, since CEA allows for food production significantly closer to end-user, there is less time between production and consumption and therefore reduced product spoilage, damage and waste.
- **Chemical runoff prevention.** Due to closed-loop nature of CEA systems, CEA significantly decreases the risk of chemical runoff, which is generally more difficult to control in traditional outdoor agriculture.
- **Supports organic farming.** CEA is well suited for organic farming, the produce of which has been in increasing demand by consumers.

COVID-19

The COVID-19 (“COVID-19”) pandemic has caused significant shifts in consumer sentiment and behavior thereby altering the dynamics of the CEA industry. Its effect on the cannabis industry may also drive a greater volume of sales by our customers, increasing demand for our CEA equipment and supplies. We believe that these changes, as outlined below, will benefit our industry in the long-term:

- **New entrants into the consumer gardening and growing market.** We believe that a meaningful portion of consumer gardening and growing product spending following the COVID-19 outbreak was driven by first-time users. We expect this to be a tailwind for the consumer gardening and growing market going forward as a portion of these consumers opt to work-from-home more.
- **Increased focus on food security and sustainable sourcing.** The COVID-19 pandemic has intensified consumer focus on food security and transparency of food production around the world. CEA offers a more sustainable and secure alternative to traditional outdoor agriculture, allowing food to be grown closer to where it is ultimately consumed, thereby reducing supply chain-related risks and food waste.
- **Pressure on governments to identify additional revenue streams, such as tax revenue from state legalized cannabis industries.** The COVID-19 pandemic has put a significant strain on government budgets, increasing pressure to find revenue from previously unexplored streams including state legalized medicinal or adult-use cannabis.

- **Home-centric lifestyle increasing use occasion opportunities for cannabis use.** The COVID-19 pandemic is expected to foster a long-term increase in at-home activity. This lifestyle shift may foster growth in the cannabis market by increasing potential occasions for cannabis use as cannabis is often consumed at home.
- **Essential service designation.** During lockdowns related to the COVID-19 pandemic, our manufacturing and distribution operations and a great majority of our key suppliers, retailers and resellers were designated as essential and remained open. This sets a key precedent about the vital importance of our operations and end-markets.

Our Competitive Strengths

We attribute our success to the following competitive strengths.

Leading Market Positions in Attractive Growing Markets

We are a leading independent distributor and manufacturer of CEA equipment and supplies in the U.S. and Canada and one of the two major consolidators in the CEA industry. The broader market is comprised of a fragmented group of smaller competitors. We serve several attractive end-markets, including hemp and indirectly, the cannabis industry. Favorable trends in CEA, including increased adoption of vertical farming methods to increase yields, are projected to drive a 24% CAGR for the vertical farming market through 2023 according to industry publications. Similarly, growers' increasing preference to reduce water and energy usage, limit pesticide use and risk of environmental runoff, and reduce labor costs coupled with growing consumer demand for fruits and vegetables are expected to drive significant growth in CEA methods. Furthermore, CEA allows farms to be located closer to their consumers, greatly reducing the costs and waste (namely CO₂ and spoiled food) related to transportation resulting in an overall smaller carbon footprint. However, we will likely see the most significant growth in cannabis. Increased support for cannabis legalization at the federal level in the U.S., an increase in U.S. states' implementation of adult-use and medical cannabis programs, continued growth in the Canadian cannabis market following the implementation of the Cannabis Act in 2018, and consumer and commercial awareness of the benefits associated with hemp-derived products will serve as significantly favorable tailwinds that will drive continued growth.

New, Experienced Management Team with Proven Track Record

Our management team possesses significant public market experience, a history of driving long-term organic growth and a track record of successful business consolidations. Bill Toler, Chairman and Chief Executive Officer, has over 35 years of executive leadership experience in supply chain and consumer packaged goods, most recently serving as President and Chief Executive Officer of Hostess Brands from April 2014 to March 2018. Under his leadership, Hostess Brands transitioned from a private to public company, regained a leading market position within the sweet baked goods category and returned to profitability. Bill also previously served as Chief Executive Officer of AdvancePierre Foods and President of Pinnacle Foods, in addition to holding executive roles at Campbell Soup Company, Nabisco and Procter & Gamble. Terence Fitch, President, possesses significant relevant business experience including more than 20 years of management experience with the Coca-Cola Company and Coke Enterprises, where he was responsible for manufacturing, supply chain, and sales and marketing for the multi-billion-dollar Refreshment Direct and Independent Bottlers business units. For the past six years, Terence has been working on building, managing and designing large CEA operations in Colorado and Arkansas. B. John Lindeman, Chief Financial Officer brings us more than 25 years of finance and leadership experience. Most recently he served as Chief Financial Officer and Corporate Secretary at Calavo Growers, Inc. (Nasdaq-GS: CVGW), a fresh food company, where he was responsible for the finance, accounting, IT and human resource functions. Prior to joining Calavo, he held various leadership positions within the finance and investment banking industries at Janney Montgomery Scott, Stifel Nicolaus, Legg Mason and PricewaterhouseCoopers LLP.

Broad Portfolio with Innovative Proprietary Offerings and Recurring Consumables Sales

We have one of the largest equipment and consumable product offerings in the industry. From lighting solutions to nutrients to grow mediums, we offer nearly everything growers need to ensure their operations are

maximizing efficiency, output and quality. We maintain an extensive portfolio of products which includes 26 internally developed, proprietary brands across approximately 900 SKUs with 24 patents and 60 registered trademarks as well as over 40 exclusive/preferred brands across approximately 900 SKUs. We maintain inventory across over 6,000 SKUs, and approximately 60% of our sales relate to proprietary and exclusive/preferred brands. Our proprietary and exclusive/preferred brands include lighting, equipment, grow media, nutrients and supplements. Our proprietary products command a significant gross margin premium relative to general distributed brands. Our revenue mix continues to shift towards proprietary brands as we continue to innovate, improving overall margins. Further, our revenue stream is highly consistent as, in our estimation, we believe that approximately two-thirds of our net sales are generated from the sale of recurring consumable products including growing media, nutrients and supplies. Our top 20 customers buy over 3,000 SKUs in the aggregate.

Proprietary Sourcing and Supplier Relationships Create Barriers to Entry

Our scale presents a significant barrier to entry as we have developed exclusive distribution relationships, proprietary brands and a geographic footprint that enables us to efficiently service customers across North America. We maintain approximately 900,000 square feet of distribution space across six distribution centers in the U.S. and two distribution centers in Canada. Furthermore, we have cultivated over the last 40 years long-term relationships with a network of approximately 400 suppliers, giving us access to a best-in-class products portfolio and allowing us to provide a full range of CEA solutions to our customers. We source individual components from our diverse supplier base to assemble our products, including utilizing a dedicated on-the-ground purchasing team in China to maintain and develop relationships with suppliers. To maintain competitive pricing, we implement cost sharing with certain of our suppliers. No single supplier makes up more than 9% of our total supplier costs.

Unique Ability to Serve Our Strong Customer Base

We maintain long-standing relationships with a diversified range of leading hydroponic retailers, retailers of commercial and home gardening equipment and supplies that include garden centers, hardware stores, eCommerce retailers, commercial greenhouse builders, and commercial resellers. We serve over 2,000 business-to-business customers across multiple channels in North America, providing customers with the capability to purchase their entire product range from us. Our commercial sales and DMI programs further enhance our customer capabilities, offering consultation, technical expertise, facilitated order fulfillment and JIT delivery of consumables. Our unique distribution capabilities allow us to provide JIT delivery across North America, utilizing six strategically located distribution centers in the U.S. and our two distribution centers in Canada. Our distribution footprint in the U.S. can reach approximately 90% of the population in 24 to 48 hours and our two distribution centers in British Columbia and Ontario can provide timely coverage to the fully Canadian market. We maintain coverage of industry trends and consumer preferences via thirteen sales managers complemented by teams made up of specialized product category experts. Given our ability to provide a comprehensive product offering and excellent customer service, we maintain over seven-year relationships with the majority of our largest customers.

Proven Mergers and Acquisitions (“M&A”) Track Record

Our management team has extensive experience with execution and integration of M&A opportunities. In November 2017, we acquired Eddi’s Wholesale Garden Supplies, Ltd. (“Eddi’s”) and the distribution division of Greenstar Plant Products, Inc. (“GSD”), which we believe were two of the leading CEA and lawn and garden distributors in Canada at the time of the acquisitions. Those acquisitions, combined with our existing infrastructure and experience, have enabled us to become one of the leading CEA equipment distributors in Canada. Additionally, we maintain relationships throughout our markets to identify specific product categories of interest for M&A activity. Our robust understanding of commercial growers’ needs coupled with our experienced M&A team has prepared us to make additional acquisitions in the hydroponics industry, which will help us to continue to grow our market share. We view M&A as a significant driver of potential growth as the hydroponics industry is fragmented and primed for consolidation.

Our Growth and Productivity Strategies

We are well positioned to capitalize on the growth of our underlying markets through the following strategies.

Capitalizing on Rapidly Growing Markets

Our customers benefit from macroeconomic factors driving the growth of CEA, including expanded adoption of CEA and vertical farming by commercial growers and consumers, as well as the growth in cannabis, hemp and other end-markets. As the world population grows and urbanizes, vertical farming is increasingly being used to meet the demand for food crops. Industry publications estimate that the global vertical farming market will expand at a 24% CAGR from 2019 to 2023. In addition, the U.S. and Canadian cannabis markets had an estimated value of approximately \$14 billion in 2019, and are projected to grow to \$37 billion by 2024. The hemp market has benefited from consumer adoption of hemp-derived CBD products. According to industry publications, the U.S. hemp-derived CBD market is expected to grow from \$1.2 billion in 2019 to \$6.9 billion in 2025, representing a six-year CAGR of 33.8%. We expect to capitalize on favorable cannabis and hemp growth trends by continuing to expand our operations globally.

Expanding our Proprietary Product Offering

We are expanding the breadth of our product assortment through continued development of our own proprietary brands. Our proprietary brands command a meaningful gross margin premium to our distributed products. Our core competency in new product innovation is in lighting, consumable and equipment categories, and we are enhancing research and development in our other product categories to expand our brand portfolio's value and further enhance our margins. We have launched several new product lines over the past year, including PhotoBio LED lighting equipment and Phantom Core HID lighting equipment. We also maintain a pipeline of next generation proprietary products and occasionally make investments in suppliers to create strategic relationships around the development of specific products and enhanced distribution agreements.

Adding Strategic Distribution Relationships and Exclusive/Preferred Brands

We can increase revenue with significant cross-selling activity to our current installed customer base by offering a more comprehensive assortment of products required by commercial growers to engage in cultivation. We have identified key suppliers with product solutions that are well established in the grower community for exclusive/preferred brand relationships. Exclusive/preferred brand relationships with leading brands drive sales and margin improvement. We believe we are a highly attractive distribution partner due to our scale and independence in growing media and nutrient categories. We have established sixteen new exclusive/preferred distribution relationships over the past two years including with established equipment and nutrient suppliers.

Enabling Wholesaler Network to Effectively Serve Commercial Growers

Working with our wholesale network, we are leveraging our sophisticated technical sales team to provide our wholesale network the ability to address the needs, demanding requirements and higher volume of their larger-scale commercial customers. Establishing these relationships with our channel provides us with insight and access to growers' evolving demands, leading to both increased equipment sales and recurring sales of consumables through our wholesale network. Our commercial grower outreach program, our analytically driven supply chain function and DMI capabilities enable our wholesaler network to anticipate customer demand for products and ensure their availability. The goal of these efforts is to maintain long-term relationships with our wholesalers by helping them be successful in providing cultivation square footage savings and access to JIT inventory to their customer base. We believe this can result in profitability for our wholesalers' customers on consumables and equipment. We also believe that increasing the value to our wholesale network will allow us to grow within key accounts and expand sales of our products and services to new accounts.

Expand our Operating Margins

We have developed and begun to implement specific productivity initiatives across our business as a means of funding growth. Our initiatives include the following:

- **Enhance Our Brand Mix.** We will continue to increase the percentage of proprietary and exclusive/preferred brands in our product portfolio. Our innovative proprietary and exclusive/preferred brands offer us a significant margin benefit compared to distributed brands.

- **Drive Supply Chain Efficiencies.** We are implementing multiple supply chain efficiency initiatives, including the review of our carrier sourcing relationships and intra-warehouse shipments for optimization opportunities, reducing the active SKU count by eliminating non-core SKUs, and the deployment enhanced inventory planning tools. For example, we have reduced our SKU count from 5,400 in 2019 to 3,700 in 2020. Additionally, we continually review our distribution network for optimization opportunities, and in doing so consolidated two warehouses to one in 2019.
- **Optimize the Customer Investment Program.** We have segmented our client accounts to improve our discounting decisions in order to maximize net sales as a percent of gross sales.
- **Leveraging G&A.** Additional areas of cost savings will come from more efficiently leveraging corporate overhead as our business continues to grow and scale.

Acquiring Value-Enhancing Businesses

The hydroponics industry is highly fragmented which we believe presents a significant opportunity for growth through M&A. Management is continually evaluating M&A targets and we believe, in this fragmented market, there will be continued opportunities for M&A. M&A provides us an opportunity to significantly increase distribution with independent brands and to add new products based on identified needs of commercial growers. We utilize clear investment criteria to make disciplined M&A decisions that will accelerate sales and EBITDA growth, increase competitive strength and market share and expand our proprietary brand portfolio.

Risks Associated With Our Business

Our business is subject to a number of risks and uncertainties that you should understand before making an investment decisions. Risks are discussed more fully in the section entitled “*Risk Factors*” of this prospectus. These risks include, but are not limited to, the following:

Risks Relating to Our Indebtedness:

- significant risks associated with our outstanding and future indebtedness of certain of our subsidiaries;
- restrictions imposed by our Loan Agreement and Encina Credit Facility on our ability to sell products directly to the cannabis industry; and
- we may not be entitled to forgiveness under the PPP Loan (as defined below) and our application for the PPP Loan could in the future be determined to be impermissible or could damage our reputation.

Risks Relating to Third Parties:

- we rely on a limited base of suppliers for certain products, which may result in disruptions to our business;
- if our suppliers are unable to source raw materials or the prices of raw materials increase, this may adversely affect our results of operations; and
- if our suppliers decide to sell directly into the retail market that we conduct our current or future business in, we may face increased competition.

Risks Relating to the Cannabis Industry:

- we are subject to a number of risks, directly and indirectly, because cannabis and cannabis-related activities are illegal under federal law;
- we may be indirectly subject to federal and state controlled substance laws and regulation due to our involvement in the cannabis industry;
- federal and state regulations pertaining to the use and cultivation of cannabis may adversely affect our business;
- new California regulations have caused licensing shortages and future regulations may create other limitations that decrease demand for our products;

- our products are subject to varying, inconsistent and rapidly changing laws;
- our indirect involvement in the cannabis industry could adversely affect our public reputation; and
- businesses involved in the cannabis industry are subject to a variety of laws and regulations related to money laundering, financial recordkeeping and proceeds of crimes.

Risks Relating to Other Regulations:

- we may be restricted by certain state and other regulations pertaining to the use of certain ingredients in growing media and plant nutrients, including the use of pesticides; and
- we are subject to certain U.S., state and foreign laws and regulations regarding how we collect, store and process personal information.

Risks Relating to Our Intellectual Property:

- recent changes in laws make it difficult to predict how patents will be issued or enforced in our industry;
- we may not be able to adequately obtain, maintain, protect or enforce our intellectual property and other proprietary rights;
- we may need to rely on licenses to proprietary technologies from time to time, which could be difficult or expensive to obtain; and
- we may be subject to intellectual property infringement, misappropriation and other violation claims or claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Risks Relating to Our Capital Stock:

- we may incur indebtedness or issue capital stock that ranks senior or equally to our common stock with certain liquidation preference and other rights, which may dilute our stockholders' ownership interest; and
- certain provisions in our corporate charter documents and in our current loan agreement and credit facility and under Delaware law could make an acquisition of our company more difficult and may prevent attempts by our stockholders to replace or remove current management.

Risks Relating to Our Business:

- competitive industry pressures;
- general economic and financial conditions, specifically in the United States and Canada;
- the adverse effects of public health epidemics, including the recent COVID-19 pandemic, on our business, results of operations and financial operations; and
- limitations and possible failures of our internal control systems.

Recent Developments

Effects of Coronavirus on Our Business

The World Health Organization recognized COVID-19 as a public health emergency of international concern on January 30, 2020 and as a global pandemic on March 11, 2020. Public health responses have included national pandemic preparedness and response plans, travel restrictions, quarantines, curfews, event postponements and cancellations and closures of facilities including local schools and businesses. The global pandemic and actions taken to contain COVID-19 have adversely affected the global economy and financial markets.

In response to the COVID-19 pandemic, we implemented business continuity plans designed to address the impact of the COVID-19 pandemic on our business, such as restrictions on non-essential business travel, the institution of work-from-home practices and the implementation of strategies for workplace safety at our

facilities. In March 2020, the majority of the employees at our headquarters transitioned to working remotely. For several weeks following the initial outbreak of COVID-19, we experienced a material impact to our supply chain that inhibited growth and results of operations. While we are not currently experiencing material adverse impacts to our supply chain, we intend to continue to source many products from China. It is difficult to predict the extent to which COVID-19 may continue to spread. As of the date of this prospectus, manufacturers in China are generally back in operation; however, a second wave of the COVID-19 pandemic could result in the re-closure of factories in China. Quarantine orders and travel restrictions within the U.S. and other countries may also adversely impact our supply chains, the manufacturing of our own products and our ability to obtain necessary materials. Consequently, we may be unable to obtain adequate inventory to fill purchase orders or manufacture our own products, which could adversely affect our business, results of operations and financial condition. 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.

Our customers reside in countries, primarily the U.S. and Canada, that are currently affected by the COVID-19 pandemic. Many of these customers have experienced shelter-in-place measures in attempts to contain the spread of COVID-19, including general lockdowns, closure of schools and non-essential businesses, bans on gatherings and travel restrictions. Although we cannot precisely quantify in absolute or relative terms, our accelerated rate of growth in net sales for the six months ended September 30, 2020 correlates with shelter-in-place orders issued in many locations in March 2020 in response to the COVID-19 pandemic. Our sales growth for the six months ended September 30, 2020 was approximately 50% higher than the same period in 2019. A portion of our net sales during this period could be due to pull-through demand for our products due to higher consumption of CEA products from individuals spending more time at home due to shelter-in-place measures. Although uncertainty created by the COVID-19 pandemic remains, and various state budgets remain under economic pressure creating a greater chance of further cannabis legalization, we cannot assure you that such a rate of growth will continue.

Our business has remained resilient during the COVID-19 pandemic. As of September 30, 2020, our manufacturing and distribution operations are viewed as essential services and continue to operate. Our key suppliers, retailers and resellers have been designated as essential services and remain open at this time, however, in certain places they are operating under reduced hours and capacity limitations. The majority of U.S. and Canadian cannabis businesses have been designated as essential by U.S. State and Canadian government authorities.

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. Depending on the length and severity of COVID-19, we may experience an increase or decrease in customer orders driven by volatility in consumer shopping and consumption behavior. While we are not experiencing material adverse impacts at this time, given the global economic slowdown, the overall disruption of global supply chains and distribution systems and the other risks and uncertainties associated with the COVID-19 pandemic, our business, financial condition, results of operations and growth prospects could be materially and adversely affected. While we believe that we are well positioned for the future as we navigate the crisis and prepare for an eventual return to a more normal operating environment, we continue to closely monitor the COVID-19 pandemic as we evolve our business continuity plans and response strategy.

Recent Transactions

PPP Loan

On April 7, 2020, we entered into a U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) promissory note in the principal amount of \$3.3 million payable to JP Morgan Chase, N.A. (the “PPP Lender”) evidencing a PPP loan from the SBA (the “PPP Loan”). The PPP Loan will bear interest at a rate of 1% per annum. No payments will be due on the PPP Loan during a ten month deferral period commencing on April 7, 2020. Commencing one month after the expiration of the deferral period, and continuing on the same day of each month thereafter until the maturity date of the PPP Loan, we are obligated to make monthly payments of principal and interest, each in such equal amount required to fully amortize the principal amount outstanding on the PPP Loan by the maturity date. The maturity date is April 7, 2022. The

PPP Loan contains customary borrower default provisions and lender remedies, including the right of the PPP Lender to require immediate repayment in full the outstanding principal balance of the PPP Loan with accrued interest. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon our request to the extent that PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll, rent, and utilities. The PPP Lender may forgive interest accrued on any principal if the SBA pays the interest. While we believe we have used the PPP Loan proceeds in a manner consistent with obtaining forgiveness, we intend to repay the PPP Loan on or about the consummation of the offering contemplated hereby as described in “*Use of Proceeds.*”

Preferred Stock Offering

On December 31, 2019, we entered into a securities purchase agreement with certain investors named therein, pursuant to which we issued and sold, in a private placement offering between December 2019 and February 2020, 7,725,045 shares of our Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”), at an offering price of \$3.50 (the “Preferred Stock Offering”). We received gross proceeds of approximately \$27 million (which includes proceeds of approximately \$8 million raised from the issuances of convertible unsecured subordinated promissory notes issued in September and October 2019 which converted into shares of our Series A Preferred Stock) in connection with the Preferred Stock Offering, before deducting fees and related offering expenses. Our Chief Executive Officer, Mr. Toler, purchased 1,428,572 shares of our Series A Preferred Stock. Upon the consummation of the offering contemplated hereby, the Series A Preferred Stock will automatically convert into shares of our common stock.

Encina Refinancing

In July 2019, certain of our subsidiaries (the “Subsidiary Obligors”) entered into a Loan and Security Agreement with Encina Business Credit, LLC (as amended to date, the “Encina Credit Facility”). The Encina Credit Facility provides for revolving borrowings under an asset-based loan commitment of up to \$45 million (inclusive of a limit of up to \$15 million of borrowings for the Canadian subsidiaries party thereto and a swingline facility of up to \$2.0 million), subject to applicable borrowing base availability. The Encina Credit Facility matures on July 11, 2022, or (ii) 90 days prior to the scheduled maturity date of the Term Loan Agreement. The Encina Credit Facility is secured by a first-priority lien on all cash, accounts receivable and inventory of the Subsidiary Obligors and a second-lien priority lien on all other personal property of the Subsidiary Obligors. A portion of the proceeds borrowed under the Encina Credit Facility were used to pay in full the Loan and Security Agreement dated November 8, 2017, as amended from time to time, among Bank of America, N.A. and the obligors party thereto (the “BofA Credit Facility”).

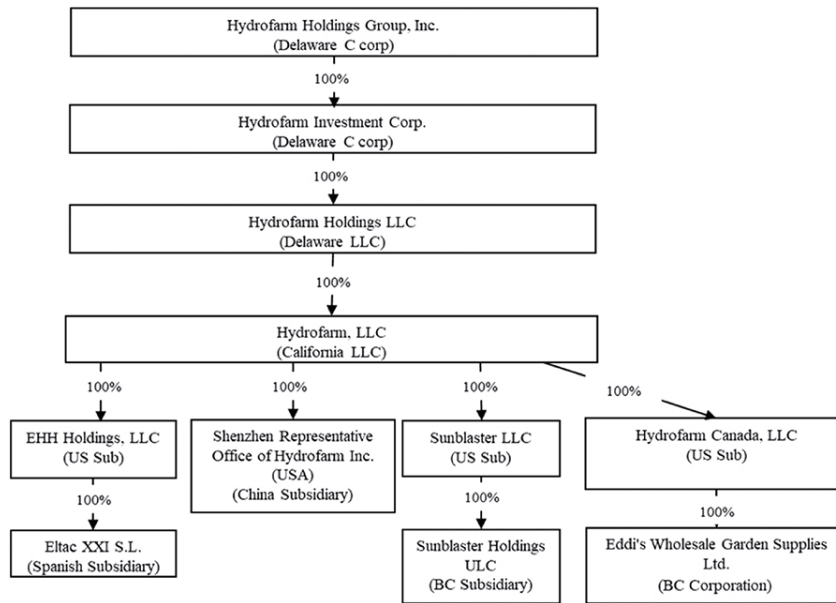
Reverse Stock Split

Our board of directors and stockholders approved an amendment to our amended and restated certificate of incorporation effecting a 1-for-3.3712 reverse stock split of our issued and outstanding shares of common stock. The reverse split was effected on November 24, 2020 without any change in the par value per share.

Corporate Structure

We have been in the business of indoor gardening since Hydrofarm, LLC, (originally, Applied Hydroponics, Inc.), one of our wholly-owned subsidiaries, was formed in the State of California on May 4, 1977. We conduct our business through our wholly-owned, direct and indirect subsidiaries. Hydrofarm

Holdings LLC is a shell entity and a subsidiary of Hydrofarm Holdings Group, Inc.; Hydrofarm Holdings LLC's subsidiary is Hydrofarm, LLC, our primary operating entity. The chart below depicts our current organizational structure:



Corporate Information

We were incorporated in Delaware in January 2017 under the name Innovation Acquisition One Corp. Our predecessor company, originally called Applied Hydroponics, Inc., was founded in 1977 in Northern California. We changed our name to Hydrofarm Holdings Group, Inc. on August 3, 2018 in connection with the Private Placement and Merger described in “*Business — History*” and “*Certain Relationships and Related Party Transactions — The Merger and Concurrent Offering*,” respectively. Our principal executive offices are located at 2249 South McDowell Blvd Ext., Petaluma, California, 94954 (the “Petaluma HQ”) and our telephone number is (707) 765-9990. Our website address is www.hydrofarm.com. The information contained on, or that can be accessed through, our website is not, and shall not be deemed to be part of, this prospectus. We have included our website address in this prospectus solely as an inactive textual reference. Investors should not rely on any such information in deciding whether to purchase our common stock.

THE OFFERING

Common stock offered by us	8,666,667 shares of common stock.
Option to purchase additional shares	The underwriters have an option, exercisable within 30 days of the date of this prospectus, to purchase up to 1,300,000 additional shares of our common stock.
Common stock to be outstanding after this offering	31,720,727 shares of common stock (or 33,020,727 shares of common stock if the underwriters exercise in full their option to purchase additional shares of common stock).
Use of Proceeds	We estimate the net proceeds from this offering will be approximately \$118.0 million (or \$136.1 million if the underwriters exercise their option to purchase additional shares in full), assuming an initial public offering price of \$15.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We expect to use the proceeds from this offering to repay existing indebtedness, for acquisitions, for working capital and other general corporate purposes, which may include the hiring of additional personnel and capital expenditures. We intend to use the net proceeds from this offering to repay borrowings outstanding under the Term Loan Credit Agreement, to paydown and refinance our borrowings outstanding under the Encina Credit Facility and to repay the PPP Loan. See “ <i>Use of Proceeds</i> ” and “ <i>Description of Our Indebtedness</i> ” for more information.
Dividend Policy	We have never declared nor paid cash dividends on our common stock. We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any dividends to holders of our common stock in the foreseeable future.
Risk Factors	Investing in our common stock involves a high degree of risk. See “ <i>Risk Factors</i> ” beginning on page 23 of this prospectus for a discussion of certain factors to consider carefully before deciding to invest in our common stock.
Directed Share Program	At our request, the underwriters have reserved up to 433,333 shares of our common stock, or 5.0% of the shares offered by this prospectus, for sale at the initial public offering price through a directed share program to our directors, officers and certain of our employees. The number of shares of our common stock available for sale to the general public will be reduced to the extent that such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus. See “ <i>Underwriting — Directed Share Program.</i> ”
Proposed Nasdaq Global Market symbol	“HYFM”

The 31,720,727 shares of our common stock outstanding after this offering is based on 20,688,439 shares of common stock outstanding as of September 30, 2020, 74,152 shares of common stock from restricted stock units that vested in October 2020, 2,291,469 shares of common stock issuable upon conversion of the

Series A Preferred Stock, assuming the Series A Preferred Stock converts at \$11.80 per share and that we pay the accrued dividends in cash, and a public offering of 8,666,667 shares, and excludes:

- 3,886,191 shares of common stock issuable upon exercise of outstanding warrants to purchase our common stock at a weighted average exercise price of \$16.11 per share;
- 922,994 shares of common stock underlying options to purchase our common stock at a weighted average exercise price of \$8.80 per share;
- 2,563,872 shares of common stock underlying restricted stock awards which have not yet vested;
- 2,209,896 shares of common stock reserved for future issuance under our 2020 Equity Incentive Plan; and
- 1,300,000 shares of our common stock exercisable at the underwriters' option.

In addition, unless we specifically state otherwise, the information in this prospectus assumes a 1-for-3.3712 reverse stock split of our common stock effected on November 24, 2020.

Certain entities, including entities affiliated with one or more existing stockholders, have indicated an interest in purchasing up to approximately \$30.0 million of shares of our common stock in this offering at the initial public offering price. However, because these indications of interest are not binding agreements or commitments to purchase, the underwriters may determine to sell more, less or no shares in this offering to any or all of these entities, or any or all of these entities may determine to purchase more, less or no shares in this offering. The underwriters will receive the same underwriting discount on any shares purchased by these entities as they will on any other shares sold to the public in this offering.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary of consolidated financial and other data for the years ended December 31, 2019 and 2018, and the nine months ended September 30, 2020 and 2019. We have derived the following consolidated financial and other data for the years ended December 31, 2019 and 2018 from our audited consolidated financial statements and the notes thereto included elsewhere in this prospectus. We have derived the following consolidated financial and other data for the nine months ended September 30, 2020 and 2019 from our unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus. Our historical results are not necessarily indicative of future results of operations and the results of operations for the nine months ended September 30, 2020 are not necessarily indicative of results for the full year. You should read the following financial information together with the information under “*Capitalization*,” “*Selected Consolidated Financial and Other Data*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our consolidated financial statements and the notes thereto, and our unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	Nine months ended September 30,		Years ended December 31,	
	2020	2019	2019	2018
(In thousands, except per share amounts)				
Income statement data for period ended:				
Net sales	\$254,763	\$181,338	\$235,111	\$211,813
Gross profit	47,624	21,576	27,086	24,070
Selling, general and administrative	37,084	30,759	43,784	42,229
Impairment, restructuring and other ^(a)	276	3,589	10,035	7,169
Income (loss) from operations	10,264	(12,772)	(26,733)	(25,328)
Interest expense	7,858	9,789	13,467	11,606
Net income (loss) ^(b)	2,125	(22,372)	(40,083)	(32,892)
Net income (loss) attributable to common stockholders ^(b)	135	(22,372)	(40,083)	(32,892)
Net income (loss) per share attributable to common stockholders – diluted ^(c)	\$ 0.01	\$ (1.08)	\$ (1.94)	\$ (2.31)
Net income (loss) per common share attributable to common stockholders on pro forma basis – diluted ^(d)	\$ 0.09	n/a	\$ (1.94)	n/a
Cash flows (used in) provided by:				
Operating activities	\$ (7,777)	\$ (11,520)	\$ (13,302)	\$ 4,437
Investing activities	1,328	(3,572)	(3,818)	(3,312)
Financing activities	6,408	4,663	19,900	25,516
Net (decrease) increase in cash, cash equivalents and restricted cash	(2)	(8,082)	4,934	25,717
Other data:				
Adjusted EBITDA ^(e)	\$ 16,120	\$ (3,812)	\$ (9,495)	\$ (7,249)
Adjusted EBITDA as a percent of net sales ^(e)	6.3%	-2.1%	-4.0%	-3.4%
Gross profit margin (gross profit as % of net sales)	18.7%	11.9%	11.5%	11.4%
Capital expenditures ^(f)	700	541	768	1,343
Federal net operating loss carryforwards	n/a	n/a	58,000	35,000

	As of September 30, 2020	As of December 31,	
	(In thousands)	2019	2018
Balance sheet data as of end of period:			
Cash, cash equivalents and restricted cash	\$ 32,855	\$ 32,857	\$ 27,923
Working capital ^(g)	52,126	40,547	56,728
Total assets ^(h)	218,571	185,651	174,411
Long-term debt ⁽ⁱ⁾	111,826	107,932	100,520
Total liabilities	181,310	154,471	126,867
Convertible preferred stock ^(j)	27,584	21,802	—
Stockholders' equity	9,677	9,378	47,544
Balance sheet data as of end of period on a pro forma basis:^(k)			
Cash, cash equivalents and restricted cash ^(k)	\$ 30,865		
Working capital ^(g)	50,136		
Total assets ^(h)	216,581		
Long-term debt ⁽ⁱ⁾	111,826		
Total liabilities	181,310		
Convertible preferred stock ^(k)	—		
Stockholders' equity ^(k)	35,271		
<p>(a) Impairment, restructuring and other expenses primarily relate to impairment on intangible assets; professional fees related to consultation, due diligence and assistance to research various capitalization strategies related to alternative debt and equity refinancing structures; severance costs; and, costs to early terminate several leases. See “<i>Management’s Discussion and Analysis of Financial Condition and Results of Operations — Impairment, restructuring and other.</i>”</p> <p>(b) Net income (loss) and net income (loss) attributable to common stockholders for the year ended December 31, 2018 reflects a reduction from net loss for an allocation to a non-controlling interest. See our “<i>Consolidated statements of operations</i>” for the year ended December 31, 2018 in our consolidated financial statements and the notes thereto included elsewhere in this prospectus.</p> <p>(c) Net loss per share attributable to common stockholders for 2018 represents basic and diluted net loss per share attributable to common stockholders, and assumes the non-controlling interest converted to a controlling interest at issuance and accordingly, its share of the net loss and the shares into which it converted are included in the calculations; see Note 4, <i>Basis of preparation and significant accounting policies</i> in our consolidated financial statements and the notes thereto included elsewhere in this prospectus.</p> <p>(d) Net income (loss) per share attributable to common stockholders on a pro forma basis – diluted gives effect to the automatic conversion of all of our outstanding shares of Series A Preferred Stock into shares of common stock, which will occur automatically upon the consummation of this offering. For an explanation of the calculations of our pro forma diluted net income (loss) per share attributable to common stockholders, see Note 3, <i>Net income (loss) per common share (‘EPS’)</i> to our unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus, and Note 4, <i>Basis of preparation and significant accounting policies</i>, under “<i>Net loss per common share (EPS)</i>” in our consolidated financial statements and the notes thereto included elsewhere in this prospectus.</p> <p>(e) For information regarding our use of adjusted EBITDA and its reconciliation to net income (loss) and adjusted EBITDA as a percent of net sales, see “— <i>Non-GAAP financial measures</i>” following this table.</p> <p>(f) Capital expenditures relate to purchases of property, equipment and computer software.</p> <p>(g) Working capital represents current assets less current liabilities.</p> <p>(h) Total assets and total liabilities for 2020 and 2019 include operating lease right-of-use assets and lease</p>			

liabilities, respectively, upon the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*, adopted as of January 1, 2019.

- (i) Long-term debt represents current and long-term portions of interest bearing debt, net of issuance costs.
- (j) Convertible preferred stock reflects the issuance of Series A Preferred Stock in late 2019 and early 2020. See “*Prospectus Summary—Recent Transactions—Preferred Stock Offering*” and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.
- (k) Cash, cash equivalents and restricted cash on a pro forma basis and convertible preferred stock on a pro forma basis and stockholders’ equity on a pro forma basis as of September 30, 2020, give effect to the automatic conversion of all of our outstanding shares of Series A Preferred Stock into shares of common stock which will occur automatically upon the consummation of this offering and assumes we settle our Series A Preferred Stock dividend of \$2.0 million in cash. For an explanation of the calculations, see Note 2, *Basis of presentation and significant accounting policies*, under “*Unaudited pro forma balance sheet information as of September 30, 2020*” to our unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus.

Non-GAAP financial measures

We report our financial results in accordance with generally accepted accounting principles in the United States (“GAAP”). However, management believes that certain non-GAAP financial measures provide investors of our financial information 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 income (loss) 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 audited 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 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 share-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.

We define Adjusted EBITDA as net income (loss) excluding interest expense, income taxes, depreciation and amortization, share-based compensation and other unusual and/or infrequent costs, which we do not consider in our evaluation of ongoing operating performance.

The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to Adjusted EBITDA for each of the years ended December 31, 2019 and 2018 and each of the nine months ended September 30, 2020 and 2019:

	Nine months ended September 30,		Years ended December 31,	
	2020	2019	2019	2018
	(Dollars in thousands)			
Net income (loss)	\$ 2,125	\$(22,372)	\$(40,083)	\$(32,892)
Interest expense	7,858	9,789	13,467	11,606
Income tax expense (benefit)	384	(246)	(691)	(397)
Depreciation and amortization	5,170	5,198	6,995	8,260
Impairment, restructuring and other	276	3,589	10,035	7,169
Other income, net	(103)	(334)	(105)	(995)
Stock-based compensation	410	173	208	—
Loss on debt extinguishment	—	391	679	—
Adjusted EBITDA	<u>\$16,120</u>	<u>\$ (3,812)</u>	<u>\$ (9,495)</u>	<u>\$ (7,249)</u>
Adjusted EBITDA as a percent of net sales	6.3%	-2.1%	-4.0%	-3.4%

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this prospectus, including our consolidated financial statements and notes thereto, before deciding whether to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, operating results and prospects could be materially harmed. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Relating to Our Business

Our proprietary brand offerings expose us to various risks.

We expect to continue to grow our portfolio of proprietary brand offerings. We have invested in development and procurement resources and marketing efforts relating to these proprietary brand offerings. Although we believe that our proprietary brand products offer value to our customers at each price point and provide us with higher gross margins than comparable third-party branded products we sell, the expansion of our proprietary brand offerings also subjects us to certain specific risks in addition to those discussed elsewhere in this section, such as:

- potential mandatory or voluntary product recalls;
- our ability to successfully obtain, maintain, protect and enforce our intellectual property and proprietary rights (including defending against counterfeit, knock offs, grey-market, infringing or otherwise unauthorized goods); and
- our ability to successfully navigate and avoid claims related to the proprietary rights of third parties.

An increase in sales of our proprietary brands may also adversely affect our sales of our vendors' products, which may, in turn, adversely affect our relationship with our vendors. Our failure to adequately address some or all of these risks could have a material adverse effect on our business, results of operations and financial condition.

Our competitors and potential competitors may develop products and technologies that are more effective or commercially attractive than our products.

Our products compete against national and regional products and private label products produced by various suppliers, many of which are established companies that provide products that perform functions similar to our products. Our competitors may develop or market products that are more effective or commercially attractive than our current or future products. Some of our competitors have substantially greater financial, operational, marketing and technical resources than we do. Moreover, some of these competitors may offer a broader array of products and sell their products at prices lower than ours, and may have greater name recognition. In addition, if demand for our specialty indoor gardening supplies and products continues to grow, we may face competition from new entrants into our field. Due to this competition, there is no assurance that we will not encounter difficulties in generating or increasing revenues and capturing market share. In addition, increased competition may lead to reduced prices and/or margins for products we sell. We may not have the financial resources, relationships with key suppliers, technical expertise or marketing, distribution or support capabilities to compete successfully in the future.

We may not successfully develop new products or improve existing products or maintain our effectiveness in reaching consumers through rapidly evolving communication vehicles.

Our future success depends, in part, upon our ability to improve our existing products and to develop, manufacture and market new products to meet evolving consumer needs. We cannot be certain that we will be successful in developing, manufacturing and marketing new products or product innovations which satisfy consumer needs or achieve market acceptance, or that we will develop, manufacture and market new products or product innovations in a timely manner. If we fail to successfully develop, manufacture and market new products or product innovations, or if we fail to reach existing and potential consumers, our ability to maintain or grow our market share may be adversely affected, which in turn could materially adversely affect our

business, financial condition and results of operations. In addition, the development and introduction of new and products and product innovations require substantial research, development and marketing expenditures, which we may be unable to recoup if such new products or innovations do not achieve market acceptance.

Many of the products we distribute and market, such as our fertilizers and nutrients, contain ingredients that are subject to regulatory approval or registration with certain U.S. state regulators. The need to obtain such approval or registration could delay the launch of new products or product innovations that contain ingredients or otherwise prevent us from developing and manufacturing certain products and product innovations.

Negative economic conditions, specifically in the United States and Canada, could adversely affect our business.

Uncertain global economic conditions could adversely affect our business. Negative global economic trends, particularly in the United States and Canada, such as decreased consumer and business spending, high unemployment levels, reduced rates of home ownership and housing starts, high foreclosure rates and declining consumer and business confidence, pose challenges to our business and could result in declining revenues, profitability and cash flow. Although we continue to devote significant resources to support our brands, unfavorable economic conditions may negatively affect consumer demand for our products. Our most price-sensitive customers may trade down to lower priced products during challenging economic times or if current economic conditions worsen, while other customers may reduce discretionary spending during periods of economic uncertainty, which could reduce sales volumes of our products in favor of our competitors' products or result in a shift in our product mix from higher margin to lower margin products.

The effects of the COVID-19 pandemic are unpredictable and may materially affect our customers and how we operate our business, and the duration and extent to which the pandemic continues (including any re-emergence of COVID-19) to threaten our future results of operations and overall financial performance remains uncertain.

In December 2019, COVID-19 was identified. On March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in a widespread health crisis that has adversely affected businesses, economies and financial markets worldwide and has caused significant volatility in U.S. and international debt and equity markets.

Examples of how COVID-19 may impact our business, results of operations and stock price include, but are not limited to:

- COVID-19 may cause consumers to decrease spending, or pause such spending altogether, making it more difficult for us to acquire new customers, as well as retain and upsell existing customers;
- COVID-19 may interfere with our ability, or the ability of our employees, workers, contractors, suppliers and other business partners to perform our and their respective responsibilities and obligations relative to the conduct of our business. COVID-19 may also cause disruptions from the temporary closure of third-party suppliers and manufacturers, restrictions on the shipment of our products, restrictions on our employees' and other service providers' ability to travel, the decreased willingness or ability of our customers to travel or to utilize our services and shutdowns that may be requested or mandated by governmental authorities;
- COVID-19 and related government responses to address the COVID-19 pandemic may cause sudden and extreme changes in our stock price. Since COVID-19 was first reported, the volatility of U.S. equity markets increased to historic levels. This may cause extreme fluctuations in the market price of our stock. We cannot predict if and when these fluctuations will decrease or increase. In addition to general market conditions, the market price of our stock may become volatile or decline due to actual or anticipated impact of COVID-19 on our financial condition and results of operations or if our results of operations do not meet the expectations of the investor community or one or more of the analysts who cover our company change their recommendations regarding our company.

The duration and extent of the impact on our business from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time (e.g., the severity and transmission rate of the virus, the extent and effectiveness of containment measures, and the impact of these and other factors on our employees, customers, vendors and partners, including their respective productivity). Furthermore, our limited operating history combined with the uncertainty created by the COVID-19 pandemic significantly increases

the difficulty of forecasting operating results and of strategic planning. If we are unable to effectively predict and manage the impact of the COVID-19 pandemic on our business, our results of operations and financial condition may be negatively impacted.

Our business has experienced an accelerated rate of growth which may be due in part to lifestyle changes in the wake of the COVID-19 pandemic; if so, our recent accelerated rate of growth may not be sustainable.

Although we cannot precisely quantify in absolute or relative terms, our accelerated rate of growth in net sales for the six months ended September 30, 2020 correlates with shelter-in-place orders issued in many locations in March 2020 in response to the COVID-19 pandemic. Our sales growth for the six months ended September 30, 2020 was approximately 50% higher as compared to the six months ended September 30, 2019. A portion of our net sales during this period could be due to pull-through demand for our products due to higher consumption of CEA products from individuals spending more time at home due to shelter-in-place measures. Although uncertainty created by the COVID-19 pandemic remains, and various state budgets remain under economic pressure, creating a greater chance of further cannabis legalization, we cannot assure you that such growth will continue.

Our international operations make us susceptible to the costs and risks associated with operating internationally.

We operate some of our distribution centers in Canada and Spain and source products globally. We also operate a registered office in China. Accordingly, we are subject to risks associated with operating in foreign countries, including:

- fluctuations in currency exchange rates;
- limitations on the remittance of dividends and other payments by foreign subsidiaries;
- additional costs of compliance with local regulations;
- in certain countries, historically higher rates of inflation than in the United States;
- changes in the economic conditions or consumer preferences or demand for our products in these markets;
- restrictive actions by multi-national governing bodies, foreign governments or subdivisions thereof;
- changes in foreign labor laws and regulations affecting our ability to hire and retain employees;
- changes in U.S. and foreign laws regarding trade and investment;
- less robust protection of our intellectual property and proprietary rights under foreign laws; and
- difficulty in obtaining distribution and support for our products.

In addition, our operations outside the United States are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations and potentially adverse tax consequences. The costs associated with operating our continuing international business could adversely affect our results of operations, financial condition and cash flows in the future.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting, insurance and other expenses that we did not incur as a private company. For example, we will incur increased legal and accounting costs as a result of being subject to the information and reporting requirements of the Exchange Act, and other federal securities laws. The costs of preparing and filing periodic and other reports, proxy statements and other information with the SEC and furnishing audited reports to stockholders, will cause significant increase in our expenses than if we remained privately-held. The cost of being a public company will divert resources that might otherwise have been used to develop our business, which could have a material adverse effect on our company.

As a privately held company, we have not been required to comply with certain corporate governance and financial reporting practices and policies required of a public reporting company. If the registration statement of which this prospectus forms a part is declared effective, as a public company, we will be required to file with the SEC annual and quarterly information and other reports pursuant to the Exchange Act. We will also be

required to ensure that we have the ability to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. In addition, we may become subject to other reporting and corporate governance requirements, including the requirements of any national securities exchange on which our common stock is listed, should we so qualify for listing, and certain provisions of the Sarbanes-Oxley Act of 2002, as amended (the “Sarbanes-Oxley Act”), and the regulations promulgated thereunder, which will impose significant compliance obligations upon us. As a public company, we will, among other things:

- prepare and distribute periodic public reports and other stockholder communications in compliance;
- comply with our obligations under the federal securities laws and applicable listing rules;
- create or expand the roles and duties of our board of directors and committees of the board of directors;
- institute more comprehensive financial reporting and disclosure compliance functions;
- enhance our investor relations function;
- establish new internal policies, including those relating to disclosure controls and procedures; and
- involve and retain to a greater degree outside counsel and accountants in the activities listed above.

These changes will require a significant commitment of additional resources and many of our competitors already comply with these obligations. We may not be successful in complying with these obligations and the significant commitment of resources required for complying with them could have a material adverse effect on our business, financial condition and results of operations. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our committees of our board of directors or as our executive officers.

In addition, if we fail to implement the requirements with respect to our internal accounting and audit functions, our ability to report our results of operations on a timely and accurate basis could be impaired and we could suffer adverse regulatory consequences or violate applicable listing standards. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements, which could have a material adverse effect on our business, financial condition and results of operations.

The changes necessitated by becoming a public company require a significant commitment of resources and management supervision that has increased and may continue to increase our costs and might place a strain on our systems and resources. As a result, our management’s attention might be diverted from other business concerns. If we fail to maintain an effective internal control environment or to comply with the numerous legal and regulatory requirements imposed on public companies, we could make material errors in, and be required to restate, our financial statements. Any such restatement could result in a loss of public confidence in the reliability of our financial statements and sanctions imposed on us by the SEC. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. If we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, as applicable, fines, sanctions and other regulatory action and potentially civil litigation.

There may be limitations on the effectiveness of our internal controls, and a failure of our control systems to prevent error or fraud may materially harm us.

Proper systems of internal control over financial accounting and disclosure are critical to the operation of a public company. We may be unable to effectively establish such systems, especially in light of the fact that we expect to operate as a publicly reporting company. This would leave us without the ability to reliably assimilate and compile financial information about us and significantly impair our ability to prevent error and detect fraud, all of which would have a negative impact on us from many perspectives.

Moreover, we do not expect that disclosure controls or internal control over financial reporting, even if established, will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further,

the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent error or fraud could materially adversely impact us.

We identified material weaknesses in our internal control over financial reporting, and if we are unable to achieve and maintain effective internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected.

Prior to this offering, we were a private company with limited accounting and finance personnel, adequate review processes and other resources with which to address our internal controls and procedures. In connection with the audit of our financial statements for fiscal 2019, we and our independent registered public accounting firm identified control deficiencies in the design and operation of our internal control over financial reporting that constituted material weaknesses. A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We determined that we had two material weaknesses because (i) we did not maintain a sufficient complement of personnel with an appropriate degree of technical knowledge commensurate with our accounting and reporting requirements and (ii) our controls related to the preparation, review, and analysis of accounting information and financial statements were not adequately designed or appropriately implemented to identify material misstatements in our financial reporting on a timely basis for our U.S. entities and Eddi’s. As a result, there were numerous misstatements identified which resulted in certain adjustments to the financial statements, including but not limited to, those described in Note 2, *Adjustments to Prior Period Financial Statements* in the notes to our 2019 consolidated financial statements. These material weaknesses could result in a misstatement of account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected.

During 2020, we have taken several actions towards remediating these material weaknesses. In particular, we (i) hired and continue to hire, additional qualified accounting and financial reporting personnel with technical and/or public company experience and (ii) engaged an external advisor to assist management in completing a Sarbanes-Oxley Act compliant risk assessment, creating detailed control documentation for in-scope business and information technology processes, identify any further control gaps and providing assistance on remediation procedures, and to design and implement a Sarbanes-Oxley Act sub-certification process. We are still in the process of completing the remediation of the material weaknesses; however, we cannot assure you that the steps we are taking will be sufficient to remediate our material weaknesses or prevent future material weaknesses or significant deficiencies from occurring.

We can give no assurance that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of our financial statements and cause us to fail to meet our reporting obligations.

As a public company, we will be required to further design, document and test our internal controls over financial reporting to comply with Section 404 of the Sarbanes-Oxley Act. We cannot be certain that additional material weaknesses and control deficiencies will not be discovered in the future. If material weaknesses or control deficiencies occur in the future, we may be unable to report our financial results accurately on a timely basis or help prevent fraud, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the market price of our common stock to decline. If we have material weaknesses in the future, it could affect the financial results that we report or create a perception that those financial results do not fairly state our financial position or results of operations. Either of those events could have an adverse effect on the value of our common stock.

Further, even if we conclude that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. Failure to implement required new or improved

controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our future reporting obligations.

Acquisitions, other strategic alliances and investments could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.

Acquisitions are an important element of our overall corporate strategy, and these transactions could entail material investments by us and be material to our financial condition and results of operations. We expect to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or product has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks may include, but are not limited to:

- diversion of management’s time and focus from operating our business to acquisition integration challenges;
- failure to successfully further develop the acquired business or products;
- implementation or remediation of controls, procedures and policies at the acquired company;
- integration of the acquired company’s accounting, human resources and other administrative systems, and coordination of product, engineering and sales and marketing functions;
- transition of operations, users and customers onto our existing platforms;
- reliance on the expertise of our strategic partners with respect to market development, sales, local regulatory compliance and other operational matters;
- failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition and antitrust laws which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire;
- liability for or reputational harm from activities of the acquired company before the acquisition or from our strategic partners, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties.

Our due diligence may fail to identify all liabilities associated with acquisitions and we may not assess the relative benefits and detriments of making an acquisition and may pay acquisition consideration exceeding the value of the acquired business. Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments or strategic alliances could cause us to fail to realize the anticipated benefits of such acquisitions, investments or alliances, incur unanticipated liabilities, and harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or impairment of goodwill and purchased long-lived assets, and restructuring charges, any of which could harm our financial condition or results of operations and cash flows.

Although acquisitions are an important element of our overall corporate strategy, there can be no assurance that we will be able to identify appropriate acquisition targets, successfully acquire identified targets or successfully integrate the business of acquired companies to realize the full, anticipated benefits of such acquisitions.

Damage to our reputation could have an adverse effect on our business.

Maintaining our strong reputation is a key component in our success. Product recalls, our inability to ship, sell or transport our products, governmental investigations and other matters may harm our reputation and acceptance of our products, which may materially and adversely affect our business operations, decrease sales and increase costs.

In addition, perceptions that the products we distribute and market are not safe could adversely affect us and contribute to the risk we will be subjected to legal action. We distribute and market a variety of products, such as nutrients, and growing media. On occasion, allegations or news reports may be made that some of these products have failed to perform up to expectations or have caused damage or injury to individuals or property. Public perception that the products we distribute or market are not safe could impair our reputation, involve us in litigation, damage our brand names and have a material adverse effect on our business.

Our marketing activities may not be successful.

We invest substantial resources in advertising, consumer promotions and other marketing activities to maintain, extend and expand our brand image. There can be no assurance that our marketing strategies will be effective or that the amount we invest in advertising activities will result in a corresponding increase in sales of our products. If our marketing initiatives are not successful, we will have incurred significant expenses without the benefit of higher revenues.

Our operations may be impaired if our information technology systems, or those of our third-party vendors, fail to perform adequately or if we or our third-party vendors are the subject of a data breach or cyber-attack.

We rely on information technology systems in order to conduct business, including communicating with employees and our distribution centers, ordering and managing materials from suppliers, selling and shipping products to retail customers and analyzing and reporting results of operations, as well as for storing sensitive, personal and other confidential information. While we have taken steps to ensure the security of our information technology systems, our security measures or those of our third-party vendors may not be effective and our or our third-party vendors' systems may nevertheless be vulnerable to computer viruses, security breaches and other disruptions from unauthorized users. If our or our third-party vendors' information technology systems are damaged or cease to be available or function properly for an extended period of time, whether as a result of a significant cyber incident or otherwise, our ability to communicate internally as well as with our retail customers could be significantly impaired, which may adversely impact our business.

Additionally, the techniques used to obtain unauthorized, improper or illegal access to information technology systems are constantly evolving, may be difficult to detect quickly and often are not recognized until after they have been launched against a target. We may be unable to anticipate these techniques, react in a timely manner or implement adequate preventative or remedial measures. Any operational failure or breach of security from these increasingly sophisticated cyber threats could lead to the loss or disclosure of both our and our retail customers' financial, product, and other confidential information, as well as personally identifiable information about our employees or customers, result in negative publicity and expensive and time-consuming regulatory or other legal proceedings, damage our relationships with our customers and have a material adverse effect on our business and reputation. In addition, we may incur significant costs and operational consequences in connection with investigating, mitigating, remediating, eliminating and putting in place additional tools and devices designed to prevent future actual or perceived security incidents, as well as in connection with complying with any notification or other obligations resulting from any security incidents. Because we do not control our third-party vendors, or the processing of data by our third-party vendors, our ability to monitor our third-party vendors' data security is limited and we cannot ensure the integrity or security of the measures they take to protect and prevent the loss of our or our consumers' data. As a result, we are subject to the risk that cyber-attacks on, or other security incidents affecting, our third-party vendors may adversely affect our business even if an attack or breach does not directly impact our systems.

We occupy many of our facilities under long-term non-cancellable leases, and we may be unable to renew our leases at the end of their terms.

Many of our facilities and distribution centers are located on leased premises subject to non-cancellable leases. Typically, our leases have initial terms ranging from three to ten years, with options to renew for

specified periods of time. We believe that our future leases will likely also be long-term and non-cancellable and have similar renewal options. If we close or stop fully utilizing a facility, we will most likely remain obligated to perform under the applicable lease, which would include, among other things, making the base rent payments, and paying insurance, taxes and other expenses on the leased property for the remainder of the lease term. Our future minimum aggregate rental commitments for leases for our facilities and distribution centers, as of December 31, 2019, is approximately \$22.5 million for leases classified as operating and \$894,000 for leases classified as financing. Our inability to terminate a lease when we stop fully utilizing a facility or exit a market can have a significant adverse impact on our financial condition, operating results and cash flows.

In addition, at the end of the lease term and any renewal period for a facility, we may be unable to renew the lease without substantial additional cost, if at all. If we are unable to renew our facility leases, we may close or relocate a facility, which could subject us to construction and other costs and risks, which in turn could have a material adverse effect on our business and operating results. Further, we may not be able to secure a replacement facility in a location that is as commercially viable, including access to rail service. Having to close a facility, even briefly to relocate, could reduce the sales that such facility would have contributed to our revenues.

The estimates and judgments we make, or the assumptions on which we rely, in preparing our consolidated financial statements could prove inaccurate.

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses, the amounts of charges accrued by us and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We cannot assure, however, that our estimates, or the assumptions underlying them, will not change over time or otherwise prove inaccurate. Any potential litigation related to the estimates and judgments we make, or the assumptions on which we rely, in preparing our consolidated financial statements could have a material adverse effect on our financial results, harm our business, and cause our share price to decline.

In order to increase our sales and marketing infrastructure, we will need to grow the size of our organization, and we may experience difficulties in managing this growth.

As we continue to work to expand our business, we will need to expand the size of our employee base for managerial, operational, sales, marketing, financial and other resources. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, motivate and integrate additional employees. In addition, our management may have to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. Our future financial performance and our ability to continue to grow our operation and compete in the hydroponics industry effectively will depend, in part, on our ability to effectively manage any future growth.

Potential tariffs or a global trade war could increase the cost of our products, which could adversely impact the competitiveness of our products and our financial results.

Since 2018, the United States has imposed tariffs on certain imports from China, including on lighting and environmental control equipment manufactured in China. If the U.S. administration imposes additional tariffs, or if additional tariffs or trade restrictions are implemented by the United States or other countries the cost of our products manufactured in China and imported into the United States or other countries could increase, which in turn could adversely affect the demand for these products and have a material adverse effect on our business and results of operations. As of the date of this prospectus, tariffs have not adversely affected the purchase price of our products manufactured in China and imported into the United States.

Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability and cash flows.

We are subject to income and other taxes in the United States federal jurisdiction and various local, state and foreign jurisdictions. Our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in

the valuation of deferred tax assets (such as net operating losses and tax credits) and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly related to our operations in the United States, is dependent on our ability to generate future taxable income of the appropriate character in the relevant jurisdiction.

From time to time, tax proposals are introduced or considered by the U.S. Congress or the legislative bodies in local, state and foreign jurisdictions that could also affect our tax rate, the carrying value of our deferred tax assets, or our tax liabilities. Our tax liabilities are also affected by the amounts we charge for inventory, services, licenses and funding. We are subject to ongoing tax audits in various jurisdictions. In connection with these audits (or future audits), tax authorities may disagree with our determinations and assess additional taxes. We regularly assess the likely outcomes of our audits in order to determine the appropriateness of our tax provision. As a result, the ultimate resolution of our tax audits, changes in tax laws or tax rates, and the ability to utilize our deferred tax assets could materially affect our tax provision, net income and cash flows in future periods.

We may be limited in our ability to utilize, or may not be able to utilize, net operating loss carryforwards to reduce our future tax liability.

As of December 31, 2019, we had U.S. federal net operating loss (“NOL”) carryforwards of approximately \$58 million, the utilization of which may be limited annually due to certain change in ownership provisions of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). Our NOL carryforwards will begin to expire in 2037. Please refer to Note 15, *Income Taxes* in the notes to our consolidated financial statements appearing elsewhere in this prospectus for a further discussion of the carryforward of our NOLs. As of December 31, 2019, we maintained a valuation allowance of approximately \$35 million on the majority of our net deferred tax assets.

An “ownership change” (generally defined as greater than 50-percentage-point cumulative changes in the equity ownership of certain stockholders over a rolling three-year period) under Section 382 of the Code may limit our ability to utilize fully our pre-change NOL carryforwards to reduce our taxable income in periods following the ownership change. In general, an ownership change would limit our ability to utilize NOL carryforwards to an amount equal to the aggregate value of our equity at the time of the ownership change multiplied by a specified tax-exempt interest rate, subject to increase by certain built-in gains. Similar provisions of state tax law may also apply to our state NOL carryforwards. In addition, future changes in our stock ownership, some of which may be beyond our control, could result in additional ownership changes under Section 382 of the Code.

If we need additional capital to fund our operations, we may not be able to obtain sufficient capital and may be forced to limit the scope of our operations.

In connection with our growth strategies, we may experience increased capital needs and accordingly, we may not have sufficient capital to fund our future operations without additional capital investments. There can be no assurance that additional capital will be available to us. If we cannot obtain sufficient capital to fund our operations, we may be forced to limit the scope of our expansion.

If product liability lawsuits are brought against us, we may incur substantial liabilities.

We face a potential risk of product liability as a result of any of the products that we offer for sale. For example, we may be sued if any product we sell allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in: (i) decreased demand for products that we may offer for sale; (ii) injury to our reputation; (iii) costs to defend the related litigation; (iv) a diversion of management’s time and our resources; (v) substantial monetary awards to trial participants or patients; (vi) product recalls, withdrawals or labeling, marketing or promotional restrictions; (vii) a decline in our stock price. Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect

against potential product liability claims could prevent or inhibit the commercialization of products we develop. We do not maintain any product liability insurance. Even if we obtain product liability insurance in the future, we may have to pay amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts.

Risks Relating to Our Indebtedness

There are significant risks associated with the outstanding and future indebtedness of certain of our subsidiaries. Such subsidiaries' ability to pay interest and repay the principal on their indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

Certain of our subsidiaries are parties to material loan and lease agreements with different financial institutions. Such subsidiaries have used and/or will continue to use, the proceeds from these debt arrangements to fund working capital requirements and for the lease of certain equipment required to conduct our business. As of September 30, 2020, certain of our subsidiaries had an aggregate of \$111.8 million of outstanding indebtedness that will mature between calendar year 2020 and calendar year 2023, and we or our subsidiaries may incur additional indebtedness in the future.

Our subsidiaries' current debt arrangements consist of the following. See "*Description of Our Indebtedness*" for additional information regarding the debt arrangements of certain of our subsidiaries.

- Loan and Security Agreement among Hydrofarm Holdings, LLC, Hydrofarm, LLC, EHH Holdings, LLC ("EHH"), SunBlaster LLC ("SunBlaster"), SunBlaster Holdings ULC ("SunBlaster ULC"), Eddi's Wholesale Garden Supplies, Ltd. ("EWGS" and, together with SunBlaster ULC, the "Canadian Borrowers") and Hydrofarm Canada, LLC ("Hydrofarm Canada") (collectively, the "Subsidiary Obligors"), and Encina Business Credit, LLC ("Encina"), as agent, and the other lenders party thereto, and (as amended and restated to date, the "Encina Credit Facility"). The Encina Credit Facility provides for revolving borrowings under an asset-based loan commitment of up to \$45 million (inclusive of a limit of up to \$15 million of borrowings for the Canadian Borrowers and a swingline facility of up to \$2.0 million), subject to applicable borrowing base availability, which matures on the earlier of (i) July 11, 2022, or (ii) 90 days prior to the scheduled maturity date of the Term Loan Agreement (as defined below), and is secured by a first-priority lien on all cash, accounts receivable and inventory of the Subsidiary Obligors and a second-lien priority lien on all other personal property of the Subsidiary Obligors. A portion of the proceeds borrowed under the Encina Credit Facility was used to pay in full the BofA Agreement (as defined below). As of September 30, 2020, we have borrowings outstanding under the Encina Credit Facility of approximately \$32.5 million, excluding unamortized deferred financing costs, with approximately \$3.6 million available for future borrowings.
- Term Loan Credit Agreement among Subsidiary Obligors and Brightwood Loan Services, LLC ("Brightwood") and the other lenders party thereto (the "Term Loan Lenders") (as amended to date, the "Term Loan Agreement"). The Term Loan Agreement provides for a term loan in an aggregate principal amount of \$75 million, which matures on May 12, 2022, and is secured by a second-priority lien on all cash, accounts receivable and inventory of the Subsidiary Obligors and a first-priority lien on all other assets and personal property of the Subsidiary Obligors, subject to certain exceptions. As of September 30, 2020, we have borrowings outstanding under the Term Loan Agreement of approximately \$76.3 million, excluding unamortized deferred financing costs.
- As of September 30, 2020, we have a PPP Loan with a principal amount of \$3.3 million.
- Other indebtedness of approximately \$1.4 million as of September 30, 2020, is related to financing leases and term debt.

In addition, we and any current and future subsidiaries of ours may incur substantial additional debt in the future, subject to the specified limitations in the existing agreements governing our subsidiaries' indebtedness. If new debt is added to our or any of our subsidiaries' debt levels, the risks described in "Risks Relating to Our Indebtedness" could intensify. See "*Description of Our Indebtedness*."

Our subsidiaries' current and future indebtedness could have significant negative consequences for our business, results of operations and financial condition, including:

- increasing our or our subsidiaries' vulnerability to adverse economic and industry conditions;
- limiting our subsidiaries' ability to obtain additional financing;
- requiring the dedication of a substantial portion of our subsidiaries' cash flow from operations to service their respective indebtedness, thereby reducing the amount of cash flow available for other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

We cannot assure you that we will continue to maintain sufficient cash reserves or that our business will generate cash flow from operations at levels sufficient to permit us or our subsidiaries to pay principal, premium, if any, and interest on the indebtedness of our subsidiaries, or that our or our subsidiaries' cash needs will not increase. If we or our subsidiaries are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if our subsidiaries fail to comply with the various requirements of their respective existing indebtedness or any other indebtedness which we or our subsidiaries may incur in the future, we or our subsidiaries would be in default, which could permit the holders of our or our subsidiaries' indebtedness to accelerate the maturity of such indebtedness, requiring us or our subsidiaries to pay all obligations then outstanding, and/or to exercise other remedies provided to them under their respective agreements, and any applicable law. Any default under such indebtedness would have a material adverse effect on our business, results of operations and financial condition.

Each of the Term Loan Agreement and the Encina Credit Facility have restrictions on our ability to sell our products directly to the cannabis industry.

The Term Loan Agreement prohibits the Subsidiary Obligors from selling our products directly to cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. The Encina Credit Facility prohibits the Subsidiary Obligors from selling our products to the cannabis industry. As a result, the Subsidiary Obligors do not sell our products directly to the cannabis industry, cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. We are in compliance with the terms set forth by the Term Loan Agreement and the Encina Credit Facility and maintain policies and procedures that are designed to promote and achieve continued compliance with these requirements.

These compliance requirements may require that we be more selective than our competitors when selecting to whom we sell our products, and in certain situations, may afford our competitors a competitive advantage compared to us if we are not able to sell our products to a certain customer, and may negatively impact our marketing efforts, sales and reputation in the market. Moreover, any breach of these compliance requirements, could result in the occurrence of an event of default under the Term Loan Agreement and the Encina Credit Facility, which would entitle the Term Loan Lenders and Encina to accelerate the payment of all obligations then outstanding, without any action by them or notice of any kind. The foregoing events would have a material adverse effect on our business, results of operations and financial condition.

Substantially all of the Subsidiary Obligors' assets are pledged to secure obligations under the Subsidiary Obligors outstanding indebtedness.

The Subsidiary Obligors have granted a continuing security interest in substantially all of their assets to certain of our lenders under the agreements governing the Subsidiary Obligors' indebtedness, as security for the Subsidiary Obligors' obligations under such applicable loan agreements. If the Subsidiary Obligors default on any of their obligations under these agreements, Encina and the Term Loan Lenders will be entitled to exercise remedies available to them resulting from such default, including increasing the applicable interest rate on all amounts outstanding, declaring all amounts due thereunder immediately due and payable, assuming possession of the secured assets, and exercising rights and remedies of a secured party under the Uniform Commercial Code, as applicable then in the United States, or the Personal Property Security Act, as applicable then in Canada. Our ability to conduct our business may be materially harmed as a result of the exercise of any remedies, in the event that such remedies are exercisable, by any or all of Encina or the Term Loan Lenders.

The Subsidiary Obligors existing debt agreements contain, and our or our subsidiaries' future debt agreements may contain, restrictions that may limit our flexibility in operating our business.

The Subsidiary Obligors' existing debt agreements contain, and any documents governing our or our subsidiaries' future indebtedness may contain, numerous financial and operating covenants that limit the discretion of management with respect to certain business matters. Such restrictive covenants include restrictions on, among others, our or our subsidiaries' ability to: (1) incur additional indebtedness; (2) create or suffer to exist any liens upon any of our or our subsidiaries' property; (3) pay dividends and other distributions or enter into agreements restricting our subsidiaries' ability to pay dividends; (3) make any restricted investment; (4) make certain loans; make certain dispositions of assets; (5) merge, amalgamate, combine or consolidate; (6) engage in certain transactions with stockholders or affiliates; (7) amend or otherwise alter the terms of our or our subsidiaries' indebtedness; or (8) alter the business that we conduct. The Subsidiary Obligors' existing debt agreements also require, and any documents governing our or our subsidiaries' future indebtedness may require, us to meet certain financial ratios and tests. Noncompliance with the applicable financial ratios and tests are specified defaults under each of the Encina Credit Facility and the Term Loan Agreement. The Subsidiary Obligors have previously failed to comply with such financial ratios and tests, which required us to engage Brightwood to request forbearance and negotiate amendments to the Term Loan Agreement.

The Subsidiary Obligors' ability to comply with these and other provisions of their existing debt agreements is dependent on our future performance, which will be subject to many factors, some of which are beyond our control. The breach of any of these covenants or noncompliance with any of these financial ratios and tests could result in an event of default under the existing debt agreements, which, if not cured or waived, could result in acceleration of the related debt and the acceleration of debt under other instruments evidencing indebtedness that may also contain cross-acceleration or cross-default provisions. Variable rate indebtedness subjects the Subsidiary Obligors to the risk of higher interest rates, which could cause our future debt service obligations to increase significantly.

The substantial leverage of our subsidiaries could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our subsidiaries' variable rate debt and prevent our subsidiaries from meeting their obligations under their indebtedness.

Certain of our subsidiaries are highly leveraged. As of September 30, 2020 and December 31, 2019, indebtedness of our subsidiaries was \$111.8 million and \$107.9 million, respectively. Our subsidiaries' high degree of leverage has serious consequences, including the following: (i) a substantial portion of our subsidiaries' cash flow from operations is dedicated to the payment of principal and interest on indebtedness, thereby reducing the funds available for operations, future business opportunities and capital expenditures; (ii) our and our subsidiaries' ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate purposes in the future may be limited; (iii) certain of the borrowings are at variable rates of interest, which will increase our subsidiaries' vulnerability to increases in interest rates; (iv) we are at a competitive disadvantage to lesser leveraged competitors; (v) we may be unable to adjust rapidly to changing market conditions; (vi) the debt service requirements of our subsidiaries' other indebtedness could make it more difficult for us or our subsidiaries to satisfy our other financial obligations; and (vii) we may be vulnerable in a downturn in general economic conditions or in our business and we may be unable to carry out activities that are important to our growth.

If our and our subsidiaries' cash flows and capital resources are insufficient to fund our subsidiaries' debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our subsidiaries' indebtedness. Our ability to restructure or refinance our subsidiaries' debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our subsidiaries' debt could be at higher interest rates and may require us or our subsidiaries to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our subsidiaries' outstanding indebtedness on a timely basis would likely result in a reduction of our subsidiaries' credit rating, which could harm our or our subsidiaries' ability to incur additional indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or

operations to meet our subsidiaries' debt service and other obligations required under the respective agreements. The Encina Credit Facility and the Term Loan Agreement each restrict our subsidiaries' ability to dispose of assets and use the proceeds from certain such dispositions. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any payments or fees then due. These alternative measures may not be successful and may not permit our subsidiaries to meet their obligations.

If we are unable to generate sufficient cash flow to service our subsidiaries' debt or to fund our other liquidity needs, we may need to restructure or refinance all or a portion of our subsidiaries' debt, which could cause our subsidiaries to default on their obligations and impair our liquidity. We cannot assure you that we will be able to refinance our subsidiaries' indebtedness. Any refinancing of our subsidiaries' indebtedness could be at higher interest rates and may require us or our subsidiaries to comply with more onerous covenants that could further restrict our business operations. We from time to time may increase the amount of our subsidiaries indebtedness, modify the terms of our subsidiaries' financing arrangements, make capital expenditures and take other actions that may substantially increase our subsidiaries' leverage.

Uncertainty relating to the London interbank offered rate ("LIBOR") and the potential discontinuation of LIBOR in the future may adversely affect our interest expense.

LIBOR is widely used as a reference for setting the interest rate on loans globally. We use LIBOR as a reference rate for the determination of the interest rates for our Term Loan Agreement and Encina Credit Facility. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform or discontinuation. In particular, on July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that LIBOR is expected to be discontinued after 2021. It is unclear whether or not new methods of calculating LIBOR will be established such that it continues to exist after 2021.

In the circumstance that LIBOR is discontinued, our Term Loan Agreement and our Encina Credit Facility contain alternative methodologies for computing interest rates. In the event that the Term Loan agent determines that LIBOR has been permanently discontinued, the lenders will use the base rate which is a per annum rate equal to the greater of (a) the Prime Rate (as defined therein) for such day; or (b) the Federal Funds Rate (as defined therein) for such day, plus 0.50%. In the event that the Encina Credit Facility agent determines that LIBOR has been permanently discontinued, the lenders will use the base rate which is a per annum rate equal to the greater of (a) the Federal Funds Rate (as defined therein) plus 0.50%, (b) one percent (1.0%), and (c) the Prime Rate (as defined therein).

There is no guarantee that an alternate interest rate will be established for the Term Loan Agreement or the Encina Credit Facility, and even if an alternative interest rate is established, such alternate interest rate may be higher than a corresponding interest rate benchmarked to LIBOR, especially given uncertainty as to the effectiveness of alternative rate-setting methodologies prior to their utilization in practice. Uncertainty as to the nature of any potential modification to or discontinuation of LIBOR, the decline in usefulness of LIBOR as an interest rate reference prior to its discontinuation, the establishment of alternative interest rates or the implementation of any other potential changes may materially and adversely affect our interest expense.

We may not be entitled to forgiveness of our recently received PPP Loan, and our application for the PPP Loan could in the future be determined to have been impermissible or could result in damage to our reputation.

In April 2020, we received proceeds of approximately \$3.3 million from a loan with the SBA under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under the CARES Act and pursuant to the PPP Loan, loan forgiveness is available for the sum of covered documented payroll costs, covered rent payments, covered mortgage interest and covered utilities. Under the CARES Act, we will be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, and we cannot provide any assurance that we will be eligible for loan forgiveness or that any amount of the PPP Loan will ultimately be forgiven by the SBA. While we believe we have used the PPP Loan proceeds in a manner consistent with obtaining forgiveness, we intend to repay the PPP Loan on or about the consummation of the offering contemplated hereby as described in "Use of Proceeds."

In order to apply for the PPP Loan, we were required to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. We made this certification in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital and believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan was consistent with the broad objectives of the CARES Act. The certification described above that we were required to provide in connection with our application for the PPP Loan did not contain any objective criteria and was subject to interpretation. However, on April 23, 2020, the SBA issued guidance stating that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the CARES Act has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good-faith belief that we satisfied all eligible requirements for the PPP Loan, we are later determined to have violated any of the laws or governmental regulations that apply to us in connection with the PPP Loan, such as the False Claims Act, or it is otherwise determined that we were ineligible to receive the PPP Loan, we may be subject to penalties, including significant civil, criminal and administrative penalties and could be required to repay the PPP Loan in its entirety. In addition, our receipt of the PPP Loan may result in adverse publicity and damage to our reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources.

Risks Relating to Third Parties

Our reliance on a limited base of suppliers for certain products, such as light ballasts, may result in disruptions to our business and adversely affect our financial results.

Although we continue to implement risk-mitigation strategies for single-source suppliers, we rely on a limited number of suppliers for certain of our light ballasts, used in manufacturing our lighting systems. If we are unable to maintain supplier arrangements and relationships, if we are unable to contract with suppliers at the quantity and quality levels needed for our business, or if any of our key suppliers becomes insolvent or experience other financial distress, we could experience disruptions in production, which could have a material adverse effect on our financial condition, results of operations and cash flows.

A significant interruption in the operation of our or our suppliers' facilities could impact our capacity to produce products and service our customers, which could adversely affect revenues and earnings.

Operations at our and our suppliers' facilities are subject to disruption for a variety of reasons, including fire, flooding or other natural disasters, disease outbreaks or pandemics, acts of war, terrorism, government shut-downs and work stoppages. A significant interruption in the operation of our or our suppliers' facilities, especially for those products manufactured at a limited number of facilities, such as fertilizer and liquid products, could significantly impact our capacity to sell products and service our customers in a timely manner, which could have a material adverse effect on our customer relationships, revenues, earnings and financial position.

If our suppliers are unable to source raw materials in sufficient quantities, on a timely basis, and at acceptable costs, our ability to sell our products may be harmed.

The manufacture of some of our products is complex and requires precise high quality manufacturing that is difficult to achieve. We have in the past, and may in the future, experience difficulties in manufacturing our products on a timely basis and in sufficient quantities. These difficulties have primarily related to difficulties associated with ramping up production of newly introduced products and may result in increased delivery lead-times and increased costs of manufacturing these products. Our failure to achieve and maintain the required high manufacturing standards could result in further delays or failures in product testing or delivery, cost overruns, product recalls or withdrawals, increased warranty costs or other problems that could harm our business and prospects.

In determining the required quantities of our products and the manufacturing schedule, we must make significant judgments and estimates based on historical experience, inventory levels, current market trends and other related factors. Because of the inherent nature of estimates, there could be significant differences between our estimates and the actual amounts of products we require, which could harm our business and results of operations.

Disruptions in availability or increases in the prices of raw materials sourced by suppliers could adversely affect our results of operations.

We source many of our product components from outside of the United States. The general availability and price of those components can be affected by numerous forces beyond our control, including political instability, trade restrictions and other government regulations, duties and tariffs, price controls, changes in currency exchange rates and weather.

A significant disruption in the availability of any of our key product components could negatively impact our business. In addition, increases in the prices of key commodities and other raw materials could adversely affect our ability to manage our cost structure. Market conditions may limit our ability to raise selling prices to offset increases in our raw material costs. Our proprietary technologies can limit our ability to locate or utilize alternative inputs for certain products. For certain inputs, new sources of supply may have to be qualified under regulatory standards, which can require additional investment and delay bringing a product to market.

If our suppliers that currently, or in the future, sell directly to the retail market in which we conduct our current or future business, enhance these efforts and cease or decrease their sales through us, our ability to sell certain products could be harmed.

Our distribution and sales and marketing capabilities provide significant value to our suppliers. Distributed brand suppliers sell through us in order to access thousands of retail and commercial customers across the United States and Canada with short order lead times, no minimum order quantity on individual items, free or minimal freight expense and trade credit terms. Based on our knowledge and communication with our suppliers, we believe some of our suppliers sell directly to the retail market. If these suppliers were to cease working with us, or proceed to enhance their direct-to-customer efforts, our product offerings, reputation, operation and business could be materially adversely effected.

Risks Relating to the Cannabis Industry

We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry. It is evident to us that the movement towards the legalization of cannabis in the U.S. and its legalization in Canada has ultimately had a significant, positive impact on our industry. Accordingly, the risks referred to below, to the extent they relate to our customers could impact us indirectly. In addition, if our business is deemed to transact with companies involved in the cannabis business, these risks could apply directly to us. “Cannabis Industry Participants” means the potential customers and end-users of our products who are engaged in the cannabis industry.

We are subject to a number of risks, directly and indirectly through Cannabis Industry Participants, because cannabis is illegal under federal law.

Cannabis is illegal under federal law. Federal law and enforcement may adversely affect the implementation of medical cannabis and/or adult-use cannabis laws, and may negatively impact our revenues and profits.

Under the United States Controlled Substances Act of 1970 (the “CSA”), the U.S. Government lists cannabis as a Schedule I controlled substance (i.e., deemed to have no medical value), and accordingly the manufacturing (cultivation), sale, or possession of cannabis is federally illegal. It is also federally illegal to advertise the sale of cannabis or to sell paraphernalia designed or intended primarily for use with cannabis, unless the paraphernalia is authorized by federal, state, or local law. The United States Supreme Court has ruled in *United States v. Oakland Cannabis Buyers’ Coop.* and *Gonzales v. Raich*, 532 U.S. 483 (2001), that the federal government has the right to regulate and criminalize cannabis, even for medical purposes. The illegality of cannabis under federal law preempts state laws that legalize its use. Therefore, strict enforcement of federal law regarding cannabis would likely adversely affect our revenues and results of operations.

Other laws that directly impact the cannabis growers that are end users of certain of our products include:

- Businesses trafficking in cannabis may not take tax deductions for costs beyond costs of goods sold under Code Section 280E. There is no way to predict how the federal government may treat cannabis business from a taxation standpoint in the future and no assurance can be given to what extent Code Section 280E, or other tax-related laws and regulations, may be applied to cannabis businesses in the future.

- Because the manufacturing (cultivation), sale, possession and use of cannabis is illegal under federal law, cannabis businesses may have restricted intellectual property and proprietary rights, particularly with respect to obtaining and enforcing patents and trademarks. In addition, cannabis businesses may face court action by third parties under the Racketeer Influenced and Corrupt Organizations Act (“RICO”). Intellectual property and proprietary rights could be impaired as a result of cannabis business, and cannabis businesses could be named as a defendant in an action asserting a RICO violation.
- Federal bankruptcy courts cannot provide relief for parties who engage in cannabis or cannabis businesses. Recent bankruptcy rulings have denied bankruptcies for cannabis dispensaries upon the justification that businesses cannot violate federal law and then claim the benefits of federal bankruptcy for the same activity and upon the justification that courts cannot ask a bankruptcy trustee to take possession of, and distribute cannabis assets as such action would violate the CSA. Therefore, cannabis businesses may not be able to seek the protection of the bankruptcy courts and this could materially affect their financial performance and/or their ability to obtain or maintain credit.
- Since cannabis is illegal under federal law, there is a strong argument that banks cannot accept for deposit funds from businesses involved in the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. Any such inability to open or maintain bank accounts may make it difficult for cannabis businesses to operate. Under the Bank Secrecy Act (“BSA”), banks must report to the federal government any suspected illegal activity, which includes any transaction associated with a cannabis business. These reports must be filed even though the business is operating legitimately under state law.
- Insurance that is otherwise readily available, such as general liability and directors and officer’s insurance, may be more difficult to find, and more expensive.

The current Trump administration, or any new administration or attorney general, could change federal enforcement policy or execution and decide to enforce the federal cannabis laws more strongly. On January 4, 2018, U.S. Attorney General Jeff Sessions issued a memorandum rescinding previous guidance (directing U.S. Department of Justice and the U.S. Attorneys’ offices to focus their cannabis enforcement efforts under federal law only in identified priority areas, such as sale to minors, criminal enterprises, and interstate sales). Under the Sessions memorandum, local U.S. Attorneys’ offices retain discretion regarding the prosecution of cannabis activity authorized under state laws and regulations. While current U.S. Attorney General William Barr expressed support for the National Organization to Reform Marijuana Laws (“NORML”) during his Senate testimony on April 10, 2019, further change in the federal approach towards enforcement could negatively affect the industry, potentially ending it entirely. Any such change in the federal government’s enforcement of current federal laws could cause significant financial damage to us. The legal uncertainty and possible future changes in law could negatively affect our growth, revenues, results of operations and success generally.

Federal authorities may decide to change their current posture and begin to enforce current federal cannabis law and, if they decide to ignore the principles in the Cole Memorandum issued in 2013 (the “Cole Memorandum”) and begin to aggressively enforce such laws, it is possible that they could allege that we violated federal laws by selling products used in the cannabis industry. As a result, active enforcement of the current federal regulatory position on cannabis may thus directly or indirectly adversely affect our revenues and profits.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on our business, including our reputation and ability to conduct business, the listing of our securities on any stock exchanges, the settlement of trades of our securities, our ability to obtain banking services, our financial position, operating results, profitability or liquidity or the market price of our publicly traded shares. In addition, it is difficult for us to estimate the time or resources that would be needed for the investigation of any such matters or their final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Cannabis Industry Participants are subject to federal and state controlled substance laws and regulations. As a result, we are indirectly subject to a number of risks related to controlled substances.

We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry. Some of our products are sold to Cannabis Industry Participants and used in connection with cannabis businesses that are subject to federal and state controlled substance laws and regulations. Companies that transact directly or indirectly with cannabis businesses are subject to a number of risks related to controlled substances, which risks could reduce demand for our products by Cannabis Industry Participants. Such risks include, but are not limited to, the following:

- Cannabis is a Schedule I drug under the CSA and regulated by the Drug Enforcement Administration (the “DEA”) as an illegal substance. The Food and Drug Administration (“FDA”), in conjunction with the DEA, licenses cannabis research and drugs containing active ingredients derived from cannabis. If cannabis were to become legal under federal law, its sale and use could become regulated by the FDA or another federal agency.
- If cannabis were to become regulated by the FDA or another federal agency, extensive regulations may be imposed on the sale or use of cannabis. Such regulations could result in a decrease in cannabis sales and have a material adverse impact on the demand for our products. If we or our Cannabis Industry Participants are unable to comply with any applicable regulations and/or registration prescribed by the FDA, we may be unable to continue to transact with retailers and resellers who sell products to cannabis businesses and/or our financial condition may be adversely impacted.
- Controlled substance legislation differs between states and legislation in certain states may restrict or limit Cannabis Industry Participants from buying our products. Cannabis Industry Participants may be required to obtain separate state registrations, permits or licenses in order to be able to obtain, handle and/or distribute controlled substances in a state. Such state regulatory requirements may be costly and, the failure of such Cannabis Industry Participants to meet such regulatory requirements could lead to enforcement and sanctions by the states in addition to any from the DEA or otherwise arising under federal law. We could be implicated in such enforcement or sanctions because of the purchase of our products by such Cannabis Industry Participants.
- The failure of our Cannabis Industry Participants to comply with applicable controlled substance laws and regulations, or the cost of compliance with these laws and regulations, may adversely affect the demand for our products and, as a result, the financial results of our business operations and our financial condition.

Furthermore, the Encina Credit Facility and the Term Loan Agreement each restrict our ability to sell our products directly to cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. As a result, the Subsidiary Obligors do not sell our products directly to the cannabis industry, cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. See “—Risks Relating to Our Indebtedness.”

Our growth is highly dependent on the U.S. cannabis market. New California regulations caused licensing shortages and future regulations may create other limitations that decrease the demand for our products. State level regulations adopted in the future may adversely impact our business.

The base of cannabis growers in the U.S. has grown over the past 20 years since the legalization of cannabis for medical uses in states such as California, Colorado, Michigan, Nevada, Oregon and Washington, with a large number of those growers depending on products similar to those we distribute. The U.S. cannabis market is still in its infancy and early adopter states such as California, Colorado and Washington represent a large portion of historical industry revenues. If the U.S. cannabis cultivation market does not grow as expected, our business, financial condition and results of operations could be adversely impacted.

Cannabis remains illegal under U.S. federal law, with cannabis listed as a Schedule I substance under the CSA. Notwithstanding laws in various states permitting certain cannabis activities, all cannabis activities, including possession, distribution, processing and manufacturing of cannabis and investment in, and financial services or transactions involving proceeds of, or promoting such activities remain illegal under various U.S. federal criminal and civil laws and regulations, including the CSA, as well as laws and regulations of several states that have not legalized some or any cannabis activities to date. Compliance with applicable state laws

regarding cannabis activities does not protect us from federal prosecution or other enforcement action, such as seizure or forfeiture remedies, nor does it provide any defense to such prosecution or action. Cannabis activities conducted in or related to conduct in multiple states may potentially face a higher level of scrutiny from federal authorities. Penalties for violating federal drug, conspiracy, aiding, abetting, bank fraud and/or money laundering laws may include prison, fines, and seizure/forfeiture of property used in connection with cannabis activities, including proceeds derived from such activities.

We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry, however, it is evident to us that the movement towards the legalization of cannabis in the U.S. and its legalization in Canada has ultimately had a significant, positive impact on our industry. We are not currently subject directly to any state laws or regulations controlling participants in the legal cannabis industry. However, regulation of the cannabis industry does impact those that we believe represent many end-users for our products and, accordingly, there can be no assurance that changes in regulation of the industry and more rigorous enforcement by federal authorities will not have a material adverse effect on us.

Legislation and regulations pertaining to the use and cultivation of cannabis are enacted on both the state and federal government level within the United States. As a result, the laws governing the cultivation and use of cannabis may be subject to change. Any new laws and regulations limiting the use or cultivation of cannabis and any enforcement actions by state and federal governments could indirectly reduce demand for our products, and may impact our current and planned future operations.

Individual state laws regarding the cultivation and possession of cannabis for adult and medical uses conflict with federal laws prohibiting the cultivation, possession and use of cannabis for any purpose. A number of states have passed legislation legalizing or decriminalizing cannabis for adult-use, other states have enacted legislation specifically permitting the cultivation and use of cannabis for medicinal purposes, and several states have enacted legislation permitting cannabis cultivation and use for both adult and medicinal purposes. Variations exist among those states' cannabis laws. Evolving federal and state laws and regulations pertaining to the use or cultivation of cannabis, as well active enforcement by federal or state authorities of the laws and regulations governing the use and cultivation of cannabis may indirectly and adversely affect our business, our revenues and our profits.

The Term Loan Agreement prohibits the Subsidiary Obligor from selling our products directly to cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. The Encina Credit Facility prohibits the Subsidiary Obligor from selling our products to the cannabis industry. As a result, the Subsidiary Obligor do not sell our products directly to the cannabis industry, cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. See “— Risks Relating to Our Indebtedness.”

Certain of our products may be purchased for use in new and emerging industries and/or be subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, future scientific research and public perception.

We sell products, including hydroponic gardening products, through third-party retailers and resellers. End users may purchase these products for use in new and emerging industries, including the growing of cannabis that may not achieve market acceptance in a manner that we can predict. The demand for these products is dependent on the growth of these industries, which is uncertain, as well as the laws governing the growth, possession, and use of cannabis by adults for both adult and medical use.

Laws and regulations affecting the U.S. cannabis industry are continually changing, which could detrimentally affect our growth, revenues, results of operations and success generally. Local, state and federal cannabis laws and regulations are broad in scope and subject to evolving interpretations, which could require the end users of certain of our products or us to incur substantial costs associated with compliance or to alter our respective business plans. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operation and financial condition.

Scientific research related to the benefits of cannabis remains in its early stages, is subject to a number of important assumptions, and may prove to be inaccurate. Future research studies and clinical trials may reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and

perceptions related to medical cannabis, which could materially impact the demand for our products for use in the cannabis industry.

The public's perception of cannabis may significantly impact the cannabis industry's success. Both the medical and adult-use of cannabis are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion, and public opinion relating to cannabis will be favorable. The cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and adult-use of cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of cannabis, whether in the United States or internationally, may have a material adverse effect on our operational results, consumer base, and financial results. Among other things, such a shift in public opinion could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult cannabis or adopt new laws or regulations restricting or prohibiting the medical or adult-use of cannabis where it is now legal, thereby limiting the Cannabis Industry Participants.

Demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop. We cannot predict the nature of such developments or the effect, if any, that such developments could have on our business.

Our indirect involvement in the cannabis industry could affect the public's perception of us and be detrimental to our reputation.

Damage to our reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our retailers and resellers that transact with cannabis businesses might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact our reputation. The increased use of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views with regard to cannabis companies and their activities, whether true or not and the cannabis industry in general, whether true or not. We do not ultimately have direct control over how the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to our overall ability to advance our business strategy and realize our growth prospects, thereby having a material adverse impact on our business.

In addition, third parties with whom we may do business could perceive that they are exposed to reputational risk as a result of our retailers' and resellers' involvement with cannabis businesses. Failure to establish or maintain business relationships due to reputational risk arising in connection with the nature of our business could have a material adverse effect on our business, financial condition and results of operations.

Businesses involved in the cannabis industry, and investments in such businesses, are subject to a variety of laws and regulations related to money laundering, financial recordkeeping and proceeds of crimes.

We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry. Investments in the U.S. cannabis industry are subject to a variety of laws and regulations that involve money laundering, financial recordkeeping and proceeds of crime, including the BSA, as amended by the U.S. PATRIOT Act, other anti-money laundering laws, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States. In February 2014, the Financial Crimes Enforcement Network of the Treasury Department ("FinCEN") issued a memorandum (the "FinCEN Memo") providing guidance to banks seeking to provide services to cannabis businesses. The FinCEN Memo outlines circumstances under which banks may provide services to cannabis businesses without risking prosecution for violation of U.S. federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to U.S. federal prosecutors relating to the prosecution of U.S. money laundering offenses predicated on cannabis violations of the CSA and outlines extensive due diligence and reporting requirements, which most banks have viewed as onerous. On June 29, 2020, FinCEN issued additional guidance for financial institutions conducting due diligence and filing suspicious activity reports in connection with hemp-related business customers. While these guidelines clarify

that financial institutions are not required to file suspicious activity reports solely based on a customer's hemp-related business operations, which must be operating lawfully under applicable state law and regulations, these requirements can still present challenges for certain end users of our products to establish and maintain banking connections, and restrictions on cannabis-related banking activities remain. In September 2019, the United States House of Representatives passed the SAFE Banking Act, which would permit commercial banks to offer services to cannabis companies that are in compliance with state law, but the Senate has not taken up the SAFE Banking Act or other similar legislation.

Risks Relating to Other Regulations

Certain state and other regulations pertaining to the use of certain ingredients in growing media and plant nutrients could adversely impact us by restricting our ability to sell such products.

One of our leading product lines is growing media and nutrients products. This product line includes certain products, such as organic soils and nutrients that contain ingredients that require the companies that provide us with these products to register the product with certain regulators. The use and disposal of these products in some jurisdictions are subject to regulation by various agencies. A decision by a regulatory agency to significantly restrict the use of such products that have traditionally been used in the cultivation of our leading products could have an adverse impact on those companies providing us with such regulated products, and as a result, limit our ability to sell these products.

We are currently subject to, and may in the future become subject to additional, U.S., state and foreign laws and regulations imposing obligations on how we collect, store and process personal information. Our actual or perceived failure to comply with such obligations could harm our business.

We are, and may increasingly become, subject to various laws and regulations, as well as contractual obligations, relating to data privacy and security in the jurisdictions in which we operate. The regulatory environment related to data privacy and security is increasingly rigorous, with new and constantly changing requirements applicable to our business, and enforcement practices are likely to remain uncertain for the foreseeable future. These laws and regulations may be interpreted and applied differently over time and from jurisdiction to jurisdiction, and it is possible that they will be interpreted and applied in ways that may have a material adverse effect on our business, financial condition, results of operations and prospects.

In the United States, various federal and state regulators, including governmental agencies like the Consumer Financial Protection Bureau and the Federal Trade Commission, have adopted, or are considering adopting, laws and regulations concerning personal information and data security. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to personal information than federal, international or other state laws, and such laws may differ from each other, all of which may complicate compliance efforts. For example, the California Consumer Privacy Act ("CCPA"), which increases privacy rights for California residents and imposes obligations on companies that process their personal information, came into effect on January 1, 2020. Among other things, the CCPA requires covered companies to provide new disclosures to California consumers and provide such consumers new data protection and privacy rights, including the ability to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. This private right of action may increase the likelihood of, and risks associated with, data breach litigation. In addition, on November 3, 2020, California voters approved a new privacy law, the California Privacy Rights Act ("CPRA"). The CPRA comes into effect on January 1, 2023, and will significantly modify the CCPA, including by expanding consumers' rights with respect to certain personal information and creating a new state agency to oversee implementation and enforcement efforts. In addition, laws in all 50 U.S. states require businesses to provide notice to consumers whose personal information has been disclosed as a result of a data breach. State laws are changing rapidly and there is discussion in the U.S. Congress of a new comprehensive federal data privacy law to which we would become subject if it is enacted.

Internationally, laws, regulations and standards in many jurisdictions apply broadly to the collection, use, retention, security, disclosure, transfer and other processing of personal information. For example, the E.U. General Data Protection Regulation ("GDPR"), which became effective in May 2018, greatly increased the European Commission's jurisdictional reach of its laws and adds a broad array of requirements for handling personal data. EU member states are tasked under the GDPR to enact, and have enacted, certain

implementing legislation that adds to and/or further interprets the GDPR requirements and potentially extends our obligations and potential liability for failing to meet such obligations. The GDPR, together with national legislation, regulations and guidelines of the EU member states and the United Kingdom governing the processing of personal data, impose strict obligations and restrictions on the ability to collect, use, retain, protect, disclose, transfer and otherwise process personal data. In particular, the GDPR includes obligations and restrictions concerning the consent and rights of individuals to whom the personal data relates, the transfer of personal data out of the European Economic Area or the United Kingdom, security breach notifications and the security and confidentiality of personal data. The GDPR authorizes fines for certain violations of up to 4% of global annual revenue or €20 million, whichever is greater.

All of these evolving compliance and operational requirements impose significant costs, such as costs related to organizational changes, implementing additional protection technologies, training employees and engaging consultants, which are likely to increase over time. In addition, such requirements may require us to modify our data processing practices and policies, distract management or divert resources from other initiatives and projects, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects. Any failure or perceived failure by us to comply with any applicable federal, state or similar foreign laws and regulations relating to data privacy and security could result in damage to our reputation, as well as proceedings or litigation by government agencies or other third parties, including class action privacy litigation in certain jurisdictions, which would subject us to significant fines, sanctions, awards, penalties or judgements, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Compliance with, or violation of, environmental, health and safety laws and regulations, including laws pertaining to the use of pesticides, could result in significant costs that adversely impact our reputation, businesses, financial position, results of operations and cash flows.

International, federal, state, provincial and local laws and regulations relating to environmental, health and safety matters affect us in several ways in light of the ingredients that are used in products included in our growing media and nutrients product line. In the United States, products containing pesticides generally must be registered with the Environmental Protection Agency (the “EPA”), and similar state agencies before they can be sold or applied. The failure by one of our partners to obtain or the cancellation of any such registration, or the withdrawal from the marketplace of such pesticides, could have an adverse effect on our businesses, the severity of which would depend on the products involved, whether other products could be substituted and whether our competitors were similarly affected. The pesticides we use are either granted a license by the EPA or exempt from such a license and may be evaluated by the EPA as part of its ongoing exposure risk assessment. The EPA may decide that a pesticide we distribute will be limited or will not be re-registered for use in the United States. We cannot predict the outcome or the severity of the effect on our business of any future evaluations, if any, conducted by the EPA.

In addition, the use of certain pesticide products is regulated by various international, federal, state, provincial and local environmental and public health agencies. Although we strive to comply with such laws and regulations and have processes in place designed to achieve compliance, we may be unable to prevent violations of these or other laws and regulations from occurring. Even if we are able to comply with all such laws and regulations and obtain all necessary registrations and licenses, the pesticides or other products we apply or use, or the manner in which we apply or use them, could be alleged to cause injury to the environment, to people or to animals, or such products could be banned in certain circumstances. The costs of compliance, noncompliance, investigation, remediation, combating reputational harm or defending civil or criminal proceedings, products liability, personal injury or other lawsuits could have a material adverse impact on our reputation, businesses, financial position, results of operations and cash flows.

Risks Relating to Our Intellectual Property

Recent laws make it difficult to predict how patents will be issued or enforced in our industry.

Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may have a significant impact on our ability to protect our technology and enforce our intellectual property and proprietary rights. There have been numerous changes to the patent laws and to the rules of the United States Patent and Trademark Office (the “USPTO”), which may have a significant impact on our

ability to protect our technology and enforce our intellectual property and proprietary rights. For example, the Leahy-Smith America Invents Act, which was signed into law in 2011, includes a transition from a “first-to-invent” system to a “first-to-file” system, and changes the way issued patents can be challenged. Certain changes, such as the institution of inter partes review and post-grant and derivation proceedings, came into effect in 2012. Substantive changes to patent law associated with the Leahy-Smith America Invents Act may affect our ability to obtain patents, and, if obtained, to enforce or defend them in litigation or inter partes review, or post-grant or derivation proceedings, all of which could harm our business.

We may not be able to adequately obtain, maintain, protect or enforce our intellectual property and other proprietary rights that are material to our business.

Our ability to compete effectively depends in part on our rights to trademarks, patents and other intellectual property rights we own or license. We have not sought to register every one of our trademarks either in the United States or in every country in which such mark is used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States with respect to the registered brand names and issued patents we hold. If we are unable to obtain, maintain, protect and enforce our intellectual property and proprietary rights, including our information and/or brand names, we could suffer a material adverse effect on our business, financial condition and results of operations.

The steps we take to obtain, maintain, protect and enforce our intellectual property and proprietary rights may be inadequate and despite our efforts to protect these rights, unauthorized third parties, including our competitors, may duplicate, reverse engineer, access, obtain, use or copy the proprietary aspects of our technology, processes, products or services without our permission. In addition, we cannot guarantee that we have entered into confidentiality agreements with each party that has or may have had access to our proprietary information, know-how and trade secrets. Moreover, our contractual arrangements may be breached or otherwise not effectively prevent disclosure of, or control access to, our intellectual property and confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure. If we are unable to obtain, maintain, protect or enforce our intellectual property and proprietary rights, including our proprietary information and/or brand names, we could suffer a material adverse effect on our business, financial condition and results of operations.

Litigation may be necessary to enforce our owned or in-licensed intellectual property rights and proprietary rights and protect our proprietary information against claims by third parties that our products or services infringe, misappropriate or otherwise violate their intellectual property rights or proprietary rights. Any litigation or claims brought by us could result in substantial costs and diversion of our resources and may not be successful, even when our rights have been infringed, misappropriated or otherwise violated. Our efforts to enforce our intellectual property and proprietary rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property and proprietary rights, and if such defenses, counterclaims or countersuits are successful, we could lose valuable intellectual property and proprietary rights. Additionally, the mechanisms for enforcement of intellectual property and proprietary rights in foreign jurisdictions may be inadequate.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submissions, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for noncompliance with these requirements.

Periodic maintenance or annuity fees on any issued patents are due to be paid to the USPTO, and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payments and other similar provisions during the patent application process. While an inadvertent or unintentional lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Noncompliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, nonpayment of fees and failure to properly legalize and submit formal documents. If we or our licensors fail to maintain the patents and patent applications covering our products, our competitors might be able to enter the market, which would have a material adverse

effect on our business. Additionally, patents have a limited lifespan. In the United States, even if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest U.S. non-provisional filing date and the natural expiration of a design patent is generally 14 years after its issue date, unless the filing date occurred on or after May 13, 2015, in which case the natural expiration of a design patent is generally 15 years after its issue date. Even if patents covering our products or services are obtained, once the patent life has expired, we may be open to competition from competitive products or services. If one of our products requires extended development, testing and/or regulatory review, patents protecting such products might expire before or shortly after such products are commercialized. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

From time to time, we may need to rely on licenses to proprietary technologies, which may be difficult or expensive to obtain or we may lose certain licenses which may be difficult to replace, harming our competitive position.

We may need to obtain licenses to patents and other intellectual property and proprietary rights held by third parties to develop, manufacture and market our products, if, for example, we sought to develop our products, in conjunction with any patented technology. If we are unable to timely obtain these licenses on commercially reasonable terms (or at all) and maintain these licenses, our ability to commercially market our products, may be inhibited or prevented, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In spite of our best efforts, our licensors might conclude that we have materially breached our license agreements and might therefore terminate the license agreements, thereby removing our ability to develop and commercialize products, services and technology covered by these license agreements. If these licenses are terminated, or if the underlying patents fail to provide the intended exclusivity, competitors may have the freedom to market products identical to ours and we may be required to cease using or commercializing our products, services and technology covered by such patents.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our success depends upon our ability to develop, manufacture, market and sell our products, and to use our proprietary technologies without infringing, misappropriating or otherwise violating the intellectual property or proprietary rights of third parties. We may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property or proprietary rights with respect to our products and technology, including interference or derivation proceedings and various other post-grant proceedings before the USPTO and/or non-United States opposition proceedings. Third parties may assert infringement claims against us based on existing patents or patents that may be granted in the future. A successful claim of trademark, patent or other intellectual property or proprietary right infringement, misappropriation or other violation against us, or any other successful challenge to the use of our intellectual property and proprietary rights, could subject us to damages or prevent us from providing certain products or services, or using certain of our recognized brand names, which could have a material adverse effect on our business, financial condition and results of operations. As a result of any such infringement claims, or other intellectual property claims, regardless of merit, or to avoid potential claims, we may choose or be compelled to seek intellectual property licenses from third parties. These licenses may not be available on acceptable terms, or at all. Even if we are able to obtain a license, the license would likely obligate us to pay license fees, royalties, minimum royalties and/or milestone payments and the rights granted to us could be nonexclusive, which would mean that our competitors may be able to obtain licenses to the same intellectual property. Ultimately, we could be prevented from commercializing a product and/or technology or be forced to cease some aspect of our business operations if, as a result of actual or threatened infringement or other intellectual property claims, we are unable to enter into licenses of the relevant intellectual property on acceptable terms. Further, if we attempt to modify a product and/or technology or to develop alternative methods or products in response to infringement or other intellectual property claims or to avoid potential claims, we could incur substantial costs, encounter delays in product introductions or interruptions in sales.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Although we try to ensure that our employees do not use the intellectual property and proprietary rights, including proprietary information or know-how, of others in their work for us, we may be subject to claims

that we or these employees have used or disclosed intellectual property or proprietary rights, including trade secrets or other proprietary information, of any such employee's former employer. We are not aware of any threatened or pending claims related to these matters or concerning agreements with our employees, but in the future litigation may be necessary to defend against such claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property or proprietary rights or personnel. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

Intellectual property disputes could cause us to spend substantial resources and distract our personnel from their normal responsibilities.

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the value of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent and other intellectual property litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace.

If our owned or in-licensed trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

We regard our owned and in-licensed trademarks, trade names and service marks as having significant value and as an important factor in the success of our business. The registered or unregistered trademarks, trade names and service marks that we own or in-license from third parties may be challenged, infringed, circumvented, declared generic or determined to be infringing on or dilutive of other marks. Additionally, at times, competitors may adopt trademarks, trade names or service marks similar to the ones we own or in-license, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trademark, trade name or service mark infringement claims brought against us or our licensors by owners of other trademarks, trade names and service marks. Over the long term, if we are unable to establish name recognition based on our owned and in-licensed trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected. We may also license our trademarks, trade names and service marks out to third parties, such as our distributors. Though these license agreements may provide guidelines for how our trademarks, trade names and service marks may be used, a breach of these agreements or misuse of our trademarks, trade names and service marks by our licensees may jeopardize our rights in or diminish the goodwill associated with our trademarks and trade names. Our efforts to enforce or protect our intellectual property and proprietary rights related to trademarks, trade names and service marks may be ineffective and could result in substantial costs and diversion of resources and could adversely affect our business, financial condition, results of operations and prospects.

Intellectual property and proprietary rights do not necessarily address all potential threats to our competitive advantage.

The degree of future protection afforded by our intellectual property and proprietary rights is uncertain because intellectual property and proprietary rights have limitations, and may not adequately protect our business, or permit us to maintain our competitive advantage. The following examples are illustrative.

- Others may be able to construct products that are similar to our products but that are not covered by the claims of the patents that we own or have exclusively licensed;
- We or our licensors or strategic collaborators, if any, might not have been the first to make the inventions covered by the issued patent or pending patent application that we own or have exclusively licensed;

- We or our licensors or strategic collaborators, if any, might not have been the first to file patent applications covering certain of our inventions;
- Others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing, misappropriating or otherwise violating our intellectual property and proprietary rights;
- It is possible that our current and future pending patent applications will not lead to issued patents;
- It is possible that our current and future pending trademark or service mark applications will not lead to registrations;
- We may fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection;
- Issued patents and other intellectual property and proprietary rights that we own or have exclusively licensed may not provide us with any competitive advantages, may not be sufficiently broad in scope or may be held invalid or unenforceable, as a result of legal challenges by third parties, including our competitors;
- Our competitors might conduct research and development activities in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets;
- We may not develop additional proprietary technologies that are patentable; and
- The patents of others may have an adverse effect on our business.

Should any of these events occur, they could significantly harm our business, results of operations and prospects.

Risks Relating to Our Capital Stock

We may incur indebtedness or issue capital stock that ranks senior or equally to our common stock as to liquidation preference and other rights and which may dilute our stockholders' ownership interest.

Shares of our common stock are common equity interests in us and, as such, will rank junior to all of our existing and future indebtedness and other liabilities. Additionally, our amended and restated certificate of incorporation (the "Certificate of Incorporation") does not prohibit us from issuing any series of preferred stock that would rank senior or equally to our common stock as to dividend payments and liquidation preference. Our Certificate of Incorporation allows for our board of directors to create new series of preferred stock without further approval by our stockholders, which could adversely affect the rights of the holders of our common stock. We have the authority to issue up to 50,000,000 shares of our preferred stock without further stockholder approval. The issuances of any series of preferred stock could have the effect of reducing the amounts available to our holders of common stock in the event of our liquidation. In addition, if we issue preferred stock with voting rights that dilute the voting power of our common stock, the market price of our common stock could decrease. Additional issuances and sales of preferred stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us. In addition, any additional capital raised through the sale of equity or equity-backed securities may dilute our stockholders' ownership percentages and could also result in a decrease in the market value of our common stock.

Provisions in our corporate charter documents and under Delaware law could make an acquisition of our company, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

These provisions might discourage, delay or prevent a change in control of our company or a change in our management. The existence of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock. Furthermore, we have the authority to issue up to 50,000,000 shares of our preferred stock without

further stockholder approval, the rights of which will be determined at the discretion of the board of directors and that, if issued, could operate as a “poison pill” to dilute the stock ownership of a potential hostile acquirer to prevent an acquisition that our board of directors does not approve. In addition, our Certificate of Incorporation and amended and restated bylaws (the “Bylaws”) contain provisions that may make the acquisition of our company more difficult, including the following:

- our authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise;
- our board of directors is classified into three classes of directors with staggered three-year terms and directors are only able to be removed from office for cause;
- our stockholders will only be able to take action at a meeting of stockholders and will not be able to take action by written consent for any matter, except in certain circumstances;
- a special meeting of our stockholders may only be called by the chairperson of our board of directors or a majority of our board of directors;
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders; and
- certain amendments to our Certificate of Incorporation and any amendments to our Bylaws by our stockholders will require the approval of at least two-thirds of our then-outstanding voting power entitled to vote generally in an election of directors, voting together as a single class.

Various provisions of our lending agreements with Encina and Brightwood, in addition to our Certificate of Incorporation, Bylaws and other corporate documents, could delay or prevent a change of control.

The Encina Credit Facility and the Term Loan Agreement each prohibit us from undergoing a change of control. Any takeover attempt could be delayed, or prevented, if an amendment or waiver is not provided by the respective lenders. See “—Risks Relating to Our Indebtedness” and “Description of Our Indebtedness.” Moreover, certain provisions of our Certificate of Incorporation and Bylaws and provisions of Delaware General Corporation Law could delay or prevent a change of control or may impede the ability of the holders of our common stock to change our management. In particular, our Certificate of Incorporation and Bylaws, among other things will regulate how stockholders may present proposals or nominate directors for election at stockholders’ meetings and authorize our board of directors to issue preferred stock in one or more series, without stockholder approval. See “Description of Capital Stock — Anti-Takeover Provisions.”

We are a holding company and rely on dividends and other payments, advances and transfers of funds from our subsidiaries to meet our obligations and pay dividends, if any, and we may never pay any dividends to the holders of our common stock and capital appreciation, if any, of our common stock may be your sole source of gain on your investment.

We have no direct operations and no significant assets other than the ownership of capital stock and equity interests of our subsidiaries. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations. Legal and contractual restrictions in the Encina Credit Facility, the Term Loan Agreement and other agreements which may govern future indebtedness of our subsidiaries, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. The earnings from, or other available assets of, our subsidiaries might not be sufficient to pay dividends or make distributions or loans to enable us to pay any dividends on our common stock or other obligations. Any of the foregoing could materially and adversely affect our business, financial condition, results of operations and cash flows. In addition, our ability to pay dividends is restricted by the terms of the Encina Credit Facility and the Term Loan Agreement and, in addition, future debt financing, if any, may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our securities.

We currently intend to retain any future earnings for use in the operation and expansion of our business. Accordingly, we do not expect to pay any dividends to holders of our common stock in the foreseeable future, but will review this policy as circumstances dictate. The declaration and payment of all future dividends to holders of our common stock, if any, will be at the sole discretion of our board of directors, which retains the

right to change our dividend policy at any time. In addition, our ability to pay dividends is restricted by the terms of the Encina Credit Facility and the Term Loan Agreement and, in addition, future debt financing, if any, may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our securities. Consequently, capital appreciation, if any, of our common stock may be your sole source of gain on your investment for the foreseeable future.

Our largest stockholders will exercise significant influence over our company for the foreseeable future, including the outcome of matters requiring stockholder approval.

Our former directors and their affiliates will collectively own 10,259,688 shares of our common stock or approximately 32.3% of our outstanding shares of common stock after the consummation of the offering contemplated hereby, excluding any shares of common stock purchased in our directed share program and the purchase by entities affiliated with one or more of our existing stockholders that have indicated an interest in purchasing shares of our common stock in this offering at the assumed initial public offering price. Accordingly, if these stockholders were to choose to act together, they could have a significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or all or a significant percentage of our assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

We cannot assure you that the interests of our former directors and affiliated persons will coincide with the interests of the investors. So long as our former directors and affiliated persons collectively controls a significant portion of our common stock, these individuals and/or entities controlled by them, will continue to collectively be able to strongly influence or effectively control our decisions. Therefore, you should not invest in reliance on your ability to have any control over our company. See “*Principal Stockholders*,” “*Certain Relationships and Related Party Transactions*” and “*Description of Capital Stock*.”

We have broad discretion in how we use our cash, cash equivalents and marketable securities and may not use these financial resources effectively, which could affect our results of operations and cause our stock price to decline.

Our management has considerable discretion in the application of our cash, cash equivalents and marketable securities. We intend to use the proceeds of this offering to repay existing indebtedness, for acquisitions, for working capital and other general corporate purposes, which may include the hiring of additional personnel and capital expenditures. We intend to use the net proceeds from this offering to repay borrowings outstanding under the Term Loan Agreement which matures on May 12, 2022 and bears an interest rate of LIBOR plus 850 basis points and the Base Rate plus 750 basis points; provided, that at such time that the Total Net Leverage Ratio is less than 5.50:1.00, the interest rate shall be LIBOR plus 700 basis points or the Base Rate plus 600 basis points. We also intend to use the net proceeds from this offering to paydown and refinance the balance of our borrowings under the Encina Credit Facility, among certain of our subsidiaries, Encina Business Credit, LLC and the other lenders party thereto, which matures on the earlier of (i) July 11, 2022, or (ii) 90 days prior to the scheduled maturity date of the Term Loan Agreement, and bears variable interest rates based on certain U.S. and Canadian-based interest rates plus an applicable margin, which is determined by the average daily amount. We also intend to use the net proceeds from this offering to repay the PPP Loan which matures on April 7, 2022 and bears an interest rate of 1% per annum. As a result, investors will be relying upon management’s judgment with only limited information about our specific intentions for these proceeds. We may use the cash, cash equivalents and marketable securities for purposes that do not yield a significant return or any return at all for our stockholders. In addition, pending their use, we may invest the financial resources from our securities offerings in a manner that does not produce income or that loses value.

Our common stock has no prior public market, and we cannot assure you that an active trading market will develop.

Prior to this offering, there has not been a public market for our common stock. We have applied to list our common stock on The Nasdaq Capital Market (the “NASDAQ”) and our application may not be approved or an active trading market in our common stock might not develop or continue. If you purchase shares of our common stock in this offering, you will pay a price that was not established in a competitive

market. Rather, you will pay a price that was determined through negotiations with the representatives of the underwriters based upon an assessment of the valuation of our common stock and a book-building process. The public market may not agree with or accept this valuation, in which case you may not be able to sell your shares of our common stock at or above the initial offering price. In addition, if an active trading market does not develop, you may have difficulty selling your shares of our common stock at an attractive price, or at all. An inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to acquire other companies, products or technologies by using shares of our common stock as consideration.

Future sales of a substantial number of shares of our common stock may depress the price of our shares.

If any of our other stockholders sells or otherwise disposes of a large number of shares of our common stock, or if we issue a large number of shares of our common stock in connection with future acquisitions, financings, or other circumstances, the market price of shares of our common stock could decline significantly.

Subject to the lock-up agreements described below, all of the shares of our common stock sold in this offering will be freely tradable without restriction, except for shares of our common stock owned by any of our affiliates. Immediately after this offering, the public market for our common stock will include only the 8,666,667 million shares of our common stock that are being sold in this offering, or 9,966,667 million shares of our common stock if the underwriters exercise their option to purchase additional shares of our common stock from us in full.

Our directors, executive officers and holders of substantially all of our capital stock and securities convertible into our capital stock have entered into lock-up agreements in which they have agreed that they will not sell, directly or indirectly, any shares of our common stock for a period of 180 days from the date of this prospectus (subject to certain exceptions) without the prior written consent of J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated, or are subject to the market standoff provisions in the Registration Rights Agreement pursuant to which each holder shall not transfer, sell, offer, pledge, contract to sell, grant any option or contract to purchase, purchase any option or contract to sell, grant any right or warrant to purchase, lend or otherwise transfer or encumber any Registrable Securities (as defined in the Registration Rights Agreement) until the date that is six months after the effective date of this registration statement. In addition, all shares of common stock purchased pursuant to the indication of interest will be subject to a two-month restricted period as described in the section entitled “*Underwriting.*” See “*Shares Eligible for Future Sale.*”

Participation in this offering by certain entities affiliated with one or more existing stockholders will reduce the public float for our common stock.

Certain entities, including entities affiliated with one or more existing stockholders, have indicated an interest in purchasing up to approximately \$30.0 million of shares of our common stock in this offering at the initial public offering price. Such purchase will reduce the available public float for our shares if such entities hold these shares long term.

The trading price of our common stock may be volatile, and you could lose all or part of your investment.

The initial public offering price of our common stock will be determined through negotiation among us and the underwriters. This price does not necessarily reflect the price at which investors in the market will be willing to buy and sell shares of our common stock following this offering. In addition, the trading price of our common stock following this offering is likely to be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. These fluctuations could cause you to lose all or part of your investment in our common stock since you might be unable to sell your shares at or above the price you paid in this offering. Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the trading prices and trading volumes of stocks in our industry;
- changes in operating performance and stock market valuations of other companies generally, or those in our industry in particular;

- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new offerings or platform features;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- actual or anticipated developments in our business, our competitors’ businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses, services or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company’s securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management’s attention and resources.

We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

As an emerging growth company, as defined in the JOBS Act, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to obtain an assessment of the effectiveness of our internal controls over financial reporting from our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. To the extent we avail ourselves of these exemptions, our financial statements may not be comparable to companies that comply with such new or revised accounting standards. We cannot predict if investors will find our common stock less attractive because we will rely on these.

Our Certificate of Incorporation provides that the doctrine of “corporate opportunity” will not apply with respect to any director or stockholder who is not employed by us or our affiliates.

The doctrine of corporate opportunity generally provides that a corporate fiduciary may not develop an opportunity using corporate resources, acquire an interest adverse to that of the corporation or acquire property that is reasonably incident to the present or prospective business of the corporation or in which the corporation has a present or expectancy interest, unless that opportunity is first presented to the corporation and the corporation chooses not to pursue that opportunity. The doctrine of corporate opportunity is intended to preclude officers or directors or other fiduciaries from personally benefiting from opportunities that belong to the corporation. Our Certificate of Incorporation provides that the doctrine of “corporate opportunity”

does not apply with respect to any director or stockholder who is not employed by us or our affiliates. Any director or stockholder who is not employed by us or our affiliates will therefore have no duty to communicate or present corporate opportunities to us, and will have the right to either hold any corporate opportunity for their (and their affiliates') own account and benefit or to recommend, assign or otherwise transfer such corporate opportunity to persons other than us, including to any director or stockholder who is not employed by us or our affiliates.

As a result, certain of our stockholders, directors and their respective affiliates will not be prohibited from operating or investing in competing businesses. We therefore may find ourselves in competition with certain of our stockholders, directors or their respective affiliates, and we may not have knowledge of, or be able to pursue, transactions that could potentially be beneficial to us. Accordingly, we may lose a corporate opportunity or suffer competitive harm, which could negatively impact our business or prospects.

If securities or industry analysts do not publish research or reports about our business, or they publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our Certificate of Incorporation or our Bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. Notwithstanding the foregoing, the exclusive forum provision does not apply to suits brought to enforce any liability or duty created by the Exchange Act, the Securities Act or any other claim for which the federal courts have exclusive jurisdiction. Unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by applicable law, be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially and adversely affect our business, financial condition, and results of operation.

General Risk Factors

If we are unable to hire and retain key personnel, we may not be able to implement our business plan and our business may fail.

Our future success depends to a large extent on our ability to attract, hire, train and retain qualified managerial, operational and other personnel. We face significant competition for qualified and experienced employees in our industry and from other industries and, as a result, we may be unable to attract and retain the personnel needed to successfully conduct and grow our operations. Additionally, key personnel, including members of management, may leave and compete against us.

At present, we believe we have the necessary key personnel to carry out our business plans but there can be no assurance that our beliefs will not prove unfounded. If we are unable to hire and retain key personnel, our business will be materially adversely affected.

Litigation may adversely affect our business, financial condition and results of operations.

From time to time in the normal course of our business operations, we may become subject to litigation that may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend such litigation may be significant and may require a diversion of our resources. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition and results of operations.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

As a Delaware corporation, we are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Some foreign companies, including some that may compete with us, may not be subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur from time-to-time in countries in which we conduct our business. However, our employees or other agents may engage in conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Delaware law contains anti-takeover provisions that could deter takeover attempts that could be beneficial to our stockholders.

Provisions of Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. Section 203 of the Delaware General Corporation Law may make the acquisition of our company and the removal of incumbent officers and directors more difficult by prohibiting stockholders holding 15% or more of our outstanding voting stock from acquiring us, without the consent of our board of directors, for at least three years from the date they first hold 15% or more of the voting stock.

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

We intend to allocate the net proceeds from this offering to our different areas of activity. Our management may not apply the net proceeds in ways that ultimately increase the value of your investment in our common stock. They will have broad discretion in the application of the use of proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. If we do not invest or apply the net proceeds from this offering in ways that enhance shareholder value, we may fail to achieve expected financial results, which could cause the price of our common stock to decline.

Our security holders may be diluted by future issuances of securities by us.

In the future, we may issue our authorized but previously unissued equity securities, including additional shares of capital stock or securities convertible into or exchangeable for our capital stock. Such issuance of additional securities would dilute the ownership stake in us held by our existing stockholders and could adversely affect the value of our securities.

We may also issue additional shares of our common stock, warrants or other securities that are convertible into or exercisable for the purchase of shares of our common stock in connection with hiring and/or retaining employees or consultants, future acquisitions, future sales of our securities for capital raising purposes, or for other business purposes. The future issuance of any such additional shares of our common stock or other securities, for any reason including those stated above, may have a negative impact on the market price of our common stock. There can be no assurance that the issuance of any additional shares of common stock, warrants or other convertible securities may not be at a price (or exercise prices) below the price of the common stock offered hereby.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. You can generally identify forward-looking statements by our use of forward-looking terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “seek,” “will” or “should,” or the negative thereof or other variations thereon or comparable terminology. In particular, statements about the markets in which we operate, including growth of our various markets, and statements about our expectations, beliefs, plans, strategies, objectives, prospects, assumptions or future events or performance contained in this prospectus under the headings “*Prospectus Summary*,” “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” and “*Business*” are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed in this prospectus under the headings “*Prospectus Summary*,” “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” and “*Business*,” may cause our actual results, levels of activity, performance or events and circumstances to differ materially from any future results, levels of activity, performance or events and circumstances expressed or implied by these forward-looking statements. Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include:

- general economic and financial conditions, specifically in the United States and Canada;
- the adverse effects of public health epidemics, including the recent COVID-19 outbreak, on our business, results of operations and financial condition;
- federal and state legislation and regulations pertaining to the use and cultivation of cannabis in the United States, and such laws and regulations in Canada;
- the costs of being a public company;
- our ability to keep pace with technological advances;
- 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;
- our current level of indebtedness;
- our dependence on third parties;
- 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 obtain and maintain protection for our intellectual property and proprietary rights;
- 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*.”

Moreover, we operate in a highly competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for us to predict all risk factors, nor can we address the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause our actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to new information, actual results or to changes in our expectations, except as required by law.

You should read this prospectus and the documents that we reference in this prospectus and have filed with the SEC, as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of common stock in this offering will be approximately \$118.0 million, based on an assumed initial public offering price of \$15.00 per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be \$136.1 million based on an assumed initial public offering price of \$15.00 per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The principal purposes of this offering are to repay existing indebtedness, for acquisitions, for working capital and other general corporate purposes, which may include the hiring of additional personnel and capital expenditures, to establish a public market for our common stock and to facilitate our future access to the public capital markets. We intend to use the net proceeds from this offering to repay borrowings outstanding under the Term Loan Agreement, among certain of our subsidiaries, Brightwood Loan Services, LLC and the other lenders party thereto, which matures on May 12, 2022 and bears an interest rate of LIBOR plus 850 basis points and the Base Rate (as defined therein) plus 750 basis points; provided, that at such time that the Total Net Leverage Ratio (as defined therein) is less than 5.50:1.00, the interest rate shall be LIBOR plus 700 basis points or the Base Rate plus 600 basis points. We also intend to use the net proceeds from this offering to paydown and refinance our borrowings under the Encina Credit Facility, among certain of our subsidiaries, Encina Business Credit, LLC and the other lenders party thereto, which matures on the earlier of (i) July 11, 2022, or (ii) 90 days prior to the scheduled maturity date of the Term Loan Agreement, and bears variable interest rates based on certain U.S. and Canadian-based interest rates plus an applicable margin, which is determined by the average daily amount available for borrowing under the Encina Credit Facility for an applicable period. We also intend to use the net proceeds from this offering to repay the PPP Loan which matures on April 7, 2022 and bears an interest rate of 1% per annum. See “*Description of Our Indebtedness*” for more information.

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$15.00 per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) the net proceeds to us from this offering by approximately \$8.1 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase of 1.0 million shares in the number of shares offered by us, together with a concurrent \$1.00 increase in the assumed initial public offering price of \$15.00 per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would increase the net proceeds to us from this offering by approximately \$22.9 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us. Conversely, a decrease of 1.0 million shares in the number of shares offered by us together with a concurrent \$1.00 decrease in the assumed initial public offering price of \$15.00 per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, would decrease the net proceeds to us from this offering by approximately \$21.1 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us. The as adjusted information discussed above is illustrative only and will adjust based on the actual initial public offering price and other terms of this offering determined at pricing.

DIVIDEND POLICY

We have no direct operations and no significant assets other than ownership of capital stock and equity interests of our subsidiaries. Because we conduct operations through our subsidiaries, we depend on our subsidiaries for dividends and other payments to generate the funds necessary to meet our financial obligations. Legal and contractual restrictions in our credit facility and other agreements which may govern future indebtedness of our subsidiaries, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. The earnings from, or other available assets of, our subsidiaries might not be sufficient to pay dividends or make distributions or loans to enable us to pay any dividends on our common stock or other obligations.

We have never declared nor paid any cash dividends to holders of our common stock. Except as described herein, we currently intend to retain any future earnings for use in the operation and expansion of our business. Accordingly, we do not expect to pay any dividends to holders of our common stock in the foreseeable future, but will review this policy as circumstances dictate. The declaration and payment of all future dividends to holders of our common stock, if any, will be at the sole discretion of our board of directors, which retains the right to change our dividend policy at any time. In addition, our ability to pay dividends is currently restricted by the terms of the Encina Credit Facility and the Term Loan Agreement and, in addition, future debt or other financings, if any, may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our securities.

CAPITALIZATION

The following table sets forth cash, cash equivalents and restricted cash, as well as our capitalization, as of September 30, 2020 as follows:

- on an actual basis;
- on a pro forma basis, after giving effect to the automatic conversion of our Series A Preferred Stock into an aggregate of 2,291,469 shares of common stock, assuming the Series A Preferred Stock converts at \$11.80 per share and that we pay the \$2.0 million of accrued dividends on the Series A Preferred Stock in cash; and
- on a pro forma as adjusted basis giving further effect to: (i) the sale by us of 8,666,667 shares of common stock in this offering at an assumed initial public offering price of \$15.00 per share, which is the midpoint of the estimated price range set forth on the cover of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us; and (ii) the repayment of the Term Loan Agreement, the paydown of the Encina Credit Facility and the repayment of the PPP Loan.

The pro forma as adjusted information set forth in the table below is illustrative only and will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table together with our consolidated financial statements and the notes thereto, and the sections titled “*Selected Consolidated Financial and Other Data*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” that are included elsewhere in this prospectus.

	As of September 30, 2020		
	Actual	Pro forma	Pro forma as adjusted
	(In thousands, except per share amounts)		
Cash, cash equivalents and restricted cash	\$ 32,855	\$ 30,865	\$ 36,805 ^(e)
Long term debt including current portion ^(a) :			
Term loan	\$ 76,292	\$ 76,292	\$ —
Line of credit ^(b)	32,494	32,494	—
PPP loan	3,274	3,274	—
Other	1,369	1,369	1,369
Total long term debt	113,429	113,429	1,369
Convertible preferred stock, \$0.0001 par value, 50,000,000 shares authorized;			
Actual: 7,725,045 ^(c) issued and outstanding			
Pro forma and Pro forma as adjusted: no shares issued and outstanding	27,584 ^(d)	—	—
Stockholders’ equity			
Common stock, \$0.0001 par value, 300,000,000 shares authorized;			
Actual: 20,688,439 shares issued and outstanding			
Pro forma: 22,979,908 shares issued and outstanding			
Pro forma as adjusted: 31,646,575 shares issued and outstanding	2	2	3
Additional paid-in capital	154,599	180,193	298,192
Accumulated other comprehensive loss	(390)	(390)	(390)
Accumulated deficit	(144,534)	(144,534)	(144,534)
Total stockholders’ equity	9,677	35,271	153,271
Total capitalization	\$ 150,690	\$ 148,700	\$ 154,640

- (a) Long-term debt in the capitalization table excludes unamortized deferred financing costs to be consistent with amounts typically presented in capitalization. The following table reconciles the outstanding principal to the net carrying amount of long term debt (amounts in thousands) in the balance sheet as of September 30, 2020:

	Outstanding principal	Deferred financing costs	Net balance
Term loan	\$ 76,292	\$(1,035)	\$ 75,257
Line of credit ^(b)	32,494	(568)	31,926
PPP loan	3,274	—	3,274
Other	1,369	—	1,369
Total long term debt	<u>\$113,429</u>	<u>\$(1,603)</u>	<u>\$111,826</u>

- (b) As of September 30, 2020, we have borrowings outstanding under the Encina Credit Facility of approximately \$32.5 million, excluding unamortized deferred financing costs, with approximately \$3.6 million available for future borrowings.
- (c) Excludes 168,644 shares of common stock, which we have the option to issue for accrued dividends on the Series A Preferred Stock rather than paying in cash.
- (d) On December 31, 2019, we entered into a securities purchase agreement with certain investors named therein, pursuant to which we issued and sold 7,007,429 shares of our Series A Preferred Stock in December 2019 and 717,616 shares of our Series Preferred A Stock in February 2020. We received gross proceeds of approximately \$27 million (which includes proceeds of approximately \$8 million raised from the issuances of convertible unsecured subordinated promissory notes in September and October 2019 which converted into shares of our Series A Preferred Stock) in connection with the Preferred Stock Offering, before deducting fees and related offering expenses.
- (e) (i) Each \$1.00 increase or decrease in the assumed initial public offering price of \$15.00 per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase or decrease the amount of our pro forma as adjusted cash, cash equivalents and restricted cash and total capitalization each by \$8.1 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions payable by us.
- (ii) An increase or decrease of 1,000,000 shares in the number of shares offered by us would increase or decrease the amount of our pro forma as adjusted cash, cash equivalents and restricted cash and total capitalization each by \$14.0 million, assuming the assumed initial public offering price, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions payable by us.
- (iii) If the underwriters' option to purchase additional shares of our common stock from us were exercised in full, pro forma as adjusted cash, cash equivalents and restricted cash and total capitalization would each be increased by \$18.1 million, assuming the initial public offering price, which is the midpoint of the estimated offering price range as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions payable by us; and, the pro forma as adjusted number of shares of common stock outstanding would be increased by 1,300,000.

The 31,720,727 shares of our common stock outstanding after this offering is based on 20,688,439 shares of common stock outstanding as of September 30, 2020, 74,152 shares of common stock from restricted stock units that vested in October 2020, 2,291,469 shares of common stock issuable upon conversion of the Series A Preferred Stock, assuming the Series A Preferred Stock converts at \$11.80 per share and that we pay the accrued dividends in cash, and a public offering of 8,666,667 shares, and excludes:

- 3,886,191 shares of common stock issuable upon exercise of outstanding warrants to purchase our common stock at a weighted average exercise price of \$16.11 per share;
- 922,994 shares of common stock underlying options to purchase our common stock at a weighted average exercise price of \$8.80 per share;

- 2,563,872 shares of common stock underlying restricted stock awards which have not yet vested;
- 2,209,896 shares of common stock reserved for future issuance under our 2020 Equity Incentive Plan; and
- 1,300,000 shares of our common stock exercisable at the underwriters' option.

DILUTION

If you invest in our common stock in this offering, your ownership interest will be diluted immediately to the extent of the difference between the initial public offering price per share of our common stock in this offering and the pro forma as adjusted net tangible book value (deficit) per share of our common stock immediately after this offering.

As of September 30, 2020, our historical net tangible book value deficit was \$43.9 million, or \$(2.12) per share of common stock, based on 20,688,439 shares of our common stock outstanding. Our historical net tangible book value deficit per share is equal to our total tangible assets (excludes intangible assets), less total liabilities, divided by the number of outstanding shares of our common stock.

As of September 30, 2020, our pro forma net tangible book value deficit was \$18.3 million, or \$(0.80) per share, as adjusted for the conversion of our Series A Preferred Stock, assuming we pay the accrued dividends in cash.

After giving further effect to the sale of 8,666,667 shares of common stock in this offering at the assumed initial public offering price of \$15.00 per share, the midpoint of the price range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of September 30, 2020, would have been approximately \$99.7 million, or approximately \$3.15 per share. This amount represents an immediate increase in pro forma net tangible book value of \$3.95 per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of approximately \$11.85 per share to new investors purchasing shares of common stock in this offering.

Dilution per share to new investors is determined by subtracting pro forma as adjusted net tangible book value per share after this offering from the initial public offering price per share paid by new investors. The following table illustrates this dilution (without giving effect to any exercise by the underwriters of their option to purchase additional shares):

Assumed initial public offering price per share	\$15.00
Historical net tangible book value deficit per share as of September 30, 2020	\$(2.12)
Increase per share attributable to the pro forma adjustments	<u>1.32</u>
Pro forma net tangible book value per share	(0.80)
Increase in pro forma net tangible book value per share attributable to new investors participating in this offering	<u>3.95</u>
Pro forma as adjusted net tangible book value per share after giving effect to this offering and as adjusted for the automatic conversion of our Series A Preferred Stock	3.15
Dilution per share to new investors participating in this offering	<u><u>\$11.85</u></u>

The dilution information discussed above is illustrative only and will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. Each \$1.00 increase (decrease) in the assumed initial public offering price of \$15.00 per share would increase (decrease) our pro forma as adjusted net tangible book value by \$0.25 per share and the dilution to new investors by \$0.75 per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase of 1.0 million shares in the number of shares offered by us would increase the pro forma as adjusted net tangible book value by \$0.33 per share and decrease the dilution to new investors by \$0.33 per share, assuming the assumed initial public offering price of \$15.00 per share remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us. Similarly, each decrease of 1.0 million shares offered by us would decrease the pro forma as adjusted net tangible book value by \$0.35 per share and increase the dilution to new investors by \$0.35 per share, assuming the assumed initial public offering price of \$15.00 per share remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

If the underwriters exercise their option to purchase 1,300,000 additional shares of our common stock in full in this offering, the pro forma as adjusted net tangible book value after the offering would be \$3.58 per share, the increase in pro forma net tangible book value per share to existing stockholders would be \$4.38 per share and the dilution per share to new investors would be \$11.42 per share, in each case assuming an initial public offering price of \$15.00 per share.

The following table summarizes as of September 30, 2020, on the pro forma as adjusted basis as described above, the differences between the number of shares of common stock purchased from us, the total consideration and the weighted-average price per share paid by existing stockholders and by investors participating in this offering (before deducting the estimated underwriting discounts and commissions and estimated offering expenses, at an assumed initial public offering price of \$15.00 per share, the midpoint of the price range set forth on the cover page of this prospectus).

	<u>Shares Purchased</u>		<u>Total Consideration</u>		<u>Weighted-Average Price Per Share</u>
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	
			(In thousands)		
Existing stockholders	22,979,908	72.6%	\$184,716	58.7%	\$ 8.04
New public investors	8,666,667	27.4%	\$130,000	41.3%	\$15.00
Total	31,646,575	100.0%	\$314,716	100.0%	\$ 9.94

The table above assumes no exercise of the underwriters' option to purchase 1,300,000 additional shares in this offering. If the underwriters exercise their option to purchase additional shares in full, the number of shares of our common stock held by existing stockholders would be reduced to 69.7% of the total number of shares of our common stock outstanding after this offering and the number of shares of common stock held by new investors participating in the offering would be increased to 30.3% of the total number of shares of our common stock outstanding after this offering.

The 31,720,727 shares of our common stock outstanding after this offering is based on 20,688,439 shares of common stock outstanding as of September 30, 2020, 74,152 shares of common stock from restricted stock units that vested in October 2020, 2,291,469 shares of common stock issuable upon conversion of the Series A Preferred Stock, assuming the Series A Preferred Stock converts at \$11.80 per share and that we pay the accrued dividends in cash, and a public offering of 8,666,667 shares, and exclude:

- 3,886,191 shares of common stock issuable upon exercise of outstanding warrants to purchase our common stock at a weighted average exercise price of \$16.11 per share;
- 922,994 shares of common stock underlying options to purchase our common stock at a weighted average exercise price of \$8.80 per share;
- 2,563,872 shares of common stock underlying restricted stock awards which have not yet vested;
- 2,209,896 shares of common stock reserved for future issuance under our 2020 Equity Incentive Plan; and
- 1,300,000 shares of our common stock exercisable at the underwriters' option.

To the extent that any options are exercised or other securities are issued under our equity incentive plans, or we issue additional shares of common stock in the future, there will be further dilution to investors participating in this offering.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected of consolidated financial and other data for the years ended December 31, 2019 and 2018 and the nine months ended September 30, 2020 and 2019. We have derived the following consolidated financial and other data for the years ended December 31, 2019 and 2018 from our audited consolidated financial statements and notes thereto included elsewhere in this prospectus. We have derived the following consolidated financial and other data for the nine months ended September 30, 2020 and 2019 from our unaudited interim condensed consolidated financial statements and notes thereto included elsewhere in this prospectus. Our historical results are not necessarily indicative of future results of operations and the results of operations for the nine months ended September 30, 2020 are not necessarily indicative of results for the full year. You should read the following financial information together with the information under “*Capitalization*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our consolidated financial statements and the notes thereto, and our unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	Nine months ended September 30,		Years ended December 31,	
	2020	2019	2019	2018
(In thousands, except per share amounts)				
Income statement data for period ended:				
Net sales	\$254,763	\$181,338	\$235,111	\$211,813
Gross profit	47,624	21,576	27,086	24,070
Selling, general and administrative	37,084	30,759	43,784	42,229
Impairment, restructuring and other ^(a)	276	3,589	10,035	7,169
Income (loss) from operations	10,264	(12,772)	(26,733)	(25,328)
Interest expense	7,858	9,789	13,467	11,606
Net income (loss) ^(b)	2,125	(22,372)	(40,083)	(32,892)
Net income (loss) attributable to common stockholders ^(b)	135	(22,372)	(40,083)	(32,892)
Net income (loss) per share attributable to common stockholders – diluted ^(c)	\$ 0.01	\$ (1.08)	\$ (1.94)	\$ (2.31)
Net income (loss) per common share attributable to common stockholders on pro forma basis – diluted ^(d)	\$ 0.09	n/a	\$ 1.94	n/a
Cash flows (used in) provided by:				
Operating activities	\$ (7,777)	\$ (11,520)	\$ (13,302)	\$ 4,437
Investing activities	1,328	(3,572)	(3,818)	(3,312)
Financing activities	6,408	4,663	19,900	25,516
Net (decrease) increase in cash, cash equivalents and restricted cash	(2)	(8,082)	4,934	25,717
Other data:				
Adjusted EBITDA ^(e)	\$ 16,120	\$ (3,812)	\$ (9,495)	\$ (7,249)
Adjusted EBITDA as a percent of net sales ^(e)	6.3%	-2.1%	-4.0%	-3.4%
Gross profit margin (gross profit as % of net sales)	18.7%	11.9%	11.5%	11.4%
Capital expenditures ^(f)	700	541	768	1,343
Federal net operating loss carryforwards	n/a	n/a	58,000	35,000

	As of September 30, 2020	As of December 31,	
	(In thousands)	2019	2018
Balance sheet data as of end of period:			
Cash, cash equivalents and restricted cash	\$ 32,855	\$ 32,857	\$ 27,923
Working capital ^(g)	52,126	40,547	56,728
Total assets ^(h)	218,571	185,651	174,411
Long-term debt ⁽ⁱ⁾	111,826	107,932	100,520
Total liabilities	181,310	154,471	126,867
Convertible preferred stock ^(j)	27,584	21,802	—
Stockholders' equity	9,677	9,378	47,544
Balance sheet data as of end of period on a pro forma basis:^(k)			
Cash, cash equivalents and restricted cash ^(k)	\$ 30,865		
Working capital ^(g)	50,136		
Total assets ^(h)	216,581		
Long-term debt ⁽ⁱ⁾	111,826		
Total liabilities	181,310		
Convertible preferred stock ^(k)	—		
Stockholders' equity ^(k)	35,271		

- (a) Impairment, restructuring and other expenses primarily relate to impairment on intangible assets; professional fees related to consultation, due diligence and assistance to research various capitalization strategies related to alternative debt and equity refinancing structures; severance costs; and, costs to early terminate several leases. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Impairment, restructuring and other.*”
- (b) Net income (loss) and net income (loss) attributable to common stockholders for the year ended December 31, 2018 reflects a reduction from net loss for an allocation to a non-controlling interest. See our “*Consolidated statements of operations*” for the year ended December 31, 2018 in our consolidated financial statements and the notes thereto included elsewhere in this prospectus.
- (c) Net loss per share attributable to common stockholders for 2018 represents basic and diluted net loss per share attributable to common stockholders, and assumes the non-controlling interest converted to a controlling interest at issuance, and accordingly, its share of the net loss and the shares into which it converted are included in the calculations; see Note 4, *Basis of preparation and significant accounting policies* in our consolidated financial statements and the notes thereto included elsewhere in this prospectus.
- (d) Net income (loss) per share attributable to common stockholders on a pro forma basis – diluted gives effect to the automatic conversion of all of our outstanding shares of Series A Preferred Stock into shares of common stock which will occur automatically upon the consummation (loss) of this offering. For an explanation of the calculations of our pro forma diluted net income per share attributable to common stockholders, see Note 3, *Net income (loss) per common share (“EPS”)* to our unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus, and Note 4, *Basis of preparation and significant accounting policies*, under “*Net loss per common share (EPS)*” in our consolidated financial statements and the notes thereto included elsewhere in this prospectus.
- (e) For information regarding our use of adjusted EBITDA and its reconciliation to net income (loss) and adjusted EBITDA as a percent of net sales, see “*Summary Consolidated Financial and Other Data*” under “*Non-GAAP Financial Measures*” elsewhere in this prospectus.
- (f) Capital expenditures relate to purchases of property, equipment and computer software.

- (g) Working capital represents current assets less current liabilities.
- (h) Total assets and total liabilities for 2020 and 2019 include operating lease right-of-use assets and lease liabilities, respectively, upon the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*, adopted as of January 1, 2019.
- (i) Long-term debt represents current and long-term portions of interest bearing debt, net of issuance costs.
- (j) Convertible preferred stock reflects the issuance of Series A Preferred Stock in late 2019 and early 2020. See “*Prospectus Summary—Recent Transactions—Preferred Stock Offering*” and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.
- (k) Cash, cash equivalents and restricted cash on a pro forma basis and convertible preferred stock on a pro forma basis and stockholders’ equity on a pro forma basis as of September 30, 2020, give effect to the automatic conversion of all of our outstanding shares of Series A Preferred Stock into shares of common stock which will occur automatically upon the consummation of this offering and assumes we settle our Series A Preferred Stock dividend of \$2.0 million in cash. For an explanation of the calculations, see Note 2, *Basis of presentation and significant accounting policies*, under “*Unaudited pro forma balance sheet information as of September 30, 2020*” to our unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus.

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 prospectus. 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 prospectus, 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 this prospectus. See “Special Note Regarding Forward-Looking Statements.”

Company Overview

We are a leading independent distributor and manufacturer of controlled environment agriculture (“CEA”, principally hydroponics) equipment and supplies, including a broad portfolio of our own innovative portfolio of proprietary branded products. We primarily serve the United States 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. For the trailing twelve months ended September 30, 2020, we had net sales of \$308.5 million; from 2005 to 2019, we generated a net sales compound annual growth rate (“CAGR”) of approximately 16%.

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

We reach commercial farmers and consumers through a broad and diversified network of over 2,000 wholesale customer accounts, who we connect with primarily through our proprietary eCommerce marketplace. Over 80% of our net sales are into the specialty hydroponic retailers, through which growers are able to enjoy specialized merchandise assortments and knowledgeable staff. We also distribute our products across the United States and Canada to a diversified range of retailers of commercial and home gardening equipment and supplies that include garden centers, hardware stores, eCommerce retailers, commercial greenhouse builders, and commercial resellers.

Recent Developments

Effects of Coronavirus on Our Business

The World Health Organization recognized COVID-19 as a public health emergency of international concern on January 30, 2020 and as a global pandemic on March 11, 2020. Public health responses have included national pandemic preparedness and response plans, travel restrictions, quarantines, curfews, event postponements and cancellations and closures of facilities including local schools and businesses. The global pandemic and actions taken to contain COVID-19 have adversely affected the global economy and financial markets.

In response to the COVID-19 pandemic, we implemented business continuity plans designed to address the impact of the COVID-19 pandemic on our business, such as restrictions on non-essential business travel, the institution of work-from-home practices and the implementation of strategies for workplace safety at our facilities. In March 2020, the majority of the employees at our headquarters transitioned to working remotely. For several weeks following the initial outbreak of COVID-19, we experienced a material impact to our supply

chain that inhibited growth and results of operations. While we are not currently experiencing material adverse impacts to our supply chain, we intend to continue to source many products from China. It is difficult to predict the extent to which COVID-19 may continue to spread. As of the date of this prospectus, manufacturers in China are generally back in operation; however, a second wave of the COVID-19 pandemic could result in the re-closure of factories in China. Quarantine orders and travel restrictions within the U.S. and other countries may also adversely impact our supply chains, the manufacturing of our own products and our ability to obtain necessary materials. Consequently, we may be unable to obtain adequate inventory to fill purchase orders or manufacture our own products, which could adversely affect our business, results of operations and financial condition. 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.

Our customers reside in countries, primarily the U.S. and Canada, that are currently affected by the COVID-19 pandemic. Many of these customers have experienced shelter-in-place measures in attempts to contain the spread of COVID-19, including general lockdowns, closure of schools and non-essential businesses, bans on gatherings and travel restrictions. Although we cannot precisely quantify in absolute or relative terms, our accelerated rate of growth in net sales for the six months ended September 30, 2020 correlates with shelter-in-place orders issued in many locations in March 2020 in response to the COVID-19 pandemic. Our sales growth for the six months ended September 30, 2020 was approximately 50% higher than the same period in 2019. A portion of our net sales during this period could be due to pull-through demand for our products due to higher consumption of CEA products from individuals spending more time at home due to shelter-in-place measures. Although uncertainty created by the COVID-19 pandemic remains, and various state budgets remain under economic pressure creating a greater chance of further cannabis legalization, we cannot assure you that such a rate of growth will continue.

Our business has remained resilient during the COVID-19 pandemic. As of September 30, 2020, our manufacturing and distribution operations are viewed as essential services and continue to operate. Our key suppliers, retailers and resellers have been designated as essential services and remain open at this time; however, in certain places they are operating under reduced hours and capacity limitations. The majority of U.S. and Canadian cannabis businesses have been designated as essential by U.S. State and Canadian government authorities.

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. Depending on the length and severity of COVID-19, we may experience an increase or decrease in customer orders driven by volatility in consumer shopping and consumption behavior. While we are not experiencing material adverse impacts at this time, given the global economic slowdown, the overall disruption of global supply chains and distribution systems and the other risks and uncertainties associated with the COVID-19 pandemic, our business, financial condition, results of operations and growth prospects could be materially and adversely affected. While we believe that we are well positioned for the future as we navigate the crisis and prepare for an eventual return to a more normal operating environment, we continue to closely monitor the COVID-19 pandemic as we evolve our business continuity plans and response strategy.

Recent Transactions

PPP Loan

On April 7, 2020, we entered into a U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) promissory note in the principal amount of \$3.3 million payable to JP Morgan Chase, N.A. (the “PPP Lender”) evidencing a PPP loan from the SBA (the “PPP Loan”). The PPP Loan will bear interest at a rate of 1% per annum. No payments will be due on the PPP Loan during a ten month deferral period commencing on April 7, 2020. Commencing one month after the expiration of the deferral period, and continuing on the same day of each month thereafter until the maturity date of the PPP Loan, we are obligated to make monthly payments of principal and interest, each in such equal amount required to fully amortize the principal amount outstanding on the PPP Loan by the maturity date. The maturity date is April 7, 2022. The PPP Loan contains customary borrower default provisions and lender remedies, including the right of the

PPP Lender to require immediate repayment in full the outstanding principal balance of the PPP Loan with accrued interest. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon our request to the extent that PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll, rent, and utilities. The PPP Lender may forgive interest accrued on any principal if the SBA pays the interest. While we believe we have used the PPP Loan proceeds in a manner consistent with obtaining forgiveness, we intend to repay the PPP Loan on or about the consummation of the offering contemplated hereby as described in “*Use of Proceeds.*”

Preferred Stock Offering

On December 31, 2019, we entered into a securities purchase agreement with certain investors named therein, pursuant to which we issued and sold, in a private placement offering between December 2019 and February 2020, 7,725,045 shares of our Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”), at an offering price of \$3.50 (the “Preferred Stock Offering”). We received gross proceeds of approximately \$27 million (which includes proceeds of approximately \$8 million raised from the issuances of convertible unsecured subordinated promissory notes issued in September and October 2019 which converted into shares of our Series A Preferred Stock) in connection with the Preferred Stock Offering, before deducting fees and related offering expenses. Our Chief Executive Officer, Mr. Toler, purchased 1,428,572 shares of our Series A Preferred Stock. Upon the consummation of the offering contemplated hereby, the Series A Preferred Stock will automatically convert into shares of our common stock. The terms of the Series A Preferred Stock are more fully described under “*Description of Capital Stock*” in our consolidated financial statements and notes thereto included elsewhere in this prospectus.

Encina Refinancing

In July 2019, Hydrofarm Holdings LLC and certain of its direct and indirect subsidiaries (the “Encina Obligors”) replaced the BofA Credit Facility with 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 million (inclusive of a limit of up to \$15 million of borrowings for the Canadian Borrowers and a swingline facility of up to \$2 million), subject to applicable borrowing base availability. The amount of the Encina Credit Facility is limited to the borrowing base (primarily calculated based on eligible accounts receivable and inventory), subject to certain reserves and limitations. The Encina Credit Facility is due on the earlier of (i) July 11, 2022, or (ii) 90 days prior to the scheduled maturity date of the Term Loan Agreement. Interest, due monthly, is charged at LIBOR or a base rate plus an applicable margin ranging between 3.75% to 5.50% per annum determined based on the fixed charge coverage ratio calculated over an applicable time period. A fee of 0.50% per annum is charged for available but unused borrowings, as defined. Interest, fees and other monetary obligations owing under the Encina Credit Facility may, in the lender’s discretion, be added to principal. The Encina Credit Facility is secured by working capital assets and a second lien on non-working capital assets and requires compliance with various restrictive covenants and financial ratios.

The Encina Credit Facility was amended pursuant the First and Second Amendments in the fall of 2019 which changed the computation of the line limitation but did not change the maximum amount of the credit facility of \$45 million. The other change was a requirement that Hydrofarm Holdings Group Inc., the ultimate parent of the Encina Obligors, make a capital infusion to the Encina Obligors of \$300,000 for working capital. In April 2020, a third amendment to the Encina Credit Facility replaced the existing “fixed charge coverage ratio/minimum excess availability” financial covenant with an amended “availability block,” and increased the “inventory sublimit.” In April 2020, May 2020 and September 2020, the Encina Credit Facility was amended by the third, fourth, fifth and sixth amendments, which (i) replaced the existing “fixed charge coverage ratio/minimum excess availability” financial covenant with an amended “availability block” (ii) increased the “inventory sublimit,” (iii) provided for permitted indebtedness related to the PPP Loan, and (iv) increased permitted capital expenditures during any fiscal year to \$2 million.

The Encina Credit Facility is more fully described in Note 12, *Debt* under *Revolving asset-back credit facilities* in the notes to our consolidated financial statements and Note 7, *Debt* under *Revolving asset-back credit facilities* in the notes to our unaudited interim condensed consolidated financial statements.

Reverse Stock Split

Our board of directors and stockholders approved an amendment to our amended and restated certificate of incorporation effecting a 1-for-3.3712 reverse stock split of our issued and outstanding shares of common stock. The reverse split was effected on November 24, 2020 without any change in the par value per share.

Components of Results of Operations

Net sales

We generate net sales from the distribution and manufacturing of hydroponic equipment and supplies to our customers. The hydroponic equipment and supplies that we sell include consumable products, such as growing media, nutrients and supplies that require regular replenishment and durable products, such as lighting and hydroponic equipment. Our scale allows us to provide delivery and service capabilities to a highly diverse group of customers across the U.S. and Canada. We do not sell directly to farmers but rather our customer base consists of specialty hydroponic retailers, garden centers, eCommerce and greenhouse suppliers.

We periodically offer sales incentives to our customers, including early pay discounts, volume-based rebates, temporary price reductions, advertising credits and other trade activities. Net sales reflect our gross sales less sales incentives which are estimated and recorded at the time of sale plus amounts billed to customers for shipping and handling costs. We anticipate that sales incentives could impact our net sales and that changes in such promotional activities could impact period-over-period results.

Cost of goods sold

Cost of goods sold consists primarily of material costs, inbound and outbound freight, direct labor costs primarily for production and warehouse personnel and depreciation and amortization of warehouse improvements and equipment. We expect our cost of goods sold to increase in absolute dollars in conjunction with our growth. However, we expect that, over time, cost of goods sold will decrease as a percentage of net revenue as a result of the scaling of our business including a higher proportion of the amount of proprietary and exclusive branded products that we sell.

Selling, general and administrative

Selling, general and administrative expenses consists primarily of marketing and advertising, stock-based compensation, depreciation and amortization of all other assets and other selling, general and administrative costs, including but not limited to salaries, benefits, bonuses and professional fees. We expect selling, general and administrative expenses to increase in absolute dollar terms as we scale our operations to meet increased demand for our products and operate as a public company with increased costs associated with insurance, finance, legal and accounting functions; however, we also expect that the significant increase in our scale will result in selling, general and administrative expenses as a percentage of net sales decreasing over time.

Results of Operations Data

The results of operations data in the following tables for the years ended December 31, 2019 and 2018 have been derived from the audited consolidated financial statements included elsewhere in this prospectus. The results of operations data for the nine months ended September 30, 2020 and 2019 have been derived from the unaudited interim condensed consolidated financial statements included elsewhere in this prospectus.

Results of Operations — Comparison of Nine Months Ended September 30, 2020 and 2019

The following table sets forth our unaudited interim condensed consolidated statements of operations for the nine months ended September 30, 2020 and 2019, including amounts and percentages of net sales for each period and the period-to-period change in dollars and percent (amounts in thousands):

	Nine months ended September 30,					
	2020		2019		Period change	
Net sales	\$254,763	100.0%	\$181,338	100.0%	\$73,425	40.5%
Cost of goods sold	207,139	81.3%	159,762	88.1%	47,377	29.7%
Gross profit	47,624	18.7%	21,576	11.9%	26,048	120.7%
Operating expenses:						
Selling, general and administrative	37,084	14.6%	30,759	17.0%	6,325	20.6%
Impairment, restructuring and other	276	0.1%	3,589	2.0%	(3,313)	-92.3%
Income (loss) from operations	10,264	4.0%	(12,772)	-7.1%	23,036	-180.4%
Interest expense	(7,858)	-3.1%	(9,789)	-5.4%	1,931	-19.7%
Loss on debt extinguishment	—	0.0%	(391)	-0.2%	391	-100.0%
Other income, net	103	0.0%	334	0.2%	(231)	-69.2%
Income (loss) before tax	2,509	0.9%	(22,618)	-12.5%	25,127	-111.1%
Income tax (expense) benefit	(384)	-0.2%	246	0.1%	(630)	-256.1%
Net income (loss)	\$ 2,125	0.7%	\$ (22,372)	-12.4%	\$24,497	-109.5%

Net sales

Net sales for the nine months ended September 30, 2020 increased \$73.4 million or 40.5% compared to the same period in 2019. The increase in net sales was primarily due to a 33.8% increase in volume of products sold and a 6.7% increase in price of products sold. The increase in volume of products sold was primarily related to (i) higher demand from the end-markets across numerous U.S. states, including but not limited to Michigan, Oklahoma and California, and Canada and (ii) higher demand for our proprietary and preferred branded products which grew at a faster pace than our distributed brands during the period. The increase in price was primarily related to list price increases and more effective sales incentives.

Although we cannot precisely quantify in absolute or relative terms, our accelerated rate of growth in net sales for the six months ended September 30, 2020 correlates with shelter-in-place orders issued in March 2020 in response to the COVID-19 pandemic. A portion of our net sales during this period could be related to pull-through demand for our products due to higher consumption of CEA products from individuals spending more time at home due to shelter-in-place measures. Although uncertainty created by the COVID-19 pandemic remains, and various state budgets remain under economic pressure, creating a greater chance of further cannabis legalization, we cannot assure you that such growth will continue.

Gross profit

Gross profit for the nine months ended September 30, 2020 increased \$26.0 million or 120.7% compared to the same period in 2019. The increase in gross profit was primarily related to (i) the aforementioned increase in net sales and (ii) a significant increase in our gross profit margin percentage (gross profit as a percent of net sales). Our gross profit margin percentage increased to 18.7% for the nine months ended September 30, 2020 from 11.9% in the same period in 2019. The higher gross profit margin percentage is primarily due to a more favorable sales mix of proprietary and exclusive branded products, which typically carry a higher gross margin and lower freight cost.

Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended September 30, 2020 increased by \$6.3 million, or 20.6%, compared to the same period in 2019, but decreased as a percentage of sales to 14.6%

from 17.0% due to economies of scale as our net sales grew faster than our selling, general and administrative expenses. The \$6.3 million increase in selling, general and administrative expenses is primarily related to higher compensation costs (an increase of \$2.9 million), consulting fees (an increase of \$3.1 million) and audit fees (an increase of \$1.2 million). To support our long-term growth plan and our initial public offering (“IPO”), we undertook several initiatives in mid-to-late 2019 and early 2020 which resulted in higher compensation costs, consulting fees and audit/legal fees, including, but not limited to, the hiring of executives such as our new Chief Executive Officer, President and Chief Financial Officer and engaging new third parties such as an IT consulting firm, a new auditor, and several accounting and audit-related consultants.

We have granted restricted stock units to certain officers, directors and their affiliates which have several vesting conditions including a performance-based vesting requirement (defined as a liquidity event, including an initial public offering). A liquidity event, such as this offering, would trigger a significant performance-based stock compensation charge in the quarter during which this offering is completed. If this offering is consummated during the fourth quarter of 2020, the estimated share-based compensation cost for restricted stock units and stock options granted as of September 30, 2020 and those issued through November 30, 2020 would be approximately \$8 million to \$9 million, although measurement and recognition of fourth quarter grants will not be finalized until we complete our year-end close procedures and finalize our determination of the fourth quarter award fair values. For more information, see Note 9, *Stock-based compensation*, and Note 11, *Subsequent events*, to our unaudited interim condensed consolidated financial statements and notes thereto for the nine months ended September 30, 2020 included elsewhere in this prospectus.

Impairment, restructuring and other

During the nine months ended September 30, 2019, we incurred costs totaling \$2.1 million related to corporate restructuring and severance payments, and \$1.5 million primarily related to various SEC filings, lender financial advisor oversight, and private placements of equity and refinancing initiatives, as we restructured and recapitalized ourselves for growth in 2020. During the nine months ended September 30, 2020, we incurred \$0.3 million in costs primarily related to the anticipated IPO.

Interest expense

Interest expense decreased by \$1.9 million or 19.7% for the nine months ended September 30, 2020 compared to the same period in the prior year. The average balance of our interest bearing debt for the nine months ended September 30, 2020 increased by \$2.5 million compared to the same period in the prior year. This increase was more than offset by a decrease in the effective interest rate on the Term Loan from approximately 13.1% for the nine months ended September 30, 2019 to an effective interest rate of approximately 10.2% for the same period in 2020 due to a reduction of the Term Loan interest rate margin effective January 1, 2020 from LIBOR plus 10.0% to LIBOR plus 8.5% along with a reduction of average LIBOR from 2.5% to 1.1%. The decrease in interest costs was also slightly impacted by a decrease in the effective interest rate on our revolving credit facility from approximately 9.9% for the nine months ended September 30, 2019 to approximately 9.3% compared to the same period in 2020.

Loss on debt extinguishment

Loss on debt extinguishment in the nine months ended September 30, 2019 resulted from the write-off of unamortized deferred financing costs of \$0.4 million when the BofA Credit Facility was refinanced with the Encina Credit Facility.

Income tax expense

Income tax expense for the nine months ended September 30, 2020 generally reflects minimum U.S. state and Canadian provincial taxes, which do not fluctuate with pre-tax income or loss.

The net income tax benefit for the nine months ended September 20, 2019 is comprised of two amounts: (i) minimum U.S. state and Canadian provincial taxes which do not fluctuate with pre-tax income or loss; and, (ii) a deferred income tax benefit of \$0.4 million primarily generated from the tax consequence of the impairment write-off which is not expected to recur.

Results of Operations — Comparison of Years Ended December 31, 2019 and 2018

The following table sets forth our consolidated statements of operations for the years ended December 31, 2019 and 2018, including amounts and percentages of net sales for each year and the year-to-year change in dollars and percent (amounts in thousands):

	2019		2018		Year to year change	
Net sales	\$235,111	100.0%	\$211,813	100.0%	\$23,298	11.0%
Cost of goods sold	208,025	88.5%	187,743	88.6%	20,282	10.8%
Gross profit	27,086	11.5%	24,070	11.4%	3,016	12.5%
Operating expenses:						
Selling, general and administrative	43,784	18.6%	42,229	19.9%	1,555	3.7%
Impairment, restructuring and other	10,035	4.3%	7,169	3.4%	2,866	40.0%
Loss from operations	(26,733)	-11.4%	(25,328)	-11.9%	(1,405)	5.5%
Interest expense	(13,467)	-5.7%	(11,606)	-5.5%	(1,861)	16.0%
Loss on debt extinguishment	(679)	-0.3%	—	0.0%	(679)	—
Other income, net	105	0.0%	995	0.5%	(890)	-89.4%
Loss before tax	(40,774)	-17.4%	(35,939)	-16.9%	(4,835)	13.5%
Income tax benefit	691	0.3%	397	0.2%	294	74.2%
Net loss	(40,083)	-17.0%	(35,542)	-16.8%	(4,541)	12.8%
Net loss attributable to non-controlling interest	—		(2,650)			
Net loss attributable to Hydrofarm Holdings Group, Inc.	<u>\$ (40,083)</u>		<u>\$ (32,892)</u>			

Net sales

Net sales for the year ended December 31, 2019 increased \$23.3 million or 11.0% compared to the prior year. The increase was primarily due to an increase in the volume sold during the period. For the year ended December 31, 2019, we realized an approximate 11.6% increase in volume offset by a 0.6% decrease in price. Our sales in certain non-U.S. markets were impacted by IT system challenges experienced during the integration of our Canadian businesses, an issue we do not expect to continue in 2020. The increase in U.S. volume sold was primarily related to (i) higher demand from the end-markets across numerous U.S. states, including but not limited to Oklahoma, Michigan and California and (ii) higher demand for our proprietary and preferred branded products which grew at a faster pace than our distributed brands for the year ended December 31, 2019.

Gross profit

Gross profit for the year ended December 31, 2019 increased \$3.0 million or 12.5% compared to the prior year. The increase in gross profit was primarily related to (i) the 11.0% increase in net sales and (ii) a small increase in gross profit margin percentage (gross profit as a percent of net sales) associated with a more favorable mix of proprietary and exclusive branded products as compared to the prior year. This increase was partially offset by the year-over-year decrease in net sales (as noted above) and associated gross profit in non-U.S. markets.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2019 increased \$1.6 million or 3.7% compared to the prior year. The increase was primarily due to (i) higher outside accounting and IT consultant expense of \$2.0 million related to increased preparation for the IPO and (ii) higher bad debt expenses of \$0.4 million primarily attributable to the challenges in the Canadian market in 2019 offset by lower facility expenses of \$0.7 million due to adjusting our warehouse footprint.

Impairment, restructuring and other

Certain expenses of \$10.0 million for 2019 and \$7.2 million for 2018 primarily related to recognition of impairment on intangible assets, several restructuring and recapitalization events, and fees for various statutory

filings. The impairment in 2019 related to the impairment of our intangible asset for customer relationships; in 2018, the impairment was for goodwill. Restructuring and recapitalization events refer to our debt refinancing in 2019 and 2018; our Preferred Stock Offering in 2019; the recapitalization and reverse merger in 2018; and, other similar activities related to our capitalization. In 2019, we filed a registration statement which was delayed, and the third-party costs were expensed. See Note 19, *Impairment, restructuring and other* in our 2019 consolidated financial statements and notes thereto for additional information.

Interest expense

Interest expense was \$13.5 million for the year ended December 31, 2019 compared to \$11.6 million for the prior year, reflecting an increase of \$1.9 million or 16.0%.

The increase in interest expense was due in part to an increase in the effective interest rate on the Term Loan Agreement to 13.0% for the year ended December 31, 2019 from 12.1% for the prior year. Additionally, interest payments for the years ended December 31, 2019 and 2018 of \$7.1 million and \$6.8 million, respectively, were deferred and added to principal which resulted in additional interest on the increase in the principal balance.

Similarly, the effective interest rate on the revolving credit facilities increased to 9.8% for the year ended December 31, 2019 compared to 5.0% to 5.1% for the prior year as we transitioned from the BofA Credit Facility in July 2019 to the Encina Credit Facility.

Income tax benefit

Income tax benefit was \$0.7 million or 1.7% of loss before tax for the year ended December 31, 2019 compared to \$0.4 million or 1.1% for the prior year. The net income tax benefit is comprised of two amounts: a current tax expense of \$27 thousand and \$0.5 million for 2019 and 2018, respectively; and, a deferred income tax benefit of \$0.7 million and \$0.9 million for 2019 and 2018, respectively. The current portion of the provision (tax expense) generally reflects minimum U.S. state and Canadian provincial taxes which do not fluctuate with pre-tax income or loss. The deferred income tax benefit in each year was primarily generated from the tax consequence of the impairment write-offs; these income tax benefits are not expected to recur.

Net loss attributable to non-controlling interest

In May 2017, Hydrofarm Investment Corp. (“HIC”), acquired, through its wholly-owned subsidiary, Hydrofarm Holdings, LLC, all of the capital stock of Hydrofarm, Inc., in a transaction referred to as the “Formation Transaction.” Concurrently with the acquisition by HIC, Hydrofarm, Inc. converted from an S-Corp to a limited liability company and was renamed Hydrofarm, LLC. At the time of the Formation Transaction in May 2017, an investor in Hydrofarm, LLC retained a 12.5% interest in Hydrofarm Holdings, LLC which was presented as a non-controlling interest and allocated a portion of our losses until it was exchanged for shares in our parent and reclassified to controlling interest. See Note 1, *Description of the Business under Formation Transaction and Recapitalization and reverse merger in 2018* in the notes to our 2019 consolidated financial statements for additional information.

Quarterly Results of Operations

The following table sets forth our interim unaudited interim condensed consolidated statements of operations data for each of the four quarters in the year ended December 31, 2019 and each of the three quarters in the nine months ended September 30, 2020. The unaudited quarterly consolidated statements of operations data set forth below have been prepared on a basis consistent with our audited annual consolidated financial statements included elsewhere in this prospectus and include, in the opinion of management, all normal recurring adjustments necessary for the fair statement of the results of operations for the periods presented (amounts in thousands).

	Quarter ended						
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Net sales	\$96,658	\$91,208	\$66,897	\$ 53,773	\$60,469	\$64,751	\$56,118
Cost of goods sold	78,473	73,333	55,333	48,263	54,616	56,858	48,288
Gross profit	18,185	17,875	11,564	5,510	5,853	7,893	7,830
Operating expenses:							
Selling, general and administrative	12,524	12,838	11,722	13,025	10,020	10,253	10,486
Impairment, restructuring and other	184	83	9	6,446	573	1,276	1,740
Income (loss) from operations	5,477	4,954	(167)	(13,961)	(4,740)	(3,636)	(4,396)
Interest expense	(2,549)	(2,506)	(2,803)	(3,678)	(3,402)	(3,287)	(3,100)
Loss on debt extinguishment	—	—	—	(288)	(391)	—	—
Other (expense) income, net	(223)	305	21	(229)	(5)	336	3
Income (loss) before tax	2,705	2,753	(2,949)	(18,156)	(8,538)	(6,587)	(7,493)
Income tax (expense) benefit	(54)	(186)	(144)	445	492	(85)	(161)
Net income (loss)	2,651	2,567	(3,093)	(17,711)	(8,046)	(6,672)	(7,654)
Cumulative dividends allocated to Series A Convertible Preferred Stock	(682)	(674)	(634)	—	—	—	—
Net income (loss) attributable to common stockholders	\$ 1,969	\$ 1,893	\$ (3,727)	\$ (17,711)	\$ (8,046)	\$ (6,672)	\$ (7,654)
Other data:							
Net sales growth over prior period ^(a)	59.8%	40.9%	19.2%	29.8%	27.3%	6.8%	-9.9%
Gross profit margin ^(b)	18.8%	19.6%	17.3%	10.2%	9.7%	12.2%	14.0%
SG&A as a percent of net sales	13.0%	14.1%	17.5%	24.2%	16.6%	15.8%	18.7%

(a) Net sales growth is calculated as growth in current period over same period of prior year

(b) Gross profit margin is calculated as gross profit over net sales

Quarterly Revenue Trends

The hydroponics industry experienced a recovery early in 2019 following an industry-wide slowdown that occurred between 2017 and 2018, which was primarily due to California's transition from loosely controlled medical-use to a tightly controlled adult-use cannabis market resulting in licensing shortages for a period of time. By mid-2019, our net sales grew as California worked through its backlog of license distributions. Net sales slowed in the fourth quarter of 2019 primarily due to the seasonality of our business, as outdoor and lawn and garden sales typically slow down in the first and fourth fiscal quarters. Since mid-2019, our year-over-year net sales growth has been positive.

Our net sales in the first three quarters of 2020 have grown on a year-over-year and sequential basis due to (i) higher demand for our products across numerous geographies, which may be due, in part, to shelter-in-place measures in certain jurisdictions due to the COVID-19 pandemic, (ii) an increase in overall price, and (iii) the application of new more effective sales incentives. See “— *Results of Operations — Comparison of Nine Months Ended September 30, 2020 and 2019.*”

Quarterly Gross Profit and Gross Profit Margin Trends

The industry-wide slowdown that occurred between 2017 and 2018 resulted in an inventory over-supply environment. As a result, we, along with several other wholesale distributors in the industry discounted product prices to sell-through inventory positions which depressed gross profit margins (gross profit as a percent of net sales). Ultimately, this over-supply environment led to industry consolidation in early 2019 (vis-a-vis the closure and asset sale of a large competitor) leaving a healthier competitive environment for us and the few remaining large suppliers.

Beginning in mid-2019, our gross profit margins improved as our sales incentive programs and inventory positions normalized. We simultaneously initiated a SKU rationalization program which reduced the number of active SKUs to address underperforming brands which further improved our gross profit margins. Our gross profit margins continued to improve during the last six months of 2019 and through September 30, 2020 as we experienced the benefit of (i) a new customer investment program which resulted in more effective sales incentive programs, (ii) a newly instituted freight cost optimization program which helped to lower our net transportation costs, (iii) improved product pricing to help recapture increased costs such as higher tariffs, and (iv) orienting our sales force and marketing teams toward proprietary/preferred branded products with higher gross profit margins.

Quarterly Expense Trends

The selling, general and administrative quarterly expense over the first three quarters of 2019 remained consistent while we endured the industry-wide slow-down. To support our long-term growth plan and our IPO, we undertook several initiatives, primarily in mid-to-late 2019 and early 2020, which resulted in higher compensation costs, consulting fees and audit/legal fees, including but not limited to, the hiring of executives such as our new Chief Executive Officer, President and Chief Financial Officer and engaging new third parties such as an IT consulting firm, a new auditor and several accounting and audit-related consultants.

During 2019, we incurred restructuring and other costs related to private placements of equity, recapitalizations, refinancing, corporate restructuring and lender financial advisor oversight. In addition, our initial filing with the SEC was in mid-2019 but was postponed to 2020; because of the delay, all of our third-party costs including legal, accounting and printing, which would have been charged against the proceeds from the offering, were expensed primarily during the third and fourth quarters of 2019.

In the fourth quarter of 2019, we impaired the value of our Canadian customer relationships when we determined that the sum of the estimated future undiscounted cash flows was insufficient to recover the asset carrying value. We performed impairment tests, which indicated that \$5.4 million of the carrying value of these customer relationships were impaired, which was included in impairment, restructuring and other in the consolidated statements of operations.

Interest expense on our Term Loan declined from late 2019 into 2020 as we began to repay the outstanding principal in 2020 along with a one-time \$8.4 million principal payment in January 2020. There was also a slight decrease in the effective interest rate on our Encina Credit Facility which replaced the BofA Credit Facility in July 2019.

Liquidity and Capital Resources

Our liquidity and capital resources were not materially impacted by the COVID-19 pandemic and the governmental responses to address the COVID-19 pandemic and the related economic impact during the nine months ended September 30, 2020. For further discussion regarding the future potential impacts of COVID-19 and the related economic impacts on our liquidity and capital resources, see “*Risk Factors — Risks Relating to Our Business — The effects of the COVID-19 pandemic are unpredictable and may materially*

affect our customers and how we operate our business, and the duration and extent to which the pandemic continues (including any re-emergence of COVID-19) to threaten our future results of operations and overall financial performance remains uncertain.”

We believe that our existing cash on hand and additional cash generated from operations will provide us with sufficient liquidity to meet our operating needs for the next 12 months. As of September 30, 2020, we had a cash balance of \$32.9 million, including restricted cash of \$1.8 million, and available borrowings under the Encina Credit Facility of \$3.6 million. Our financial position was significantly improved when we issued 7,725,045 shares of Series A Preferred Stock in December 2019 and January and February 2020 with gross proceeds of \$27.0 million in return for cash, net of offering costs of \$25.6 million which includes proceeds from the issuance of debt which eventually converted into Series A Preferred Stock.

From our inception in May 2017 through 2020, our operations have been financed primarily from the sales of our capital stock, warrants and borrowings under our BofA Credit Facility, Encina Credit Facility and Term Loan Agreement.

Cash Flows from Operating, Investing, and Financing Activities— Comparison of Nine Months Ended September 30, 2020 and 2019

The following table summarizes our cash flows for the nine months ended September 30, 2020 and 2019 (amounts in thousands):

	Nine months ended September 30,	
	2020	2019
Net cash used in operating activities	\$ (7,777)	\$(11,520)
Net cash provided by (used in) investing activities	1,328	(3,572)
Net cash provided by financing activities	6,408	4,663
Effect of exchange rate changes on cash, cash equivalents and restricted cash	39	2,347
Net decrease in cash, cash equivalents and restricted cash	(2)	(8,082)
Cash, cash equivalents and restricted cash at beginning of period	32,857	27,923
Cash, cash equivalents and restricted cash at end of period	\$32,855	\$ 19,841

Operating Activities

Net cash used in operating activities was \$7.8 million for the nine months ended September 30, 2020, consisting of \$8.7 million in non-cash expense addbacks, which were largely composed of depreciation and amortization and non-cash operating lease expense, to reconcile net income of \$2.1 million to net cash used in operating activities, plus a \$18.6 million reduction in working capital. This change in working capital primarily reflects a \$37.4 million increase in accounts receivable and inventory for the period offset by a \$25.3 million increase in accounts payable and accrued expenses due to the growth in net sales, as well as a decrease in lease liabilities of \$2.4 million due to payments on lease obligations during the period.

Net cash used in operating activities was \$11.5 million for the nine months ended September 30, 2019 consisting of \$15.4 million in non-cash addbacks, which were largely composed of depreciation and amortization, interest expense added to principal and non-cash operating lease expense, to reconcile net loss of \$22.4 million to net cash used in operating activities, plus a \$4.5 million reduction in working capital. This change in working capital primarily reflects a \$4.3 million increase in accounts receivable and \$3.7 million increase in inventories, as collections and net sales during the nine months ended September 30, 2019 was slowed due to the industry downturn, and a \$2.5 million decrease in lease liabilities due to payments on lease obligations during the period. The increase in accounts receivable and inventories and decrease in lease liabilities for the period were offset by a \$9.5 million increase in accounts payable and accrued expenses as we were able to coordinate payment of our obligations with our cash flow.

Investing Activities

We had minimal investing activities for the nine months ended September 30, 2020 and 2019. For the nine months ended September 30, 2020, we received proceeds from a \$2.0 million note receivable from a third

party; \$2.9 million of the note receivable were advanced to the borrower during for the nine months ended September 30, 2019. Our business was not capital intensive in 2020 or 2019 and purchases of property and equipment were minimal during the periods.

Financing Activities

Net cash provided by financing activities primarily reflects draws and repayments under the working capital credit facilities, and repayments on the term loan. For the nine months ended September 30, 2020, draws under the Encina Credit Facility exceeded repayments by \$8.6 million; quarterly repayments on the Brightwood Term Loan restarted along with a one-time principal reduction of \$8.4 million financed with proceeds from the Series A Preferred Stock Offering. We also received proceeds of \$3.8 million from the issuance of Series A Preferred Stock and \$3.3 million from the PPP Loan. For the nine months ended September 30, 2019, our borrowings under the working capital credit facilities marginally exceeded repayments, which reflected stable working capital needs for the period. We also received \$5.9 million in proceeds from the issuance of notes which converted into the Series A Preferred Stock in the fourth quarter.

Cash Flows from Operating, Investing, and Financing Activities — Comparison of Years Ended December 31, 2019 and 2018

The following table summarizes our cash flows for the years ended December 31, 2019 and 2018 (amounts in thousands):

	2019	2018
Net cash (used in) provided by operating activities	\$(13,302)	\$ 4,437
Net cash used in investing activities	(3,818)	(3,312)
Net cash provided by financing activities	19,900	25,516
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,154	(924)
Net increase in cash, cash equivalents and restricted cash	4,934	25,717
Cash, cash equivalents and restricted cash at beginning of year	27,923	2,206
Cash, cash equivalents and restricted cash at end of year	\$ 32,857	\$27,923

Operating Activities

Net cash used in operating activities was \$13.3 million for the year ended December 31, 2019. This consisted of \$26.2 million in non-cash addbacks, which were largely composed of non-cash expenses, to reconcile net loss of \$40.1 million to net cash, plus \$0.6 million in net changes in working capital. This minor change in working capital compared to the 11% increase in net sales reflects better operational controls in 2019 over the collection of receivables and levels of inventory which reduced the need for additional working capital.

Net cash provided by operating activities was \$4.4 million for the year ended December 31, 2018. The increase in cash used in operating activities for the year ended December 31, 2019 compared to the prior year was mostly due to the \$22.0 million net drawdown of 2017 inventory (inventory purchased and carried in ending inventory at December 31, 2017 and sold in 2018) by the year ended December 31, 2018 as inventory overstock issues from the industry down-turn in late 2017 which continued into 2018 were addressed and rebalanced.

In anticipation of growth after the year ended December 31, 2019, we expect our working capital needs will increase compared to 2019.

Investing Activities

Net cash used in investing activities was \$3.8 million for the year ended December 31, 2019 and \$3.3 million for the year ended December 31, 2018. In 2019, the cash was primarily for a \$2.9 million advance on an interest bearing note receivable to a third party secured by equipment; in 2018, cash was used for a similar advance of \$2 million to another third party.

As of December 31, 2019, the borrower of the note originated in 2019 was in default and we continue to pursue remedies for recovery of the investment which include renegotiating the terms for repayment, and ultimately if necessary, recovery of the equipment serving as collateral which is expected to be sufficient to settle the basis of the loan.

We have no material commitments for capital expenditures.

Financing Activities

Net cash provided by financing activities was \$19.9 million for the year ended December 31, 2019 consisting primarily of proceeds from the Preferred Stock Offering, net of offering costs, of \$21.7 million which includes proceeds from debt eventually converted into the preferred stock. The offering improved our capital and liquidity. The other significant activity was replacement of the BofA Credit Facility with the Encina Credit Facility.

Net cash provided by financing activities was \$25.5 million for the year ended December 31, 2018 primarily consisting of \$52.6 million less offering costs of \$4.5 million from our offering and concurrent offering of common stock to investors, and a net of \$4 million from a related party. The offering improved our capital and liquidity. Our sources of cash provided by financing activities were offset by a \$27.4 million net payment on our revolving credit facility.

Credit Facilities

Revolving Credit Facilities

We had utilized a credit facility with Bank of America, N.A. since our formation in May 2017 until July 2019, when our subsidiary, Hydrofarm Holdings LLC and the Encina Obligor, replaced the BofA Credit Facility with the Encina Credit Facility in the maximum amount of \$45 million. The amount of the Encina Credit Facility is limited to the borrowing base, primarily calculated based on eligible accounts receivable and inventory, subject to certain reserves and limitations. The Encina Credit Facility is due on the earlier of (i) July 11, 2022 or (ii) 90 days prior to the scheduled maturity date of the Term Loan Agreement. As of September 30, 2020, approximately \$3.6 million was available under the Encina Credit Facility.

Interest, due monthly, is charged at LIBOR or a base rate, plus an applicable margin ranging between 3.75% to 5.50% per annum determined based on the fixed charge coverage ratio calculated over an applicable time period. A fee of 0.50% per annum is charged for available but unused borrowings as defined. Interest, fees and other monetary obligations owing under the Encina Credit Facility may, in the lender's discretion, be added to principal.

The Encina Credit Facility is secured by working capital assets and a second lien on non-working capital assets and requires various restrictive covenants and financial ratios. It also provides for protective advances, overdrafts, early payment/termination premium, events of default and remedies available, limitations on new indebtedness and on dividends to the parent, negative covenants, representations, warranties, limitation of liabilities and indemnities. Additionally, the agreement requires the Encina Obligor to be in compliance with the financial and qualitative covenants of all other existing debt. The Encina Credit Facility provides for several financial covenants and limits on capital expenditures.

Term Loan with Brightwood

Since our formation in May 2017, we, through Hydrofarm Holdings LLC and its subsidiaries, have utilized a Term Loan Agreement with Brightwood Loan Services LLC. The balance of such loan as of September 30, 2020 was \$76.3 million excluding unamortized deferred financing costs. The Term Loan Agreement matures on May 12, 2022, and provides for interest at LIBOR plus a margin of 850 basis points. Principal payments at an annual basis of 2.5% of the original loan amount are due quarterly. The Term Loan Agreement is secured by substantially all non-working capital assets and a second lien on working capital assets of the Subsidiary Obligor, and provides for several financial covenants.

Restriction on the ability to pay dividends

Under the Encina Credit Facility and Term Loan Agreement, substantially all consolidated net assets of the Subsidiary Obligors or Encina Obligors are subject to limitations regarding the payment of dividends to any direct or indirect parent. For further information, see “Description of Indebtedness.”

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as variable interest entities, structured finance or special purpose entities.

Contractual Obligations

Contractual obligations as of December 31, 2019 consist of the following (amounts in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating lease obligations	\$ 22,528	\$ 3,950	\$ 7,219	\$ 3,201	\$8,158
Finance lease obligations (including interest)	894	484	403	7	—
Principal payments on long term debt	109,438	34,396	75,011	31	—
Interest payments on long term debt	11,822	3,716	8,103	3	—
Minimum purchase commitments	17,500	2,500	6,500	8,500	—
Total contractual obligations	<u>\$162,182</u>	<u>\$45,046</u>	<u>\$97,236</u>	<u>\$11,742</u>	<u>\$8,158</u>

Principal payments on long-term debt include payments on the Encina Credit Facility and exclude unamortized deferred financing costs. The expected cash payments for interest on our long-term debt is based on the amounts outstanding as of the end of each period and the interest rates applicable on such debt as of December 31, 2019. Minimum inventory purchase commitments are required under one of our agreements with a supplier.

During the nine months ended September 30, 2020, we repaid \$8.8 million under the Term Loan Agreement which significantly reduced our long-term debt obligations.

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 currently have no material exposure to interest rate risk from investments. In the future, we intend to invest our excess cash primarily in money market funds, debt instruments of the U.S. government and its agencies and in high quality corporate bonds and commercial paper. Due to the short-term nature of these investments, we do not believe that there will be material exposure to interest rate risk arising from our investments.

Our operating results are subject to risk from interest rate fluctuations on our credit facilities which carry variable interest rates. As of December 31, 2019, we had an outstanding balance under the Term Loan Agreement of \$85.1 million, excluding unamortized deferred financing costs, with interest at LIBOR plus a margin of 850 basis points, and an outstanding balance under the Encina Credit Facility of approximately \$23.9 million, excluding unamortized deferred financing costs, with interest charged at LIBOR or a base rate, plus an applicable margin ranging between 3.75% to 5.50% per annum determined based on the fixed charge coverage ratio calculated over an applicable time period. A 10% change in LIBOR during 2019 would result in a change to annual interest expense of \$0.3 million.

Foreign Currency Risk

The functional currency of our Eddi's and Sunblaster operations is the Canadian dollar ("CAD") and the functional currency for Eltac is 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. Currently a portion of our inventory purchases for Eddi's and Sunblaster is in USD. However, Eddi's sales will primarily be in CAD while Sunblaster sales will be in both USD and CAD. Additionally, Eddi's and Sunblaster settle their operating expenses in CAD. 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. As we grow and expand the geographic reach of our operations, 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. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our historical results of operations and financial condition have been immaterial. However, we cannot provide assurances that our results of operations and financial condition will not be materially impacted by inflation in the future.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in conformity with GAAP, we must make decisions that impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of the relevant circumstances, historical experience, and business valuations. Actual amounts could differ from those estimated at the time the Consolidated Financial Statements are prepared.

Our significant accounting policies are described in Note 4, *Basis of presentation and significant accounting policies* to our 2019 consolidated financial statements. Some of those significant accounting policies require us to make difficult, subjective, or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period may have a material impact on the presentation of our financial condition, changes in financial condition, or results of operations. Our critical accounting estimates include the following:

Revenue recognition, volume rebates and provision for doubtful accounts

All of our revenue is derived from the sale of inventory and we recognize revenue as control of promised goods or services is transferred to customers. Arrangements have a single performance obligation and revenue is reported net of variable consideration which includes applicable volume rebates, cash discounts and sales returns and allowances. Variable consideration is estimated and recorded at the time of sale. The recognition of variable consideration requires the use of estimates. While we believe these estimates to be reasonable based on the then current facts and circumstances, there can be no assurance that actual amounts realized will not differ materially from estimated amounts recorded.

Provisions for uncollectible receivables due from customers are established based on management's judgment as to the ultimate collectability of these balances and are recorded net of the receivable. The

allowance is based on a combination of factors including the age of the account, the credit worthiness of the customer, payment terms, the customer's historical payment history and general economic conditions.

Inventories

Inventories are primarily comprised of finished goods and are recorded at the lower of cost or net realizable value determined by the first-in, first-out method of accounting. Net realizable value represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price we expect to realize by selling the inventory and our contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are subjective in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold. The adequacy of our adjustments could be materially affected by changes in the supply and demand for our products.

Long-lived tangible and finite-lived intangible assets including right-of-use assets

Long-lived tangible assets, primarily property and equipment, are stated at cost; right-of-use assets are recorded under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. Depreciation is provided on the straight-line method and based on the estimated useful economic lives of the assets. Intangible assets with finite lives, and therefore subject to amortization, include customer relationships, the enterprise resource software and certain tradenames. These intangible assets are being amortized over their estimated useful economic lives typically ranging from 3 to 18 years.

We qualitatively assess potential indicators of impairment, referred to informally as Step 0, of our long-lived tangible and finite-lived intangible assets whenever events or changes in circumstances indicate that the asset or asset group's carrying value may not be recoverable. An asset group is defined as the lowest level for which identifiable cash flows can be associated with groups of assets and related liabilities. If indicators are present, we follow a quantitative two-step process when testing for impairment. In Step 1, we perform a recoverability test by analyzing whether the carrying amount of the asset or asset group exceeds the sum of the undiscounted cash flows expected to result from their use over their expected life and eventual disposition. If the sum of the future undiscounted cash flows is greater than the carrying amount, the test is passed and no further work is performed. If the carrying amount is greater than the sum of the future undiscounted cash flows, the recovery test is deemed to have failed, and Step 2 is performed. In Step 2, the fair values of the long-lived tangible and definite-lived intangible assets are determined, and an impairment charge is recognized based on the excess of the carrying amount of the long-lived asset over its respective fair value.

We use assumptions for revenue and expenses such as forecasted growth rates, margin estimates, historical cost ratios, capital additions and working capital needs, which are consistent with internal projections and operating plans. The forecast period is estimated using the remaining useful lives of primary assets in the group which involves judgement about assets to be included in the group subject to the test and to economic and technological obsolescence impacting the term. These and other assumptions are impacted by economic conditions and expectations of management and materially different assumptions in the future regarding the performance of the businesses could impact the useful lives of assets or estimate of future undiscounted cash flows.

Goodwill and indefinite-lived intangible assets

Goodwill and indefinite-lived intangible assets are not amortized, but are tested at least annually for impairment and whenever events or changes in circumstances indicate that impairment may have occurred (same as Step 0 discussed above). Impairment testing for goodwill is performed separately from, and after, impairment testing of indefinite-life intangible assets.

When indicators of impairment are present, indefinite-lived intangible assets are tested for impairment by comparing their book values to the estimated fair value. Our estimate of fair value for indefinite-lived intangible assets is usually based on a form of the income approach which relies on inputs including projected revenues from our forecasting process, an assumed royalty rate, and a discount rate. Assumptions used in our impairment evaluations, such as forecasted growth rates and discount rates, are consistent with internal projections and operating plans. Materially different assumptions regarding future performance of our businesses or a different weighted-average cost of capital could result in impairment losses or additional amortization expense.

Testing for goodwill impairment is performed at the reporting unit level; our reporting units are the same as our reportable segments. With respect to this testing, a reporting unit is a component of the company for which discrete financial information is available and regularly reviewed by management and can be the same as segments or one level below segments. We may first perform an assessment for potential indicators of impairment (informally referred to as Step 0) to determine if it is necessary to perform the two-step goodwill impairment test. If it is “more likely than not” that the fair value of the reporting unit is less than its carrying amount including goodwill, then we will proceed with the two-step test. In conducting the initial qualitative assessment, we analyze actual and projected growth trends for net sales, gross margin, and earnings for each reporting unit, as well as historical versus planned performance. Additionally, each reporting unit assesses critical areas that may impact its business, including macroeconomic conditions, market-related exposures, competitive changes, new or discontinued products, changes in key personnel, or any other potential risks to projected financial results. All assumptions used in the qualitative assessment require significant judgment.

When it is “more likely than not” that the fair value is less than the carrying amount, the two-step impairment process is performed. In Step 1, we first determine and then compare the fair value of the reporting unit including goodwill to its carrying amount. The fair value of a reporting unit is determined by using a combination of the income and market approaches. Inputs use assumptions such as forecasted revenue, revenue growth rates, margin estimates, various expenses, capital additions, working capital needs, and a reversion value. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. Where available, and as appropriate, comparable market multiples and our market capitalization are also used to corroborate the results of the discounted cash flow models. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired and we are not required to perform further testing. If the carrying amount of the reporting unit exceeds its fair value, then Step 2 must be completed in order to determine the amount of goodwill impairment that should be recorded. In Step 2, the “implied fair value” of the reporting unit’s goodwill is determined by allocating the reporting unit’s fair value to all of its assets and liabilities other than goodwill. Historically, the significant part of this process is estimating the fair value of customer relationships which utilizes the discounted value of revenue from existing customers adjusted for estimated attrition. Revenue for this purpose is derived from forecasted revenue discussed at the beginning of this paragraph; revenue from existing customers is then adjusted for a survivor curve utilizing an annual attrition rate. The “implied fair value” of the goodwill that results from the application of Step 2 is then compared to the carrying amount of the goodwill. An impairment charge is recorded for any excess carrying amount of goodwill over the “implied fair value” of goodwill.

Fair value estimates employed in our annual impairment review of indefinite-lived intangible assets and goodwill were determined using discounted cash flow models involving several assumptions. Changes in our assumptions could materially impact our fair value estimates. Assumptions critical to our fair value estimates were: discount rates such as the weight average cost of capital used in determining the fair value of the reporting units and intangible assets; royalty rates used in our intangible asset valuations; projected revenue and operating profit growth rates used in the reporting unit and intangible asset models; attrition rate related to revenue from existing customers; expenses; and reversion or capitalization multiples used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and may change in the future based on period specific facts and circumstances.

Share-based compensation arrangements

Stock-based compensation cost is measured as of the grant date based on the fair value of the award and is expensed ratably over the service period of the award, which is typically the vesting period for time-based awards. Performance-based awards are expensed over the requisite service period based on achievement of

performance criteria. We have elected to account for forfeitures when they occur, and any compensation expense previously recognized on unvested shares will be reversed.

The fair value of restricted stock awards is estimated based on the fair value of the common stock underlying the restricted stock awards. We estimate the fair value of option-based awards subject to only a service condition on the date of grant using the Black-Scholes valuation model. The Black-Scholes model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock. The highly subjective and complex assumptions in the Black-Scholes model also include the estimated fair value of our common stock underlying the options.

To measure the value of the underlying common stock, the initial grant-date fair value of shares of common stock underlying the award is determined. Such valuation is the responsibility of, and determined by, the board of directors, with input from management. In 2019, there was no public market for our common stock. Therefore, the board of directors determined the fair value of common stock at the grant date by considering a number of objective, subjective and highly complex factors including independent third-party valuations of our common stock, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors.

For purposes of determining the fair market value of our common stock, we used a third-party valuation expert to provide support for our analysis. For most of 2019, we primarily relied on valuation methods which included using the discounted cash flow and guideline public company methods. In the latter part of 2019, a "probability weighted expected return method" (the "PWERM method") analysis was used which placed greater emphasis on the Preferred Stock Offering completed in December 2019 to establish the value of our common stock; the PWERM method requires us to develop assumptions and estimates for both the probability of an IPO liquidity event and remaining private outcomes, as well as the values we expect those outcomes could yield. These methods consider operating and financial performance including estimating future cash flows and discounting those cash flows at an appropriate rate, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors. These estimates will not be necessary to determine the fair value of underlying shares of common stock for new awards once the underlying shares begin trading.

For inputs into the Black-Scholes model, the expected stock price volatility for the common stock is estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in our industry which are of similar size, complexity and stage of development. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury implied yield at the date of grant. We have elected to use the "simplified method" to determine the expected term which is the midpoint between the vesting date and the end of the contractual term because it has no history upon which to base an assumption about the term; we believe the simplified method approximates a term if it were to be based on expected life.

We will continue to use the Black-Scholes model for option pricing following the consummation of this offering.

Application of these approaches involves the use of estimates, judgments and assumptions that are highly complex and subjective, such as those regarding our expected future revenue, expenses, cash flows, discount rates, market multiples, the selection of comparable companies and the probability of possible future events. Changes in any or all of these estimates and assumptions or the relationships between those assumptions impact our valuations as of each valuation date and may have a material impact on the valuation of our common stock.

Income taxes

We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to

a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized. We determine the amount of our valuation allowance based on our estimates of taxable income by jurisdiction in which we operate over the periods in which the related deferred tax assets will be recoverable. As of December 31, 2019 and 2018, we believed it is more-likely-than-not that we will not be able to realize our US deferred tax assets and therefore have maintained a full valuation allowance against our US deferred tax assets and have also provided a full valuation allowance against the majority of our Canadian and Spanish deferred tax assets.

We are subject to income taxes in the U.S. and certain foreign jurisdictions. We record income tax expense based on our estimates of future payments, which include reserves for uncertain tax positions in multiple tax jurisdictions, and valuation allowances related to certain net deferred tax assets, including NOL carryforwards. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

Recent accounting pronouncements

For information regarding recent accounting pronouncements, refer to Note 2, *Basis of Presentation and Significant Accounting Policies—Recently issued accounting pronouncements*, in the notes to our unaudited interim condensed consolidated financial statements.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On September 24, 2019, we selected, and the audit committee of our board of directors approved, Deloitte & Touche LLP as our new independent registered public accounting firm to audit the consolidated financial statements of Hydrofarm Holdings Group, Inc. as of and for the year ended December 31, 2019. We selected Deloitte & Touche LLP based on the growth and size of our operations outside of Canada and the prospect of becoming a public company in the United States. As a result, we dismissed MNP LLP, our then independent registered public accounting firm. The dismissal was effective immediately and was approved by the audit committee of our board of directors.

MNP LLP's audit reports on our consolidated financial statements for the year ended December 31, 2018 did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope, or accounting principles. In connection with the audits of our financial statements for the fiscal year ended December 31, 2018, (a) there were no "disagreements" (within the meaning of Item 304(a)(1)(iv) of Regulation S-K) between MNP LLP and us on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to MNP LLP's satisfaction, would have caused MNP LLP to make reference to the subject matter in their report on our consolidated financial statements and (b) there were no "reportable events" (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

We provided MNP LLP with a copy of the disclosures that we are making in this Registration Statement on Form S-1 prior to the time this Registration Statement was publicly filed with the SEC. We have requested that MNP LLP furnish a letter addressed to the SEC stating whether or not it agrees with the statements made herein, a copy of which will be filed by amendment as Exhibit 16.1 hereto.

During the fiscal year ended December 31, 2018, and the subsequent interim period through September 24, 2019, neither we nor anyone acting on our behalf has consulted with Deloitte & Touche LLP with respect to (a) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report nor oral advice was provided to us that Deloitte & Touche LLP concluded was an important factor considered by us in reaching a decision as to any accounting, auditing, or financial reporting issue, or

(b) any matter that was either the subject of a “disagreement” or “reportable event” within the meaning of Item 304(a)(1) of Regulation S-K.

Internal Control Over Financial Reporting

In finalizing our financial statements for our initial public offering, we, and our independent registered public accounting firm, identified control deficiencies in the design and operation of our internal control over financial reporting that constituted two material weaknesses, as defined in the standards established by the PCAOB. We determined that we had two material weaknesses because (i) we did not maintain a sufficient complement of personnel with an appropriate degree of technical knowledge commensurate with our accounting and reporting requirements and (ii) our controls related to the preparation, review, and analysis of accounting information and financial statements were not adequately designed or appropriately implemented to identify material misstatements in our financial reporting on a timely basis for our U.S. entities and Eddi’s.

During 2020, we have taken several actions towards remediating these material weaknesses. In particular, we (i) hired and continue to hire, additional qualified accounting and financial reporting personnel with technical and/or public company experience and (ii) engaged an external advisor to assist management in completing a Sarbanes-Oxley Act compliant risk assessment, creating detailed control documentation for in-scope business and information technology processes, identify any further control gaps and providing assistance on remediation procedures, and to design and implement a Sarbanes-Oxley Act sub-certification process. We are still in the process of completing the remediation of the material weaknesses; however, we cannot assure you that the steps we are taking will be sufficient to remediate our material weaknesses or prevent future material weaknesses or significant deficiencies from occurring. See *“Risk Factors — Risks Relating to Our Business — We identified material weaknesses in our internal control over financial reporting, and if we are unable to achieve and maintain effective internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected.”*

BUSINESS

Company Overview

Introduction

We are a leading independent distributor and manufacturer of controlled environment agriculture (“CEA”, principally hydroponics) equipment and supplies, including a broad portfolio of our own innovative portfolio of proprietary branded products. We primarily serve the United States 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. For the trailing twelve months ended September 30, 2020, we had net sales of \$308.5 million; from 2005 to 2019, we generated a net sales compound annual growth rate (“CAGR”) of approximately 16%.

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

We reach commercial farmers and consumers through a broad and diversified network of over 2,000 wholesale customer accounts, who we connect with primarily through our proprietary eCommerce marketplace. Over 80% of our net sales are into the specialty hydroponic retailers, through which growers are able to enjoy specialized merchandise assortments and knowledgeable staff. We also distribute our products across the United States and Canada to a diversified range of retailers of commercial and home gardening equipment and supplies that include garden centers, hardware stores, eCommerce retailers, commercial greenhouse builders, and commercial resellers.































How We Serve Our Customers

Our customer value proposition is centered around two pillars. First, we strive to offer *the best selection* by being a branded provider of all CEA needs. Second, we seek to be *the gold standard in distribution and service*, leveraging our infrastructure and reach to provide customers with just-in-time (“JIT”) delivery capabilities and exceptional service across the U.S. and Canada.

Complete Range of Innovative CEA Products

We offer thousands of innovative, branded CEA products that are supported by 24 patents and 60 registered trademarks. Our product offerings span lighting solutions, growing media (i.e., premium soils and soil alternatives), nutrients, equipment and supplies and includes more than 6,000 stock-keeping-units (“SKUs”) sold under leading proprietary, exclusive/preferred brands or non-exclusive/distributed brands. Some of our most well-known brands include Phantom and Active Aqua as well as in-licensed brands such as FoxFarm and Grodan. We estimate that approximately two-thirds of our net sales relate to recurring consumable products, including growing media, nutrients and supplies that require regular replenishment. The remaining portion of our sales relate to durable products such as hydroponic lighting and equipment. The majority of products we offer are produced by us or are supplied to us under exclusive/preferred brand relationships providing for attractive margins and a significant competitive advantage as we offer retailers and resellers a breadth of products that cannot be purchased elsewhere.

The following graphic illustrates a representative set of our market-leading products across key CEA product categories:

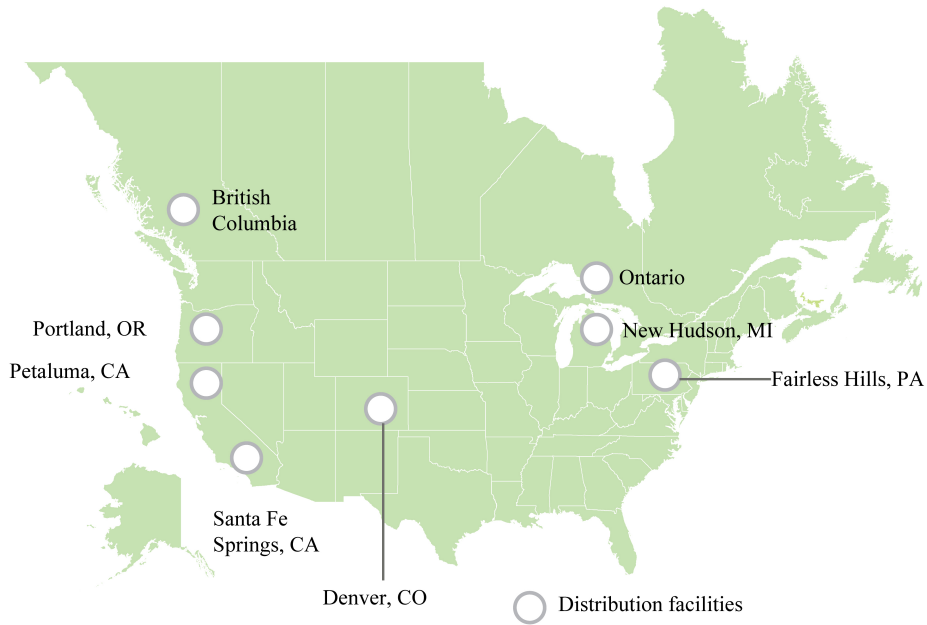
Lighting	 Phantom Open Lighting System	 AgroBrite T5	 Phantom II Digital Ballast	 Phantom Enclosed Reflector	 PHOTOBIO X3	 PHOTOBIO T LED
Equipment	 Autopilot Analog Grounded Timer	 Active Aqua Rolling Bench	 Active Aqua Chiller	 Active Aqua Flood Table	 HydroLogic Reverse Osmosis System	 Active Air Duct Fan
Grow Media	 GROWIT Block	 FoxFarm Potting Soil	 Grodan Delta 6.5 Block	 GROWIT Clay Pebbles	 PRO-MIX BX Biofungicide	 GROWIT Perlite
Nutrients	 Humboldt Nutrients Verde	 FoxFarm Bush Doctor Insecticide	 Cutting Edge Solutions pH Up	 Grotek Monster Grow Pro	 Rare Dankness Nutrients	 Roots Organics Worm Castings
Supplies	 Hydrofarm Ergonomic Pruner	 Raindrip Pressure Droppers	 Black Lightning Gloves	 Trellis Netting Mesh	 Dirt Pot Flexible Portable Planter	 Xtrassus Conversion Lam

Infrastructure and Reach for Fast Delivery, High In-Stock Availability and Exceptional Service

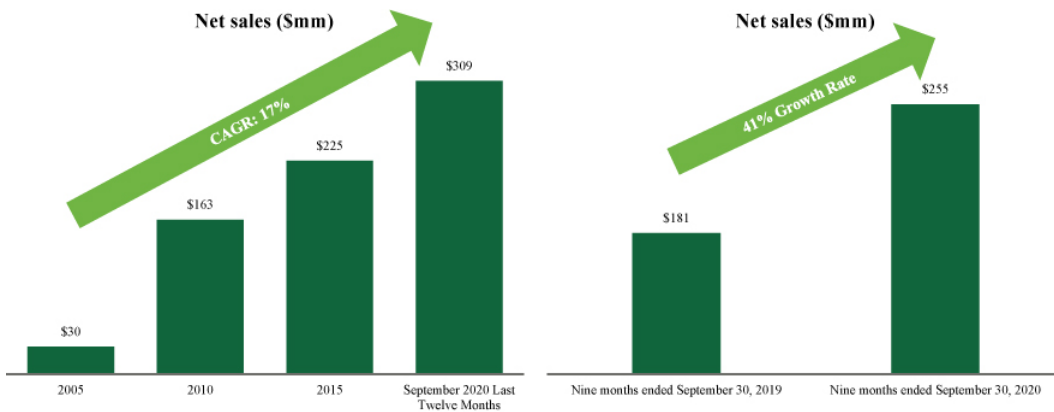
Our infrastructure and reach enable us to provide delivery and service capabilities to a highly diverse group of customers across the U.S. and Canada. We believe that our six U.S.-based distribution centers can reach approximately 90% of the U.S. population within 24 to 48 hours and that our two Canadian distribution centers can provide timely coverage to the full Canadian market.

In the U.S., we operate distribution centers in Petaluma, California; Santa Fe Springs, California; Portland, Oregon; Denver, Colorado; Fairless Hills, Pennsylvania; and New Hudson, Michigan. In Canada, we have distribution centers in Langley, British Columbia and Cambridge, Ontario. Outside of North America, we operate a distribution center in Zaragoza, Spain, and we have an office for product quality assurance and supply chain management in Shenzhen, China. We partner with a network of third-party logistics companies that facilitate expeditious delivery to our customers across the globe. The majority of customer orders are received through our business-to-business e-commerce platform. Through our differentiated Distributor Managed Inventory (“DMI”) Program, we partner with our network of retailers and resellers to create customized, JIT supply chain solutions for large commercial end users.

The following illustration provides an overview of our operating footprint.



Over the past fifteen years, we have grown our net sales at an approximate 17% CAGR. This historical growth is largely due to the growth in CEA growing across several end-markets, including cannabis, and our ability to continuously develop, manufacture and distribute innovative branded products on timely basis.



We believe our industry is poised to grow significantly. Expanding populations, limited natural resources and a focus on the environment and the security of our agricultural systems have illuminated the benefits of CEA compared to traditional outdoor agriculture. We believe the adoption of CEA will continue to accelerate, particularly in the commercial agriculture industry, where CEA can be deployed to achieve grows that are simultaneously more efficient for the planet and profitable for growers. Furthermore, certain of our end-markets are experiencing significant growth, including cannabis. The global cannabis industry is a rapidly developing business opportunity for us, particularly as the legal market in the United States continues to expand.

To support this significant growth opportunity and to improve our profit margin profile, we recruited a new Chairman and Chief Executive Officer, William (“Bill”) Toler, in early 2019. In turn, over the past 18 months, Mr. Toler recruited over five new executives and quickly put in place several management initiatives intended to support growth and improve our profit margins. These initiatives include, but are not limited to,

further developments of proprietary brands, freight cost management and distribution network optimization, and the expansion of our commercial segment and DMI.

Given our strong historical net sales growth, the accelerating growth in our primary end-markets, and the strength of our new management team, we believe that we are well positioned for significant and sustained net sales and earnings growth.

Our Industry is Large and Rapidly Growing

The Expanding Controlled Environment Agriculture Market

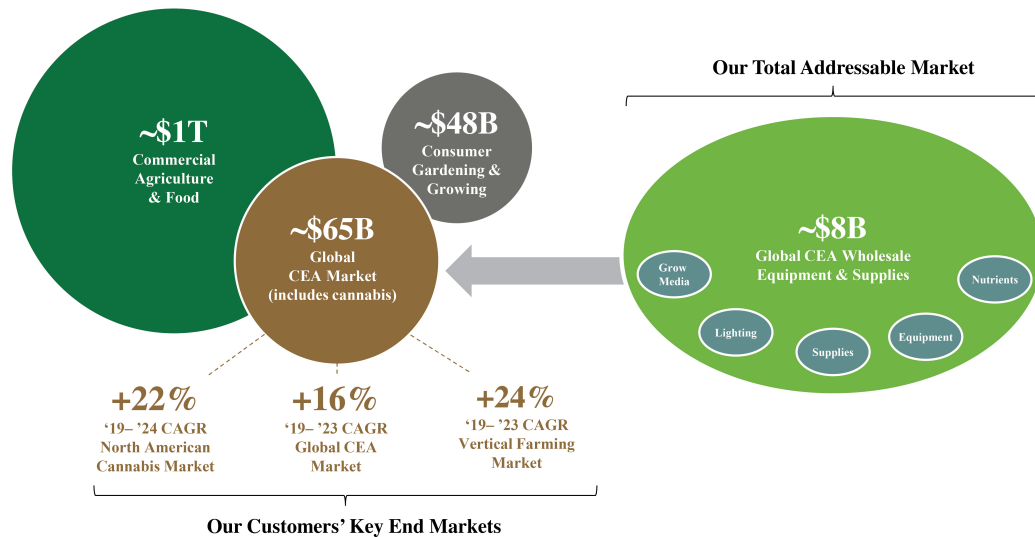
Our principal industry opportunity is in the wholesale distribution of CEA equipment and supplies, which generally include grow light systems; advanced heating, ventilation, and air conditioning (“HVAC”) systems; humidity and carbon dioxide monitors and controllers; water pumps, heaters, chillers, and filters; nutrient and fertilizer delivery systems; and various growing media typically made from soil, rock wool or coconut fiber, among others. Today, we believe that a majority of our products are sold for use in CEA applications.



Pictured: PHOTOBIO LED Light, Active Aqua Grow Flow 5 gal system, Active Aqua Flexible Air Stone, OxyCLONE 20 Site System with Timer and Light Kit, Active Air CO2 System with Timer

CEA is an increasingly significant and fast-growing component of the expansive global commercial agriculture and consumer gardening sectors. According to the USDA and National Gardening Survey, the agriculture, food, and related industries sector produced more than \$1 trillion worth of goods in the U.S. alone in 2017, and U.S. households spent a record of approximately \$48 billion at retail stores on gardening and growing supplies and equipment.

According to industry publications, the global CEA industry totaled approximately \$65 billion in 2019, and is expected to grow at a CAGR of 16% from 2019 to 2023. The rapid growth of CEA crop output will subsequently drive growth in the wholesale CEA equipment and supplies industry. According to industry publications, the global wholesale CEA equipment and supplies industry totaled approximately \$8 billion in 2019 and is expected to grow at a CAGR of 12.8% from 2019 to 2025.



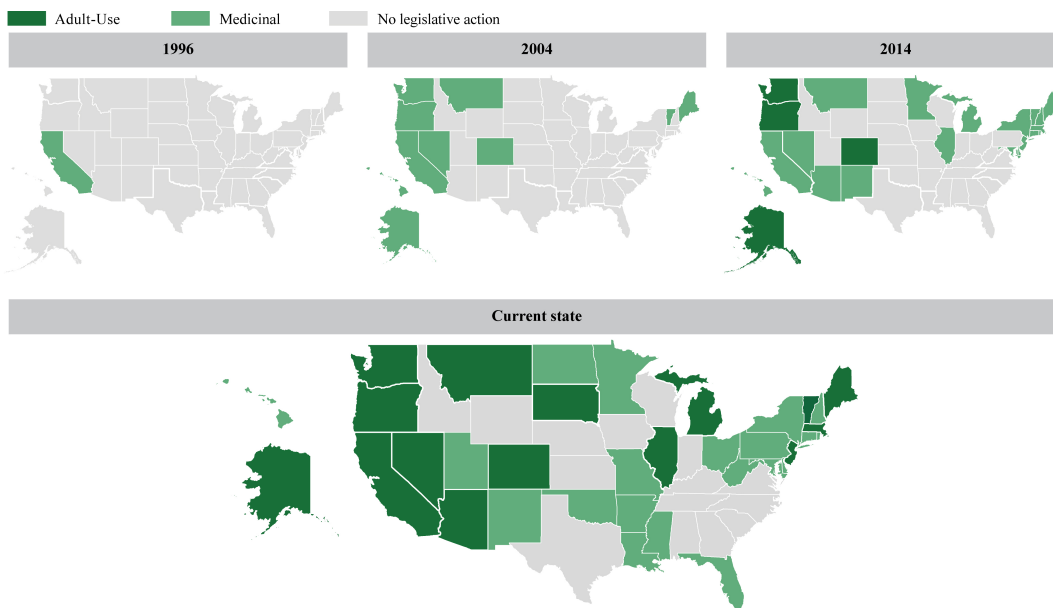
Powerful Trends are Driving Significant Industry Growth

We believe that the growth in the wholesale distribution of CEA equipment and supplies is driven by a broad array of factors including:

Significant Growth in the Cannabis Industry

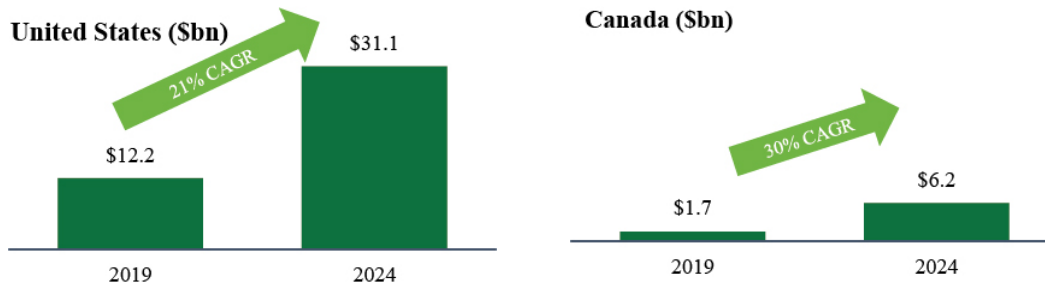
Today, we believe that a majority of the CEA equipment and supplies we sell to our customers is ultimately purchased by participants in the cannabis industry, though we do not sell to participants in the cannabis industry directly. The North American cannabis industry is massive and growing rapidly, driven largely by state-level legalization efforts in the U.S. and federal-level legalization in Canada. The current and expected growth in the size of the cannabis market has and will continue to have a very significant, positive impact on our business.

The following map illustrates the state-level progression of cannabis legalization in the U.S., differentiating states that have fully legalized cannabis for medical and adult-use purposes and states that have partially legalized cannabis for medical purposes only. Importantly, though Canada and several U.S. states have taken significant steps towards cannabis legalization, we believe the North American legal cannabis market is still in the nascent stages of realizing its growth potential. As of the date of this prospectus, only 15 U.S. states and the District of Columbia had legalized cannabis for adult-use. The aggregate population of those states is only around one third of the total U.S. population. Furthermore, in U.S. states that have passed cannabis laws, many such laws remain restrictive to consumer access. As an example, we believe significant suppressed demand would be unlocked in Texas, should the state adopt a medical cannabis law that more closely resembles that of their neighboring state, Oklahoma, where we have seen significant growth since cannabis was legalized for medical use in 2018. In Canada, the governments of every province and territory have enacted laws allowing for the distribution and sale of cannabis for adult-use purposes; however the market remains in early stages of market development.



According to industry publications, the U.S. cannabis market is projected to reach approximately \$31.1 billion by 2024, up from approximately \$12.2 billion in 2019, representing a 21% CAGR. In Canada, the cannabis market is projected to reach approximately \$6.2 billion by 2024, up from approximately \$1.7 billion

in 2019, representing a 30% CAGR. The following chart illustrates the forecasted growth of the cannabis industry in the United States and Canada:



This significant growth in the U.S. cannabis market is expected due to (i) state initiatives for new adult-use and/or medical-use programs in additional U.S. states, (ii) expanded access for patients or consumers in existing state medical or adult-use cannabis programs, and (iii) increased consumption driven by greater product diversity and choice, reduced stigma, and real and perceived health benefits in states with existing adult-use or medical use programs.

- State initiatives for new adult-use or medical-use programs.** We believe support for cannabis legalization in the U.S. is gaining momentum. According to a November 2019 poll by Pew Research Center, public support for the legalization of cannabis in the U.S. increased from approximately 41% in 2010 to approximately 67% in 2019.⁴ According to a 2019 poll by Quinnipiac University, 93% of Americans support patient access to medical-use cannabis if recommended by a doctor. Furthermore, due to the recent socio-economic changes across the U.S. since early 2020, many state government budgets are increasingly under pressure to identify additional revenue sources, such as the potential revenue streams from the taxation and job creation that state legalized adult-use cannabis may offer. Accordingly, a number of states are at various stages of considering implementing laws permitting cannabis use or further liberalizing their existing laws permitting such use. Our sales per capita in U.S. states with legalized adult-use programs are on average several multiples higher than our sales per capita in states without adult-use programs. We believe this fact points to the significant opportunity available to us if or when additional U.S. states legalize adult-use programs.
- Expanded access for patients and consumers in existing state medical and adult-use programs.** The cannabis business in states with existing cannabis laws is in nascent stages in many cases and will continue to grow, creating jobs and opportunities for workers and entrepreneurs. Cultivators, manufacturers, dispensaries, delivery providers, labs and other cannabis-related businesses will continue to grow in these regions. As these businesses proliferate, consumers will benefit from easier access to cannabis products.
- Greater product diversity and choice, reduced stigma and real and perceived health benefits in states with existing adult-use or medical use programs.** Several key developments have contributed to an increase in cannabis product availability and breadth, including the proliferation of CBD and other cannabis-infused products, including edibles, oils, tinctures, and topical treatments. We believe that the historical stigmatization of cannabis use has diminished significantly, driven by a more supportive legislative environment, a rise in progressive sociopolitical views and greater consumer awareness of the potential health benefits of cannabis consumption. According to industry publications, real and perceived health benefits extend into areas including cancer treatment, pain management, the treatment of neurological and mental conditions, and sleep management. According to industry publications, the use of cannabis

⁴ Daniller, Andrew. "Two-thirds of Americans Support Marijuana Legalization." *Pew Research Center*, Washington, D.C. (Nov. 14, 2019).

in the U.S. by adults aged 65+ has increased sharply in recent years from 0.4% in 2006 and 2.9% in 2015 to 4.2% in 2018 (JAMA Internal Medicine).⁵

Acceleration of CEA Adoption

Both the commercial agriculture and cannabis industries are increasingly adopting more advanced agricultural technologies in order to enhance the productivity and efficiency of operations. The benefits of CEA include:

- Greater product safety, quality and consistency;
- More reliable, climate-agnostic year-round crop supply from multiple, faster harvests per year as opposed to a single, large harvests with outdoor cultivation;
- Lower risk of crop loss from pests (and subsequently lower need for pesticides) and plant disease;
- Lower required water and pesticide use compared to conventional farming, offering incremental benefits in the form of reduced chemical runoff and lower labor requirements; and
- Potentially lower operating expenses from resource-saving technologies such as high-efficiency LED lights, precision nutrient and water systems and automation.

CEA implementation continues to increase globally, driven by the factors listed above as well as growth in fruit and vegetable farming, consumer gardening and the continued adoption of vertical farming. Vertical farming, a subsector of CEA, has gained popularity mainly due to its unique advantage of maximizing yield by growing crops in layers. Industry publications project that the global vertical farming market will reach approximately \$6 billion in 2023, up from \$3 billion in 2019 and representing a 24% CAGR from 2019 to 2023.⁶

While a small portion of cannabis cultivation may be grown in non-CEA settings, given the multitude of benefits of CEA cultivation, we believe CEA will continue to be the primary method of growing cannabis, driving demand for our products. The movement towards the legalization of cannabis in the U.S. and its legalization in Canada also comes with a corresponding increase in regulatory oversight and statutory requirements for growers and their products. These regulations enhance product safety and transparency to consumers but usually necessitate the use of CEA in cannabis cultivation in order to meet mandated THC content or impurity tolerances.

Increased Consumer Home Growing

We perceive consumer gardening to be a significant driver of future CEA growth. According to the National Gardening Survey, in 2017, 77% of U.S. households participated in lawn and garden activities, spending on average a record of \$503 per household. We expect this growth in consumer gardening and growing spending to continue, driven by both increased participation by millennials and strong continued participation by married households, adults over age 55, and adults without children. We believe that these demographic dynamics will result in an increase in the number of consumer gardening category participants, resulting in the purchase of more CEA products.

Strong Demand for Hemp for CBD Production

Hemp cultivation in North America has grown significantly since the passage of the U.S. Farm Bill in December 2018. Consumers are increasingly using hemp-derived products such as CBD for their therapeutic benefits. According to industry publications, the U.S. hemp-derived CBD market is expected to grow from \$1.2 billion in 2019 to \$6.9 billion in 2025, representing a six-year CAGR of 33.8%. We have experienced strong demand for our products from growers that solely harvest hemp and from cannabis growers who are adding hemp to their offerings. We are very well positioned to continue to capitalize on the growth of industrial

⁵ Reproduced with permission from *JAMA Intern Med.* 2020. 180(4):609-611. Copyright © 2020 American Medical Association. All rights reserved.

⁶ Sinnarkar, Makarand. *Allied Market Research Reports*. "Green Technology and Sustainability Market is Expected to Reach \$44.61 Billion by 2026." (Feb. 2020).

hemp cultivation in North America especially as cultivation is increasingly done indoors. Both our current product portfolio and our pipeline of new products tailored to the needs of hemp cultivators will help us serve this burgeoning market.

Increased Focus on Environmental, Social, and Governance (“ESG”) Issues

We believe the growth and change in our end-markets is in part driven by a variety of ESG trends aimed at preserving resources and enhancing the transparency and safety of our food supply chains. Overall, CEA delivers superior performance characteristics versus traditional agriculture when compared on select key ESG performance criteria:

- **More efficient land usage.** CEA allows for greater crop production per square foot, reducing the amount of land needed to grow crops. Certain types of vertical farming are 20 times more productive than traditional farming per acre.
- **More efficient fresh water usage.** CEA allows for the management and recycling of water inside of a closed-loop system and therefore generally require less water than traditional outdoor agriculture. In certain instances, CEA can grow plants with up to 98% less water than soil based agriculture.
- **Decreased use of fertilizer and pesticides.** As CEA takes place in a controlled, often indoor environments, the need for pesticides application is reduced, allowing growers to apply less pesticide with more precise application compared to traditional outdoor agriculture.
- **Reduced carbon emissions.** CEA, especially vertical farming, allows large farming operations to be located significantly closer to end-users, thereby reducing the transportation distance of ready-to-use crops.
- **Reduced food waste.** Similar to the above, since CEA allows for food production significantly closer to end-user, there is less time between production and consumption and therefore reduced product spoilage, damage and waste.
- **Chemical runoff prevention.** Due to closed-loop nature of CEA systems, CEA significantly decreases the risk of chemical runoff, which is generally more difficult to control in traditional outdoor agriculture.
- **Supports organic farming.** CEA is well suited for organic farming, the produce of which has been in increasing demand by consumers.

COVID-19

The COVID-19 (“COVID-19”) pandemic has caused significant shifts in consumer sentiment and behavior thereby altering the dynamics of the CEA industry. Its effect on the cannabis industry may also drive a greater volume of sales by our customers, increasing demand for our CEA equipment and supplies. We believe that these changes, as outlined below, will benefit our industry in the long-term:

- **New entrants into the consumer gardening and growing market.** We believe that a meaningful portion of consumer gardening and growing product spending following the COVID-19 outbreak was driven by first-time users. We expect this to be a tailwind for the consumer gardening and growing market going forward as a portion of these consumers opt to work-from-home more.
- **Increased focus on food security and sustainable sourcing.** The COVID-19 pandemic has intensified consumer focus on food security and transparency of food production around the world. CEA offers a more sustainable and secure alternative to traditional outdoor agriculture, allowing food to be grown closer to where it is ultimately consumed, thereby reducing supply chain-related risks and food waste.
- **Pressure on governments to identify additional revenue streams, such as tax revenue from state legalized cannabis industries.** The COVID-19 pandemic has put a significant strain on government budgets, increasing pressure to find revenue from previously unexplored streams including state legalized medicinal or adult-use cannabis.

- **Home-centric lifestyle increasing use occasion opportunities for cannabis use.** The COVID-19 pandemic is expected to foster a long-term increase in at-home activity. This lifestyle shift may foster growth in the cannabis market by increasing potential occasions for cannabis use as cannabis is often consumed at home.
- **Essential service designation.** During lockdowns related to the COVID-19 pandemic, our manufacturing and distribution operations and a great majority of our key suppliers, retailers and resellers were designated as essential and remained open. This sets a key precedent about the vital importance of our operations and end-markets.

Our Competitive Strengths

We attribute our success to the following competitive strengths.

Leading Market Positions in Attractive Growing Markets

We are a leading independent distributor and manufacturer of CEA equipment and supplies in the U.S. and Canada and one of the two major consolidators in the CEA industry. The broader market is comprised of a fragmented group of smaller competitors. We serve several attractive end-markets, including hemp and indirectly, the cannabis industry. Favorable trends in CEA, including increased adoption of vertical farming methods to increase yields, are projected to drive a 24% CAGR for the vertical farming market through 2023 according to industry publications. Similarly, growers' increasing preference to reduce water and energy usage, limit pesticide use and risk of environmental runoff, and reduce labor costs coupled with growing consumer demand for fruits and vegetables are expected to drive significant growth in CEA methods. Furthermore, CEA allows farms to be located closer to their consumers, greatly reducing the costs and waste (namely CO₂ and spoiled food) related to transportation resulting in an overall smaller carbon footprint. However, we will likely see the most significant growth in cannabis. Increased support for cannabis legalization at the federal level in the U.S., an increase in U.S. states' implementation of adult-use and medical cannabis programs, continued growth in the Canadian cannabis market following the implementation of the Cannabis Act in 2018, and consumer and commercial awareness of the benefits associated with hemp-derived products will serve as significantly favorable tailwinds that will drive continued growth.

New, Experienced Management Team with Proven Track Record

Our management team possesses significant public market experience, a history of driving long-term organic growth and a track record of successful business consolidations. Bill Toler, Chairman and Chief Executive Officer, has over 35 years of executive leadership experience in supply chain and consumer packaged goods, most recently serving as President and Chief Executive Officer of Hostess Brands from April 2014 to March 2018. Under his leadership, Hostess Brands transitioned from a private to public company, regained a leading market position within the sweet baked goods category and returned to profitability. Bill also previously served as Chief Executive Officer of AdvancePierre Foods and President of Pinnacle Foods, in addition to holding executive roles at Campbell Soup Company, Nabisco and Procter & Gamble. Terence Fitch, President, possesses significant relevant business experience including more than 20 years of management experience with the Coca-Cola Company and Coke Enterprises, where he was responsible for manufacturing, supply chain, and sales and marketing for the multi-billion-dollar Refreshment Direct and Independent Bottlers business units. For the past six years, Terence has been working on building, managing and designing large CEA operations in Colorado and Arkansas. B. John Lindeman, Chief Financial Officer brings us more than 25 years of finance and leadership experience. Most recently he served as Chief Financial Officer and Corporate Secretary at Calavo Growers, Inc. (Nasdaq-GS: CVGW), a fresh food company, where he was responsible for the finance, accounting, IT and human resource functions. Prior to joining Calavo, he held various leadership positions within the finance and investment banking industries at Janney Montgomery Scott, Stifel Nicolaus, Legg Mason and PricewaterhouseCoopers LLP.

Broad Portfolio with Innovative Proprietary Offerings and Recurring Consumables Sales

We have one of the largest equipment and consumable product offerings in the industry. From lighting solutions to nutrients to grow mediums, we offer nearly everything growers need to ensure their operations are

maximizing efficiency, output and quality. We maintain an extensive portfolio of products which includes 26 internally developed, proprietary brands across approximately 900 SKUs with 24 patents and 60 registered trademarks as well as over 40 exclusive/preferred brands across approximately 900 SKUs. We maintain inventory across over 6,000 SKUs, and approximately 60% of our sales relate to proprietary and exclusive/preferred brands. Our proprietary and exclusive/preferred brands include lighting, equipment, grow media, nutrients and supplements. Our proprietary products command a significant gross margin premium relative to general distributed brands. Our revenue mix continues to shift towards proprietary brands as we continue to innovate, improving overall margins. Further, our revenue stream is highly consistent as, in our estimation, we believe that approximately two-thirds of our net sales are generated from the sale of recurring consumable products including growing media, nutrients and supplies. Our top 20 customers buy over 3,000 SKUs in the aggregate.

Proprietary Sourcing and Supplier Relationships Create Barriers to Entry

Our scale presents a significant barrier to entry as we have developed exclusive distribution relationships, proprietary brands and a geographic footprint that enables us to efficiently service customers across North America. We maintain approximately 900,000 square feet of distribution space across six distribution centers in the U.S. and two distribution centers in Canada. Furthermore, we have cultivated over the last 40 years long-term relationships with a network of approximately 400 suppliers, giving us access to a best-in-class products portfolio and allowing us to provide a full range of CEA solutions to our customers. We source individual components from our diverse supplier base to assemble our products, including utilizing a dedicated on-the-ground purchasing team in China to maintain and develop relationships with suppliers. To maintain competitive pricing, we implement cost sharing with certain of our suppliers. No single supplier makes up more than 9% of our total supplier costs.

Unique Ability to Serve Our Strong Customer Base

We maintain long-standing relationships with a diversified range of leading hydroponic retailers, retailers of commercial and home gardening equipment and supplies that include garden centers, hardware stores, eCommerce retailers, commercial greenhouse builders, and commercial resellers. We serve over 2,000 business-to-business customers across multiple channels in North America, providing customers with the capability to purchase their entire product range from us. Our commercial sales and DMI programs further enhance our customer capabilities, offering consultation, technical expertise, facilitated order fulfillment and JIT delivery of consumables. Our unique distribution capabilities allow us to provide JIT delivery across North America, utilizing six strategically located distribution centers in the U.S. and our two distribution centers in Canada. Our distribution footprint in the U.S. can reach approximately 90% of the population in 24 to 48 hours and our two distribution centers in British Columbia and Ontario can provide timely coverage to the fully Canadian market. We maintain coverage of industry trends and consumer preferences via thirteen sales managers complemented by teams made up of specialized product category experts. Given our ability to provide a comprehensive product offering and excellent customer service, we maintain over seven-year relationships with the majority of our largest customers.

Proven Mergers and Acquisitions (“M&A”) Track Record

Our management team has extensive experience with execution and integration of M&A opportunities. In November 2017, we acquired Eddi’s Wholesale Garden Supplies, Ltd. (“Eddi’s”) and the distribution division of Greenstar Plant Products, Inc. (“GSD”), which we believe were two of the leading CEA and lawn and garden distributors in Canada at the time of the acquisitions. Those acquisitions, combined with our existing infrastructure and experience, have enabled us to become one of the leading CEA equipment distributors in Canada. Additionally, we maintain relationships throughout our markets to identify specific product categories of interest for M&A activity. Our robust understanding of commercial growers’ needs coupled with our experienced M&A team has prepared us to make additional acquisitions in the hydroponics industry, which will help us to continue to grow our market share. We view M&A as a significant driver of potential growth as the hydroponics industry is fragmented and primed for consolidation.

Our Growth and Productivity Strategies

We are well positioned to capitalize on the growth of our underlying markets through the following strategies.

Capitalizing on Rapidly Growing Markets

Our customers benefit from macroeconomic factors driving the growth of CEA, including expanded adoption of CEA and vertical farming by commercial growers and consumers, as well as the growth in cannabis, hemp and other end-markets. As the world population grows and urbanizes, vertical farming is increasingly being used to meet the demand for food crops. Industry publications estimate that the global vertical farming market will expand at a 24% CAGR from 2019 to 2023. In addition, the U.S. and Canadian cannabis markets had an estimated value of approximately \$14 billion in 2019, and are projected to grow to \$37 billion by 2024. The hemp market has benefited from consumer adoption of hemp-derived CBD products. According to industry publications, the U.S. hemp-derived CBD market is expected to grow from \$1.2 billion in 2019 to \$6.9 billion in 2025, representing a six-year CAGR of 33.8%. We expect to capitalize on favorable cannabis and hemp growth trends by continuing to expand our operations globally.

Expanding our Proprietary Product Offering

We are expanding the breadth of our product assortment through continued development of our own proprietary brands. Our proprietary brands command a meaningful gross margin premium to our distributed products. Our core competency in new product innovation is in lighting, consumable and equipment categories, and we are enhancing research and development in our other product categories to expand our brand portfolio's value and further enhance our margins. We have launched several new product lines over the past year, including PhotoBio LED lighting equipment and Phantom Core HID lighting equipment. We also maintain a pipeline of next generation proprietary products and occasionally make investments in suppliers to create strategic relationships around the development of specific products and enhanced distribution agreements.

Adding Strategic Distribution Relationships and Exclusive/Preferred Brands

We can increase revenue with significant cross-selling activity to our current installed customer base by offering a more comprehensive assortment of products required by commercial growers to engage in cultivation. We have identified key suppliers with product solutions that are well established in the grower community for exclusive/preferred brand relationships. Exclusive/preferred brand relationships with leading brands drive sales and margin improvement. We believe we are a highly attractive distribution partner due to our scale and independence in growing media and nutrient categories. We have established sixteen new exclusive/preferred distribution relationships over the past two years including with established equipment and nutrient suppliers.

Enabling Wholesaler Network to Effectively Serve Commercial Growers

Working with our wholesale network, we are leveraging our sophisticated technical sales team to provide our wholesale network the ability to address the needs, demanding requirements and higher volume of their larger-scale commercial customers. Establishing these relationships with our channel provides us with insight and access to growers' evolving demands, leading to both increased equipment sales and recurring sales of consumables through our wholesale network. Our commercial grower outreach program, our analytically driven supply chain function and DMI capabilities enable our wholesaler network to anticipate customer demand for products and ensure their availability. The goal of these efforts is to maintain long-term relationships with our wholesalers by helping them be successful in providing cultivation square footage savings and access to JIT inventory to their customer base. We believe this can result in profitability for our wholesalers' customers on consumables and equipment. We also believe that increasing the value to our wholesale network will allow us to grow within key accounts and expand sales of our products and services to new accounts.

Expand our Operating Margins

We have developed and begun to implement specific productivity initiatives across our business as a means of funding growth. Our initiatives include the following:

- **Enhance Our Brand Mix.** We will continue to increase the percentage of proprietary and exclusive/preferred brands in our product portfolio. Our innovative proprietary and exclusive/preferred brands offer us a significant margin benefit compared to distributed brands.
- **Drive Supply Chain Efficiencies.** We are implementing multiple supply chain efficiency initiatives, including the review of our carrier sourcing relationships and intra-warehouse shipments for optimization opportunities, reducing the active SKU count by eliminating non-core SKUs, and the deployment enhanced inventory planning tools. For example, we have reduced our SKU count from 5,400 in 2019 to 3,700 in 2020. Additionally, we continually review our distribution network for optimization opportunities, and in doing so consolidated two warehouses to one in 2019.
- **Optimize the Customer Investment Program.** We have segmented our client accounts to improve our discounting decisions in order to maximize net sales as a percent of gross sales.
- **Leveraging G&A.** Additional areas of cost savings will come from more efficiently leveraging corporate overhead as our business continues to grow and scale.

Acquiring Value-Enhancing Businesses

The hydroponics industry is highly fragmented which we believe presents a significant opportunity for growth through M&A. Management is continually evaluating M&A targets and we believe, in this fragmented market, there will be continued opportunities for M&A. M&A provides us an opportunity to significantly increase distribution with independent brands and to add new products based on identified needs of commercial growers. We utilize clear investment criteria to make disciplined M&A decisions that will accelerate sales and EBITDA growth, increase competitive strength and market share and expand our proprietary brand portfolio.

Broad Customer Base and Marketing Presence

We maintain a broad, active base of more than 2,000 customer accounts. Our diversified customer base is largely comprised of retailers of commercial and home gardening equipment and supplies, including: (i) garden centers and hardware stores, (ii) eCommerce webstores, such as Amazon, (iii) specialty hydroponic retailers and (iv) commercial greenhouse builders and commercial resellers. We anticipate that our product offerings will continue to attract a diversified customer base, especially as the hydroponics product retail market grows and the trend of U.S. state adoption of legalizing cannabis continues.

Our three-pronged marketing strategy consists of: (i) print media, (ii) an online presence, and (iii) tradeshows (including private customer events). We believe our marketing, together with our pursuit of excellent customer service, are the key factors that have enabled us to maintain over seven-year relationships with a majority of our largest customers.

We have a ten-year relationship with Amazon that covers indoor gardening products. Amazon purchases and warehouses 1,600 of our SKUs to be sold to customers within the United States. Some of our Amazon-listed products are among the most popular in their respective categories and are highlighted as “Best Sellers” and “Amazon’s Choice.” Examples include the Active Aqua Water Pump and Active Aqua Chiller.

Sales

Our growth strategy has enabled us to increase our net sales at a 17% CAGR over the past 15 years. See our consolidated financial statements and the notes thereto contained elsewhere in this prospectus.

Seasonality

We experience limited seasonality due to the year-round utilization of indoor gardening supplies and products; however, outdoor and lawn and garden related product sales are concentrated in our second and

third fiscal quarters by retailers who rely on our ability to deliver products closer to when consumers buy our products, thereby reducing retailers' pre-season inventories.

Growing Media

We distribute certain products that are used in order to improve the efficiency of the agricultural growing and the cultivation process. Growing media consists of premium soils and soil alternatives, such as rock wool, coconut coir or clay pebbles, used in hydroponic cultivation.

Our leading products in this product line are Grodan rock wool blocks, FoxFarm soils, and Pro-Mix soils. Each one of these growing media and nutrients enables the agricultural products on which they are used to maximize crop quality and yields.



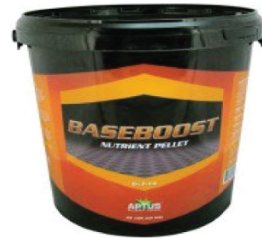
Premium Soils

Non-Soil Growing Media

Nutrients

The nutrients category includes products that provide nutrition to crops for hydroponic cultivation. Products include fertilizers and a wide variety of additives used through the crop cycle.

Our leading products in this product line are FoxFarm, Cutting Edge Solution, Grotek, Roots Organics, and Aptus plant care.



Equipment

Our equipment product offerings include (i) hydro components, (ii) meters and solutions, (iii) pumps and irrigation systems, (iv) water filtration systems, (v) pots and containers and (vi) tents and tarps. We offer these products to customers both as individual products and as a combination.



Rolling Bench



pH Meter



Reverse Osmosis System

Our leading products in this product line are rolling benches, flood trays and PH meters filtration systems. Hydroponic systems products make up the core equipment and accessories that are needed for hydroponic cultivation.

Our propriety brands in the hydroponic systems category include Active Aqua, AutoPilot, and Active Air.



Lighting

We have six different product offerings within our lighting systems, (i) lighting systems/kits, (ii) grow light reflectors, (iii) grow light ballasts, (iv) LED lighting, (v) fluorescent lighting, and (vi) lighting accessories. We offer these products to customers both as individual products and as a combination.

Our leading products in this product line are Phantom double end high-intensity discharge (“HID”) grow light systems, ballasts and reflectors. We believe our Phantom lighting products outperform the competition in terms of light output per watt, and therefore provide superior efficiency, reliability, lighting uniformity compared our competitors.



HID Light System



Grow Light Reflector



Grow Light Ballast



LED Light System

In order to evaluate the superiority of our proprietary brand “Phantom” lights, we worked with an independent third-party to assess the performance of these products against the similar products offered by our competitors. Based on the results of this examination, the Phantom DE Open and Phantom DE Enclosed both outperformed the competitors with respect to the light output per watt, an indicator of the efficiency of the products.

Our propriety brands in the lighting category include Phantom, PhotoBio, Quantum and Xtrasun.



In 2019, we fully launched a new line of proprietary LED lighting products under the PhotoBio brand through a relationship with one of the largest LED chip producers globally. The PhotoBio product range includes both small scale commercial indoor applications and large scale greenhouse applications. The PhotoBio line has what we believe is a higher performance level at a lower cost than current leading LED products.

Supplies

The supplies category includes a wide variety of consumable supplies including grow light bulbs, pruners, irrigation components, safety supplies, netting, containers and trays.



Grow Light
Bulb



Pruner



Dripper



Safety
Gloves



Container

Suppliers and Manufacturers

Our products obtained from suppliers include both our branded proprietary products and distributed products. All the products purchased and resold are applicable to indoor and outdoor growing for organics, greens, and plant-based medicines.

Our proprietary products are sourced from over 80 different suppliers, primarily in China. Quality control is a critical priority for our team charged with ensuring the supply of the products from our suppliers, specifically those coming from China. We seek to ensure the highest level of quality control for our products through routine factory visits, spot testing and continual, ongoing supplier due diligence. We also employ a multi-faceted tariff mitigation strategy in China which includes cost sharing with suppliers, passing through price increases and pursuing alternative production outside of China with existing and new suppliers.

Our distributed products are sourced from over 400 suppliers. Our tenured internal team is charged with maintaining strong relationships with current suppliers, while also constantly tracking current and future market trends and reviewing offerings of new suppliers.

Based on our knowledge and communication with our suppliers, we believe some of our suppliers sell directly to the retail market or our wholesale customers. See “*Risk Factors — Risks Relating to Third Parties.*”

Large Established Distribution Infrastructure

We have a fully developed distribution network across North America that includes six distribution centers in the United States and two in Canada. These strategically placed distribution centers have enabled us to account for what we believe is approximately one third of the 2017 North America wholesale indoor gardening market, and to become the largest hydroponics distributor in Canada.

We operate distribution centers in Petaluma, California; Santa Fe Springs, California; Portland, Oregon; Denver, Colorado; Fairless Hills, Pennsylvania; and New Hudson, Michigan. In Canada, we have distribution centers in Langley, British Columbia and Cambridge, Ontario. In Spain, we have a distribution center in Zaragoza, which is charged with serving the European market.

We work with a network of third-party common carrier trucking/freight companies that service our customers across the globe. We receive daily customer orders via our business-to-business e-commerce platform. Orders are then routed to the applicable distribution center and packed for shipments. The majority of customer orders are shipped and delivered within 24 to 48 hours of order receipt. Shipments are delivered to customers via less-than-truckload common carriers, dedicated lease trucks, small parcel or vendor dropship.

Competition

We operate in a highly competitive and fragmented industry. We have numerous competitors of varying sizes, including national wholesale distributors and manufacturers of indoor gardening supplies, such as Scotts-Miracle Gro. We also face competition from smaller regional competitors who operate in many of the areas where we compete. Some of our competitors and potential competitors may have greater capital

resources, facilities and diversity of product lines. Additionally, if demand for our hydroponics equipment continues to grow due to the growth of the cannabis and industrial hemp industries, new competitors may enter the market.

Competitive factors in our industry include product quality, brand awareness and loyalty among consumers, product variety, product performance, value, reputation, price and advertising. We believe that we currently compete effectively with respect to each of these factors.

Government Regulation

While there is no national governmental regulation relating to the sale of hydroponics equipment, certain products included in our growing media and nutrients product line are subject to certain registration requirements with some U.S. state regulators and federal regulations. In both California and Michigan we have obtained the requisite licenses to sell products in our growing media and nutrients product line.

Media and Nutrients

Our leading product lines are growing media and nutrients products. These product lines include organic soils and nutrients that contain ingredients that require the companies that provide us with these products to register the product with certain regulators. The use and disposal of these products in some jurisdictions are subject to regulation by various agencies. A decision by a regulatory agency to significantly restrict the use of such products could have an adverse impact on those companies providing us with such regulated products, and as a result, limit our ability to sell these products.

International, federal, state, provincial and local laws and regulations relating to environmental, health and safety matters affect us in several ways in light of the ingredients that are used in products included in our growing media and nutrients product line. In the United States, products containing pesticides generally must be registered with the Environmental Protection Agency (the "EPA"), and similar state agencies before they can be sold or applied. The failure by one of our partners to obtain, or the cancellation of any such registration, or the withdrawal from the marketplace of such pesticides, could have an adverse effect on our businesses, the severity of which would depend on the products involved, whether other products could be substituted and whether our competitors were similarly affected. The pesticides we use are either granted a license by the EPA or exempt from such a license and may be evaluated by the EPA as part of its ongoing exposure risk assessment. The EPA may decide that a pesticide we distribute will be limited or will not be re-registered for use in the United States. We cannot predict the outcome or the severity of the effect on our business of any future evaluations, if any, conducted by the EPA.

In addition, the use of certain pesticide products are regulated by various international, federal, state, provincial and local environmental and public health agencies. Although we strive to comply with such laws and regulations and have processes in place designed to achieve compliance, we may be unable to prevent violations of these or other laws and regulations from occurring. Even if we are able to comply with all such laws and regulations and obtain all necessary registrations and licenses, the pesticides or other products we apply or use, or the manner in which we apply or use them, could be alleged to cause injury to the environment, to people or to animals, or such products could be banned in certain circumstances.

Cannabis Industry

We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry. Nonetheless, it is evident to us that the legalization of cannabis in many U.S. states and Canada has ultimately had a significant, positive impact on our industry. Accordingly, laws and regulations governing the cultivation and sale of cannabis and related products have an indirect effect on our business. Legislation and regulations pertaining to the use and growth of cannabis are enacted on both the state and federal government level within the United States. The federal and state laws and regulations governing the growth and use of cannabis may be subject to change. New laws and regulations pertaining to the use or cultivation of cannabis and enforcement actions by state and federal authorities concerning the cultivation or use of cannabis could indirectly reduce demand for our products, and may impact our current and planned future operations.

Individual state laws regarding the cultivation, possession, and use of cannabis for adult and medical uses conflict with federal laws prohibiting the cultivation, possession and use of cannabis for any purpose. A number of states have passed legislation legalizing or decriminalizing cannabis for adult-use, other states have enacted legislation specifically permitting the cultivation and use of cannabis for medicinal purposes, and several states have enacted legislation permitting cannabis cultivation and use for both adult and medicinal purposes.

The Term Loan Agreement prohibits the Subsidiary Obligors from selling our products directly to cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. The Encina Credit Facility prohibits the Subsidiary Obligors from selling our products to the cannabis industry. As a result, the Subsidiary Obligors do not sell our products directly to the cannabis industry, cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. See “— *Risks Relating to our Indebtedness.*”

Certain of our products may be purchased for use in new and emerging industries and/or be subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, future scientific research and public perception.

We sell products, including hydroponic gardening products, through third-party retailers and resellers. End users may purchase these products for use in new and emerging industries, including the growing of cannabis that may not grow or achieve market acceptance in a manner that we can predict. The demand for these products is dependent on the growth of these industries, which is uncertain, as well as the laws governing the growth, possession, and use of cannabis by adults for both adult and medical use.

Laws and regulations affecting the U.S. cannabis industry are continually changing, which could detrimentally affect our growth, revenues, results of operations and success generally. Local, state and federal cannabis laws and regulations are broad in scope and subject to evolving interpretations, which could require the end users of certain of our products or us to incur substantial costs associated with compliance or to alter our respective business plans. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operation and financial condition.

The public’s perception of cannabis may significantly impact the cannabis industry’s success. Both the medical and adult-use of cannabis are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion, and public opinion relating to cannabis will be favorable. The cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and adult-use of cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of cannabis, whether in the United States or internationally, may have a material adverse effect on our operational results, consumer base, and financial results. Among other things, such a shift in public opinion could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult cannabis or adopt new laws or regulations restricting or prohibiting the medical or adult-use of cannabis where it is now legal, thereby limiting the potential customers and end-users of our products who are engaged in the cannabis industry (collectively “Cannabis Industry Participants”).

Demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop. We cannot predict the nature of such developments or the effect, if any, that such developments could have on our business.

We are subject to a number of risks, directly and indirectly through our Cannabis Industry Participants, because cannabis is illegal under federal law.

Cannabis is illegal under federal law. Federal law and enforcement may adversely affect the implementation of medical cannabis and/or adult-use cannabis laws, and may negatively impact our revenues and profits.

Under the CSA, the U.S. Government lists cannabis as a Schedule I controlled substance (i.e., deemed to have no medical value), and accordingly the manufacturing (cultivation), sale, or possession of cannabis is federally illegal. It is also federally illegal to advertise the sale of cannabis or to sell paraphernalia designed or

intended primarily for use with cannabis, unless the paraphernalia is authorized by federal, state, or local law. The United States Supreme Court has ruled in *United States v. Oakland Cannabis Buyers' Coop.* and *Gonzales v. Raich*, 532 U.S. 483 (2001), that the federal government has the right to regulate and criminalize cannabis, even for medical purposes. The illegality of cannabis under federal law preempts state laws that legalize its use. Therefore, strict enforcement of federal law regarding cannabis would likely adversely affect our revenues and results of operations.

Other laws that directly impact the cannabis growers that are end users of certain of our products include:

- Businesses trafficking in cannabis may not take tax deductions for costs beyond costs of goods sold under Code Section 280E. There is no way to predict how the federal government may treat cannabis business from a taxation standpoint in the future and no assurance can be given to what extent Code Section 280E, or other tax-related laws and regulations, may be applied to cannabis businesses in the future.
- Because the manufacturing (cultivation), sale, possession and use of cannabis is illegal under federal law, cannabis businesses may have restricted intellectual property and proprietary rights, particularly with respect to obtaining and enforcing patents and trademarks. Our inability to register, or maintain, our trademarks or file for or enforce patents on any of our inventions could materially affect our ability to protect our name, brand and proprietary technologies. In addition, cannabis businesses may face court action by third parties under the Racketeer Influenced and Corrupt Organizations Act ("RICO"). Our intellectual property and proprietary rights could be impaired as a result of our retailers' and resellers' involvement with cannabis business, and we could be named as a defendant in an action asserting a RICO violation.
- Similar to the risks relating to intellectual property and proprietary rights, there is an argument that the federal bankruptcy courts cannot provide relief for parties who engage in cannabis. Recent bankruptcy rulings have denied bankruptcies for cannabis dispensaries upon the justification that businesses cannot violate federal law and then claim the benefits of federal bankruptcy for the same activity and upon the justification that courts cannot ask a bankruptcy trustee to take possession of, and distribute cannabis assets as such action would violate the CSA. Therefore, due to our retailers' and resellers' involvement with cannabis businesses, we may not be able to seek the protection of the bankruptcy courts and this could materially affect our financial performance and/or our ability to obtain or maintain credit.
- Since cannabis is illegal under federal law, there is a strong argument that banks cannot accept for deposit funds from businesses involved in the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. Any such inability to open or maintain bank accounts may make it difficult for us to operate our business. Under the Bank Secrecy Act ("BSA"), banks must report to the federal government any suspected illegal activity, which includes any transaction associated with a cannabis business. These reports must be filed even though the business is operating legitimately under state law. In addition, due to our retailers' and resellers' involvement with cannabis businesses, our existing bank accounts could be closed.
- Insurance that is otherwise readily available, such as general liability and directors and officer's insurance, may be more difficult for us to find, and more expensive, to the extent we are deemed to operate in the cannabis industry.

The current Trump administration, or any new administration or attorney general, could change federal enforcement policy or execution and decide to enforce the federal cannabis laws more strongly. On January 4, 2018, U.S. Attorney General Jeff Sessions issued a memorandum rescinding previous guidance (directing U.S. Department of Justice and the U.S. Attorneys' offices to focus their cannabis enforcement efforts under federal law only in identified priority areas, such as sale to minors, criminal enterprises, and interstate sales). Under the Sessions memorandum, local U.S. Attorneys' offices retain discretion regarding the prosecution of cannabis activity authorized under state laws and regulations. While current U.S. Attorney General William Barr expressed support for the National Organization to Reform Marijuana Laws (NORML) during his Senate testimony on April 10, 2019, further change in the federal approach towards enforcement could negatively affect the industry, potentially ending it entirely. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us. The legal uncertainty and possible future changes in law could negatively affect our growth, revenues, results of operations and success generally.

Federal authorities may decide to change their current posture and begin to enforce current federal cannabis law and, if they decide to ignore the principles in the Cole Memorandum and begin to aggressively enforce such laws, it is possible that they could allege that we violated federal laws by selling products used in the cannabis industry. As a result, active enforcement of the current federal regulatory position on cannabis may thus directly or indirectly adversely affect our revenues and profits.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on our business, including our reputation and ability to conduct business, the listing of our securities on any stock exchanges, the settlement of trades of our securities, our ability to obtain banking services, our financial position, operating results, profitability or liquidity or the market price of our publicly traded shares. In addition, it is difficult for us to estimate the time or resources that would be needed for the investigation of any such matters or their final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Businesses involved in the cannabis industry, and investments in such businesses, are subject to a variety of laws and regulations related to money laundering, financial recordkeeping and proceeds of crimes.

We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry. Investments in the U.S. cannabis industry are subject to a variety of laws and regulations that involve money laundering, financial recordkeeping and proceeds of crime, including the BSA, as amended by the Patriot Act, other anti-money laundering laws, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States. In February 2014, the Financial Crimes Enforcement Network (“FinCEN”) of the Treasury Department issued a memorandum (the “FinCEN Memo”) providing guidance to banks seeking to provide services to cannabis businesses. The FinCEN Memo outlines circumstances under which banks may provide services to cannabis businesses without risking prosecution for violation of U.S. federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to U.S. federal prosecutors relating to the prosecution of U.S. money laundering offenses predicated on cannabis violations of the CSA and outlines extensive due diligence and reporting requirements, which most banks have viewed as onerous. The FinCEN Memo currently remains in place, but it is unclear at this time whether the current administration will continue to follow the guidelines of the FinCEN Memo. Such requirements could negatively affect the ability of certain of the end users of our products to establish and maintain banking connections.

Cannabis Industry Participants are subject to federal and state controlled substance laws and regulations. As a result, we are indirectly subject to a number of risks related to controlled substances.

We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry. Some of our products are sold to Cannabis Industry Participants and used in connection with cannabis businesses that are subject to federal and state controlled substance laws and regulations. Cannabis businesses are subject to a number of risks related to controlled substances, which risks could reduce demand for our products by Cannabis Industry Participants. Such risks include, but are not limited to, the following:

- Cannabis is a Schedule I drug under the CSA and regulated by the Drug Enforcement Administration (the “DEA”) as an illegal substance. The Food and Drug Administration (“FDA”), in conjunction with the DEA, licenses cannabis research and drugs containing active ingredients derived from cannabis. If cannabis were to become legal under federal law, its sale and use could become regulated by the FDA or another federal agency.
- If cannabis were to become regulated by the FDA or another federal agency, extensive regulations may be imposed on the sale or use of cannabis. Such regulations could result in a decrease in cannabis sales and have a material adverse impact on the demand for our products. If we or our Cannabis Industry Participants are unable to comply with any applicable regulations and/or registration prescribed by the FDA, we may be unable to continue to conduct business with retailers and resellers that transact with cannabis businesses and/or our financial condition may be adversely impacted.

- Controlled substance legislation differs between states and legislation in certain states may restrict or limit our ability to sell products to Cannabis Industry Participants. Our Cannabis Industry Participants may be required to obtain separate state registrations, permits or licenses in order to be able to obtain, handle and/or distribute controlled substances in a state. Such state regulatory requirements may be costly and, the failure of such Cannabis Industry Participants to meet such regulatory requirements could lead to enforcement and sanctions by the states in addition to any from the DEA or otherwise arising under federal law. We could be implicated in such enforcement or sanctions because of the sale of our products to such Cannabis Industry Participants.
- The failure of our Cannabis Industry Participants to comply with applicable controlled substance laws and regulations, or the cost of compliance with these laws and regulations, may adversely affect the demand for our products and, as a result, the financial results of our business operations and our financial condition.

Furthermore, the Encina Credit Facility and the Term Loan Agreement each restrict our ability to sell our products directly to cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. As a result, the Subsidiary Obligor do not sell our products directly to the cannabis industry, cannabis growers or cultivators, or to sellers or retailers that sell only to the cannabis industry. See “— *Risks Relating to our Indebtedness.*”

Intellectual Property

We own 16 issued U.S. design patents, three issued U.S. utility patents, five issued foreign patents and designs, 38 registered U.S. trademarks, and 22 registered foreign trademarks that enable us to position ourselves and our products to a wide range of customers. Our 24 issued patents cover grow lighting and hydroponic systems and components. These issued patents and our registered trademarks allow us to build out our proprietary brand products, which we believe are high quality products and generate higher sales margins than the distributed products that we sell. Our owned U.S. and foreign issued patents are expected to expire between 2021 to 2034.

Our ability to compete effectively depends in part on our rights to trademarks, patents and other intellectual property rights we own or license. We have not sought to register every one of our trademarks either in the United States or in every country in which such mark is used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States with respect to the registered brand names and issued patents we hold. Litigation may be necessary to enforce our intellectual property and proprietary rights and protect our proprietary information, or to defend against claims by third parties that our products or services infringe, misappropriate or otherwise violate their intellectual property or proprietary rights. Any litigation or claims brought by or against us could result in substantial costs and diversion of our resources.

We may need to obtain licenses to patents and other intellectual property and proprietary rights held by third parties to develop, manufacture and market our products, if, for example, we sought to develop our products, in conjunction with any patented technology. If we are unable to timely obtain these licenses on commercially reasonable terms (or at all) and maintain these licenses, our ability to commercially market our products, may be inhibited or prevented.

In addition, because the manufacturing (cultivation), sale, possession and use of cannabis is illegal under federal law, companies that transact with cannabis businesses may have restricted intellectual property and proprietary rights particularly with respect to obtaining and enforcing patents and trademarks. We do not believe these restrictions apply to our business. However, if we are unable to register, or maintain, our trademarks or file for or enforce patents on any of our inventions, such an inability could materially affect our ability to protect our name, brand and proprietary technologies. See “— *Risks Relating to Our Intellectual Property*” for more information on the risks associated with intellectual and proprietary rights.

Research and Development

We continually invest in research and development to improve our products, manufacturing processes, packaging and delivery systems. In addition to the benefits of our own research and development, we actively seek ways to leverage the research and development activities of our suppliers and other business partners.

Human Capital

Our continued success depends on management implementing effective human resource initiatives in order to recruit, develop and retain key employees. Currently, we employ 212 employees, including 209 full-time employees and three part-time employees. We also employ 76 temporary workers and 10 independent contractors. None of our employees are subject to collective bargaining agreements, and we have had no labor-related work stoppages. Our retention rate for our full-time employees is approximately six years, and we employ various initiatives to increase employee retention, including offering bonus programs and training opportunities. We strive to foster an innovative and team-oriented culture and view our human capital resources and initiatives as an ongoing priority.

Facilities

We have over 800,000 square feet of distribution space under leases in strategic locations, including six distribution centers in the United States, two distribution centers in Canada and one distribution center in Spain. Our headquarters is located in Petaluma, California, where we operate a key distribution center and a small assembly operation. See “*Certain Relationships and Related Party Transactions*.” We have in total six facilities in the United States, two in Canada, one in Spain, and one in China.

We believe that our existing facilities are adequate for our needs at this time, although we do plan to open new distribution centers in the future to meet anticipated demand resulting from further deregulation of cannabis and overall market growth.

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.

History

Our predecessor company, originally Applied Hydroponics, Inc. was founded in 1977 in Northern California. In 1988, we opened a retail and assembly facility in Philadelphia, PA. We moved our headquarters to Petaluma, CA in 1996 and divested our retail operations in 2002. From 2003 to 2014 we expanded distributions operations by opening distribution centers in Texas, Florida, Southern California, Colorado, and Oregon. In December 2010, Peter Wardenburg and a newly formed ESOP redeemed shares from our founding stockholder. In December 2010, we established operations in Spain with the acquisition of a majority interest in Eltac.

In May 2017, we were acquired by Hydrofarm Investment Corp. (“HIC”), owned by a group of private equity sponsors, including Serruya Private Equity, Hawthorn Equity Partners Inc. and affiliates of Broadband Capital Investments, LLC in a leveraged buyout and recapitalization transaction.

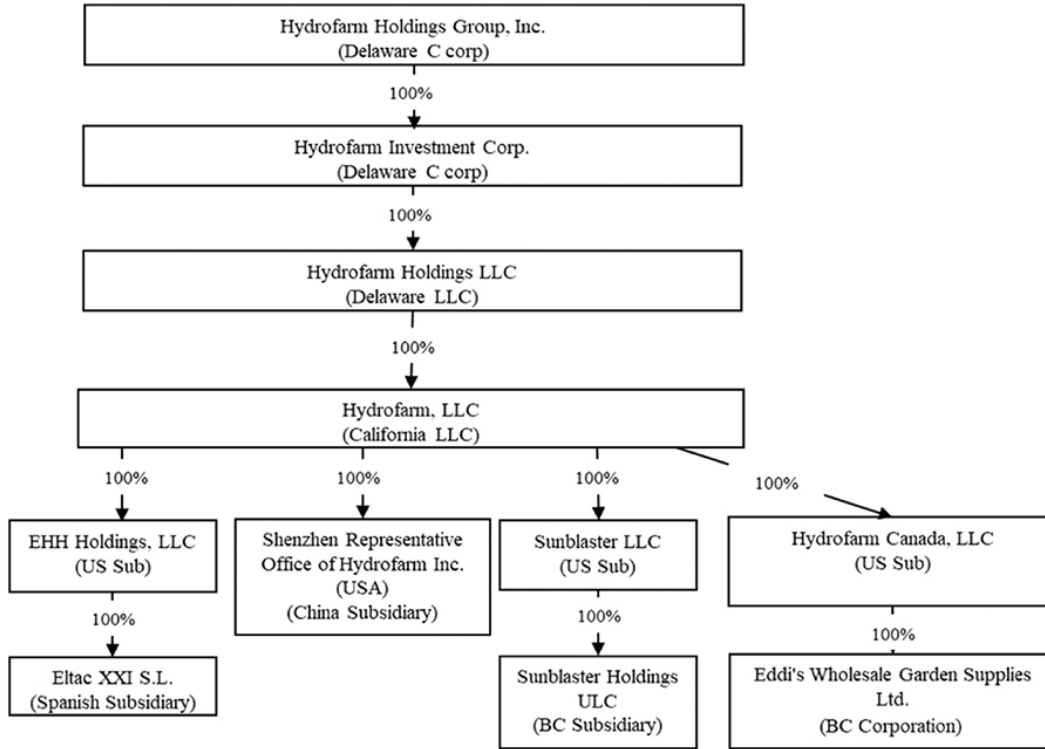
In November 2017, we established distribution operations in Canada with the acquisitions of Eddi’s Wholesale Garden Supplies, Ltd. and the distribution division of Greenstar Plant Products, Inc.

In October 2018, we consummated a private placement offering of 4,929,725 (pre-split: 16,619,616) units (each a “Unit,” and collectively, the “Units”) for gross proceeds of approximately \$41.5 million (the “Private Placement”). In connection with the Private Placement, (i) HIC raised \$15.2 million from its existing stockholders through the issuance of 1,807,838 (pre-split: 6,094,617) units (the “Concurrent Offering”) and (ii) Hydrofarm Holdings, LLC (“Hydrofarm Holdings”), a subsidiary of HIC, and its affiliates entered into certain amendments to Hydrofarm Holdings’ credit facilities to amend certain covenants and other provisions under such credit facilities. The consideration in the Concurrent Offering consisted of \$11.1 million in cash from existing stockholders of HIC and the conversion of \$4.1 million of an aggregate principal amount plus interest outstanding under an outstanding note. Concurrently with the closing of the Private Placement, one of our wholly-owned subsidiaries merged with and into HIC, with HIC becoming our wholly-owned subsidiary and continuing its and its subsidiaries’ existing business operations, including those of Hydrofarm, LLC, a subsidiary of HIC (the “Merger”). As part of the Merger, the securities of HIC issued in the

Concurrent Offering were exchanged into shares of our common stock and warrants to purchase our common stock having the same terms and conditions as the securities included in the Units issued in this Private Placement.

Corporate Structure

We have been in the business of indoor gardening since Hydrofarm, LLC, (originally, Applied Hydroponics, Inc.), one of our wholly-owned subsidiaries, was formed in the State of California on May 4, 1977. We conduct our business through our wholly-owned, direct and indirect subsidiaries. The chart below depicts our current organizational structure:



MANAGEMENT

Executive Officers and Directors

The table below contains information regarding our directors and executive officers as of the date hereof:

Name	Age	Position
William Toler	61	Chief Executive Officer and Chairman of the Board
Terence Fitch	61	President
B. John Lindeman	50	Chief Financial Officer
Susan Peters	67	Director
Patrick Chung	30	Director
Renah Persofsky	62	Director
Richard D. Moss	63	Director
Melisa Denis	57	Director

William Toler — Chief Executive Officer and Chairman of the Board

Mr. Toler has served as our Chief Executive Officer and Chairman of our board of directors since January 1, 2019. Prior to joining Hydrofarm in 2019, Mr. Toler was the Chief Executive Officer of Hostess Brands, Inc. (Nasdaq: TWNK) (“Hostess”), a food and beverage company, from May 2014 to March 2018. Under his leadership, Hostess successfully re-established the iconic Hostess brand as a leader within the sweet baked goods category, returned the company to profitability and transitioned Hostess from a private to public company. Mr. Toler has over 35 years of executive leadership experience in supply chain management and consumer packaged goods, including previously having served as Chief Executive Officer of AdvancePierre Foods, from September 2008 to August 2013, and President of Pinnacle Foods. He has also held executive roles at Campbell Soup Company, Nabisco and Procter & Gamble. Mr. Toler served on the board of directors of Collier Creek Holdings from September 2018 to September 2020, Hostess Brands from May 2014 to March 2018, AdvancePierre Foods from 2008 to 2013 and Pinnacle Foods from 2007 to 2008. In addition, Mr. Toler has also served as a senior advisor at Oaktree Capital Management, an investment management firm, from September 2013 to April 2014. Mr. Toler holds a B.A. in Business Management and Economics from North Carolina State University. Mr. Toler was selected to serve as Chairman of our board of directors because of his 35 years of executive leadership experience in supply chain management and consumer packaged goods.

Terence Fitch — President

Mr. Fitch has served as our President since March 4, 2019. Mr. Fitch has more than 30 years of marketing, sales, finance, manufacturing, supply chain, media and supervisory experience in the beverage industry. Prior to joining Hydrofarm in 2019, Mr. Fitch spent 18 years in Coca Cola’s senior management beginning in 1994, first as Regional Vice President of Sales and Marketing of the Gulf States, then as Division Vice President and General Manager, and finally as Senior Vice President and General Manager of the Western Region, responsible for a team of 13,500 sales, strategy, marketing, operations, manufacturing, supply chain, and analytical professionals, and accountable for annual sales in excess of \$4.2 billion. Mr. Fitch also served as Senior Vice President and General Manager of the Western Region of Coca Cola Refreshments from 2010 to 2013. In 2013, Mr. Fitch founded Drink Teck, LLC, a functional beverage company, where he served as its Chief Executive Officer. Mr. Fitch has also served on the board of directors of the Harold Pump Foundation, on the C-5 Youth Foundation, on the USC Food Management Council, and on the Coca Cola Scholars Foundation. Mr. Fitch holds a B.S. in finance and marketing from Arizona State University.

B. John Lindeman — Chief Financial Officer

Mr. Lindeman has served as our Chief Financial Officer since March 2020. From August 2015 until assuming his current role at Hydrofarm Holdings in March 2020, Mr. Lindeman served as Chief Financial Officer and Corporate Secretary at Calavo Growers, Inc. (Nasdaq-GS: CVGW) (“Calavo”), a global avocado-industry leader and expanding provider of valued-added fresh food, where he was responsible for the finance,

accounting, IT and human resource functions. Prior to joining Calavo, Mr. Lindeman held various leadership positions within the finance and investment banking industries, including serving as managing director at Sageworth Trust Company, a family office and private trust company, from March 2015 to July 2015, managing director and co-head of the consumer and retail group at Janney Montgomery Scott from August 2009 to March 2015, managing director at Stifel Nicolaus from December 2005 to August 2009 and principal at Legg Mason from October 1999 to December 2005. Prior to joining Legg Mason, he was a Manager at PricewaterhouseCoopers LLP from August 1996 to October 1999. Mr. Lindeman has also served as a director of Utz Brands, Inc. (NYSE: UTZ) since September 2020. Mr. Lindeman is a Chartered Financial Analyst and holds a B.S. in Business Administration from the University of Mary Washington.

Susan Peters — Director

Ms. Peters has served as our director since November 10, 2020. Previously, she was the Senior Vice President of Human Resources for General Electric Company (“GE”) from July 2013 until December 2017 after which she retired following 38 years of service. In her role as Chief Human Resource Officer (“CHRO”), Ms. Peters was a member of GE’s senior leadership team. From 2001 to 2007 Ms. Peters served as GE’s Vice President of Executive Development and served as Chief Learning Officer since 2007. In her role as the CHRO, Ms. Peters oversaw all aspects of the Human Resource function for GE’s workforce of approximately 325,000 employees in 175 countries. She was responsible for all of GE’s talent acquisition, talent development, learning, compensation and benefits, payroll, union relations, and security. Approximately 5,000 human resource employees worked under her leadership. Ms. Peters was first appointed as an officer at GE in 1997. Ms. Peters was a founding member of the GE Women’s Network and was also a member of the GE Foundation Board and the GE Pension Board. Ms. Peters also served on the National Board of Directors of Girl Scouts of the USA from 2008 until 2017. She is currently a member of the Loews Corporation (NYSE) board of directors. Ms. Peters received her B.A. from St. Mary’s College, Notre Dame and her Masters in Education from the University of Virginia. Ms. Peters was selected to serve on our board of directors because of her expertise in leadership and development and her experience serving as an officer of a global industrial company.

Patrick Chung — Director

Mr. Chung has served as our director since November 10, 2020. Mr. Chung currently serves as the Vice President of Finance at Serruya Private Equity Inc., which he joined in March 2018. In his role as Vice President, Mr. Chung oversees financial reporting and asset management for the fund, leads the real estate investments team, and plays a strategic role in the growth of investee companies. Previously, Mr. Chung was the Director of Finance for Inside Edge Properties Ltd. from March 2017 to March 2018. From January 2015 to March 2017, Mr. Chung served as the Assistant Manager of Finance Advisory for Deloitte. Prior to January 2015, Mr. Chung served as an Associate of Risk Assurance Services at PricewaterhouseCoopers Canada. In December 2015, Mr. Chung was designated as a Chartered Professional Accountant (“CPA”) by the Chartered Professional Accountants of Ontario. Mr. Chung received his Bachelor of Accounting and Finance and Minor in Economics from the University of Waterloo in December 2011 and his Masters of Accounting from the University of Waterloo in August 2012. Mr. Chung was selected to serve on our board of directors because of his expertise in financial accounting and investment management.

Renah Persofsky — Director

Ms. Persofsky has served as our director since November 10, 2020. Ms. Persofsky has over 40 years of business experience. Ms. Persofsky has served as the Chief Executive Officer of Strajjectory Corp. since 2010 and as an executive consultant of Canadian Imperial Bank of Commerce since 2011. Ms. Persofsky has also served as the Chairwoman of BookJane Inc. since October 2016, a director of Aphria Inc. since October 2017 and the Vice Chairwoman and Lead Director since October 2019, and the Chairwoman of Green Gruff Inc. since July 2019. Ms. Persofsky has also previously served as an executive consultant to many iconic brands including Tim Hortons, Canadian Tire, Canada Post and Interac, and was an executive officer of the Bank of Montreal. Ms. Persofsky previously co-chaired the Canadian Minister’s Advisory Committee on Electronic Commerce, as well as served as a special advisor to the Minister of Foreign Affairs and Trade. Ms. Persofsky received her degree from the Rotman School of Management at the University of Toronto. Ms. Persofsky was selected to serve on our board of directors because of her global business, e-commerce expertise, and her experience with the cannabis industry.

Richard D. Moss — Director

Mr. Moss has served as our director since November 10, 2020. Mr. Moss served as Chief Financial Officer of Hanesbrands Inc., a leading Fortune 500 apparel company, from October 2011 until October 2017, after which he served in an advisory role at Hanesbrands until his retirement on December 31, 2017. Prior to his appointment as Chief Financial Officer, Mr. Moss led several key financial functions, including treasury and tax, at Hanesbrands from 2006 to 2011. From 2002 to 2005, Mr. Moss served as Vice President and Chief Financial Officer of Chattem Inc., a leading marketer and manufacturer of branded over-the-counter health-care products, toiletries and dietary supplements. Since January 2018, Mr. Moss has also served as a senior advisor to Nexo Capital Partners. Mr. Moss has served as a director of Winnebago Industries, Inc., a leading U.S. recreational vehicle manufacturer, since February 2017 and has served as a director of Nature's Sunshine Products, Inc. since May 2018. Mr. Moss received a B.A. and an M.B.A from Brigham Young University. Mr. Moss was selected to serve on our board of directors because of his significant financial and corporate governance experience, including experience with public, consumer-oriented companies.

Melisa Denis — Director

Ms. Denis has served as our director since November 20, 2020. Ms. Denis is currently President of Miracle Pointe Development, a real estate development company. Ms. Denis previously served as a partner at KPMG from 1998 to October 2020, including as National Tax Leader for Consumer Goods and as the leader of the Consumer and Industrial Market for Dallas. Ms. Denis has served as a member of the Board of Regents for the University of North Texas System since January 2020, an advisory board member of Women Corporate Directors since 2011, and a board member of Enactus, a global non-profit, since 2019. Ms. Denis is a Certified Public Accountant and received her degree in accounting and her Masters of accounting and tax from the University of North Texas. Ms. Denis was selected to serve on our board of directors because of her significant financial and tax experience, including experience with companies in the consumer goods industry.

Family Relationships

There are no family relationships between any of our directors or executive officers.

Investor Rights Agreement and Placement Agent Agreement

All of our directors were previously appointed pursuant to an investor rights agreement (the "Investor Rights Agreement") entered into with, among others, Serruya Private Equity, HF I Investments LLC, HF II Investments LLC, HF III Investments LLC, Hawthorn LP, Hydrofarm Co-Investment Fund I, LP, Arch Street Holdings I, LLC, Payne Capital Corp., the Wardenburg Family Trust and A.G.P./Alliance Global Partners and SternAegis Ventures (collectively, the "Sponsors").

The Investor Rights Agreement was amended in November 2020 (as amended, the "Amended Investor Rights Agreement") to eliminate most rights, except for certain registration rights, and will become effective upon the consummation of this offering.

In connection with the Private Placement, we entered into a placement agent agreement (the "Placement Agent Agreement") with A.G.P./Alliance Global Partners and SternAegis Ventures (the "Placement Agents"). The Placement Agent Agreement provides the Placement Agents with the right to appoint a director to our board of directors (the "PA Director"). Adam Stern, one of our former directors, was as the PA Director pursuant to the Placement Agents' rights under the Placement Agent Agreement.

Leadership Structure of Our Board of Directors

Our board of directors has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The primary responsibility of our board of directors is to oversee our management and, in doing so, serve our best interests and the best interests of our stockholders. Our board of directors selects, evaluates and provides for the succession of executive officers and, subject to stockholder election, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. Our board of directors also participates in decisions that have a potential major economic impact on us. Management keeps

the directors informed of company activity through regular communication, including written reports and presentations at board of directors and committee meetings.

We have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined. However, we have determined that it is in our best interest and the best interest of our stockholders to appoint Mr. Toler as our Chairman and Chief Executive Officer.

Our officers are appointed by our board of directors and hold office until they resign or are removed from office by the board of directors.

Ms. Peters, Ms. Persofsky, Mr. Chung, Mr. Moss and Ms. Denis qualify as independent directors.

Classified Board of Directors

We have adopted an amendment to our amended and restated certificate of incorporation which provides that, upon the consummation of this offering, our board of directors will be divided into three classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective three-year terms. Our current directors will be divided among the three classes as follows:

- the Class I directors will be Mr. Toler and Mr. Chung and their terms will expire at the annual meeting of stockholders to be held in 2021;
- the Class II directors will be Ms. Persofsky and Ms. Denis and their terms will expire at the annual meeting of stockholders to be held in 2022; and
- the Class III directors will be Mr. Moss and Ms. Peters and their terms will expire at the annual meeting of stockholders to be held in 2023.

Each director's term will continue until the election and qualification of their successor, or their earlier death, resignation or removal. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors.

This classification of our board of directors may have the effect of delaying or preventing changes in control of our company. See the section titled "*Description of Capital Stock — Anti-Takeover Provisions — Classified Board of Directors.*"

Committees of the Board of Directors

Our board of directors will have three standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. Subject to phase-in rules and a limited exception, the rules of NASDAQ and Rule 10A-3 of the Exchange Act require that the audit committee of a listed company be comprised solely of independent directors, and the rules of NASDAQ require that the compensation committee of a listed company be comprised solely of independent directors.

Audit Committee

Prior to the consummation of this offering, we will establish an audit committee of the board of directors. Mr. Moss (Chair), Ms. Persofsky and Ms. Denis will serve as members of our audit committee. Under the NASDAQ listing standards and applicable SEC rules, we are required to have at least three members of the audit committee, all of whom must be independent.

Each member of the audit committee is financially literate and our board of directors has determined that qualifies as an "audit committee financial expert" as defined in applicable SEC rules.

Our audit committee charter details the principal functions of the audit committee, including:

- the appointment, compensation, retention, replacement, and oversight of the work of the independent auditors and any other independent registered public accounting firm engaged by us;
- resolving any disagreements between management and the independent auditor regarding financial reporting;

- pre-approving all audit and permitted non-audit services to be provided by the independent auditors or any other registered public accounting firm engaged by us, and establishing pre-approval policies and procedures;
- reviewing and discussing with the independent auditors all relationships the auditors have with us in order to evaluate their continued independence;
- setting clear hiring policies for employees or former employees of the independent auditors;
- setting clear policies for audit partner rotation in compliance with applicable laws and regulations;
- seeking information that we require from employees or any of our direct or indirect subsidiaries (each, a “Subsidiary”), all of whom are directed to cooperate with the audit committee’s requests, or external parties;
- meeting with any of our officers or employees (or officers or employees of any Subsidiary), the independent auditor or outside counsel, as necessary, or request that any such persons meet with any members of, or advisors or consultants to, the audit committee;
- obtaining and reviewing a report, at least annually, from the independent auditors describing (i) the independent auditor’s internal quality-control procedures and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm and any steps taken to deal with such issues;
- reviewing and approving any related party transaction required to be disclosed pursuant to Item 404 of Regulation S-K promulgated by the SEC prior to us entering into such transaction;
- overseeing that management has established and maintained processes to assure compliance by us with applicable laws, regulations and corporate policy; and
- reviewing with management, the independent auditors, and our legal advisors, as appropriate, any legal, regulatory or compliance matters, including any correspondence with regulators or government agencies and any employee complaints or published reports that raise material issues regarding our financial statements or accounting policies and any significant changes in accounting standards or rules promulgated by the Financial Accounting Standards Board, the SEC or other regulatory authorities.

Compensation Committee

Prior to the consummation of this offering, we will establish a compensation committee of the board of directors. Ms. Peters (Chair) and Mr. Chung will serve as members of our compensation committee. Under the NASDAQ listing standards and applicable SEC rules, we are required to have at least two members of the compensation committee, all of whom must be independent. Ms. Peters and Mr. Chung are independent.

Our compensation committee charter details the principal functions of the compensation committee, including:

- discharging the responsibilities of the board of directors relating to compensation of our directors and executive officers;
- reviewing and approving on an annual basis the corporate goals and objectives relevant to our Chief Executive Officer’s compensation, evaluating our Chief Executive Officer’s performance in light of such goals and objectives and determining and approving the remuneration (if any) of our Chief Executive Officer based on such evaluation;
- reviewing and approving on an annual basis the compensation of all of our other officers;
- reviewing on an annual basis our executive compensation policies and practices;
- implementing and administering our incentive compensation equity-based remuneration plans;
- assisting management in complying with our proxy statement and annual report disclosure requirements;

- periodically review executive supplementary benefits and, as appropriate, our retirement, benefit, and special compensation programs;
- overseeing the annual process of evaluation of the performance of our management;
- if required, producing a report on executive compensation to be included in our annual proxy statement; and
- reviewing and recommending compensation of the directors, including with respect to any equity-based plans.

It is likely that prior to the consummation of an initial business combination, the compensation committee will only be responsible for the review and recommendation of any compensation arrangements to be entered into in connection with such initial business combination.

The compensation committee charter will also provide that the compensation committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel or other adviser and will be directly responsible for the appointment, compensation and oversight of the work of any such adviser. However, before engaging or receiving advice from a compensation consultant, external legal counsel or any other adviser, the compensation committee will consider the independence of each such adviser, including the factors required by NASDAQ and the SEC.

Nominating and Corporate Governance Committee

Prior to the consummation of this offering, we will establish a nominating and corporate governance committee of the board of directors. Ms. Persofsky (Chair) and Mr. Chung will serve as members of our nominating and corporate governance committee. Ms. Persofsky and Mr. Chung meet the requirements for independence under the listing standards of the NASDAQ and SEC rules and regulations.

Our nominating and corporate governance committee charter details the principal functions of the nominating and corporate governance committee, including:

- evaluating the current composition, organization and governance of the board of directors and its committees, and making recommendations to the board of directors for approval;
- annually reviewing for each director and nominee to the board of directors, the particular experience, qualifications, attributes or skills that contribute to the conclusion that the person should serve or continue to serve as our director, as well as how the directors' skills and background enable them to function well together as a board of directors;
- determining desired board member skills and attributes and conducting searches for prospective directors whose skills and attributes reflect those desired;
- evaluating and proposing nominees for election to the board of directors with a view to establishing a well-rounded, diverse, knowledgeable, and experienced board of directors;
- administering the annual board of directors performance evaluation process, including conducting surveys of director observations, suggestions and preferences;
- evaluating and making recommendations to the board of directors concerning the appointment of directors to our committees, the selection of our committee chairs, and proposal of the slate of directors for election to the board of directors;
- overseeing the process of succession planning for the Chief Executive Officer and, as warranted, other senior officers;
- developing, adopting and overseeing the implementation of our code of business conduct and ethics for all of our directors, executive officers and employees;
- reviewing and maintaining oversight of matters relating to the independence of board of directors and committee members, keeping in mind the independence standards of the Sarbanes-Oxley Act of 2002 and the rules of NASDAQ;
- overseeing and assessing the effectiveness of the relationship between the board of directors and our management; and

- overseeing our environmental, social and governance (“ESG”) strategy, initiatives and policies, which will include receiving periodic reports from management regarding our ESG efforts and periodically providing reports to the board of directors on ESG matters.

Board Diversity

Our nominating and corporate governance committee will be responsible for reviewing with the board of directors, on an annual basis, the appropriate characteristics, skills and experience required for the board of directors as a whole and its individual members. Although our board of directors does not have a formal written diversity policy with respect to the evaluation of director candidates, in its evaluation of director candidates, our nominating and corporate governance committee will consider factors including, without limitation, issues of character, integrity, judgment, potential conflicts of interest, other commitments and diversity, and with respect to diversity, such factors as gender, race, ethnicity and experience, area of expertise, as well as other individual qualities and attributes that contribute to the total diversity of viewpoints and experience represented on the board of directors.

Code of Conduct and Ethics

Our board of directors has adopted a code of conduct and ethics and whistle blower policy that applies to all of our employees, officers and directors. The full text of our code of conduct and ethics and whistle blower policy will be posted on the investor relations page on our website. We intend to disclose any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website or in filings under the Exchange Act. Our code of conduct and ethics and whistle blower policy also addresses conflicts of interest that may arise between our business and the future business activities of our directors, executive officers or employees.

Board’s Role in Risk Oversight

Effective risk oversight is an important priority of the board of directors. Because risks are considered in virtually every business decision, the board of directors discusses risk throughout the year generally or in connection with specific proposed actions. The board of directors’ approach to risk oversight includes understanding the critical risks in our business and strategy, evaluating our risk management processes, allocating responsibilities for risk oversight among the full board of directors, and fostering an appropriate culture of integrity and compliance with legal responsibilities.

EXECUTIVE AND DIRECTOR COMPENSATION

Summary Compensation Table

The following table contains information concerning the compensation paid during each of the two years ended December 31, 2019 and 2018 to persons covered by Item 401(m)(2) of Regulation S-K (the “Named Executive Officers”).

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Nonequity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
William Toler, Chief Executive Officer and Chairman of the Board ⁽¹⁾	2019	475,243	—	(1)	—	—	—	—	475,243
Terence Fitch, President ⁽²⁾	2019	237,945	—	(2)	—	—	—	—	237,945
Peter Wardenburg, Former Chief Executive Officer and Director ⁽³⁾	2019	60,000	—	—	—	—	—	—	60,000
	2018	78,462	—	—	—	—	—	49,085 ⁽⁴⁾	127,547
Bob Clamp, Former Chief Operating Officer ⁽⁵⁾	2019	57,981	—	—	—	—	—	157,018 ⁽⁵⁾	214,999
	2018	190,385	—	—	—	—	—	24,751	215,136
Jeff Peterson, Former Chief Financial Officer ⁽⁶⁾	2019	250,000	—	—	—	—	—	2,404	252,404
	2018	237,500	95,000	—	—	—	—	—	332,500

(1) Mr. Toler joined the Company as Chief Executive Officer and Chairman of the Board in January 2019. Mr. Toler was granted 1,034,431 and 413,772 restricted stock units (“RSUs”) in January 2019 and December 2019, respectively.

(2) Mr. Fitch joined the Company as President in March 2019. Mr. Fitch was granted 372,395 RSUs in April 2019.

(3) Mr. Wardenburg voluntarily reduced his salary in December 2017. On December 31, 2018, Mr. Wardenburg transitioned from his role as our Chief Executive Officer to a revised role as Vice Chairman of our board of directors and on November 10, 2020 was replaced on our board of directors.

(4) Amount reflects gross-up of executive reimbursed expenses.

(5) Mr. Clamp joined the Company as Chief Operating Officer in April 2018. Mr. Clamp departed the Company in February 2019 and received severance of \$157,018.

(6) Mr. Peterson received bonuses in 2018 related to the May 2017 change of control transaction. Mr. Peterson received an option grant of 102,114 options on February 18, 2019. In March 2020, Mr. Peterson transitioned from his role as our Chief Financial Officer to a revised role in our finance group.

Narrative Disclosure to Summary Compensation Table

Executive Employment Agreements

The following description relates to employment agreements between us and our executive officers.

William Toler — Chief Executive Officer

In February 2019, we entered into an employment agreement with Mr. Toler, to serve as Chairman and Chief Executive Officer. Mr. Toler’s employment agreement provides for, among other things, base salary, annual performance and retention bonus, severance payments and the continuation of certain benefits following certain terminations of employment by us under specified circumstances or the termination of

employment for good reason (as defined in the employment agreement) by Mr. Toler. Under the provisions of the agreement, Mr. Toler's base salary was \$500,000 per year which was voluntarily reduced to \$150,000 per year through September 30, 2019, at which time Mr. Toler's base salary reset to \$500,000. The agreement also includes an annual performance and retention bonus of up to fifty percent of his base salary rate based upon our board of directors' assessment of his performance and our attainment of goals as mutually agreed between him and our board of directors. Under the agreement, if Mr. Toler's employment is terminated by us without cause (as defined in the employment agreement), or Mr. Toler resigns for good reason (as defined in the employment agreement), Mr. Toler will (i) have the right to receive an amount equal to the greater of \$250,000 or six months of his base salary and the reimbursement of health premiums until the earlier of six months following termination, the date on which healthcare coverage is obtained from another source or until he ceases to be entitled to continuing coverage under our health plan, (ii) receive a salary true-up bonus if his employment terminates before September 30, 2019, which will be equal to a pro-rated payment of \$350,000 based upon his length of service and (iii) have all unvested equity awards held by him which vest over the twelve month period following his termination immediately vest and forfeit all other unvested equity awards. If Mr. Toler resigns without good reason or if his employment is terminated by us for cause, all of his vested equity awards previously granted to him will be forfeited. Mr. Toler's employment agreement also provides that if his employment is terminated by him due to resignation without good reason, or by us for cause, or by either party as a result of his death or disability, he will receive (i) his base salary accrued through his last day of employment, (ii) any unused vacation (if applicable) accrued through his last day of employment, (ii) any earned but unpaid annual bonus for the calendar year ended immediately prior to his last day of employment and (iv) reimbursement of any reimbursed business expenses. Under these circumstances, he will not be entitled to any other form of compensation from us, including any severance benefits, other than any rights to which he is entitled our benefit programs, stock option plan or equity grant documents between him and us.

Mr. Toler's employment agreement also contains a mutual non-disparagement covenant, intellectual property covenants and confidentiality covenants prohibiting Mr. Toler from, among other things, disclosing confidential information relating to us. The employment agreement also contains non-solicitation restrictions, pursuant to which Mr. Toler will not be permitted to solicit our employees in certain circumstances for a period of 12 months following his termination of employment for any reason.

Terence Fitch — President

In March 2019, we entered into an employment agreement with Mr. Fitch, to serve as President. Mr. Fitch's employment agreement provides for, among other things, base salary, annual performance and retention bonus, severance payments and the continuation of certain benefits following certain terminations of employment by us under specified circumstances or the termination of employment for good reason (as defined in the employment agreement) by Mr. Fitch. Under the provisions of the agreement, Mr. Fitch's base salary was \$300,000 per year which was voluntarily reduced to \$150,000 per year until September 30, 2019, at which time Mr. Fitch's base salary reset to \$300,000. The agreement also includes an annual performance and retention bonus of up to fifty percent of his base salary rate based upon our board of directors' assessment of his performance and our attainment of goals as mutually agreed between him and our board of directors. Under the agreement, if Mr. Fitch's employment is terminated by us without cause (as defined in the employment agreement), or Mr. Fitch resigns for good reason (as defined in the employment agreement), Mr. Fitch will (i) have the right to receive an amount equal to the greater of \$150,000 or six months of his base salary and the reimbursement of health premiums until the earlier of six months following termination, the date on which healthcare coverage is obtained from another source or until he ceases to be entitled to continuing coverage under our health plan, (ii) receive a salary true-up bonus if his employment terminates before September 30, 2019, which will be equal to a pro-rated payment of \$150,000 based upon his length of service and (iii) have all unvested equity awards held by him which vest over the twelve month period following his termination immediately vest and forfeit all other unvested equity awards. If Mr. Fitch resigns without good reason or if his employment is terminated by us for cause, all of his vested equity awards previously granted to him will be forfeited. Mr. Fitch's employment agreement also provides that if his employment is terminated by him due to resignation without good reason, or by us for cause, or by either party as a result of his death or disability, he will receive (i) his base salary accrued through his last day of employment, (ii) any unused vacation (if applicable) accrued through his last day of employment, (ii) any earned but unpaid annual bonus for the calendar year ended immediately prior to his last day of employment and (iv) reimbursement of any reimbursed business expenses. Under these circumstances, he will not be entitled to any other form of

compensation from us, including any severance benefits, other than any rights to which he is entitled our benefit programs, stock option plan or equity grant documents between him and us.

Mr. Fitch's employment agreement also contains a mutual non-disparagement covenant, intellectual property covenants and confidentiality covenants prohibiting Mr. Fitch from, among other things, disclosing confidential information relating to us. The employment agreement also contains non-solicitation restrictions, pursuant to which Mr. Fitch will not be permitted to solicit our employees in certain circumstances for a period of 12 months following his termination of employment for any reason.

B. John Lindeman — Chief Financial Officer

In February 2020, we entered into an offer letter with Mr. Lindeman, to serve as Chief Financial Officer. Mr. Lindeman's offer letter provides for, among other things, base salary, annual performance bonus and severance payments. Under the provisions of the offer letter, Mr. Lindeman's base salary is \$475,000 per year. The offer letter also includes an annual performance bonus of up to fifty percent of Mr. Lindeman's base salary rate based upon our board of directors' assessment of his performance and our attainment of goals as determined by our board of directors and guarantees fifty percent of the pro-rated amount of the annual performance bonus for his first year of employment. The offer letter also includes an award of restricted stock units equal to 1.75% of the Company which vests over four years as follows: 25% vest after a 12-month service period following the award, and the balance vest in equal monthly installments over the next 36 months of service. Under the offer letter, Mr. Lindeman's employment is at will. If Mr. Lindeman's employment is terminated, Mr. Lindeman will (i) be paid cash severance of an amount equal to the greater of (x) \$237,500 or (y) six months of his base salary in effect as of the date of separation and (ii) have all unvested equity awards held by him which vest over the twelve month period following his termination immediately vest and forfeit all other unvested equity awards.

Peter Wardenburg — Former Chief Executive Officer

In April 2017, we entered into an employment agreement with Mr. Wardenburg, to serve as President and Chief Executive Officer. Mr. Wardenburg's employment agreement expired in April 2020. Mr. Wardenburg has been an employee of Hydrofarm since 1980. He was appointed Chief Executive Officer in 2010. Mr. Wardenburg's employment agreement provided for, among other things, base salary of \$440,000 per year plus annual performance and retention bonus. However, beginning in March 2018, Mr. Wardenburg, had voluntarily served in his capacity as our Chief Executive Officer at a reduced salary of \$55,385. On December 31, 2018, Mr. Wardenburg transitioned from his role as our Chief Executive Officer to a revised role as Vice Chairman of our board of directors and on November 10, 2020 was replaced on our board of directors.

Mr. Wardenburg's employment agreement also contains a mutual non-disparagement covenant, intellectual property covenants and confidentiality covenants prohibiting Mr. Wardenburg from, among other things, disclosing confidential information relating to us. The employment agreement also contains non-solicitation restrictions, pursuant to which Mr. Wardenburg will not be permitted to solicit our employees in certain circumstances for a period of 12 months following his termination of employment for any reason.

Bob Clamp — Former Chief Operating Officer

In April 2018, we entered into an employment agreement with Mr. Clamp to serve as our Chief Operating Officer. Mr. Clamp's employment commenced on April 1, 2018 and the agreement was terminated in February 2019. Mr. Clamp's employment agreement provided for, among other things, base salary, annual performance and retention bonus, severance payments and the continuation of certain benefits following certain terminations of employment by us. Under these provisions, Mr. Clamp's base salary was \$300,000 per year with an annual performance and retention bonus of up to twenty-five percent of his base salary rate based upon our board of directors' assessment of his performance and the Company's attainment of goals as mutually agreed between him and our board of directors. Mr. Clamp received a severance payment of \$150,000 following the termination of his employment.

Mr. Clamp's employment agreement also contains a mutual non-disparagement covenant, intellectual property covenants and confidentiality covenants prohibiting Mr. Clamp from, among other things, disclosing

confidential information relating to us. The employment agreement also contains non-solicitation restrictions, pursuant to which Mr. Clamp will not be permitted to solicit our employees in certain circumstances for a period of 12 months following his termination of employment for any reason.

Jeff Peterson — Former Chief Financial Officer

In April 2017, we entered into an employment agreement with Mr. Peterson to serve as our Chief Financial Officer. Mr. Peterson's employment commenced in April 2011 and in March 2020, Mr. Peterson transitioned from his role as our Chief Financial Officer to a revised role in our finance group and his employment agreement terminated in April 2020. Mr. Peterson's employment agreement provided for, among other things, a base salary of \$250,000 per year.

Mr. Peterson's employment agreement also contains a mutual non-disparagement covenant, intellectual property covenants and confidentiality covenants prohibiting Mr. Peterson from, among other things, disclosing confidential information relating to us. The employment agreement also contains non-solicitation restrictions, pursuant to which Mr. Peterson will not be permitted to solicit our employees in certain circumstances for a period of 12 months following his termination of employment for any reason.

Outstanding equity awards at 2019 fiscal year end

Outstanding Equity Awards at Fiscal Year-End

Name and Principal Position	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Exercise Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) ⁽¹⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
William Toler, Chief Executive Officer and Chairman of the Board ⁽²⁾	—	—	—	—	—	1,448,203	—	—	—
Terence Fitch, President ⁽³⁾	—	—	—	—	—	372,395	—	—	—
Peter Wardenburg, Former Chief Executive Officer and Director ⁽⁴⁾	—	—	—	—	—	—	—	—	—
Bob Clamp, Former Chief Operating Officer ⁽⁵⁾	—	—	—	—	—	—	—	—	—
Jeff Peterson, Former Chief Financial Officer ⁽⁶⁾	44,325	57,789	—	\$8.43	—	—	—	—	—

(1) The market price for our common stock is based upon the assumed initial public offering price of \$15.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus.

(2) Mr. Toler joined the Company as Chief Executive Officer and Chairman of the Board in January 2019. Mr. Toler was granted 1,034,431 and 413,772 restricted stock units ("RSUs") in January 2019 and December 2019, respectively.

(3) Mr. Fitch joined the Company as President in March 2019. Mr. Fitch was granted 372,395 RSUs in April 2019.

(4) On December 31, 2018, Mr. Wardenburg transitioned from his role as our Chief Executive Officer to a revised role as Vice Chairman of our board of directors and on November 10, 2020 was replaced on our board of directors.

- (5) Mr. Clamp joined the Company as Chief Operating Officer in April 2018. Mr. Clamp departed the Company in February 2019.
- (6) Mr. Peterson received an option grant of 102,114 options on February 18, 2019. As of December 31, 2019 44,325 options are vested and 57,789 are unvested. In March 2020, Mr. Peterson transitioned from his role as our Chief Financial Officer to a revised role in our finance group.

Equity Awards during fiscal 2020

During the year ending December 31, 2020, through November 30, 2020, we made awards of 817,426 RSUs and options to purchase up to 150,119 shares of common stock. Of such awards, awards in the aggregate of 74,152 shares of common stock without any continued vesting or performance conditions, were made to certain executive officers and former directors (some of who were also our principal stockholders) and their affiliates: 14,831 RSUs each to Mr. Adam Stern, Mr. Chris Payne, Mr. John Tomes and a former employee of Serruya Private Equity and 3,707 RSUs each to Mr. Jack Serruya, Mr. Aaron Serruya, Mr. Michael Serruya and Mr. Simon Serruya. In addition, an award of 296,630 RSUs was made to Mr. Michael Rapoport which vests over time and only vests if certain trading price objectives are met following the offering. An aggregate of 192,802 of such awards were made subsequent to the quarter ended September 30, 2020 and, accordingly, the compensation expense related to such awards has not been reflected in our financial statements. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Selling, general and administrative expenses.*”

Aggregated Option Exercises and Fiscal Year-End Option Value

No options were exercised during the year ended December 31, 2019.

Directors’ Compensation

In October 2020, our board of directors adopted a new compensation policy for our directors. This policy was developed with input from our independent compensation consultant, Korn Ferry, regarding practices and compensation levels at comparable companies. It is designed to attract, retain and reward non-employee directors.

Under this director compensation policy, each non-employee director will receive an annual director fee of \$50,000. The chair of our audit committee will be paid an additional fee of \$25,000, the chair of our compensation committee will be paid an additional fee of \$15,000, and the chair of our nominating and corporate governance committee will be paid an additional fee of \$10,000. Each director will also receive annual equity awards on the date of each annual meeting of our stockholders with a grant date value of \$100,000 which will vest after one year of service, provided that the initial grant value will be approximately \$50,000 which will vest after six months of service.

Board Observers

The Placement Agent Agreement provides the Placement Agents with the right to nominate one person to act as an observer on our board of directors and to attend all meetings of the board of directors in a nonvoting observer capacity and, in this respect, we are obligated to give such persons a copy of all notices, minutes, consents, and other materials that the board of directors provides to its directors at the same time and in the same manner provided to such directors. Further, the Term Loan Agreement provides Brightwood with the right to appoint one designee to attend all meetings of the board of directors, its committees and any other meeting of a similar governing body of each of our subsidiaries that are borrowers under the Term Loan Agreement in a nonvoting observer capacity and, in this respect, we are obligated to give such persons a copy of all notices, minutes, consents, and other materials that any such entity provides to its directors at the same time and in the same manner as provided to all directors, subject to certain limitations.

Director and Officer Indemnification Agreements and Insurance

We have entered into indemnification agreements with each of our directors and executive officers (the “Indemnification Agreements”). Such Indemnification Agreements provide for indemnification against expenses, judgments, fines and penalties actually and reasonably incurred by an indemnitee in connection with

threatened, pending or completed actions, suits or other proceedings, subject to certain limitations. The Indemnification Agreements also provide for the advancement of expenses in connection with a proceeding prior to a final, non-appealable judgment or other adjudication, provided that the indemnitee provides an undertaking to repay to us any amounts advanced if the indemnitee is ultimately found not to be entitled to indemnification by us. The Indemnification Agreements set forth procedures for making and responding to requests for indemnification or advancement of expenses, as well as dispute resolution procedures that will apply to any dispute between us and an indemnitee arising under the Indemnification Agreements.

We maintain directors' and officers' liability insurance coverage for our directors and officers in their capacities as our directors and officers.

Equity Incentive Plans

Our 2018, 2019 and 2020 Equity Incentive Plans were established to attract, retain and motivate our employees, officers, directors, consultants, agents, advisors and independent contractors by providing them with the opportunity to acquire a proprietary interest in us and to their interests and efforts to the long-term interests of our stockholders. On August 22, 2018, the board of directors adopted our 2018 Equity Incentive Plan, on December 19, 2019, the board of directors adopted the 2019 Equity Incentive Plan and on November 10, 2020, the board of directors adopted the 2020 Equity Incentive Plan (collectively, the "Plans"). The Plans provide for, among other things, grants of restricted stock units, stock options, restricted stock and other stock-based awards to employees, directors, consultants and other individuals who provide services to us and our affiliates. As of September 30, 2020, we have 2,586,080 and 1,034,431 shares of our common stock reserved for issuance under the 2018 Equity Incentive Plan and under the 2019 Equity Incentive Plan, respectively. Since our 2020 Equity Incentive Plan has been approved by our stockholders, we do not intend to make any additional grants under the 2018 and 2019 Equity Incentive Plans.

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

Authorized Shares. Subject to the provisions of our 2020 Equity Incentive Plan, the number of shares available for issuance under the 2020 Equity Incentive Plan will be increased on January 1 of each year, beginning on January 1, 2021, and ending on January 2, 2030, in an amount equal to the lesser of (i) 4% of the outstanding shares of our common stock on such date or (ii) such number of shares determined by the plan administrator.

Plan Term. The 2018 Equity Incentive Plan, the 2019 Equity Incentive Plan, and the 2020 Equity Incentive Plan will terminate on August 22, 2028, December 19, 2029, and November 10, 2030, respectively.

Types of Awards. The Plans permit the award of options, stock appreciation rights, stock awards, restricted stock, stock units, performance shares, performance units, cash-based awards or other incentives payable in cash or in shares of common stock, as may be designated by the plan administrator.

Evidence of Awards. Awards under the Plans shall be evidenced by a written, including an electronic, instrument that shall contain such terms, conditions, limitations and restrictions as the plan administrator shall deem advisable and that are not inconsistent with the plan.

Dividends and Distributions. Participants may, if the plan administrator so determines, be credited with dividends or dividend equivalents paid with respect to shares of common stock underlying an award in a manner determined by the plan administrator in its sole discretion in accordance with the Plans.

Eligibility. Under the 2018 Equity Incentive Plan, an award may be granted to any of our employees, officers or directors or any entity that, directly or indirectly, is in control of, is controlled by, or is under common control with us (a "related company"), whom the plan administrator from time to time selects. Certain awards may also be granted to any consultant, agent, advisor or independent contractor for bona fide services rendered to us or a related company. Under each of the 2019 and 2020 Equity Incentive Plan, an

award may be granted to any of our employees, directors or consultants or of any corporation or other entity which, for the purposes of Section 424 of the Code, is our parent or subsidiary, direct or indirect (an "affiliate").

Option Exercise Price. Options shall be granted with an exercise price per share not less than 100% of the fair market value of the common stock on the grant date and, with an exercise price per share not less than 110% of the fair market value of the common stock on the grant date, for options granted to a 10% stockholder).

Term of Options. Subject to earlier termination in accordance with the terms of the Plans and the instrument evidencing the option, the maximum term of the option shall be ten years from the grant date.

Exercise of Options. The plan administrator shall establish and set forth in each instrument that evidences the option the time at which, or the installments in which, the option shall vest and become exercisable. To the extent an option becomes exercisable, the option may be exercised in whole or from time to time in part by delivery to or as directed or approved by us of a properly executed stock option exercise agreement or notice, in a form and in accordance with procedures established by the plan administrator. An option may be exercised only for whole shares and may not be exercised for less than a reasonable number of shares at any one time, as determined by the plan administrator.

Stock Appreciation Rights. The plan administrator may grant stock appreciation rights to participants at any time on such terms and conditions as the plan administrator shall determine in its sole discretion. A stock appreciation right may be granted in tandem with an option or alone. The grant price of a tandem stock appreciation right shall be equal to the exercise price of the related option. The grant price of a freestanding stock appreciation right shall be established in accordance with the procedures for options set forth in the plan. A stock appreciation right may be exercised upon such terms and conditions and for the term as the plan administrator determined in its sole discretion.

Term of Stock Appreciation Rights. The maximum term for a freestanding stock appreciation right shall be ten years. The maximum term for a tandem stock appreciation right shall be the term of the related option.

Payment of Stock Appreciation Right Amount. Upon the exercise of the stock appreciation right, a participant shall be entitled to receive payment in an amount determined by multiplying (i) the difference between the fair market value of the common stock on the date of exercise over the grant price of the stock appreciation right by (ii) the number of shares with respect to the which the stock appreciation right is exercised.

Stock Awards, Restricted Stock and Stock Units. The plan administrator may grant stock awards, restricted stock and stock units on such terms and conditions and subject to such repurchase or forfeiture restrictions, if any, which may be based on continuous service with us or a related company or the achievement of any performance goals, as the plan administrator shall determine in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the award.

Vesting of Restricted Stock and Stock Units. Upon satisfaction of any terms, conditions and restrictions prescribed with respect to restricted stock or stock units, or upon a participant's release from any terms, conditions and restrictions on restricted stock or stock units, as determined by the plan administrator, (i) the shares covered by each award of restricted stock shall become freely transferable by the participant subject to the terms and conditions of the plan, the instrument evidencing the award, and applicable securities laws, and (ii) stock units shall be paid in shares of common stock or, if set forth in the instrument evidencing the awards, in cash or a combination of cash and shares of common stock.

Performance Shares. The plan administrator may grant awards of performance shares, designate to whom the performance shares are to be awarded and determine the number of performance shares and the terms and conditions of each such award. Performance shares shall consist of a unit valued by reference to a designated number of shares of common stock, the value of which may be paid to the participant by delivery of shares of common stock, or, if set forth in the instrument evidencing the awards, of such property as the

plan administrator shall determine, including, without limitation, cash, shares of common stock, other property, or any combination thereof, upon the attainment of performance goals, as established by the plan administrator.

Performance Units. The plan administrator may grant awards of performance units, designate the participants to whom performance units are to be awarded and determine the number of performance units and the terms and conditions of each such award. performance units shall consist of a unit valued by reference to a designated amount of property other than shares of common stock, which value may be paid to the participant by delivery of such property as the plan administrator shall determine, including, without limitation, cash, shares of common stock, other property, or any combination thereof, upon the attainment of performance goals, as established by the plan administrator, and other terms and conditions specified by the plan administrator.

Other Stock or Cash-Based Awards. Subject to the terms of the plan and such other terms and conditions as the plan administrator deems appropriate, the plan administrator may grant other incentives payable in cash or shares of common stock under the applicable plan.

Restrictions on Transfer. No award or interest in an award may be sold, assigned, pledged (as collateral for a loan or as security for the performance of an obligation or for any other purpose) or transferred by a participant or made subject to attachment or similar proceedings otherwise than by will or by the applicable laws of descent and distribution, except to the extent the participant designates one or more beneficiaries on our approved form who may exercise the award or receive payment under the award after the participant's death. During a participant's lifetime, an award may be exercised only by the participant. Notwithstanding the foregoing, and to the extent permitted by Section 422 of the U.S. Internal Revenue Code of 1986, as amended, with respect to incentive stock options, the plan administrator, in its sole discretion, may permit a participant to assign or transfer an award, subject to such terms and conditions as the plan administrator shall specify.

Adjustment of Shares. In the event that, at any time or from time to time, a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to stockholders other than a normal cash dividend, or other change in our corporate or capital structure results in (a) outstanding shares of common stock, or any securities exchanged therefor or received in their place, being exchanged for a different number or kind of our securities or any other company or (b) new, different or additional securities of ours or any other company being received by the holders of shares of common stock, then the plan administrator shall make proportional adjustments in (i) the maximum number and kind of securities available for issuance under the plan; (ii) the maximum number and kind of securities issuable as incentive stock options; and (iii) the number and kind of securities that are subject to any outstanding award and the per share price of such securities, without any change in the aggregate price to be paid therefor.

Amendment, Suspension or Termination. The board of directors or an authorized committee thereof may amend, suspend or terminate the plan or any portion of the plan at any time and in such respects as it shall deem advisable; provided, however, that, to the extent required by applicable law, regulation or stock exchange rule, stockholder approval shall be required for any amendment to the plan; and provided, further, that the board of directors shall be required to approve any amendment that requires stockholder approval. Subject to the terms of the plan, the board of directors or an authorized committee thereof may amend the terms of any outstanding award, prospectively or retroactively.

Change in Control. Under the 2018 Equity Incentive Plan, upon a merger or other reorganization event, the board of directors may, in its sole discretion, take any one or more of the following actions pursuant to the plan, as to some or all outstanding awards:

- provide that all outstanding options shall be assumed or substituted by the successor corporation, in the event that such outstanding options are not assumed or substituted by the successor corporation, such options shall become fully vested and exercisable or payable and all applicable restrictions or forfeiture provisions shall lapse;
- all performance based awards earned and outstanding shall be payable in full in accordance with the payout schedule in the award instrument; and
- in lieu of the foregoing, all performance based awards may also be terminated by the board of directors, in its sole discretion, and the holder shall receive a cash payment equal to the consideration payable

upon consummation of such transaction to a holder of the number of shares of common stock comprising such award.

Under each of the 2019 and 2020 Equity Incentive Plan, upon a merger or other reorganization event, the board of directors may, in its sole discretion, take any one or more of the following actions pursuant to the plans, as to some or all outstanding awards:

- provide that all outstanding options shall be assumed or substituted by the successor corporation;
- upon written notice to a participant provide that the participant's unexercised options will terminate immediately prior to the consummation of such transaction unless exercised by the participant;
- in the event of a merger pursuant to which holders of our common stock will receive a cash payment for each share surrendered in the merger, make or provide for a cash payment to the participants equal to the difference between the merger price times the number of shares of our common stock subject to such outstanding options, and the aggregate exercise price of all such outstanding options, in exchange for the termination of such options;
- provide that outstanding awards shall be assumed or substituted by the successor corporation, become realizable or deliverable, or restrictions applicable to an award will lapse, in whole or in part, prior to or upon the merger or reorganization event; and
- with respect to stock grants and in lieu of any of the foregoing, the board of directors or an authorized committee may provide that, upon consummation of the transaction, each outstanding stock grant shall be terminated in exchange for payment of an amount equal to the consideration payable upon consummation of such transaction to a holder of the number of shares of common stock comprising such award (to the extent such stock grant is no longer subject to any forfeiture or repurchase rights then in effect or, at the discretion of our board of directors or an authorized committee, all forfeiture and repurchase rights being waived upon such transaction).

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of transactions since January 1, 2017, to which we were a party in which the amount involved exceeded or will exceed the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years, and in which any of our executive officers, directors or holders of more than 5% of any class of our voting securities, or an affiliate or immediate family member thereof, had or will have a direct or indirect material interest. We believe the terms obtained or the consideration that we paid or received, as applicable, in connection with the transactions described below are comparable to terms available or amounts that would be paid or received, as applicable, in arms'-length transactions with parties unrelated to us.

McDowell Lease Agreement

The Petaluma HQ is leased, in part, from one of our former directors and one of our principal stockholders, Peter Wardenburg through his ownership interests in McDowell Group, LLC ("McDowell Group"). Mr. Wardenburg owns 50% of McDowell Group. We lease the Petaluma HQ on a month-to-month basis. In 2019, 2018 and the period from inception (March 21, 2017) to December 31, 2017 (the "2017 Stub Period"), aggregate rent expense totaled approximately \$1.3 million, \$1.2 million and \$1.4 million, respectively. For the nine months ended September 30, 2020, aggregate rent expense totaled approximately \$1.0 million.

Management Agreements

On May 12, 2017, we entered into management agreements (the "Management Agreements") with Hawthorn Equity Partners Inc. ("Hawthorn Equity"), an affiliate of our 5% shareholder, Hawthorn LP and JAMS Holdings LLC ("JAMS") an affiliate of our greater than 5% shareholder, Serruya Private Equity. Pursuant to the Management Agreements, Hawthorn Equity and JAMS provided us with various management services, including transaction advisory, financial and management consulting services. In consideration for these services, the management fees payable to Hawthorn Equity and JAMS annually were approximately \$139,000 and \$711,000, respectively, in addition to certain costs and expenses incurred while rendering the services stipulated in the Management Agreements. Pursuant to the Management Agreements, we incurred aggregate management fees and reimbursable expenses of nil, \$271,000 and \$541,000 for the years ended December 31, 2019 and 2018 and the 2017 Stub Period. Certain of our current directors, Chris Payne and John Tomes, are affiliates of Hawthorn LP, and certain of our former directors, Michael Serruya, Arron Serruya and Simon Serruya are affiliates of Serruya Private Equity. Total management fees paid to Hawthorn Equity for fiscal years 2019 and 2018 and the 2017 Stub Period were nil, \$35,000 and \$88,000, respectively. Total management fees paid to JAMS for fiscal years 2019 and 2018 and the 2017 Stub Period were nil, \$178,000 and \$453,000, respectively.

The Management Agreements were terminated in October 2018.

Cader Sublease

The Cader Lane Warehouse is leased, in part, from Mr. Peter Wardenburg, one of our former directors and one of our principal stockholders, through his ownership interests in Cader Lane, LLC. Mr. Wardenburg is 50% owner of Cader Lane, LLC. We lease 31,000 square feet. The lease's monthly payments ranged from approximately \$31,000 to \$73,000 per month, and terminated on June 30, 2019. Our total rent payments for fiscal years 2019 and 2018 and the 2017 Stub Period were \$0.1 million, \$0.6 million and \$0.3 million, respectively.

Investor Rights Agreement

We previously entered into the Investor Rights Agreement with the Sponsors, which was amended in November 2020 to eliminate most rights, except for certain piggyback registration rights. See "*Registration Rights*." The Amended Investor Rights Agreement will become effective upon the consummation of this offering.

The Merger and Concurrent Offering

Concurrently with the closing of the Private Placement, one of our wholly-owned subsidiaries merged with and into HIC, with HIC becoming our wholly-owned subsidiary and continuing its and its subsidiaries' existing business operations, including those of Hydrofarm, LLC, a subsidiary of HIC (the "Merger").

In connection with the Private Placement and Merger, (i) HIC raised \$15.2 million from its existing stockholders through the Concurrent Offering and (ii) Hydrofarm Holdings LLC, a subsidiary of HIC, and its affiliates entered into the Loan Transactions. The consideration in the Concurrent Offering consisted of \$11.1 million in cash from existing stockholders of HIC and the conversion of \$4.1 million of an aggregate principal amount plus interest outstanding under an outstanding note. As part of the Merger, the securities of HIC issued in the Concurrent Offering were exchanged into shares of our common stock and warrants to purchase our common stock having the same terms and conditions as the securities included in the Units issued in the Private Placement. In addition, the investors in the Concurrent Offering received the same registration rights as the investors in the Private Placement with respect to our securities that they received in connection with the Merger.

The principal stockholders listed in the “*Principal Stockholders*” section of this prospectus acquired their shares of common stock in connection with HIC’s May 2017 acquisition of Hydrofarm, LLC and the Concurrent Offering and Merger. Mr. Wardenburg, one of our former directors and one of our principal stockholders previously held equity interests in Hydrofarm, LLC, and rolled over all or a portion of such equity interests into shares of common stock of HIC in connection with HIC’s May 2017 acquisition of Hydrofarm, LLC. Mr. Wardenburg held the equity interests in Hydrofarm, LLC, prior to January 1, 2016.

Registration Rights

In addition to the Registration Rights Agreement, the Amended Investor Rights Agreement provides for piggyback registration rights to certain of the Sponsors for the shares of our common stock held by such Sponsors, but not including the securities acquired by such Sponsors in connection with the Concurrent Offering and subsequently converted to our securities pursuant to the Merger. The resale of these additional shares of our common stock will be eligible to be registered through piggyback registration rights, which may be exercised in connection with any future registration statement that is filed with the SEC other than the registration statement of which this prospectus forms a part.

Restricted Stock Unit Award

Certain of our officers, former directors and principal stockholders have received stock awards in 2020. See “*Executive and Director Compensation — Equity Awards during fiscal 2020.*”

PBCO Notes

PBCO Note 1

On May 22, 2018, we entered into a subordinated promissory note in favor of PBCO, Inc. (“PBCO”), an entity wholly-owned by Peter Wardenburg, one of our previous directors and one of our principal stockholders, in an aggregate principal amount of \$4.0 million (“PBCO Note 1”). Interest on PBCO Note 1 accrued at a rate of 8.24% per annum and PBCO Note 1 was scheduled to mature on November 12, 2022. PBCO Note 1 was subject to the terms of (i) a subordination agreement between PBCO and Bank of America, N.A., dated as of May 22, 2018, and (ii) a subordination agreement between PBCO and Brightwood Loan Services LLC, dated as of May 22, 2018. In connection with the Concurrent Offering, PBCO Note 1 was converted into 484,681 (pre-split: 1,633,958) units in the Concurrent Offering and is of no further force or effect.

PBCO Note 2

On June 29, 2018, Hydrofarm Holdings entered into a subordinated promissory note in favor of PBCO in an aggregate principal amount of \$2.0 million (“PBCO Note 2”). Interest on PBCO Note 2 accrued at a rate of 8.24% per annum and PBCO Note 2 was scheduled to mature on November 12, 2022. PBCO Note 2 was subject to the terms of (i) a subordination agreement between PBCO and Bank of America, N.A., dated as of June 29, 2018, and (ii) a subordination agreement between PBCO and Brightwood Loan Services LLC, dated as of June 29, 2018. PBCO Note 2 was repaid with proceeds from the Private Placement and is of no further force or effect.

PRINCIPAL STOCKHOLDERS

The table below provides information regarding the beneficial ownership of the common stock as of November 30, 2020, and as adjusted to reflect the sale of our common stock in this offering assuming no exercise of the underwriters' option to purchase additional shares of our common stock, of (1) each person or entity who owns beneficially 5% or more of the shares of our outstanding common stock, (2) each of our directors, (3) each of our Named Executive Officers and (4) our directors and officers as a group. Beneficial ownership is determined based on the rules and regulations of the SEC. A person has beneficial ownership of shares if such individual has the power to vote and/or dispose of shares. This power may be sole or shared and direct or indirect. Except as otherwise indicated, and subject to applicable community property laws, we believe the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Beneficial ownership prior to this offering is based on 20,762,591 shares of our common stock and 3,886,191 shares of our common stock underlying warrants outstanding as of November 30, 2020. Unless otherwise indicated below, the address for each beneficial owner listed is Hydrofarm Holdings Group, Inc., 2249 South McDowell Blvd., Petaluma, California, 94954.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned Before This Offering	Percentage of Shares Beneficially Owned After This Offering
5% Stockholders			
Jack Serruya ⁽¹⁾	1,557,919	7.5%	5.3%
Aaron Serruya ⁽²⁾	1,557,919	7.5%	5.3%
Michael Serruya ⁽³⁾	1,557,917	7.5%	5.3%
Simon Serruya ⁽⁴⁾	1,557,919	7.5%	5.3%
Chris Payne ⁽⁵⁾	2,199,331	10.5%	7.4%
Matthew Skidell ⁽⁶⁾	3,075,475	14.8%	—
Michael Rapoport ⁽⁷⁾	1,241,623	6.0%	4.2%
John Tomes ⁽⁸⁾	2,139,784	10.3%	7.2%
Directors and Named Executive Officers:			
William Toler ⁽⁹⁾	—	—	—
Terence Fitch ⁽¹⁰⁾	12,740	*	*
B. John Lindeman	—	—	—
Bob Clamp	—	—	—
Jeff Peterson	—	—	—
Peter Wardenburg ⁽¹¹⁾	2,320,118	11.0%	7.8%
Susan Peters	—	—	—
Patrick Chung	—	—	—
Renah Persofsky	—	—	—
Richard D. Moss	—	—	—
Melisa Denis	—	—	—
All directors and current executive officers as a group (eight persons) ⁽¹²⁾	12,740	*	*

* Less than one percent

- (1) Represents 1,480,666 shares of our common stock and 77,253 shares of our common stock underlying warrants to purchase shares of our common stock held of record by Jackpot Inc. Mr. Jack Serruya is the natural person with voting and investment power over the shares held by Jackpot Inc. The stockholder's address is 210 Shields Court, Markham, Ontario, Canada L3R 8V2.
- (2) Represents 1,480,666 shares of our common stock and 77,253 shares of common stock underlying warrants to purchase shares of our common stock held of record by Fruzer Inc. Mr. Aaron Serruya is the natural person with voting and investment power over the shares held by Fruzer Inc. The stockholder's address is 210 Shields Court, Markham, Ontario, Canada L3R 8V2.

- (3) Represents 1,480,664 shares of our common stock and 77,253 shares of common stock underlying warrants to purchase shares of our common stock held of record by S5 Enterprises Inc. Mr. Michael Serruya is the natural person with voting and investment power over the shares held by S5 Enterprises Inc. The stockholder's address is 210 Shields Court, Markham, Ontario, Canada L3R 8V2.
- (4) Represents 1,480,666 shares of our common stock and 77,253 shares of common stock underlying warrants to purchase shares of our common stock held of record by Indulge Inc. Mr. Simon Serruya is the natural person with voting and investment power over the shares held by Indulge Inc. The stockholder's address is 210 Shields Court, Markham, Ontario, Canada L3R 8V2.
- (5) Represents (i) 1,378,775 shares of our common stock and 74,293 shares of common stock underlying warrants to purchase shares of our common stock held of record in Hawthorn Limited Partnership, (ii) 628,448 shares of our common stock and 30,697 shares of common stock underlying warrants to purchase shares of our common stock held of record by Hydrofarm Co-Investment Fund, LP and (iii) 83,525 shares of our common stock and 3,593 shares of common stock underlying warrants to purchase shares of our common stock held of record in Payne Capital Corp. Hydrofarm Co-Investment Fund, LP is an affiliate of Hawthorn, LP. Mr. Chris Payne is an affiliate of Hawthorn LP, Hydrofarm Co-Investment Fund LP and Payne Capital Corp. Messrs. Payne and Tomes may be deemed to beneficially own the shares and each share voting and investment power over the shares held by Hawthorn Limited Partnership and Hydrofarm Co-Investment Fund, LP. Mr. Chris Payne is the natural person with voting and investment power over the shares held by Payne Capital Corp. The stockholder's address is 240 Richmond Street West, Toronto, ON, Canada M5V 1V6.
- (6) Represents (i) 1,162,811 shares of our common stock held of record in HF I Investments LLC, (ii) 478,763 shares of our common stock held of record in HF II Investments LLC and (iii) 1,433,901 shares of our common stock held of record in HF III Investments LLC. Mr. Skidell is the managing member of BCM X3 Holdings LLC, which manages HF I Investments LLC, HF II Investments LLC and HF III Investments LLC (collectively, the "HF Investments Entities"). Mr. Skidell is the natural person with voting and investment power over the shares held by the HF Investments Entities. The stockholder's address is 570 Brook Street, Garden City, New York 11530. We have been advised that the HF Investment Entities currently intend to distribute the shares owned by them to their members, including Mr. Rapoport (as discussed in footnote 7 below) prior to the completion of the offering.
- (7) Represents (i) 1,125,963 shares of our common stock held of record by Mr. Rapoport, (ii) 29,663 shares of our common stock held of record by Mr. Rapoport's spouse and (iii) 85,997 shares of our common stock held of record by MR ZA GRAT, a trust of which Mr. Rapoport is the trustee. Mr. Rapoport is the natural person with voting and investment power over the shares held by MR ZA GRAT. The stockholder's address is 265 Sandpiper Dr., Palm Beach, Florida 33480. Assumes the completion of the distribution of shares of our common stock to members of the HF Investments Entities of which Mr. Rapoport was previously the managing member as 570,007 of the 1,125,963 shares referred to in (i) above would be received in that distribution. Excludes 296,630 RSUs which only vest subject to certain timing and performance conditions.
- (8) Represents (i) 1,378,775 shares of our common stock and 74,293 shares of common stock underlying warrants to purchase shares of our common stock held of record in Hawthorn Limited Partnership, (ii) 628,448 shares of our common stock and 30,697 shares of common stock underlying warrants to purchase shares of our common stock held of record by Hydrofarm Co-Investment Fund, LP and (iii) 27,571 shares of our common stock held of record by Mr. Tomes. Hydrofarm Co-Investment Fund, LP is an affiliate of Hawthorn Limited Partnership. Mr. John Tomes is an affiliate of Hawthorn LP and Hydrofarm Co-Investment Fund LP. Messrs. Tomes and Payne may be deemed to beneficially own the shares and each share voting and investment power over the shares held by Hawthorn Limited Partnership and Hydrofarm Co-Investment Fund, LP. The stockholder's address is 240 Richmond Street West, Toronto, ON, Canada M5V 1V6.
- (9) Excludes 423,757 shares of common stock issuable upon conversion of the Series A Preferred Stock, assuming an initial public offering price of \$15.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus. Also excludes 624,910 shares of our common stock which vest upon the consummation of this offering. Mr. William Toler is the natural person with voting and investment power over the shares held by Mr. William Toler. The stockholder's address is 202 San Mateo Drive, Bonita Springs, Florida 34134.
- (10) Excludes 170,383 shares of our common stock which vest upon the consummation of this offering.

- (11) Represents 2,077,777 shares of our common stock and 242,341 shares of common stock underlying warrants to purchase shares of our common stock held of record by Wardenburg 2009 Family Trust. Mr. Peter Wardenburg is the natural person with voting and investment power over the shares held by Wardenburg 2009 Family Trust. The stockholder's address is 2249 S. McDowell Ext., Petaluma, CA 94954.
- (12) Excludes the initial annual equity awards to each of our directors of approximately 3,333 RSUs, based on an initial public offering price of \$15.00 per share, which is the midpoint of the price range set forth on the cover page of this prospectus. Such awards vest after six months of service.

DESCRIPTION OF OUR INDEBTEDNESS

The following summarizes the principal terms of the agreements that govern our existing indebtedness. See also “*Risk Factors — Risks Relating to Our Indebtedness.*”

Encina Revolving Credit Facility

Our wholly-owned and indirect subsidiaries, Hydrofarm, LLC (“Hydrofarm”), EHH Holdings, LLC (“EHH”), Sunblaster LLC (“SunBlaster”), SunBlaster Holdings, ULC (“SunBlaster ULC”), Eddi’s Wholesale Garden Supplies, Ltd. (“EWGS” and, together with SunBlaster ULC, the “Canadian Borrowers”), Hydrofarm Holdings, LLC (“Holdings”), and Hydrofarm Canada, LLC (“Hydrofarm Canada” and together with Holdings, the U.S. Borrowers (as defined therein) and the Canadian Borrowers, the “Subsidiary Obligors”) are parties to a Loan and Security Agreement with Encina Business Credit, LLC, as agent (“Encina”), and other lenders party thereto (as amended and restated to date, the “Encina Credit Facility”). The Encina Credit Facility provides for revolving borrowings under an asset-based loan commitment of up to \$45 million (inclusive of a limit of up to \$15 million of borrowings for the Canadian Borrowers and a swingline facility of up to \$2.0 million), subject to applicable borrowing base availability. Borrowings under the Encina Credit Facility are subject to an availability block of \$5.0 million until certain tests have been met, which tests will commence upon the delivery of the December 2019 financial statements. Borrowings under the Encina Credit Facility are subject to variable interest rates based on certain U.S. and Canadian-based interest rates plus an applicable margin, which is determined by the average daily amount available for borrowing under the Encina Credit Facility for an applicable period. The Subsidiary Obligors are obligated to repay the amounts used under the Encina Credit Facility in full by the earlier of (i) July 11, 2022, or (ii) 90 days prior to the scheduled maturity date of the Term Loan Agreement (as defined below). A portion of the proceeds borrowed under the Encina Credit Facility were used to pay in full the Loan and Security Agreement among Bank of America, N.A. and the Subsidiary Obligors (the “BofA Agreement”).

To secure the prompt payment and performance of obligations required under the Encina Credit Facility, the Subsidiary Obligors have granted to Encina a first-priority lien on all cash, accounts receivable and inventory of the Encina and a second-lien priority lien on all other assets and personal property of the Encina.

Furthermore, until full payment of all obligations required under the Encina Credit Facility, the Subsidiary Obligors shall not, among other things, take any of the following actions, except as permitted by the Encina Credit Facility:

- merge, divide or consolidate, form any new subsidiary, acquire any interest in any Person (as defined therein), or wind-up or cease operations, dissolve or liquidate;
- create, assume, incur issue, guarantee or otherwise become or remain obligated in respect of, or permit to be outstanding, any indebtedness (as such term is defined therein);
- make acquisitions;
- change its jurisdiction of formation;
- dispose of any assets;
- make loans or investments;
- create, incur, assume or suffer to exist any lien;
- authorize, enter into, or execute any agreements giving a Secured Party (as defined in the Uniform Commercial Code) control of a Deposit Account (as defined in the Uniform Commercial Code) or Securities Accounts (as defined in the Uniform Commercial Code);
- enter into any covenant or agreement that restricts the Subsidiary Obligors from pledging or granting a security interest in, mortgaging, assigning, encumbering or otherwise creating a lien on any of its property in favor of a Lender (as defined therein);
- guaranty or become liable for the obligations of another party;
- make a restricted payment, including paying dividends, repaying indebtedness or purchasing, redeeming or retiring our capital stock;

- redeem, retire, purchase or otherwise acquire any of a Subsidiary Obligor's capital stock or other equity interests; or
- engage, directly or indirectly, in a business other than the business which is being conducted on the date hereof.

Under the Encina Credit Facility, the following actions, among others, could be deemed to be an "event of default" that may result in the acceleration of the due date, payment of all obligations and termination of all revolver commitments, without any action by Encina or notice of any kind.

- Failure to pay obligations when due;
- Any representation, warranty, statement, report or certificate made or delivered is untrue or misleading in any material respect;
- A default in the performance and observance of certain covenants;
- A guarantor repudiates, revokes or attempts to revoke its guaranty;
- The actual or attempted revocation or termination of, or limitation or denial of liability under, any guaranty of any of the Obligations (as defined therein), or any security document securing any of the Obligations;
- The commencement of an involuntary case or other proceeding against any Subsidiary Obligor; or
- A change of control occurs.

As of September 30, 2020, we have borrowings outstanding under the Encina Credit Facility of approximately \$32.5 million, excluding unamortized deferred financing costs, with approximately \$3.6 million available for future borrowings. As described in "Use of Proceeds," we intend to use the net proceeds from this offering to paydown and refinance our borrowings under the Encina Credit Facility.

Term Loan Agreement

The Subsidiary Obligor (as defined above under the description of the Encina Revolving Loan Facility) and Brightwood Loan Services, LLC ("Brightwood") and the other lenders party thereto (the "Term Loan Lenders") are parties to: (i) that certain Credit Agreement, dated as of May 12, 2017 among the Subsidiary Obligor and the Term Loan Lenders, as amended by that certain Amendment No. 1 to Credit Agreement dated as of September 21, 2017, that certain Amendment No. 2 to Credit Agreement dated as of November 8, 2017, that certain Forbearance Agreement and Amendment to Credit Agreement dated as of May 18, 2018, that certain Amendment No. 1 to Forbearance Agreement dated as of July 16, 2018, that certain Waiver and Amendment No. 3 to Credit Agreement dated as of August 24, 2018 ("TL Amendment No. 3"), that certain Amendment No. 4 to Credit Agreement dated as of March 15, 2019, that certain Amendment No. 5 to Credit Agreement dated as of July 11, 2019 ("TL Amendment No. 5"), and Amendment No. 6 to Credit Agreement dated as of October 15, 2019 ("TL Amendment No. 6") and as may be further amended, amended and restated, modified or supplemented from time to time in accordance with the terms thereof (as amended to date, the "Term Loan Agreement"). The Term Loan Agreement provides for a \$75 million term loan, with an interest rate of LIBOR plus 850 basis points and the Base Rate plus 750 basis points; provided, that at such time that the Total Net Leverage Ratio is less than 5.50:1.00, the interest rate shall be LIBOR plus 700 basis points or the Base Rate plus 600 basis points. The annual principal amortization is 2.5% of the original amount of Term Loans on the initial closing date of May 12, 2017; provided, that no amortization payments shall be made during the period commencing on June 30, 2018 and ending on the date the Fixed Charge Coverage Ratio (as defined therein) as of the last day of any two consecutive fiscal quarters shall have been not less than 1.10:1.00 (which date must be after January 1, 2020). The Subsidiary Obligor is obligated to repay the amounts used under the Term Loan Agreement in full by May 12, 2022, subject to certain terms that may require earlier payment.

To secure the prompt payment and performance of obligations required under the Term Loan Agreement and the Intercreditor Agreement (as defined below), the Subsidiary Obligor has granted the Term Loan Lenders a second-priority lien on all cash, accounts receivable and inventory of the Subsidiary Obligor and a first-priority lien on all other assets and personal property of the Subsidiary Obligor, subject to certain exceptions.

Furthermore, until full payment of all obligations under the Term Loan Agreement, the Subsidiary Obligors shall not do, among other things, any of the following, except as permitted by the Term Loan Agreement:

- merge, divide or consolidate, form any new subsidiary, acquire any interest in any Person (as defined therein), or wind-up or cease operations, dissolve or liquidate;
- create, assume, incur issue, guarantee or otherwise become or remain obligated in respect of, or permit to be outstanding, any indebtedness (as such term is defined therein);
- make acquisitions;
- change its jurisdiction of formation;
- dispose of any assets;
- make loans or investments;
- create, incur, assume or suffer to exist any lien;
- enter into any covenant or agreement that restricts the Subsidiary Obligors from pledging or granting a security interest in, mortgaging, assigning, encumbering or otherwise creating a lien on any of its property in favor of a Lender (as defined therein);
- guaranty or become liable for the obligations of another party;
- make a restricted payment, including paying dividends, repaying indebtedness or purchasing, redeeming or retiring our capital stock;
- redeem, retire, purchase or otherwise acquire any of a Subsidiary Obligors' capital stock or other equity interests; or
- engage, directly or indirectly, in a business other than the business which is being conducted on the date hereof.

Under the Term Loan Agreement, the following actions, among others, could be deemed to be an "event of default" that may result in the automatic acceleration of the due date, payment of all obligations, and termination of all revolver commitments would be terminated, without any action by the Term Loan Lenders or notice of any kind.

- Failure to pay obligations when due;
- Any representation, warranty, statement, report or certificate made or delivered is untrue or misleading in any material respect;
- A default in the performance and observance of certain covenants;
- A guarantor repudiates, revokes or attempts to revoke its guaranty;
- The actual or attempted revocation or termination of, or limitation or denial of liability under, any guaranty of any of the Obligations (as defined therein), or any security document securing any of the Obligations;
- The commencement of an involuntary case or other proceeding against any Subsidiary Obligor; or
- A change of control occurs.

As of September 30, 2020, we have borrowings outstanding under the Term Loan Agreement of approximately \$76.3 million, excluding unamortized deferred financing costs. As described in "Use of Proceeds," we intend to use the net proceeds from this offering to repay borrowings outstanding under the Term Loan Agreement.

Intercreditor Agreement

Encina and Brightwood are parties to a certain intercreditor agreement, dated as of July 11, 2019, in connection with their roles as lenders to us (as amended and restated to date, the "Intercreditor Agreement")

that governs and confirms the relative priority of their respective security interests of all of our assets and property securing our obligations under the Encina Credit Facility and the Term Loan Agreement. Although we are not a party to the Intercreditor Agreement, we acknowledged and agreed to be bound by the provisions therein and recognize all rights granted thereby to Encina and Brightwood.

Other Indebtedness

We have other indebtedness of approximately \$1.4 million as of September 30, 2020, related to financing leases and term debt.

PPP Loan

On April 7, 2020, we entered into a U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) promissory note in the principal amount of \$3.3 million payable to JP Morgan Chase, N.A. (the “PPP Lender”) evidencing a PPP loan from the SBA (the “PPP Loan”). The PPP Loan will bear interest at a rate of 1% per annum. No payments will be due on the PPP Loan during a ten month deferral period commencing on April 7, 2020. Commencing one month after the expiration of the deferral period, and continuing on the same day of each month thereafter until the maturity date of the PPP Loan, we are obligated to make monthly payments of principal and interest, each in such equal amount required to fully amortize the principal amount outstanding on the PPP Loan by the maturity date. The maturity date is April 7, 2022. The PPP Loan contains customary borrower default provisions and lender remedies, including the right of the PPP Lender to require immediate repayment in full the outstanding principal balance of the PPP Loan with accrued interest. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon our request to the extent that PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll, rent, and utilities. The PPP Lender may forgive interest accrued on any principal forgiven if the SBA pays the interest. While we believe we have used the PPP Loan proceeds in a manner consistent with obtaining forgiveness, we intend to repay the PPP Loan on or about the consummation of the offering contemplated hereby as described in “*Use of Proceeds.*”

DESCRIPTION OF CAPITAL STOCK

Our Certificate of Incorporation authorizes us to issue:

- 300,000,000 shares of common stock, par value \$0.0001 per share; and
- 50,000,000 shares of preferred stock, par value \$0.0001 per share.

As of November 30, 2020, we had issued and outstanding 20,762,591 shares of our common stock and 7,725,045 shares of our Series A Preferred Stock. We expect this offering to be a “Qualified IPO” under the rights and terms of the Series A Preferred Stock as described below, and consequently, we expect the Series A Preferred Stock to convert to common stock upon completion of this offering.

The following statements are summaries only of provisions of our authorized capital stock and are qualified in their entirety by our Certificate of Incorporation. You should review these documents for a description of the rights, restrictions and obligations relating to our capital stock. A copy of our Certificate of Incorporation may be obtained from us upon written request.

Common Stock

Voting. The holders of our common stock are entitled to one vote for each share held of record on all matters on which the holders are entitled to vote (or consent to).

Dividends. The holders of our common stock are entitled to receive, ratably, dividends only if, when and as declared by our board of directors out of funds legally available therefor and after provision is made for each class of capital stock having preference over the common stock. As of the date of this prospectus, we may not declare a dividend in light of the Encina Credit Facility and the Term Loan Agreement.

Liquidation Rights. In the event of our liquidation, dissolution or winding-up, the holders of our common stock may be entitled to share, ratably, in all assets remaining available for distribution after payment of all liabilities and after provision is made for each class of capital stock having preference over the common stock.

Preemptive and Similar Rights. The holders of our common stock have no preemptive or similar rights.

Preferred Stock

We are authorized to issue up to 50,000,000 shares of “blank check” preferred stock, par value \$0.0001 per share, with such designations, rights, and preferences as may be determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock could have the effect of restricting dividends on our common stock, diluting the voting power of our common stock, impairing the liquidation rights of our common stock, or delaying or preventing a change in our control, all without further action by our stockholders. Upon completion of this offering, we will not have any shares of preferred stock outstanding.

Series A Preferred Stock

On December 13, 2019, we designated fifteen million (15,000,000) shares of our previously authorized 50,000,000 shares of preferred stock, par value of \$0.0001 per share, as Series A Preferred Stock with the following rights and terms:

Voting. The holders of our Series A Preferred Stock are entitled to the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred Stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. The holders of our Series A Preferred Stock shall vote together with the holders of our common stock as a single class and on an as-converted to common stock basis.

Dividends. The holders of our Series A Preferred Stock are entitled to receive accruing dividends at a rate per annum of (i) 10% of \$3.50 per share from and after December 31, 2019 (the “Initial Issuance Date”),

(ii) 11% of \$3.50 per share from and after September 30, 2020, and (iii) 12% of \$3.50 per share from and after June 30, 2021. Such dividends shall accrue from day to day, whether or not declared, and shall be cumulative, however, such dividends shall only be payable if declared by our board of directors (at its sole discretion). The holders of our Series A Preferred Stock will have priority as to such dividends over our holders of common stock. At our option, the dividends may be paid in cash, or in shares of Series A Preferred Stock.

Liquidation Rights. In the event of our liquidation, dissolution or winding-up, the holders of our Series A Preferred Stock may be entitled to share, ratably, in all assets remaining available for distribution after payment of all liabilities. The holders of our Series A Preferred Stock have a liquidation preference over holders of our common stock.

Preemptive Rights. The holders of our Series A Preferred Stock have no preemptive rights.

Liquidity Rights. If we have not consummated an initial public offering by the 18 month anniversary of the Initial Issuance Date, then the holders of at least a majority of the outstanding shares of Series A Preferred Stock can request that we pursue one of the following options (at the board of director's full discretion): (i) that we redeem all of the issues and outstanding Series A Preferred Stock for \$3.50 per share plus the amount of all accrued and unpaid dividends, (ii) that we initiate a process with a view to our sale via merger, asset sale or such other sale mechanism, or (iii) that we initiate a process with a view to our consummating an initial public offering even if such initial public offering would not meet the requirements of a Qualified IPO.

"Qualified IPO" means a sale of shares of common stock to the public in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act resulting in at least \$75 million of gross proceeds.

Conversion Rights. Upon the closing of a Qualified IPO, all outstanding shares of our Series A Preferred Stock shall automatically be converted into shares of our common stock at the lesser of (x) the then Series A Conversion Price, or (y) the then effective Discounted Qualified IPO Price. Each share of Series A Preferred Stock shall also be convertible, at the option of the holder, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into one (1) share of common stock, subject to certain adjustments. We expect this offering to be a Qualified IPO.

"Series A Conversion Price" is initially \$11.80 per share, to be adjusted for certain dilutive events, including but not limited to issuance or deemed issuance of additional shares of common stock, stock splits and combinations, dividends, other distributions and merger or reorganizations.

"Discounted Qualified IPO Price" means, with respect to each share of Series A Preferred Stock, the amount calculated by multiplying the price at which the shares of common stock were sold by us to the public in the Qualified IPO by 0.8 (the "Multiplier"), provided that commencing 270 days after the Initial Issuance Date, the Multiplier shall be decreased to 0.79 and shall be decreased by an additional 0.01 every thirty (30) days thereafter, provided that the Multiplier shall not decrease below 0.75.

Protective Provisions. Consent of the holders of at least 50% of the outstanding shares of Series A Preferred Stock is required for any amendment or change of the rights, preferences, privileges, or powers of, or the restrictions provided for the benefit of, the Series A Preferred Stock.

Warrants

As of November 30, 2020, we had issued and outstanding warrants to purchase 3,369,124 and 517,067 shares of our common stock, which are referred to as the "Investor Warrants" and the "Placement Agent Warrants", respectively.

The Investor Warrants

General Terms. The Investor Warrants are exercisable for common stock at an initial exercise price equal to \$16.86 per share. The exercise price and the number of securities issued upon exercise of the Investor Warrants are subject to adjustment for stock splits, stock dividends and similar events.

Exercisability. The Investor Warrants are exercisable commencing the earliest of: (x) the effectiveness of a resale registration statement, (y) the closing of any initial public offering of our common stock, or (z) the

closing of any other transaction or set of events that results in us (or the surviving corporation in connection with such transaction) being (or remaining) subject to the reporting requirements of the Exchange Act (any of the foregoing, a “Public Event”). The Investor Warrants will expire three years from the effective date of any Public Event.

The Investor Warrants may be exercised at any time in whole or in part upon payment of the applicable exercise price until expiration of the Investor Warrants. No fractional shares will be issued upon the exercise of the Investor Warrants. The Investor Warrants may only be exercised on a “cashless” basis if at any time after 180 days following the date that a resale registration statement is publicly filed with the commission, the registration statement covering the resale of the shares of our common stock issuable upon exercise of the Investor Warrants by the investors is not effective with the SEC.

Redemption. The Investor Warrants may be called by us upon not less than thirty (30) days’ nor more than sixty (60) days’ prior written notice at any time provided that, at the time of delivery of such notice (i) there is an effective registration statement covering the resale of the shares of common stock underlying the Investor Warrants, and (ii) the VWAP of our common stock for twenty (20) consecutive trading days prior to the date of the notice of redemption is at least \$25.28, as proportionately adjusted to reflect any stock splits, stock dividends, combination of shares or like events. The Placement Agents for the Private Placement shall receive a warrant solicitation fee equal to 5% of the funds solicited by the placement agents upon the exercise of the Investor Warrants if we elect to call the Investor Warrants.

If we elect to call the Investor Warrants (or any other warrant) for redemption, we must also call all other warrants (other than the Placement Agent Warrants) for redemption on the terms described above.

The Placement Agent Warrants

The Placement Agent Warrants have substantially similar terms to the Investor Warrants except that (i) the exercise price for 344,716 and 172,351 of the Placement Agent Warrants is equal to \$8.43 per share and \$16.86 per share, respectively, (ii) the Placement Agent Warrants may be exercised on a “cashless basis,” (iii) there is no optional redemption feature allowing us to redeem the Placement Agent Warrants prior to the expiration date of the Placement Agent Warrants and (iv) there is a change of control provision providing the holders of the Placement Agent Warrants, upon a change of control (as defined in the Placement Agent Warrants), with the right to acquire and receive upon exercise of the Placement Agent Warrant in lieu of the shares of our common stock underlying the Placement Agent Warrants, such shares of stock, securities of assets (including cash) that a holder of shares of our common stock deliverable upon exercise of the Placement Agent Warrants would have been entitled to receive in a such transaction as if the Placement Agent Warrants had been exercised immediately prior to the transaction constituting such change of control.

Warrant Holder Not a Stockholder

The Investor Warrants and Placement Agent Warrants do not confer upon the holders thereof any voting, dividend or other rights as our stockholders.

Equity Incentive Plans

2020 Equity Incentive Plan

As of November 30, 2020, we issued 74,157 shares of common stock underlying options issuable upon the exercise of stock options at a weighted average exercise price of \$11.06 per share under our 2020 Equity Incentive Plan and 2,209,896 shares of common stock authorized for future issuance under the 2020 Equity Incentive Plan.

2019 Equity Incentive Plan

As of November 30, 2020, we had 860,416 shares of common stock issuable upon vesting of restricted stock units under our 2019 Equity Incentive Plan and 99,863 shares of common stock authorized for future issuance under the 2019 Equity Incentive Plan. Since our 2020 Equity Incentive Plan has been approved by our stockholders, we do not expect to make new grants under the 2019 Equity Incentive Plan.

2018 Equity Incentive Plan

As of November 30, 2020, we had 1,406,826 shares of common stock issuable upon vesting of restricted stock units and 848,837 shares of common stock issuable upon the exercise of stock options at a weighted average exercise price of \$8.60 per share under our 2018 Equity Incentive Plan, and 330,326 shares of common stock authorized for future issuance under the 2018 Equity Incentive Plan. Since our 2020 Equity Incentive Plan has been approved by our stockholders, we do not expect to make new grants under the 2018 Equity Incentive Plan.

Registration Rights Agreement

In connection with our Private Placement, we entered into a Registration Rights Agreement pursuant to which we are obligated to register with the SEC the shares of our common stock that were acquired by certain stockholders in the Private Placement as well as the shares of common stock issuable upon exercise of the Investor Warrants. The following description is a summary only of material provisions of the Registration Rights Agreement.

The Registration Rights Agreement contains certain holdback provisions relating to Transfers (as defined in the Registration Rights Agreement) of Registrable Securities (as defined therein) by holders of such securities. Pursuant to such provisions, a holder of Registrable Securities will be not be able to fully Transfer all Registrable Securities until such date that is three (3) months from the date of effectiveness of the Resale Registration Statement. Specifically, a holder shall be permitted to transfer up to 50% of Registrable Securities held at any time on or after the effectiveness of the Resale Registration Statement and following such date, a holder shall be entitled to Transfer the balance of all Registrable Securities held by such holder on or after the end of three (3) months following the effectiveness of the Resale Registration Statement. The foregoing holdback provisions shall be terminated in the event the closing price of our common stock is \$10.00 or above for 20 consecutive trading days.

Forum Selection

Unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum to the fullest extent permitted by law for state law claims (i) for any derivative action or proceeding brought on behalf of us, (ii) any action asserting a claim of breach of or based on a fiduciary duty owed by any current or former director, officer or other employee of ours to us or our stockholders, (iii) any action asserting a claim against us or any current or former director, officer, or other employee or stockholder of ours arising pursuant to any provision of the Delaware General Corporation Law or our Certificate of Incorporation or Bylaws, or (iv) any action asserting a claim against us governed by the internal affairs doctrine, in each such case subject to said court having personal jurisdiction over the indispensable parties named as defendants therein; provided, that, if and only if the Court of Chancery of the State of Delaware dismisses any such action for lack of subject matter jurisdiction, such action may be brought in another state court sitting in the State of Delaware. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the provisions of this forum selection clause. This provision does not apply to actions arising under the Exchange Act or the Securities Act.

Anti-Takeover Provisions

Our Certificate of Incorporation and Bylaws contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give our board of directors the power to discourage acquisitions that some stockholders may favor.

Authorized but unissued shares. The authorized but unissued shares of our common stock and our preferred stock are available for future issuance without stockholder approval, subject to the requirements of any national securities exchange on which our common stock is listed, should we so qualify for listing. These

additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Stockholder action by written consent. Our Certificate of Incorporation and Bylaws provide that no action shall be taken by our stockholders except at an annual or special meeting of our stockholders called in accordance with our Bylaws and no action shall be taken by our stockholders by written consent, subject to the rights of any series of preferred stock permitting the holders of such series of preferred stock to act by written consent; provided, however, that, for so long as S5 Enterprises Inc. (formerly 2118769 Ontario Inc.), Fruzer Inc., Indulge Inc. (formerly 2208742 Ontario Inc.), Jackpot Inc. (formerly 2208744 Ontario Inc.), HF I Investments LLC, HF II Investments LLC, HF III Investments LLC, Hawthorn LP, Hydrofarm Co-Investment Fund, LP, Arch Street Holdings I, LLC and Payne Capital Corp., together with their respective affiliates or successors, collectively beneficially own (directly or indirectly), in the aggregate, at least fifty percent (50%) of our then issued and outstanding common stock, any action required or permitted to be taken by our stockholders at an annual meeting or special meeting of stockholders called in accordance with our Bylaws may be taken by our stockholders by written consent.

Special meetings of stockholders. Our Certificate of Incorporation and Bylaws provide that, except as otherwise required by law or provided by the resolution or resolutions adopted by our board of directors designating the rights, powers and preferences of any series of preferred stock, special meetings of our stockholders may be called only by (a) our board of directors pursuant to a resolution approved by a majority of the total number of our directors that we would have if there were no vacancies or (b) the chair of our board of directors, and any power of our stockholders to call a special meeting is specifically denied.

Advance notice requirements for stockholder proposals and director nominations. Our Bylaws provide for an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of candidates for election to our board of directors. In order for any matter to be “properly brought” before a meeting, a stockholder must comply with advance notice and duration of ownership requirements and provide us with certain information. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board of directors or by a qualified stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of the stockholder’s intention to bring such business before the meeting. These provisions could have the effect of delaying stockholder actions that are favored by the holders of a majority of our outstanding voting securities until the next stockholder meeting.

Amendment of Certificate of Incorporation or Bylaws. The Delaware General Corporation Law (“DGCL”) provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation’s certificate of incorporation, unless a corporation’s certificate of incorporation requires a greater percentage. Our Certificate of Incorporation provides that certain provisions of our Certificate of Incorporation (namely, those provisions relating to (i) directors; (ii) limitation of director liability, indemnification and advancement of expenses and renunciation of corporate opportunities; (iii) meetings of stockholders; and (iv) amendments to our Certificate of Incorporation and Bylaws) may not be altered, amended or repealed in any respect (including by merger, consolidation or otherwise), nor may any provision inconsistent therewith be adopted, unless such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66⅔%) of the voting power of all of our then-outstanding shares then entitled to vote generally in an election of directors, voting together as a single class. Our Certificate of Incorporation and Bylaws also provide that approval of stockholders holding sixty-six and two-thirds percent (66⅔%) of the voting power of all of our then-outstanding shares entitled to vote generally in an election of directors, voting together as a single class, is required for stockholders to make, alter, amend, or repeal any provision of our Bylaws. Our board of directors retains the right to alter, amend or repeal our Bylaws.

Classified Board of Directors. Our amended and restated certificate of incorporation, upon the consummation of this offering, provides for a classified board of directors consisting of three classes of approximately equal size, each serving staggered three-year terms. Only the directors in one class will be subject to election by a plurality of the votes cast at each annual meeting of stockholders, with the directors in the

other classes continuing for the remainder of their respective three-year terms. Stockholders do not have the ability to cumulate votes for the election of directors.

Limitations on Liability and Indemnification of Officers and Directors

Our Certificate of Incorporation and Bylaws provides indemnification for our directors and officers to the fullest extent permitted by the DGCL. We have entered into indemnification agreements with each of our directors that may be, in some cases, broader than the specific indemnification provisions contained under the DGCL. In addition, as permitted by the DGCL, our Certificate of Incorporation and Bylaws includes provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our stockholders in derivative suits to recover monetary damages against a director for breach of fiduciary duties as a director. These provisions may be held not to be enforceable for violations of the federal securities laws of the United States.

Corporate Opportunity Doctrine

Delaware law permits corporations to adopt provisions renouncing any interest or expectancy in certain opportunities that are presented to the corporation or its officers, directors or stockholders. Under our Certificate of Incorporation, to the maximum extent permitted by the laws of the State of Delaware, (a) we have renounced all interest and expectancy that we otherwise would be entitled to have in, and all rights to be offered an opportunity to participate in, any business opportunity that from time to time may be presented to (i) any of our directors, (ii) any of our stockholders, officers or agents, or (iii) any Affiliate (as defined in our Certificate of Incorporation) of any person or entity identified in the preceding clause (i) or (ii), but in each case excluding any such person in its capacity as an employee or director of us or our subsidiaries; (b) no stockholder and no director, in each case, that is not an employee of us or our subsidiaries, has any duty to refrain from (x) engaging in a corporate opportunity in the same or similar lines of business in we or our subsidiaries from time to time are engaged or propose to engage or (y) otherwise competing, directly or indirectly, with us or any of our subsidiaries; and (c) if any stockholder or any director, in each case, that is not an employee of us or our subsidiaries, acquires knowledge of a potential transaction or other business opportunity which may be a corporate opportunity both for such stockholder or such director or any of their respective affiliates, on the one hand, and for us or our subsidiaries, on the other hand, such stockholder or director has no duty to communicate or offer such transaction or business opportunity to us or our subsidiaries and such stockholder or director may take any and all such transactions or opportunities for itself or offer such transactions or opportunities to any other person or entity. The preceding sentence shall not apply to any potential transaction or business opportunity that is expressly offered to a director or employee of our or our subsidiaries, solely in his or her capacity as a director or employee of us or our subsidiaries.

Furthermore, to the fullest extent permitted by the laws of the State of Delaware, no potential transaction or business opportunity may be deemed to be a corporate opportunity of ours or our subsidiaries unless (a) we or our subsidiaries would be permitted to undertake such transaction or opportunity in accordance with our Certificate of Incorporation, (b) we or our subsidiaries at such time have sufficient financial resources to undertake such transaction or opportunity, (c) we or our subsidiaries have an interest or expectancy in such transaction or opportunity and (d) such transaction or opportunity would be in the same or similar line of business in which we or our subsidiaries are then engaged or a line of business that is reasonably related to, or a reasonable extension of, such line of business.

Section 203 of the Delaware General Corporation Law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a three-year period following the time that such stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation’s voting stock.

Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or
- at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

A Delaware corporation may “opt out” of these provisions with an express provision in its original certificate of incorporation or an express provision in its amended and restated certificate of incorporation or by-laws resulting from a stockholders’ amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions. As a result, mergers or other takeover or change in control attempts of us may be discouraged or prevented.

Transfer Agent and Registrar

The transfer agent and registrar of our common stock is Continental Stock Transfer & Trust Company. They are located at 1 State Street, 30th Floor, New York, New York 10004. Their telephone number is (212)-509-4000.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, no public market for our common stock existed, and a liquid trading market for our common stock may not develop or be sustained after this offering. Future sales of substantial amounts of our common stock in the public market, including shares issued upon exercise of outstanding stock options, or the anticipation of such sales, could adversely affect prevailing market prices of our common stock from time to time and could impair our ability to raise equity capital in the future. Furthermore, because only a limited number of shares of our common stock will be available for sale shortly after this offering due to certain contractual and legal restrictions on resale described below, sales of substantial amounts of our common stock in the public market after such restrictions lapse, or the anticipation of such sales, could adversely affect the prevailing market price of our common stock and our ability to raise equity capital in the future.

All of the shares sold in this offering will be freely tradable unless purchased by our affiliates, purchased in our directed share program by our directors, officers and certain of our employees or purchased by entities affiliated with an existing stockholder pursuant to the indication of interest as described under the section entitled “*Underwriting*.” The remaining shares of common stock outstanding after this offering, including shares of common stock issued upon conversion of the Series A Preferred Stock, will be restricted as a result of securities laws, lock-up agreements or the market standoff provisions in the Registration Rights Agreement as described below. Following the expiration of the lock-up period, all shares will be eligible for resale, subject to compliance with Rule 144 or Rule 701 of the Securities Act.

We may issue shares of common stock from time to time as consideration for future acquisitions, investments or other corporate purposes. In the event that any such acquisition, investment or other transaction is significant, the number of shares of common stock that we may issue may in turn be significant. We may also grant registration rights covering those shares of common stock issued in connection with any such acquisition and investment.

In addition, 5,696,762 shares of common stock that are subject to outstanding stock options, underlying restricted stock awards which have not yet vested or reserved for future issuance under our 2020 Equity Incentive Plan will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, the lock-up agreements, the market standoff provisions in the Registration Rights Agreement and Rule 144 and Rule 701 of the Securities Act.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who is not one of our affiliates and who is not deemed to have been one of our affiliates at any time during the three months preceding a sale and who has beneficially owned shares of our common stock that are deemed restricted securities for at least six months would be entitled after such six-month holding period to sell the common stock held by such person, subject to the continued availability of current public information about us (which current public information requirement is eliminated after a one-year holding period).

Beginning 90 days after the date of this prospectus, a person who is one of our affiliates, or has been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned shares of our common stock that are deemed restricted securities for at least six months would be entitled after such six-month holding period to sell his or her securities, provided that he or she sells an amount that does not exceed 1% of the number of shares of our common stock then outstanding (or, if our common stock is listed on a national securities exchange, the average weekly trading volume of the shares during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale), subject to the continued availability of current public information about us, compliance with certain manner of sale provisions, and the filing of a Form 144 notice of sale if the sale is for an amount in excess of 5,000 shares or for an aggregate sale price of more than \$50,000 in a three-month period.

Upon expiration of the lock-up periods described below, 20,762,591 shares of our common stock will be eligible for sale under Rule 144. We cannot estimate the number of shares of our common stock that our existing stockholders will elect to sell under Rule 144.

Lock-Up Agreements and Market Stand-off Provisions

We, along with our directors and executive officers and holders of substantially all of our capital stock and securities convertible into our capital stock are subject to lock-up agreements or market stand-off provisions that, subject to exceptions described under the section titled “Underwriting”, prohibit them, for a period of 180 days following the date of this prospectus, from offering, selling, contracting to sell, pledging, granting any stock option to purchase, making any short sale or otherwise disposing of any shares of our common stock (including any shares issued in this offering or other issuer-directed shares), or any stock options or warrants to purchase any shares of our common stock, or any securities convertible into, exchangeable for or that represent the right to receive shares of our common stock, whether now owned or later acquired, owned directly or with respect to which we or they have beneficial ownership within the rules and regulations of the SEC, subject to specified exceptions. J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated, on behalf of the underwriters, may, in their sole discretion, at any time without prior notice, release all or any portion of the shares from the restrictions in any such agreement. In addition, all shares of common stock purchased pursuant to the indication of interest will be subject to a two-month restricted period under the same terms described above and under the section entitled “Underwriting.”

Rule 701

In general, under Rule 701 of the Securities Act, any of an issuer’s employees, directors, officers, consultants or advisors who purchase shares from the issuer in connection with a compensatory stock or stock option plan or other written agreement before the effective date of a registration statement under the Securities Act, is entitled to sell such shares 90 days after such effective date in reliance on Rule 144. An affiliate of the issuer can resell shares in reliance on Rule 144 without having to comply with the holding period requirement, and non-affiliates of the issuer can resell shares in reliance on Rule 144 without having to comply with the current public information and holding period requirements.

Registration Rights

Pursuant to our Amended Investor Rights Agreement and the Registration Rights Agreement, after the completion of this offering, the holders of up to 24,648,782 shares of our common stock, including 3,886,191 shares underlying outstanding warrants, or certain transferees, will be entitled to certain rights with respect to the registration of the offer and sale of those shares under the Securities Act. See the section titled “Description of Capital Stock — Registration Rights Agreement” for a description of these registration rights. If the offer and sale of these shares of our common stock are registered, the shares will be freely tradable without restriction under the Securities Act, subject to the Rule 144 limitations applicable to affiliates, and a large number of shares may be sold into the public market.

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS OF
COMMON STOCK**

The following discussion is a summary of certain material U.S. federal income tax considerations applicable to non-U.S. holders (as defined below) with respect to their ownership and disposition of shares of our common stock issued pursuant to this offering. For purposes of this discussion, a non-U.S. holder means a beneficial owner of our common stock that is for U.S. federal income tax purposes:

- a non-resident alien individual;
- a foreign corporation or any other foreign organization taxable as a corporation for U.S. federal income tax purposes; or
- a foreign estate or trust, the income of which is not subject to U.S. federal income tax on a net income basis.

This discussion does not address the tax treatment of partnerships or other entities that are pass-through entities for U.S. federal income tax purposes or persons that hold their common stock through partnerships or other pass-through entities. A partner in a partnership or other pass-through entity that will hold our common stock should consult his, her or its tax advisor regarding the tax consequences of acquiring, holding and disposing of our common stock through a partnership or other pass-through entity, as applicable.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended, which we refer to as the Code, existing and proposed U.S. Treasury Regulations promulgated thereunder, current administrative rulings and judicial decisions, all as in effect as of the date of this prospectus and, all of which are subject to change or to differing interpretation, possibly with retroactive effect. Any such change or differing interpretation could alter the tax consequences to non-U.S. holders described in this prospectus. There can be no assurance that the Internal Revenue Service, which we refer to as the IRS, will not challenge one or more of the tax consequences described herein. We assume in this discussion that a non-U.S. holder holds shares of our common stock as a capital asset within the meaning of Section 1221 of the Code, which is generally property held for investment.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances nor does it address any U.S. state, local or non-U.S. taxes, or any other aspect of any U.S. federal tax other than the income tax. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder and does not address the special tax rules applicable to particular non-U.S. holders, such as:

- insurance companies;
- tax-exempt or governmental organizations;
- financial institutions;
- brokers or dealers in securities;
- regulated investment companies;
- pension plans;
- "controlled foreign corporations," "passive foreign investment companies," and corporations that accumulate earnings to avoid U.S. federal income tax;
- "qualified foreign pension funds," or entities wholly owned by a "qualified foreign pension fund";
- persons that elect to apply Section 1400Z-2 of the Code to gains recognized with respect to shares of our common stock;
- persons who hold or receive our common stock pursuant to the exercise of any employee stock option or otherwise as compensation; and
- certain U.S. expatriates.

This discussion is for general information only and is not tax advice. Accordingly, all prospective non-U.S. holders of our common stock should consult their tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of our common stock.

Distributions on Our Common Stock

As indicated in the “Dividend Policy” section of this prospectus, we have never declared or paid cash dividends on any of our capital stock and currently intend to retain all available funds and any future earnings to fund the development and growth of our business.

In the event that we do make distributions, subject to the discussions below under the sections titled “Backup Withholding and Information Reporting” and “Withholding and Information Reporting Requirements — FATCA”, distributions paid on our common stock will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a tax-free return of the non-U.S. holder’s investment, up to such holder’s tax basis in the common stock. Any remaining excess will be treated as capital gain, subject to the tax treatment described below in “Gain on Sale or Other Taxable Disposition of Our Common Stock.”

Subject to the discussion in the following two paragraphs in this section, dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder’s country of residence.

Dividends that are treated as effectively connected with a trade or business conducted by a non-U.S. holder within the United States and, if an applicable income tax treaty so provides, that are attributable to a permanent establishment or a fixed base maintained by the non-U.S. holder within the United States, are generally exempt from the 30% withholding tax if the non-U.S. holder satisfies applicable certification and disclosure requirements. However, such U.S. effectively connected income, net of specified deductions and credits, is taxed at the same graduated U.S. federal income tax rates applicable to United States persons (as defined in the Code). Any U.S. effectively connected income received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder’s country of residence.

A non-U.S. holder of our common stock who claims the benefit of an applicable income tax treaty between the United States and such holder’s country of residence generally will be required to provide a properly executed IRS Form W-8BEN or W-8BEN-E (or successor form) to the applicable withholding agent and satisfy applicable certification and other requirements. Non-U.S. holders are urged to consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty. A non-U.S. holder that is eligible for such lower rate of U.S. withholding tax as may be specified under an income tax treaty may obtain a refund or credit of any excess amounts withheld by timely filing a U.S. tax return with the IRS.

Gain on Sale or Other Taxable Disposition of Our Common Stock

Subject to the discussions below under “Backup Withholding and Information Reporting” and “Withholding and Information Reporting Requirements — FATCA,” a non-U.S. holder generally will not be subject to any U.S. federal income or withholding tax on any gain realized upon such holder’s sale or other taxable disposition of shares of our common stock unless:

- the gain is effectively connected with the non-U.S. holder’s conduct of a U.S. trade or business and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or a fixed-base maintained by such non-U.S. holder in the United States, in which case the non-U.S. holder generally will be taxed on a net income basis at the graduated U.S. federal income tax rates applicable to United States persons (as defined in the Code) and, if the non-U.S. holder is a foreign corporation, the branch profits tax described above in “Distributions on Our Common Stock” also may apply;
- the non-U.S. holder is a nonresident alien individual who is present in the United States for a period or periods aggregating 183 days or more in the taxable year of the disposition and certain other conditions

are met, in which case the non-U.S. holder will be subject to a 30% tax (or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder's country of residence) on the net gain derived from the disposition, which may be offset by certain U.S. source capital losses of the non-U.S. holder, if any (even though the individual is not considered a resident of the United States), provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses; or

- we are, or have been, at any time during the five-year period preceding such sale or other taxable disposition (or the non-U.S. holder's holding period, if shorter) a "U.S. real property holding corporation," unless our common stock is regularly traded on an established securities market, as defined by applicable U.S. Treasury Regulations, and the non-U.S. holder holds no more than 5% of our outstanding common stock, directly or indirectly, actually or constructively, during the shorter of the 5-year period ending on the date of the disposition or the period that the non-U.S. holder held our common stock. Generally, a corporation is a U.S. real property holding corporation only if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. Although there can be no assurance, we do not believe that we are, or have been, a U.S. real property holding corporation, or that we are likely to become one in the future. No assurance can be provided that our common stock will be regularly traded on an established securities market for purposes of the rules described above. Non-U.S. holders should consult their own tax advisors about the consequences that could result if we are, or become, a U.S. real property holding corporation.

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-U.S. holder the gross amount of the distributions on our common stock paid to such holder and the tax withheld, if any, with respect to such distributions. Non-U.S. holders may have to comply with specific certification procedures to establish that the holder is not a United States person (as defined in the Code) in order to avoid backup withholding at the applicable rate with respect to dividends on our common stock. Dividends paid to non-U.S. holders subject to withholding of U.S. federal income tax, as described above in "Distributions on Our Common Stock," generally will be exempt from U.S. backup withholding.

Information reporting and backup withholding will generally apply to the proceeds of a disposition of our common stock by a non-U.S. holder effected by or through the U.S. office of any broker, U.S. or foreign, unless the holder certifies its status as a non-U.S. holder and satisfies certain other requirements, or otherwise establishes an exemption. Generally, information reporting and backup withholding will not apply to a payment of disposition proceeds to a non-U.S. holder where the transaction is effected outside the United States through a non-U.S. office of a broker. However, for information reporting purposes, dispositions effected through a non-U.S. office of a broker with substantial U.S. ownership or operations generally will be treated in a manner similar to dispositions effected through a U.S. office of a broker.

Non-U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules to them. Copies of information returns may be made available to the tax authorities of the country in which the non-U.S. holder resides or is incorporated under the provisions of a specific treaty or agreement. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, provided that an appropriate claim is filed with the IRS in a timely manner.

Withholding and Information Reporting Requirements — FATCA

Provisions of the Code commonly referred to as the Foreign Account Tax Compliance Act, or FATCA, generally impose a U.S. federal withholding tax at a rate of 30% on payments of dividends on our common stock paid to a foreign entity unless (i) if the foreign entity is a "foreign financial institution," such foreign entity undertakes certain due diligence, reporting, withholding, and certification obligations, (ii) if the foreign entity is not a "foreign financial institution," such foreign entity identifies certain of its U.S. investors, if any, or (iii) the foreign entity is otherwise exempt under FATCA. Such withholding may also apply to payments of gross proceeds of sales or other dispositions of our common stock, although under recently proposed U.S.

Treasury Regulations (the preamble to which specifies that taxpayers are permitted to rely on such proposed U.S. Treasury Regulations pending finalization), no withholding will apply to such payments of gross proceeds. Under certain circumstances, a non-U.S. holder may be eligible for refunds or credits of this withholding tax. An intergovernmental agreement between the United States and an applicable foreign country may modify the requirements described in this paragraph. Non-U.S. holders should consult their tax advisors regarding the possible implications of this legislation on their investment in our common stock and the entities through which they hold our common stock, including, without limitation, the process and deadlines for meeting the applicable requirements to prevent the imposition of the 30% withholding tax under FATCA.

UNDERWRITING

We are offering the shares of common stock described in this prospectus through a number of underwriters. J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated are acting as representatives. We will enter into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we will agree to sell to the underwriters and each underwriter will severally agree to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock listed next to its name in the following table:

Name	Number of Shares
J.P. Morgan Securities LLC	
Stifel, Nicolaus & Company, Incorporated	
Deutsche Bank Securities Inc.	
Truist Securities, Inc.	
William Blair & Company, L.L.C.	
Total	<u>8,666,667</u>

The underwriters will be committed to purchase all the shares of common stock offered by us if they purchase any shares. The underwriting agreement will also provide that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or this offering may be terminated.

The underwriters propose to offer the shares of common stock directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of \$ _____ per share. Any such dealers may resell shares to certain other brokers and dealers at a discount of up to \$ _____ per share from the initial public offering price. After the initial offering of the shares to the public, if all of the shares of common stock are not sold at the initial public offering price, the underwriters may change the offering price and other selling terms. Sales of shares made outside of the United States may be made by affiliates of the underwriters.

The underwriters will have an option to buy up to 1,300,000 additional shares of common stock from us to cover sales of shares by the underwriters which exceed the number of shares specified in the table above. The underwriters will have 30 days from the date of this prospectus to exercise this option to purchase additional shares. If any shares are purchased with this option to purchase additional shares, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting fee is equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting fee is \$ _____ per share. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Without option to purchase additional shares exercise	With full option to purchase additional shares exercise
Per Share	\$	\$
Total	\$	\$

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately \$ _____.

We have agreed to reimburse the underwriters for certain expenses of up to \$ _____ related to clearance of this offering with FINRA. The underwriters have also agreed to reimburse us for certain of our expenses incurred by us with respect to this offering.

Certain entities, including entities affiliated with one or more existing stockholders, have indicated an interest in purchasing approximately \$30.0 million of shares of our common stock in this offering at the initial public offering price. Because this indication of interest is not a binding agreement or commitment to purchase, such entities could determine to purchase more, less or no shares in this offering or the underwriters could determine to sell more, less or no shares to the entities. All shares of common stock purchased pursuant to this indication of interest will be subject to a two-month restricted period under same terms as for the lock-up securities (as defined below).

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

We have agreed that we will not (i) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, or submit to, or file, with the SEC a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, loan disposition or filing or (ii) enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any shares of common stock or any such other securities (regardless of whether any of these transactions are to be settled by the delivery of shares of common stock or such other securities, in cash or otherwise), in each case without the prior written consent of J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated for a period of 180 days after the date of this prospectus, other than the shares of our common stock to be sold hereunder and certain other exceptions.

Our directors, our executive officers and holders of substantially all of our capital stock and securities convertible into our capital stock (such persons, the "lock-up parties") have entered into lock-up agreements with the underwriters prior to the commencement of this offering (the "lock-up agreements") or are subject to the market standoff provisions in the Registration Rights Agreement pursuant to which each holder shall not transfer, sell, offer, pledge, contract to sell, grant any option or contract to purchase, purchase any option or contract to sell, grant any right or warrant to purchase, lend or otherwise transfer or encumber any Registrable Securities (as defined in the Registration Rights Agreement) until the date that is six months after the effective date of this registration statement.

The lock-up agreements provide that each lock-up party, for a period of up to 180 days after the date of this prospectus (such period, the "restricted period"), may not, without the prior written consent of J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock (including, without limitation, the lock-up securities which may be deemed to be beneficially owned by such lock-up parties in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant) (collectively with the common stock, the "lock-up securities") (ii) enter into any hedging, swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of the lock-up securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of the lock-up securities, in cash or otherwise, (iii) make any demand for or exercise any right with respect to the registration of any lock-up securities or (iv) publicly disclose the intention to do any of the foregoing. Such persons or entities have further acknowledged that these undertakings preclude them from engaging in any hedging or other transactions or arrangements (including, without limitation, any short sale or the purchase or sale of, or entry into, any put or call option, or combination thereof, forward, swap or any other derivative transaction or instrument, however described or defined) designed or intended, or which could reasonably be expected to lead to or result in, a sale or disposition or transfer (by any person or entity, whether or not a signatory to such agreement) of any economic consequences of ownership, in whole or in part, directly or indirectly, of any lock-up securities, whether any such transaction or arrangement (or instrument provided for thereunder) would be settled by delivery of lock-up securities, in cash or otherwise.

The lock-up agreements are subject to specified exceptions. In the case of our directors and officers and holders subject to the lock-up restrictions, such restrictions described in the paragraph above do not apply, subject in certain cases to various conditions, to transfers or dispositions:

- (a) as a bona fide gift or gifts, or for bona fide estate planning purposes,
- (b) by will, other testamentary document or intestacy,
- (c) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the lock-up party, or if the lock-up party is a trust, to a trustor or beneficiary of the trust or to the estate of a beneficiary of such trust,
- (d) to a corporation, partnership, limited liability company, trust or other entity of which the lock-up party and/or one or more members of the immediate family of the lock-up party are, directly or indirectly, the legal and beneficial owner of all of the outstanding equity securities or similar interests,
- (e) to a nominee or custodian of a person or entity to whom a disposition or transfer would be permissible under clauses (a) through (d) above,
- (f) if the lock-up party is a corporation, partnership, limited liability company, trust or other business entity, (i) to another corporation, partnership, limited liability company, trust or other business entity that is an affiliate (as defined in Rule 405 promulgated under the Securities Act of 1933, as amended) of the lock-up party, or to any investment fund or other entity controlling, controlled by, managing or managed by or under common control with the lock-up party or affiliates of the lock-up party or (ii) as part of a distribution or other transfer to general or limited partners to members or shareholders, or other holders of equity in, of the lock-up party,
- (g) by operation of law, such as pursuant to a qualified domestic order, divorce settlement, divorce decree, separation agreement or court order,
- (h) to us from an employee or other service provider of us upon death, disability or termination of employment or service, in each case, of such employee or other service provider,
- (i) as part of a sale of the lock-up party's lock-up securities acquired in open market transactions after the closing date for this offering,
- (j) to us in connection with the vesting, settlement, or exercise of restricted stock units, options, warrants or other rights to purchase shares of common stock (including, in each case, by way of "net" or "cashless" exercise), including for the payment of exercise price and tax and remittance payments due as a result of the vesting, settlement, or exercise of such restricted stock units, options, warrants or rights, or
- (k) pursuant to a bona fide third-party tender offer, merger, consolidation or other similar transaction that is approved by our board of directors and made to all holders of our capital stock involving a change of control of us;

provided that (1) in the case of any transfer, disposition or distribution pursuant to clause (a)-(g), such transfer shall not involve a disposition for value and each donee, devisee, transferee or distributee shall execute and deliver to the representatives a lock-up letter, (B) in the case of any transfer or distribution pursuant to clause (a)-(f) and (i)-(j), no filing by any party (donor, donee, devisee, transferor, transferee, distributor or distributee) under the Exchange Act, or other public announcement shall be required or shall be made voluntarily in connection with such transfer or distribution (other than a filing on a Form 5 made after the expiration of the restricted period referred to above) and (C) in the case of any transfer or distribution pursuant to clause (g) and (h), it shall be a condition to such transfer that no public filing, report or announcement shall be voluntarily made and if any filing under Section 16(a) of the Exchange Act, or other public filing, report or announcement reporting a reduction in beneficial ownership of shares of common stock in connection with such transfer or distribution shall be legally required during the restricted period, such filing, report or announcement shall clearly indicate in the footnotes thereto the nature and conditions of such transfer.

We will agree to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

We have applied to have our common stock approved for listing/quotation on the Nasdaq Global Select Market under the symbol "HYFM".

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' option to purchase additional shares referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their option to purchase additional shares, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the Nasdaq Global Select Market in the over-the-counter market or otherwise.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. In determining the initial public offering price, we and the representatives of the underwriters expect to consider a number of factors including:

- the information set forth in this prospectus and otherwise available to the representatives;
- our prospects and the history and prospects for the industry in which we compete;
- an assessment of our management;
- our prospects for future earnings;
- the general condition of the securities markets at the time of this offering;
- the recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and
- other factors deemed relevant by the underwriters and us.

Neither we nor the underwriters can assure investors that an active trading market will develop for our shares of common stock, or that the shares will trade in the public market at or above the initial public offering price.

Directed Share Program

At our request, the underwriters have reserved up to 433,333 shares of our common stock, or 5.0% of the shares offered by this prospectus, for sale at the initial public offering price through a directed share program to our directors, officers and certain of our employees. If purchased by these persons, these shares will be subject to the terms of lock-up agreements described above. The number of shares of our common stock available for sale to the general public will be reduced to the extent that such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus. Other than the underwriting discount described on the front cover of this prospectus, the underwriters will not be entitled to any commission with respect to shares of our common stock sold pursuant to the directed share program. We will agree to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act, in connection with sales of the shares reserved for the directed share program.

Other Relationships

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or other customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

Selling Restrictions

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to this offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

Notice to Prospective Investors in Canada

The shares of common stock may be sold only to purchasers purchasing, or deemed to be purchasing, as principal, that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario) and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the shares of common stock must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 *Underwriting Conflicts*, or NI 33-105, the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in the European Economic Area and the United Kingdom

In relation to each Member State of the European Economic Area and the United Kingdom (each, a “Relevant State”), no shares of common stock have been offered or will be offered pursuant to the offering to the public in that Relevant State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, all in accordance with the Prospectus Regulation, except that offers of shares may be made to the public in that Relevant State at any time under the following exemptions under the Prospectus Regulation:

- A. to any legal entity which is a qualified investor as defined under the Prospectus Regulation;
- B. to fewer than 150 natural or legal persons (other than qualified investors as defined under the Prospectus Regulation), subject to obtaining the prior consent of the bookrunner for any such offer; or
- C. in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of shares of common stock shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation and each person who initially acquires any shares of common stock or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with each of the underwriters and us that it is a “qualified investor” within the meaning of Article 2(e) of the Prospectus Regulation.

In the case of any shares of common stock being offered to a financial intermediary as that term is used in the Prospectus Regulation, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares of common stock acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares of common stock to the public other than their offer or resale in a Relevant State to qualified investors as so defined or in circumstances in which the prior consent of the bookrunner have been obtained to each such proposed offer or resale.

For the purposes of this provision, the expression an “offer to the public” in relation to any shares in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase or subscribe for any shares, and the expression “Prospectus Regulation” means Regulation (EU) 2017/1129.

Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the “Order”) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”) or otherwise in circumstances which have not resulted and will not result in an offer to the public of the shares of common stock in the United Kingdom within the meaning of the Financial Services and Markets Act 2000.

Any person in the United Kingdom that is not a relevant person should not act or rely on the information included in this prospectus or use it as basis for taking any action. In the United Kingdom, any investment or investment activity that this prospectus relates to may be made or taken exclusively by relevant persons.

Notice to Prospective Investors in Switzerland

The shares of common stock may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“FinSA”) and no application has or will be made to admit the common stock to trading on any trading venue (exchange or multilateral trading facility) in Switzerland.

Neither this prospectus nor any other offering or marketing material relating to the common stock constitutes a prospectus pursuant to the FinSA, and neither this prospectus nor any other offering or marketing material relating to the common stock may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to this offering, us or the shares of common stock have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with and the offer of shares of common stock will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (“CISA”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Notice to Prospective Investors in the Dubai International Financial Centre (“DIFC”)

This document relates to an Exempt Offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (the “DFSA”). This document is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for this prospectus. The securities to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

In relation to its use in the DIFC, this prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the securities may not be offered or sold directly or indirectly to the public in the DIFC.

Notice to Prospective Investors in Hong Kong

The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the “SFO”), and any rules made thereunder; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “CO”) or which do not constitute an offer to the public within the meaning of the CO. No advertisement, invitation or document relating to the shares has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

Notice to Prospective Investors in Japan

The shares have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act. Accordingly, none of the shares nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any “resident” of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each underwriter has represented and agreed that it has not offered or sold any shares of common

stock or caused the shares of common stock to be made the subject of an invitation for subscription or purchase and will not offer or sell any shares of common stock or cause the shares of common stock to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares of common stock, whether directly or indirectly, to any person in Singapore other than:

(i) to an institutional investor (as defined in Section 274A of the Securities and Futures Act, (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”) pursuant to Section 274 of the SFA);

(ii) to a relevant person (as defined in Section 275(1) of the SFA) or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or

(iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares of common stock are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares of common stock pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

This prospectus is not intended to constitute an offer or solicitation to purchase or invest in the shares of common stock.

Notice to Prospective Investors in Australia

This document:

- does not constitute a disclosure document or a prospectus under Chapter 6D.2 of the Corporations Act 2001 (Cth) (the “Corporations Act”);
- has not been, and will not be, lodged with the Australian Securities and Investments Commission (“ASIC”), as a disclosure document for the purposes of the Corporations Act and does not purport to include the information required of a disclosure document for the purposes of the Corporations Act; and
- may only be provided in Australia to select investors who are able to demonstrate that they fall within one or more of the categories of investors available under section 708 of the Corporations Act (“Exempt Investors”).

The shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for or buy the shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any shares may be distributed in Australia, except where disclosure to investors is not required under Chapter 6D of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the shares, you represent and warrant to us that you are an Exempt Investor.

As any offer of shares under this document will be made without disclosure in Australia under Chapter 6D.2 of the Corporations Act, the offer of those securities for resale in Australia within 12 months may, under section 707 of the Corporations Act, require disclosure to investors under Chapter 6D.2 if none of the exemptions in section 708 applies to that resale. By applying for the shares you undertake to us that you will not, for a period of 12 months from the date of issue of the shares, offer, transfer, assign or otherwise alienate those shares to investors in Australia except in circumstances where disclosure to investors is not required under Chapter 6D.2 of the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

LEGAL MATTERS

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., New York, New York, which has acted as our counsel in connection with this offering, will pass upon the validity of the shares of our common stock being offered by this prospectus. The underwriters have been represented by Davis Polk & Wardwell LLP.

EXPERTS

The consolidated financial statements of Hydrofarm Holdings Group, Inc. as of and for the year ended December 31, 2019 included in this prospectus and the related 2019 financial statement schedule included elsewhere in the registration statement, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein and elsewhere in the registration statement (which report expresses an unqualified opinion on the financial statements and financial statement schedule and includes an explanatory paragraph referring to the adoption of FASB ASC Topic 842, *Leases*). Such financial statements and financial statement schedule have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Hydrofarm Holdings Group, Inc. as of and for the year ended December 31, 2018 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement, have been audited by MNP LLP, an independent registered public accounting firm, as stated in their report appearing herein. Such financial statements and financial statement schedule are included in reliance upon the reports of such firms given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1, including exhibits and schedules, under the Securities Act that registers the shares of our common stock to be sold in this offering. This prospectus does not contain all the information contained in the registration statement and the exhibits and schedules filed as part of the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement, including all amendments, supplements, schedules and exhibits thereto. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. If a contract or document has been filed as an exhibit to the registration statement, we refer you to the copies of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit.

Upon effectiveness of the registration statement of which this prospectus forms a part, we will file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our registration statement and the referenced exhibits can also be found on this site.

Our website address is www.hydrofarm.com. The information contained in, and that can be accessed through, our website is not incorporated into and shall not be deemed to be part of this prospectus. We have included our website address in this prospectus solely as an inactive textual reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
HYDROFARM HOLDINGS GROUP, INC.

	<u>Page</u>
<i>Audited Consolidated Financial Statements</i>	
Report of Independent Registered Public Accounting Firm – Deloitte & Touche LLP	F-2
Report of Independent Registered Public Accounting Firm – MNP LLP	F-3
Consolidated Balance Sheets	F-4
Consolidated Statements of Operations	F-5
Consolidated Statements of Comprehensive Loss	F-6
Consolidated Statements of Changes in Convertible Preferred Stock and Stockholders' Equity	F-7
Consolidated Statements of Cash Flows	F-8
Notes to the Consolidated Financial Statements	F-9
Schedule II – Valuation and Qualifying Accounts	F-48
<i>Unaudited Condensed Consolidated Financial Statements</i>	
Condensed Consolidated Balance Sheets	F-49
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)	F-50
Condensed Consolidated Statements of Changes in Convertible Preferred Stock and Stockholders' Equity	F-51
Condensed Consolidated Statements of Cash Flows	F-52
Notes to the Condensed Consolidated Financial Statements	F-53

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Hydrofarm Holdings Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Hydrofarm Holdings Group, Inc. and subsidiaries (the “Company”) as of December 31, 2019, the related consolidated statements of operations, comprehensive loss, changes in convertible preferred stock and stockholders’ equity, and cash flows, for the year ended December 31, 2019, and the related notes and Schedule II listed in the Index to Consolidated Financial Statements (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 4 to the financial statements, effective January 1, 2019, the Company adopted FASB ASC Topic 842, *Leases*, using the modified retrospective approach. Our opinion is not modified with respect to this matter.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

San Francisco, California

August 14, 2020 (December 1, 2020 as to the effects of the reverse stock split discussed in Note 20)

We have served as the Company’s auditor since 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Hydrofarm Holdings Group, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Hydrofarm Holdings Group, Inc. (the "Company") as of December 31, 2018, and the related consolidated statements of operations, comprehensive loss, changes in convertible preferred stock and stockholders' equity, and cash flows for the year ended December 31, 2018, and the related notes and schedule (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018, and the results of its consolidated operations and its consolidated cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.



Chartered Professional Accountants
Licensed Public Accountants

We have served as the Company's auditor since 2018.
Toronto, Ontario
May 10, 2019 (December 1, 2020 as to the effects of
the reverse stock split discussed in Note 20)



Hydrofarm Holdings Group, Inc.
CONSOLIDATED BALANCE SHEETS
(In thousands, except for share and per share amounts)

	December 31,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,866	\$ 27,923
Restricted cash	9,991	—
Accounts receivable, net	15,246	15,566
Inventories	50,228	53,200
Notes receivable	4,796	2,000
Prepaid expenses and other current assets	1,840	1,903
Total current assets	104,967	100,592
Property and equipment, net	3,550	4,490
Operating lease right-of-use assets	18,521	—
Intangible assets, net	57,406	68,369
Other assets	1,207	960
Total assets	\$ 185,651	\$ 174,411
Liabilities, convertible preferred stock and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 17,224	\$ 17,064
Accrued expenses and other current liabilities	9,188	6,704
Current portion of lease liabilities	3,181	—
Current portion of long-term debt	34,827	20,096
Total current liabilities	64,420	43,864
Long-term lease liabilities	15,786	—
Long-term debt	73,105	80,424
Deferred tax liabilities	—	881
Other long-term liabilities	1,160	1,698
Total liabilities	154,471	126,867
Commitments and contingencies (Note 16)		
Convertible preferred stock \$0.0001 par value; 50,000,000 shares authorized and 7,007,429 issued and outstanding at December 31, 2019	21,802	—
Stockholders' equity		
Common stock \$0.0001 par value; 300,000,000 shares authorized at December 31, 2019 and 2018, respectively; 20,688,439 shares issued and outstanding at December 31, 2019 and 2018	2	2
Additional paid-in capital	156,179	155,971
Accumulated other comprehensive loss	(144)	(1,853)
Accumulated deficit	(146,659)	(106,576)
Total stockholders' equity	9,378	47,544
Total liabilities, convertible preferred stock and stockholders' equity	\$ 185,651	\$ 174,411

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

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

	Years ended December 31,	
	2019	2018
Net sales	\$ 235,111	\$ 211,813
Cost of goods sold	208,025	187,743
Gross profit	27,086	24,070
Operating expenses:		
Selling, general and administrative	43,784	42,229
Impairment, restructuring and other	10,035	7,169
Loss from operations	(26,733)	(25,328)
Interest expense	(13,467)	(11,606)
Loss on debt extinguishment	(679)	—
Other income, net	105	995
Loss before tax	(40,774)	(35,939)
Income tax benefit	691	397
Net loss	(40,083)	(35,542)
Net loss attributable to non-controlling interest	—	(2,650)
Net loss attributable to Hydrofarm Holdings Group, Inc.	\$ (40,083)	\$ (32,892)
Basic and diluted net loss per share attributable to common stockholders (2018 assumes retroactive conversion of non-controlling interest into controlling interest)	\$ (1.94)	\$ (2.31)
Weighted-average shares used to compute basic and diluted net loss per share attributable to common stockholders	20,688,439	15,390,086
Basic and diluted pro forma net loss per share attributable to common stockholders (unaudited)	\$ (1.94)	
Weighted-average shares used to compute pro forma basic and diluted net loss per share attributable to common stockholders (unaudited)	20,694,134	

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

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

	Years ended December 31,	
	2019	2018
Net loss	\$ (40,083)	\$ (35,542)
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	1,709	(2,418)
Total comprehensive loss	(38,374)	(37,960)
Comprehensive loss attributable to non-controlling interest	—	(2,828)
Comprehensive loss attributable to Hydrofarm Holdings Group, Inc.	<u>\$ (38,374)</u>	<u>\$ (35,132)</u>

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

Hydrofarm Holdings Group, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND
STOCKHOLDERS' EQUITY
(In thousands, except for share amounts)

	Convertible Preferred Stock		Common Stock		Controlling Interest			Total Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit			
Balance, January 1, 2018	—	\$ —	11,171,293	\$ 1	\$ 90,809	\$ 484	\$ (62,074)	\$ 29,220	\$ 4,071	\$ 33,291
Exchange of new shares for non-controlling interest in subsidiary	—	—	1,593,096	—	12,950	(97)	(11,610)	1,243	(1,243)	—
Concurrent Offering of shares and warrants for cash	—	—	1,323,157	—	11,146	—	—	11,146	—	11,146
Concurrent Offering of shares and warrants for conversion of loan from related party	—	—	484,681	—	4,088	—	—	4,088	—	4,088
Reverse merger with Hydrofarm Holdings Group, Inc. as accounting acquiree	—	—	1,186,487	—	1	—	—	1	—	1
Offering of shares and warrants for cash	—	—	4,929,725	1	41,498	—	—	41,499	—	41,499
Offering and Concurrent Offering costs	—	—	—	—	(4,521)	—	—	(4,521)	—	(4,521)
Net loss	—	—	—	—	—	—	(32,892)	(32,892)	(2,650)	(35,542)
Foreign currency translation loss	—	—	—	—	—	(2,240)	—	(2,240)	(178)	(2,418)
Balance, December 31, 2018	—	—	20,688,439	2	155,971	(1,853)	(106,576)	47,544	—	47,544
Proceeds from issuance of Series A Convertible Preferred Stock, net of issuance costs of \$1,274	4,825,346	15,615	—	—	—	—	—	—	—	—
Issuance of Series A Convertible Preferred Stock upon conversion of debt	2,182,083	7,637	—	—	—	—	—	—	—	—
Receivable exchanged for issuance of Series A Convertible Preferred Stock	—	(1,450)	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	208	—	—	208	—	208
Net loss	—	—	—	—	—	—	(40,083)	(40,083)	—	(40,083)
Foreign currency translation gain	—	—	—	—	—	1,709	—	1,709	—	1,709
Balance, December 31, 2019	<u>7,007,429</u>	<u>\$21,802</u>	<u>20,688,439</u>	<u>\$ 2</u>	<u>\$156,179</u>	<u>\$ (144)</u>	<u>\$(146,659)</u>	<u>\$ 9,378</u>	<u>\$ —</u>	<u>\$ 9,378</u>

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

Hydrofarm Holdings Group, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31,	
	2019	2018
Operating activities		
Net loss	\$ (40,083)	\$ (35,542)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,995	8,260
Provision for doubtful accounts	933	534
Provision for (benefit from) inventory obsolescence	707	(824)
Stock-based compensation expense	208	—
Amortization of inventory step-up of basis	—	798
Impairment charges	5,390	2,716
Non-cash operating lease expense	3,650	—
Amortization of deferred financing costs	967	643
Loss on debt extinguishment	679	—
Interest expense and fees capitalized to principal of long-term debt	9,644	6,883
Payment of interest expense and fees capitalized to principal of long-term debt	(2,360)	—
Deferred income tax benefit	(718)	(899)
Other	105	(22)
Changes in assets and liabilities:		
Accounts receivable	(620)	6,821
Inventories	2,725	22,043
Prepaid expenses and other current assets	(9)	509
Other assets	494	560
Accounts payable	(1,199)	(5,652)
Accrued expenses and other current liabilities	2,364	(3,079)
Lease liabilities	(3,297)	—
Other long-term liabilities	123	688
Net cash (used in) provided by operating activities	(13,302)	4,437
Investing activities		
Purchases of property and equipment	(768)	(1,343)
Issuance of notes receivable	(3,050)	(2,000)
Other	—	31
Net cash used in investing activities	(3,818)	(3,312)
Financing activities		
Proceeds from issuance of Series A Convertible Preferred Stock, net of issuance costs	14,165	—
Proceeds from issuance of convertible debt	7,532	—
Borrowings under revolving credit facilities	256,862	192,903
Payments of deferred financing costs	(1,697)	—
Repayments of long-term debt and revolving credit facilities	(256,785)	(220,309)
Payments made on financing leases	(177)	—
Proceeds from Offering and Concurrent Offering	—	52,645
Payments of offering costs on Offering and Concurrent Offering	—	(4,521)
Proceeds from loans from related party	—	6,000
Payments of loans from related party	—	(2,000)
Other	—	798
Net cash provided by financing activities	19,900	25,516
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,154	(924)
Net increase in cash, cash equivalents and restricted cash	4,934	25,717
Cash, cash equivalents and restricted cash at beginning of year	27,923	2,206
Cash, cash equivalents and restricted cash at end of year	\$ 32,857	\$ 27,923
Non-cash investing and financing activities		
Issuance of Series A Convertible Preferred Stock upon conversion of debt and accrued interest	\$ 7,637	\$ —
Receivable related to issuance of Series A Convertible Preferred Stock	\$ 1,450	\$ —
Deferred financing costs capitalized to principal of long-term debt	\$ 615	\$ —
Property and equipment acquired under finance lease obligation	\$ 251	\$ 279
Conversion of loan from related party to common shares	\$ —	\$ 4,088
Supplemental information		
Cash paid for interest	\$ 5,492	\$ 4,710
Cash paid for income taxes	\$ 63	\$ 613

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

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

1. DESCRIPTION OF THE BUSINESS

Introduction

Hydrofarm Holdings Group, Inc. and its subsidiaries (collectively, the “Company”) were formed to acquire and continue the business of Hydrofarm, LLC which, since 1977, has been in the distribution and manufacturing of indoor garden and hydroponics products. The Company was organized under the laws of the State of Delaware and currently maintains its headquarters in Petaluma, California. Products offered include agricultural lighting devices, indoor climate control equipment, hydroponics and nutrients, and plant additives.

Prior to the fall of 2018, the legal parent of Hydrofarm, LLC, the primary operating subsidiary, was Hydrofarm Investment Corp. As discussed further below under “*Recapitalization and reverse merger in 2018*”, Hydrofarm Investment Corp. underwent a recapitalization and reverse merger in a series of transactions in which Hydrofarm Holdings Group, Inc., a shell company, became the legal parent.

Formation Transaction on May 12, 2017

Hydrofarm Investment Corp. was formed on March 21, 2017, and had no operations, assets or liabilities prior to its capitalization on May 12, 2017. On May 12, 2017, Hydrofarm Investment Corp. raised \$90,810 in cash and incurred transaction costs of \$3,185 in exchange for 11,171,293 newly issued shares of common stock from a group of third -party investors, borrowed \$75,000, less transaction costs of \$1,666, on a new term loan (the “Term Loan”) with Brightwood Loan Services, LLC (“Brightwood”), and drew \$27,186 of available funds from a revolving line of credit facility (“BofA Credit Facility”) with Bank of America N.A. (“Bank of America”), for total net proceeds of \$188,145. The proceeds were used to acquire an 87.5% interest in Hydrofarm Holdings LLC, a newly formed entity and intermediate parent of Hydrofarm, LLC. Separately, an investor in Hydrofarm, LLC acquired a direct 12.5% interest in Hydrofarm Holdings LLC valued at \$12,950 (this interest was presented as a non-controlling interest in the Company at the time of transaction until it was exchanged for shares in the Company as discussed below under “*Recapitalization and reverse merger in 2018*”). The Company, through its subsidiary, Hydrofarm Holdings LLC, then acquired Hydrofarm, LLC from its members for \$201,095, and Hydrofarm, LLC became an indirect subsidiary of the Company.

As a result of the 87.5% change in control of Hydrofarm, LLC, the acquisition was accounted for by the Company as a business combination. Under this method, consideration transferred is measured at fair value which is calculated as the sum of the acquisition date consideration plus the fair value of any obligations incurred.

These transactions are collectively referred to as the “Formation Transaction.”

Recapitalization and reverse merger in 2018

The Offering

In the fall of 2018, Hydrofarm Holdings Group, Inc., previously a shell entity with nominal assets and liabilities and 1,186,487 shares of common stock outstanding, completed a private placement (the “Offering”) of units offered to third -party investors at a price of \$8.43 each. Each unit consisted of one share of common stock and a warrant entitling the holder to purchase one-half (1/2) share of common stock at an exercise price of \$16.86 per common share (the “Units”). The Offering raised \$41,499 (excluding fees and expenses) for 4,929,725 (pre-split: 16,619,616) Units.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

The Concurrent Offering and reverse merger

At approximately the same time as, and in relation to, the Offering, Hydrofarm Holdings Group, Inc. offered to investors in Hydrofarm Investment Corp. Units with the same terms as those in the Offering (the “Concurrent Offering”). Hydrofarm Holdings Group, Inc. raised \$15,234 in the Concurrent Offering. Consideration consisted of \$11,146 in cash for 1,323,157 (pre-split: 4,460,659) Units and the conversion to Units of a \$4,000 loan outstanding plus accrued interest of \$88 from a related party for 484,681 (pre-split: 1,633,958) Units (excluding fees and expenses).

On August 28, 2018, in connection with the Offering and Concurrent Offering, in a series of concurrent transactions, the shareholders in Hydrofarm Investment Corp. and the holder of the non-controlling interest (“NCI”) in Hydrofarm Holdings LLC exchanged all of the holder’s interests for 12,764,389 shares of Hydrofarm Holdings Group, Inc.’s common stock which, along with 1,807,838 shares issued in the Concurrent Offering, totaled 14,572,227 shares and represented a 70.4% controlling interest. The exchange ratio for the 12,764,389 shares was 0.2966 Hydrofarm Holdings Group, Inc. common share for 0.4147 Hydrofarm Investment Corp. common share. As a result of the exchange, Hydrofarm Investment Corp. and its subsidiaries became wholly-owned subsidiaries of Hydrofarm Holdings Group, Inc. Hydrofarm, LLC continues as the principal operating subsidiary. Since this exchange was a common control transaction, the carrying value of the NCI was transferred to controlling interest allocated between paid in capital and the NCI’s share of accumulated losses at net book value. The transaction was treated as a tax-free exchange under Section 368(a) of the Internal Revenue Code of 1986, as amended.

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, *Business Combinations*, since the members of Hydrofarm Investment Corp. prior to the exchange continued to hold a controlling interest in Hydrofarm Holdings Group, Inc. after the exchange (e.g., there was no change in control of Hydrofarm Investment Corp.), Hydrofarm Investment Corp. is deemed to be the “accounting acquirer” and Hydrofarm Holdings Group, Inc. is deemed to be the “accounting acquiree.” From an accounting perspective, the consolidated financial statements of the combined entity represent a continuation of the financial position and results of operations of the accounting acquirer/legal acquiree. Accordingly, the historical cost basis of assets, liabilities, capital and accumulated deficit of Hydrofarm Investment Corp. as the accounting acquirer/legal acquiree are carried over to the consolidated financial statements of the merged company.

Hydrofarm Holdings Group, Inc. had no assets prior to the merger except \$1 in cash, and no liabilities or operations; accordingly, it is considered a “shell company” which does not meet the definition of a “business” under ASC 805. For accounting purposes, mergers of operating companies into shell companies are considered to be capital transactions rather than business combinations. These transactions are equivalent to the issuance of stock by the private company for the net monetary assets, if any, of the shell corporation, accompanied by a recapitalization. The accounting for the transaction is identical to that resulting from a reverse acquisition, except that goodwill or other intangible assets would not be recognized. Since Hydrofarm Holdings Group, Inc. was a shell company, there is no accounting basis associated with the 1,186,487 shares of Hydrofarm Holdings Group, Inc. common stock deemed acquired in the merger other than the \$1 in cash.

Consolidated financial statements prepared following a reverse merger are issued under the name of the legal parent (accounting acquiree) and are a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment. The adjustment retroactively states the accounting acquirer’s legal capital to reflect the legal capital of the accounting acquiree. Accordingly, the share and stated capital of Hydrofarm Investment Corp. have been retroactively adjusted in these consolidated financial statements and footnotes using the exchange ratio established in the merger agreements to reflect the number of shares of Hydrofarm Holdings Group, Inc. issued in the exchange.

For convenience hence-forth here-in, the consolidated financial statements for periods prior to the exchange are referred to as those of the “Company” unless otherwise noted.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Warrants issued to placement agents

As part of the Offering and Concurrent Offering, placement agents were issued warrants to purchase 517,067 shares of common stock in the Company of which 172,351 shares subject to warrants are exercisable at a price of \$16.86 per share and 344,716 shares subject to warrants are exercisable at a price of \$8.43 per share. The placement agent warrants are exercisable only upon exercise of the investor warrants issued in the Offering and Concurrent Offering. The aggregate fair value of the placement agent warrants of \$781 has been accounted for as an increase and a decrease to accumulated paid in capital for the issuance of the instrument within Offering and Concurrent Offering costs as an offset to the proceeds from the offering as transaction costs.

The following is a summary of the aggregate shares of common stock and shares subject to warrants issued as part of the Offering and Concurrent Offering:

	<u>Common Stock</u>	<u>Shares Subject to Warrants</u>
Offering	4,929,725	2,465,201
Concurrent Offering	1,323,157	661,583
Conversion of Loan	484,681	242,340
Subtotal	6,737,563	3,369,124
Placement agent warrants	—	517,067
Total	<u>6,737,563</u>	<u>3,886,191</u>

2. ADJUSTMENTS TO PRIOR PERIOD FINANCIAL STATEMENTS

The consolidated balance sheet, statement of operations, statement of other comprehensive loss, and statement of cash flows as of and for the year ended December 31, 2018 (“2018”) have been adjusted from the previously issued presentation to (a) conform certain classifications to the year ended December 31, 2019 (“2019”) presentation, which management believes better align with those classifications used by other entities in businesses similar to the Company’s business and (b) adjust the 2018 consolidated financial statements for certain immaterial errors, individually and in aggregate. The adjustments were primarily to (i) properly accrue for certain discounts and expenses, including a settlement with a distributor (see Note 16, *Purchase Commitments*), (ii) write-off contingent consideration related to an earn-out, (iii) properly record depreciation expense for select long-lived assets, (iv) properly reflect sales cut-off at year-end and (v) properly classify deferred tax assets and tax expenses for all the aforementioned adjustments. The Company has also adjusted the disclosures in Note 6, *Accounts Receivable, Net and Inventories*, Note 9, *Property and Equipment*, Note 10, *Intangible Assets and Goodwill*, and Note 11, *Accrued Expenses and Other Current Liabilities* for the impact of the reclassifications and adjustments to 2018 disclosures.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

The following tables reconciles the previously reported amounts as of and for the year ended December 31, 2018 to amounts reported in the accompanying consolidated financial statements:

Consolidated balance sheet amounts:

	As previously reported	Reclassifications	Adjustments	As restated and reclassified
Accounts receivable, net	\$ 16,097	\$ —	\$ (531)	\$ 15,566
Inventories, net	53,763	(929)	366	53,200
Notes receivable	—	2,000	—	2,000
Prepaid expenses and other current assets	3,403	(1,071)	(429)	1,903
Total current assets	101,186	—	(594)	100,592
Property and equipment, net	5,446	—	(956)	4,490
Other assets	531	—	429	960
Total assets	175,532	—	(1,121)	174,411
Accrued expenses and other current liabilities	7,231	—	(527)	6,704
Total current liabilities	44,391	—	(527)	43,864
Deferred tax liabilities	2,342	—	(1,461)	881
Other long-term liabilities	590	—	1,108	1,698
Total liabilities	127,747	—	(880)	126,867
Accumulated deficit	(106,335)	—	(241)	(106,576)
Total stockholders' equity	47,785	—	(241)	47,544
Total liabilities, convertible preferred stock and stockholders' equity	175,532	—	(1,121)	174,411

Consolidated statement of operations amounts:

	As previously reported	Reclassifications	Adjustments	As restated and reclassified
Net sales	\$212,464	\$ —	\$ (651)	\$211,813
Cost of goods sold	183,690	2,813	1,240	187,743
Gross profit	28,774	(2,813)	(1,891)	24,070
Operating expenses:				
Salaries and benefits	16,463	(16,463)	—	—
Marketing	2,584	(2,584)	—	—
General and administrative	18,668	(18,668)	—	—
Selling, general and administrative	—	42,055	174	42,229
Depreciation and amortization	7,170	(7,170)	—	—
Impairment, restructuring and other charges	3,244	4,453	(528)	7,169
Loss from operations				25,328
Interest expense	11,606	—	—	11,606
Other expense (income), net	4,238	(4,436)	(797)	(995)
Net loss before tax	(35,199)	—	(740)	(35,939)
Income tax (expense) benefit	(102)	—	499	397
Net loss	<u>\$ (35,301)</u>	<u>\$ —</u>	<u>\$ (241)</u>	<u>\$ (35,542)</u>

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Consolidated statement of other comprehensive loss amounts:

	As previously reported	Reclassifications	Adjustments	As restated and reclassified
Net loss	\$(35,301)	\$ —	\$(241)	\$(35,542)
Other comprehensive loss				
Foreign currency translation loss	(2,418)	—	—	(2,418)
Total comprehensive loss	(37,719)	—	(241)	(37,960)
Comprehensive loss attributable to non-controlling interest	(2,828)	—	—	(2,828)
Comprehensive loss attributable to Hydrofarm Holdings Group, Inc.	<u><u>\$ (34,891)</u></u>	<u><u>\$ —</u></u>	<u><u>\$(241)</u></u>	<u><u>\$(35,132)</u></u>

Consolidated statement of cash flows amounts:

	As previously reported	Reclassifications	Adjustments	As restated and reclassified
Operating activities				
Net loss	\$(35,301)	\$ —	\$ (241)	\$(35,542)
Depreciation and amortization	7,170	—	1,090	8,260
Provision for (benefit from) inventory obsolescence	724	—	(1,548)	(824)
Impairment charges	3,244	—	(528)	2,716
Deferred income tax benefit	—	34	(933)	(899)
Accounts receivable	6,290	—	531	6,821
Inventories	21,203	(342)	1,182	22,043
Prepaid expenses and other current assets	(262)	342	429	509
Other assets	989	—	(429)	560
Accrued expenses and other current liabilities	(2,656)	104	(527)	(3,079)
Deferred tax liabilities	138	(138)	—	—
Other long-term liabilities	(420)	—	1,108	688
Net cash provided by operating activities	4,303	—	134	4,437
Investing activities				
Proceeds from sale of property plant and equipment	538	(538)	—	—
Investment in computer software	(372)	372	—	—
Acquisitions, including shell company through reverse merger, net of cash acquired	(1)	1	—	—
Other	—	165	(134)	31
Net cash used in investing activities	(3,178)	—	(134)	(3,312)

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)****3. GOING CONCERN**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business within one year after the date the consolidated financial statements are available to be issued. Management evaluates whether there are conditions or events, considered in aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

As described in Note 12, *Debt*, the BofA Credit Facility was replaced with another facility from Encina Business Credit, LLC (“Encina”) in July 2019 (the “Encina Credit Facility”). Among other provisions in the new agreement, the financial covenant tests were negotiated to more appropriately reflect the business model as it existed in mid-2019. In September and October of 2019, the Company received proceeds of \$7,532 (less issuance costs of \$552) from the issuance of debt convertible into preferred stock. In addition, certain sales growth and expense rationalization initiatives were successfully implemented in 2019, which increased sales and stabilized expenses. To improve the Company’s capitalization, in December 2019 and in January and February 2020, proceeds of \$17,958, net of offering costs, were raised from the issuance of convertible preferred stock; at the time of the offering, convertible preferred stock was issued in exchange for the outstanding convertible debt.

Based on management’s evaluation, the Company expects that, as of the date these consolidated financial statements are available to be issued, its present financial resources, together with the net proceeds received from the issuance of the convertible preferred stock and loans in 2020, will be sufficient to meet its obligations as they come due and to fund its operations for at least 12 months after the date the consolidated financial statements are available to be issued. Accordingly, the conditions that previously raised substantial doubt about the Company’s ability to continue as a going concern as of the date of issuance of the Company’s December 31, 2018 consolidated financial statements have been alleviated.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES***Basis of consolidation and presentation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its wholly owned subsidiaries and any entities in which it maintains a controlling financial interest. All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of 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 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, valuation of intangible assets and goodwill, valuation of stock and warrants issued in private placements, valuation of stock-based compensation and 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.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Segment and entity-wide information

Segment information

The Company's chief operating decision maker ("CODM") is the chief executive officer ("CEO") who reviews financial information for the purposes of making operating decisions, assessing financial performance and allocating resources.

The business is organized as two operating segments, the 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 branded hydroponics 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. The similarities in 2019 compared to 2018 have been driven in large part by the current CEO, who joined the Company in January 2019, and most of his executive team thereafter, who have implemented company-wide initiatives to better integrate the business units and improve operating and other efficiencies.

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

The presentation for 2018 has been recast to conform to the current year evaluation of one reportable segment. The change in presentation was driven by initiatives implemented by management in 2019, as discussed above.

Entity-wide information

Sales to external customers and property and equipment, net in the United States and Canada, determined by location of the subsidiaries, were as follows:

	<u>For the year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
United States	\$194,618	\$169,018
Canada	44,515	49,147
Intersegment eliminations	(4,022)	(6,352)
Total consolidated net sales	<u>\$ 235,111</u>	<u>\$ 211,813</u>

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
United States	\$2,660	\$3,557
Canada	890	933
Total property and equipment, net	<u>\$3,550</u>	<u>\$4,490</u>

All of the products sold by the Company are similar and classified as hydroponic 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.

Concentrations of business and credit risk

The Company maintains cash balances at certain financial institutions that can, at times, exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk in this area.

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

Accounts receivable, which are unsecured except those that are backed by personal guarantees, expose the Company to credit risks such as collectability and business risks such as customer concentrations. Exposure to losses on receivables is principally dependent on each customer's financial condition. Credit risk is mitigated by investigating the credit worthiness of most customers prior to establishing relationships with them and performing periodic review of the credit activities of those customers. Receivables arising from sales are not collateralized; however, credit risk is somewhat mitigated as a result of the large diverse customer base. No customer accounted for more than 10% of revenues in 2019 and 2018. One customer accounted for 11% of accounts receivable for the year ended December 31, 2019, and no customers accounted for more than 10% of accounts receivable as of December 31, 2018. One supplier accounted for 10% of purchases in 2019, and no suppliers accounted for more than 10% of purchases in 2018.

Fair value measurements

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

- Level 1 — Valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or, corroborated by, observable market data by correlation or other means.
- Level 3 — Valuation techniques with significant unobservable market inputs.

Foreign currency transactions

The Company reports its financial results in United States dollars, which is the currency of the primary economic environment in which it operates. The functional currency for each of the Company's foreign subsidiaries is generally its local currency. Assets and liabilities of these subsidiaries are translated at the exchange rates in effect at the end of each year. Income and expense items are translated at the average rates of exchange prevailing during the year. Translation gains and losses arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income (loss) within stockholders' equity. Foreign currency transaction gains and losses are included in the determination of net income (loss) and classified as other (expense) income, net in the consolidated statements of operations. The Company recognized transactional losses of \$171 and \$53 in 2019 and 2018, respectively.

The effect of currency translation adjustments on cash, cash equivalents and restricted cash is presented separately in the consolidated statements of cash flows.

Cash, cash equivalents and restricted cash

Cash includes funds deposited in banks. Cash equivalents include highly liquid investments such as term deposits and money market instruments with original maturities of three months or less. As of December 31, 2019, amounts included in restricted cash represent those funds required to be set aside by contractual agreements with the term loan, credit card, and letter of credit providers.

In November 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*. ASU 2016-18 requires that the statements of cash flows explain the

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

change during the period in the total cash, cash equivalents and restricted cash. The Company retroactively adopted this standard in 2019 and there was no impact to the consolidated statement of cash flows in 2018 as the Company did not have any restricted cash as of December 31, 2018 and January 1, 2018. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the consolidated statements of cash flows:

	December 31,	
	2019	2018
Cash and cash equivalents	<u>\$22,866</u>	<u>\$27,923</u>
Restricted cash	<u>9,991</u>	<u>—</u>
Cash and cash equivalents, and restricted cash	<u>\$32,857</u>	<u>\$27,923</u>

Accounts receivable, net

Accounts receivable, net represents amounts due from customers less the allowance for doubtful accounts.

Allowances for doubtful accounts reflect the Company's estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. The allowance is determined based on a combination of factors, including the age of the account, the credit worthiness of the customer, payment terms, the customer's historical payment history and general economic conditions. Accounts receivable balances are charged off against the allowance account when the Company believes it is probable the receivable will not be recovered.

Inventories

Inventories are primarily comprised of finished goods and are recorded at the lower of cost or net realizable value determined on a first-in, first-out basis. Cost includes purchase price and other costs such as import duties, taxes and transportation costs. Trade discounts and rebates are deducted from the purchase price.

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. If actual conditions are less favorable than those projected, it may be necessary to increase the allowance for excess and obsolete inventory. Any increase in the allowance will adversely impact results of operations. The establishment of an allowance of excess and obsolete inventory establishes a new cost basis in the inventory. Such allowance is not reduced until the product is sold. If inventory is sold, any related reserves would be reversed in the period of sale.

Leases

The Company early adopted FASB ASC 842, *Leases*, using the modified retrospective approach effective January 1, 2019, and no cumulative effect adjustment was required to be recorded. Based on the Company's current lease portfolio, the adoption of the new standard resulted in the recognition of operating lease right of use ("ROU") assets and lease liabilities in the amount of approximately \$24,872 and \$25,135, respectively, in the Company's consolidated balance sheets. The balances for ROU assets under finance lease and finance lease obligations of \$700 and \$861, respectively, previously recognized and that continue to be recorded under the new standard as of January 1, 2019 without adjustment are included in property and equipment and current portion of long-term debt and long-term debt, respectively.

ASC 842 provided a number of optional practical expedients in transition. The Company elected the "package of practical expedients" available at the time of implementation which permitted the Company to carry over from ASC 840 its prior conclusions about lease identification, lease classification and initial direct

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

costs. On an on-going basis, the Company elected the short-term lease exemption for all leases with an initial term of 12 months or less. Lease payments included in the calculation of the ROU asset and lease liability for real estate leases exclude any portion of the payment allocable to non-lease components; however, the Company made an accounting policy election to account for the lease and non-lease components as a single lease component for equipment leases.

The Company determines if an arrangement is a lease at inception. ROU assets represent the Company's right to use an underlying asset for the lease term while lease liabilities represent the Company's obligation to make lease payments for the lease term. All leases greater than 12 months' result in the recognition of a ROU asset and liability at the lease commencement date based on the present value of the lease payments over the lease term. The present value of the lease payments is calculated using the applicable weighted-average discount rate. The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Company estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the currency denomination of the lease, the contractual lease term and the Company's applicable borrowing rate. To determine the incremental borrowing rate, reference is made to interest rates that would be available to finance assets similar to the assets under lease in their related geographical location.

The Company accounts for lease components separately from non-lease components, other than for office equipment. The Company has certain leases that include one or more options to renew with renewal terms that can extend the lease term from one to ten years. The exercise of the lease renewal options is at the Company's discretion and are included in the determination of the ROU asset and lease liability when the option is reasonably certain of being exercised.

Prior to adoption of ASC 842

Prior to January 1, 2019, leases were accounted for under FASB ASC 840, *Leases*, and were reviewed for capital or operating classification at their inception. Leases were classified as capital leases whenever the terms of the lease transfer substantially all the benefits and risks incidental to ownership to the lessee. All other leases were classified as operating leases.

Capital leases were recognized at the commencement of the lease at the fair value of the leased property as of the inception date or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between interest charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding leased asset was amortized over its useful life.

Operating lease payments were recognized as expense on a straight-line basis over the lease term. In the event that lease incentives were received to enter into operating leases, such incentives were recognized as a liability and recognized as a reduction of rental expense on a straight-line basis.

Property and equipment

Property and equipment is recorded at cost less accumulated depreciation and provisions for impairment, if any. Expenditures for maintenance and repairs are expensed as incurred, while costs related to betterments and improvements that extend the useful lives of property and equipment are capitalized. When property and equipment are retired or otherwise disposed of, the cost of the asset and related accumulated depreciation are removed from the accounts with the resulting gain or loss being reflected in loss from operations. Depreciation

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

of property and equipment is provided on the straight-line method and is based on the estimated useful economic lives of the assets as follows:

Machinery and equipment	5 years
Leasehold improvements	Lesser of useful life or term of the lease
Computer equipment	3 – 4 years
Furniture and fixtures	5 years

Intangible assets and goodwill

Definite-lived intangible assets are amortized using the straight-line method over their estimated useful lives. Certain trade names are considered to have indefinite useful lives. There were no additions to or disposals of the indefinite-lived trade name in 2019 or 2018. The costs of internal use computer software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or the post-implementation/operation stage.

The following are the estimated useful lives for the major classes of definite life intangible assets:

Computer software	5 years
Customer relationships	18 years
Intellectual property and licenses	5 – 15 years or the lesser of useful life and term of license
Trade names	2 years
Favorable leases	5 years

Goodwill represents the excess of the cost 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.

Impairment

The Company reviews its long-lived assets, including amortizable intangible assets, ROU assets and property and equipment, for potential impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized for amortizable intangible assets and property and equipment when estimated undiscounted future cash flows expected to result from the use of the asset or asset group are less than its carrying amount. The asset group is defined as the lowest level for which identifiable cash flows are available and largely independent of the cash flows of other groups of assets. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value and is recorded in impairment, restructuring and other in the consolidated statements of operations.

The Company reviews its indefinite-lived intangible asset (trade names) annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. When testing the trade name for impairment, the Company first performs an assessment of qualitative factors (“Step 0 Test”). If qualitative factors indicate that it is more likely than not that the fair value of the trade names are less than its carrying amount, the Company tests the trade names for impairment at the asset level using the relief-from-royalty method to determine fair value. The Company determines the fair value of the trade names and compares it to the carrying value. If the carrying value of the trade names exceeds the fair value, the Company recognizes an impairment loss in an amount equal to the excess.

The Company reviews the carrying amount of goodwill for impairment annually in the fourth quarter of the fiscal year and whenever events or changes in circumstances indicate that the carrying amount may not be

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

recoverable. Events that result in an impairment review include significant changes in the business climate, declines in operating results, or an expectation that the carrying amount may not be recoverable. When testing goodwill for impairment, the Company first performs a Step 0 Test. If qualitative factors indicate that it is more likely than not that the fair value of the relevant reporting unit is less than its carrying amount, the Company tests goodwill for impairment at the reporting unit level using a two-step approach. In step one, the Company determines if the fair value of the reporting unit exceeds the reporting unit's carrying value. If step one indicates that the fair value of the reporting unit is less than its carrying value, the Company performs step two, determining the fair value of goodwill and, if the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded. The Company has determined that its reporting units for the purpose of goodwill impairment testing are the United States and Canada.

Warrants issued in connection with financings

The Company generally accounts for warrants issued in connection with debt and equity financings as a component of equity unless the warrants include a conditional obligation to issue a variable number of shares among other conditions or there is a deemed possibility that the Company may need to settle the warrants in cash.

Revenue recognition

The Company early adopted FASB ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), on January 1, 2018, with no material impact on its consolidated financial statements.

ASC 606 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 indoor garden and hydroponics products. Inventory is maintained in regional distribution centers. Payment terms are primarily at the point of sale or due within thirty days.

Revenue is recognized as control of promised goods or services is transferred to customers which generally occurs upon receipt at customers' locations determined by the specific terms of the contract. Arrangements have a single performance obligation and revenue is reported net of variable consideration which includes applicable volume rebates, cash discounts and sales returns and allowances. Variable consideration is estimated and recorded at the time of sale; these allowances and accruals are not material to the financial statements.

The amount billed to customers for shipping and handling costs included in net sales was \$2,790 and \$1,826 in 2019 and 2018, 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 under the practical expedient provisions of ASC 606. Deferred revenues are not material. The Company does not receive noncash consideration for the sale of goods. 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 under the practical expedient provisions.

Advertising and warranty costs

Advertising costs paid to third -party vendors totaling \$666 and \$771 in 2019 and 2018, respectively, are expensed as incurred.

An estimate of exposure for warranty claims is accrued based on both current and historical product sales data and warranty costs incurred. Product warranties, where applicable, range from one year to five years. The Company assesses the adequacy of its recorded warranty liability periodically and adjusts the amount as necessary. Warranty expense and the related accrual are not material to these financial statements.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Stock-based compensation

Stock-based compensation cost is measured as of the grant date based on the fair value of the award and is expensed ratably over the service period of the award, which is typically the vesting period for time-based awards. Performance-based awards are expensed over the requisite service period based on achievement of performance criteria. The Company has elected to account for forfeitures when they occur, and any compensation expense previously recognized on unvested shares will be reversed.

The Company estimates the fair value of option-based awards subject to only a service condition on the date of grant using the Black-Scholes valuation model. The Black-Scholes model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock.

For inputs into the Black-Scholes model, the expected stock price volatility for the common stock is estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in the Company's industry which are of similar size, complexity and stage of development. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury implied yield at the date of grant. The Company has elected to use the "simplified method" to determine the expected term which is the midpoint between the vesting date and the end of the contractual term because it has no history upon which to base an assumption about the term; the Company believes the simplified method approximates a term if it were to be based on expected life.

Income taxes

The asset and liability method of accounting for income taxes is followed whereby deferred income tax assets are recognized for deductible temporary differences and operating loss carryforwards, and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes.

Deferred income tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The income tax expense or benefit is the income tax payable or recoverable for the year plus or minus the change in deferred income tax assets and liabilities during the year.

The Company establishes a liability for tax return positions in which there is uncertainty as to whether or not the position will ultimately be sustained. Amounts for uncertain tax positions are adjusted when new information becomes available or when positions are effectively settled. The Company recognizes interest expense and penalties related to these unrecognized tax benefits within income tax expense. U.S. GAAP provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The amount recognized is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the related tax authority.

Comprehensive income (loss)

Comprehensive income (loss) consists of two components: net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that under U.S. GAAP are recorded directly as an element of stockholders' equity, but are excluded from net income (loss), and is

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

comprised of currency translation adjustments relating to the Company's foreign subsidiaries whose functional currency is not the U.S. dollar.

Net loss per common share (EPS)

Basic EPS is computed using net loss attributable to common stockholders divided by the weighted-average number of common shares outstanding during each period, excluding unvested restricted stock units.

Diluted EPS represents net loss attributable to common stockholders 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. Stock options and restricted stock units that contain performance conditions are not included in the calculation of common stock equivalents until such performance conditions are probable of being achieved.

Impact of recapitalization and reverse merger on 2018 EPS

FASB ASC 260-10-55-12 states that nominal issuances of common stock are deemed to be in substance recapitalizations and should be reflected in EPS computations in a manner similar to a stock split or stock dividend for which retroactive treatment is required. In August 2018, the holders of a non-controlling interest in a subsidiary, which was previously presented as NCI, exchanged their interest for 1,593,096 shares of common stock in the Company (see Note 1, *Description of Business, Recapitalization and reverse merger in 2018*). This exchange is deemed to be a nominal issuance of common stock; accordingly, the exchange is considered to have occurred as of inception (March 21, 2017) for the purposes of calculation of EPS for 2018. Furthermore, the net loss allocable to the NCI is assumed to have converted into a controlling interest as of inception for this purpose.

In accordance with FASB ASC 805-40-45, the equity structure in the consolidated financial statements following a reverse merger reflects the equity structure of the legal acquirer (the accounting acquiree), including the equity interests issued by the legal acquirer to effect the merger. In calculating the weighted-average number of common stock outstanding (the denominator of the EPS calculation) during the period in which the reverse merger occurs:

- The number of common stock outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted-average number of common stock of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement.
- The number of common stock outstanding from the acquisition date to the end of that period shall be the actual number of common stock of the legal acquirer (the accounting acquiree) outstanding during that period.

Basic EPS for each comparative period before the acquisition date presented in the consolidated financial statements following a reverse merger shall be calculated by dividing (a) the income of the legal acquiree attributable to common stockholders in each of those periods by (b) the legal acquiree's historical weighted average number of common stock outstanding multiplied by the exchange ratio established in the acquisition agreement.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Net loss per share attributable to common stockholders

The following table presents information necessary to calculate basic and diluted EPS for the years ended December 31, 2019 and 2018:

	2019	2018
Net loss (2018 assumes retroactive conversion of NCI into controlling interest)	\$ (40,083)	\$ (35,542)
Less: Undistributed earnings allocable to participating securities	—	—
Basic and diluted net loss attributable to common stockholders	<u>\$ (40,083)</u>	<u>\$ (35,542)</u>
Weighted-average shares of common stock outstanding for basic and diluted (2018 assumes retroactive conversion of NCI into controlling interest)	20,688,439	15,390,086
Basic and diluted net loss per share attributable to common stockholders	\$ (1.94)	\$ (2.31)

Basic and diluted net loss per share attributable to common stockholders is computed using the two-class method as the convertible preferred stock is determined to be a participating security; however, the application of the if-converted method to participation in the net loss is anti-dilutive and therefore the impact is excluded.

For the years ended December 31, 2019 and 2018, the computation of the weighted-average shares of common stock outstanding for diluted excludes the following potential common shares as their inclusion would have an anti-dilutive effect on diluted net loss per share attributable to common stockholders:

	For the years ended December 31,	
	2019	2018
Shares subject to warrants outstanding	3,886,191	3,886,191
Shares subject to stock options outstanding	819,879	—
Shares subject to unvested restricted stock units	1,820,598	—
Shares convertible into common stock	2,078,605	—

Unaudited pro forma net loss per share attributable to common stockholders for 2019 presentation

The following table sets forth the computation of the Company's unaudited pro forma basic and diluted net loss per share attributable to common stockholders assuming the automatic conversion of convertible preferred stock into shares of common stock (based on the conversion formula described in Note 13, *Convertible preferred stock and stockholders' equity*) (weighted to reflect shares that would have been outstanding for one day) upon consummation of the IPO as if the IPO had occurred as of the original issuance date of the convertible preferred stock:

	For the year ended December 31, 2019 (Unaudited)
Net loss	\$ (40,083)
Adjustments to net loss	—
Net loss used in calculating basic and diluted pro forma net loss per share attributable to common stockholders	<u>\$ (40,083)</u>
Weighted-average shares of common stock used to calculate basic and diluted pro forma net loss per share attributable to common stockholders outstanding	20,688,439
Pro forma adjustment to reflect assumed conversion of all outstanding shares of convertible preferred stock into common stock	5,695
Weighted-average shares used to compute pro forma basic and diluted net loss per share attributable to common stockholders	<u>20,694,134</u>
Basic and diluted pro forma net loss per share attributable to common stockholders	<u>\$ (1.94)</u>

Hydrofarm Holdings Group, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(in thousands, except share amounts)

5. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adopted in 2019

In August 2016, The FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments — a consensus of the FASB Emerging Issues Task Force*, which clarifies guidance on eight cash flow classification issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principal. The Company adopted this standard in 2019 on a retrospective basis, which had no impact on the cash flow statement presentation in 2018.

Accounting standards not yet effective

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates certain disclosure requirements for fair value measurement for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect the new guidance will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, with additional amendments issued subsequently. Topic 326 changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. Topic 326 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of Topic 326 will have on its consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

6. ACCOUNTS RECEIVABLE, NET AND INVENTORIES

Accounts receivable, net comprised the following:

	December 31,	
	2019	2018
Trade accounts receivable	\$16,577	\$16,175
Allowance for doubtful accounts	(1,776)	(1,227)
Other receivables	445	618
Total accounts receivable, net	\$15,246	\$15,566

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Inventories comprised the following:

	December 31,	
	2019	2018
Finished goods	\$54,050	\$56,419
Allowance for inventory obsolescence	(3,822)	(3,219)
Total inventories	<u>\$50,228</u>	<u>\$53,200</u>

7. NOTES RECEIVABLE

The Company advanced \$2,000 in the form of a note receivable secured by equipment to a third party in December 2018, which was outstanding at December 31, 2018. As of December 31, 2019, the principal remained outstanding and total interest income at 8.0% per annum earned in 2019 was \$160. The note was to mature on the earlier of a) 90 days after abandonment of a potential merger, b) acceleration due to default conditions, or c) December 2023. In January 2020, the Company formally abandoned the merger, and all outstanding principal and interest was repaid in February 2020.

In a separate transaction during 2019, the Company advanced a total of \$2,931 in the form of a note receivable secured by equipment to another third party, which earned interest at a rate of 8.0% for total interest earned in 2019 of \$119. The note was to mature on the earlier of a) four months or 12 months after abandonment of a potential merger by the third party or the Company, respectively, b) acceleration due to default conditions or c) May 29, 2023. As of December 31, 2019, the third party had defaulted on the interest payment due on September 20, 2019, triggering an increase to the default rate of 13%. In January 2020, the Company formally abandoned the merger and arranged for the principal balance to be paid in monthly installments of \$254 through January 2021. Effective April 23, 2020, due to the third party being in default on the note, the parties entered a forbearance agreement stipulating that payments will commence beginning May 8, 2020. The Company and the third party are currently in discussions to amend the note. The amendment is intended to allow the third party to receive equity financing that will be used to fund operations and make a principal payment on the note upon the effective date of the amendment. The Company expects the amendment will provide for financial covenants, a first priority security on all assets, quarterly amortization, and a three-year maturity. In the event of a further default by the third party, the Company will pursue its remedies in the note which include recovery of the equipment serving as collateral, which is expected to be sufficient to settle the basis of the loan.

8. LEASES

The Company leases its distribution centers and certain equipment under operating and finance leases. The Company's office headquarters is located in the same building as the distribution center in Petaluma, California.

As of December 31, 2019, no renewal option periods were included in any estimated minimum lease terms as the options were not deemed to be reasonably certain to be exercised. The depreciable life of ROU assets and leasehold improvements are limited by the expected lease term. None of the lease agreements include variable rental payments that are adjusted periodically for inflation based on the index rate; rather, most leases for the distributions centers provide for fixed periodic increases. The Company's lease agreements do not contain any residual value guarantees or unusual restrictive covenants.

To determine the implicit rate as of January 1, 2019 upon adoption of ASC 842 for operating leases, reference was made to interest rates that would be available to finance assets similar to the Company's assets used under lease. These assets were mostly single-use warehouses located in industrial areas throughout the

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

US and in western Canada. Because the warehouses had very similar characteristics and locations, and would be subject to similar underwriting standards, an overall rate of 4.5% was used. No new operating leases were originated during 2019.

For capital leases originated in 2019, the implicit rate was available and used in the calculation of ROU assets and liabilities under finance leases.

Total ROU assets and lease liabilities were as follows:

	<u>Balance Sheet Classification</u>	<u>As of December 31, 2019</u>
Leased assets		
Operating ROU assets at cost	Operating lease right-of-use assets	\$21,906
Accumulated amortization	Operating lease right-of-use assets	(3,385)
Net book value		<u>\$18,521</u>
Finance lease assets at cost	Property and equipment, net	\$ 1,060
Accumulated amortization	Property and equipment, net	(375)
Net book value		<u>\$ 685</u>
Lease liabilities		
Current:		
Operating leases	Current portion of lease liabilities	\$ 3,181
Finance leases	Current portion of long-term debt	431
Noncurrent:		
Operating leases	Long-term lease liabilities	15,786
Finance leases	Long-term debt	368
Total lease liabilities		<u>\$19,766</u>

Total lease income and costs were as follows:

	<u>Classification</u>	<u>For the year ended December 31, 2019</u>
Operating lease costs	Selling, general and administrative	\$4,580
Finance lease costs:		
Amortization of lease assets	Selling, general and administrative	239
Interest on lease liabilities	Interest expense	46
Gain on lease termination	Impairment, restructuring, and other	(160)
Sublease income	Selling, general and administrative	(369)

Other costs associated with operating leases were \$1,276 for short-term and month-to-month leases, \$1,061 for non-lease components such as common area maintenance, and \$435 for other miscellaneous items in 2019. These costs are included in selling, general and administrative expenses in the consolidated statements of operations.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

The aggregate future minimum lease payments under long-term noncancelable operating and finance leases with remaining terms greater than one year as of December 31, 2019 are as follows:

Year ending December 31,	Operating	Finance
2020	\$ 3,950	\$484
2021	3,855	286
2022	3,364	117
2023	1,804	7
2024	1,397	—
Thereafter	8,158	—
Total rental payments	22,528	894
Less portion representing interest	3,561	95
Total principal	18,967	799
Less current portion	3,181	431
Long-term portion	\$15,786	\$368

Sub-lease income of \$180, \$180, and \$30 is due for the years ending December 31, 2020, 2021 and 2022, respectively.

The following table summarizes the weighted-average remaining lease term and weighted-average discount rate on long-term leases as of December 31, 2019:

Weighted-average remaining lease term in years:	
Operating leases	7.5
Finance leases	2.4
Weighted-average discount rate:	
Operating leases (for leases expiring after 2019)	4.50%
Finance leases	7.17%
ROU assets and lease obligations recognized upon adoption of ASC 842 on January 1, 2019:	
ROU assets	\$ 24,872
Operating lease obligations	(25,135)
Adjustments from early termination of ROU assets net of lease extensions:	
ROU assets surrendered	\$ (2,698)
Lease obligation cancelled	2,858
Gain on early termination of lease obligation	\$ 160
Property and equipment acquired under finance lease obligation	\$ 251

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

The Company performed its periodic impairment test for each asset group and determined that estimated future undiscounted cash flows exceeded the carrying value of the ROU assets.

Cash paid for amounts included in lease liabilities in 2019:	
Operating cash flows from operating leases	\$(4,225)
Operating cash flows from finance leases	(43)
Financing cash flows from finance leases	(177)

Disclosure for leases for 2018 under ASC 840

Capital lease assets in 2018 related primarily to machinery and equipment and were recorded at the lower of the present value of future minimum lease payments or fair market value at lease inception. Capital lease assets are amortized over the shorter of their estimated useful lives or the respective terms of the leases. When determining the lease term, option periods for which failure to renew the lease imposes a significant economic detriment are included. Amortization of capital lease assets totaled \$163 in 2018 and is included in selling, general and administrative expenses.

As of December 31, 2018, capital lease obligation totaled \$861 and effective interest rates ranged from 5.65% to 8.95%.

Rent expense related to certain warehouse, distribution and office facilities, vehicles and office equipment under leases with terms greater than one year was \$6,509 in 2018. Other costs of \$1,169 were associated with month-to-month leases. These costs are included in selling, general and administrative expenses in the consolidated statement of operations. Amounts payable under the operating leases as of December 31, 2018 were \$4,187, \$3,644, \$3,763, \$3,034, and \$2,189 for each of the five years ending December 31, 2023. Payments in the aggregate due after 2023 are \$9,555.

9. PROPERTY AND EQUIPMENT

Property and equipment comprised the following:

	December 31,	
	2019	2018
Machinery and equipment	\$ 3,200	\$ 2,870
Leasehold improvements	2,721	2,485
Other	2,197	2,311
Gross property and equipment	8,118	7,666
Less: accumulated depreciation and amortization	(4,568)	(3,176)
Total property and equipment, net	\$ 3,550	\$ 4,490

Depreciation and amortization expense related to property and equipment, was \$1,688 and \$2,391 in 2019 and 2018, respectively. The Company performed its periodic impairment test for each asset group and determined that no impairment was required to be recorded in 2019 and 2018.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

10. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

Intangible assets comprised the following:

	December 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
<i>Finite-lived intangible assets:</i>						
Computer software	\$ 7,701	\$ (4,136)	\$ 3,565	\$ 7,585	\$(2,524)	\$ 5,061
Customer relationship	59,375	(8,712)	50,663	64,812	(5,640)	59,172
Other	1,133	(756)	377	1,675	(431)	1,244
Total finite-lived intangible assets, net	68,209	(13,604)	54,605	74,072	(8,595)	65,477
<i>Indefinite-lived intangible asset:</i>						
Trade names	2,801	—	2,801	2,892	—	2,892
Total Intangible assets, net	<u>\$71,010</u>	<u>\$(13,604)</u>	<u>\$57,406</u>	<u>\$76,964</u>	<u>\$(8,595)</u>	<u>\$68,369</u>

For intangible assets subject to amortization, the weighted average amortization periods as of December 31, 2019 for computer software, customer relationships, intellectual property and trade names were 5.0 years, 18.0 years, 3.0 years and 3.0 years, respectively. The weighted average amortization period for all intangible assets subject to amortization is 16.3 years.

Amortization expense was \$5,307 and \$5,869 in 2019 and 2018, respectively. Estimated aggregate amortization expense for each of the five years ending December 31, 2020 through 2024 and thereafter is \$5,204, \$4,826, \$3,299, \$3,299, \$3,299 and \$34,678, respectively.

Intangible assets impairment

The Company has one type of indefinite-lived intangible asset, trade names. If the fair value of the trade names is lower than the carrying amount, an impairment charge is recognized in an amount equal to the difference. In 2019, the Company performed its annual Step 0 Test and the assessment of the qualitative factors indicated that it was more likely than not that the fair value of the trade name exceeded its carrying amount. In 2018, the Company estimated the fair value of the indefinite-lived trade names using the relief-from-royalty method and determined that the fair value of trade names exceeded the carrying value. Accordingly, no impairment was recognized in 2019 or 2018.

During 2019 and 2018, for all amortizable intangible assets, except for the customer relationships, the Company did not identify any events or changes in circumstances that would indicate that the carrying amount of the Company's amortizable intangible assets may not be fully recoverable, therefore, there was no impairment of these intangible assets recognized in 2019 and 2018.

For the customer relationships, the undiscounted cash flows over the useful life of customer relationships were estimated primarily based on management's assumptions and estimates related to revenue, compound annual growth rates and direct operating expenses. The Company used internal financial forecast models that included historical information and projected growth rates based on various assumption such as consumer health trends, potential medical benefits, regulatory challenges, and overall market developments. Revenue was adjusted annually for estimated customer attrition. For the US customer relationships in 2019 and 2018,

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

and for the Canadian customer relationships in 2018, the sum of the future estimated undiscounted cash flows exceeded the carrying values, and accordingly, there was no impairment recognized.

For Canadian customer relationships in 2019, the sum of the estimated future undiscounted cash flows was insufficient to recover the asset carrying value. The Company then performed Step 2, a computation of fair value, which estimated revenues and direct expenses adjusted for organic growth, customer attrition and capital expenditures for the remaining life of customer relationships; a revisionary value was added to the cash flows. The projected future cash flows were then discounted to fair value which indicated little or no value associated with the intangible asset. Accordingly, the carrying value of the customer relationships totaling \$5,390 was impaired and the charge was included in impairment, restructuring and other in the consolidated statements of operations.

Goodwill

Goodwill arose from the Formation Transaction and the acquisition of certain businesses in Canada during the year ended December 31, 2017. There were no additions to or disposals of goodwill in 2019 or 2018, and no impairment of goodwill in 2019. Goodwill was fully impaired as of December 31, 2018. Goodwill for the United States reporting unit had a gross value and corresponding accumulated impairment losses of \$32,204 for a net book value of zero, and goodwill for the Canada reporting unit had a gross value and corresponding accumulated impairment losses totaling \$3,244 for a net book value of zero as of both December 31, 2019 and 2018.

In the fourth quarter of 2018, the Company performed Step 1 of the goodwill impairment test to determine if the fair value of the goodwill of the Canadian reporting unit was greater than the carrying amount. The fair value of invested capital for the Canadian reporting unit was determined using the income approach and included a comparison to the value using a market approach for reasonableness. Internal forecasts were used to estimate future cash flows, which included assumptions for forecasted revenue growth rates, margin estimates, various expenses, capital additions and working capital needs, which were consistent with internal projections and operating plans. A terminal value was included in the forecast based on capitalization multiple. The cash flows were discounted using a weighted average cost of capital ("WACC") of 19.3%. The capitalization multiple and WACC were based in part on rates derived from an analysis of guideline companies, and generally considered commensurate with the risks and uncertainty inherent in the respective businesses and internally developed forecasts. As a result of the completion of Step 1, it was determined that the carrying amount exceeded the fair value of invested capital. Accordingly, the Company proceeded to Step 2 to measure impairment charges.

In Step 2, the fair value of the reporting unit's "implied goodwill," was determined by allocating the reporting unit's fair value derived in Step 1 to all of the reporting unit's assets and liabilities other than goodwill and comparing the result to the carrying amount of goodwill. After determining the fair value of the Canadian reporting unit and considering the fair values of other assets contained therein, the Company concluded that there was no value remaining in the implied fair value of goodwill. Accordingly, goodwill allocated to the Canadian reporting unit was deemed to be fully impaired, and the Company recognized an impairment charge of \$3,244 in 2018, which is included in impairment, restructuring and other in the consolidated statements of operations.

Additionally, in 2018, the Company recorded a decrease in deferred tax liabilities and a decrease in the goodwill impairment related to the United States reporting unit of \$528. See Note 2, *Adjustments to Prior Period Financial Statements* for further discussion.

The above resulted in a net impairment loss of \$2,716 in 2018.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities comprised the following:

	December 31,	
	2019	2018
Accrued compensation and benefits	\$1,857	\$1,407
Costs related to issuance of Series A Convertible Preferred Stock	1,239	—
Goods in transit accrual	1,005	1,775
Obligations due under a distribution agreement	1,154	—
Other accrued liabilities	3,933	3,522
Total accrued expenses and other current liabilities	\$9,188	\$6,704

The obligation for payment of contingent consideration was recognized as part of an acquisition in 2017 with an original fair value of \$1,538 valued using Level 3 inputs. If certain financial targets were met in 2018 and 2019, the contingent consideration was to be paid out in equal installments at the end of each year. As the performance thresholds were not met in 2018 and not expected to be met in 2019, the fair value of the contingent consideration payable of \$1,538 as of December 31, 2017 was deemed to be \$0 as of December 31, 2018, and written off to other income, net in the consolidated statements of operations.

12. DEBT

Debt is comprised of the following:

	December 31, 2019			December 31, 2018		
	Outstanding Principal	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount	Outstanding Principal	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
Term loan	\$ 85,111	\$(1,513)	\$ 83,598	\$ 80,390	\$(1,173)	\$ 79,217
Line of credit	23,864	(792)	23,072	20,742	(470)	20,272
Other	1,262	—	1,262	1,031	—	1,031
Total debt	110,237	(2,305)	107,932	102,163	(1,643)	100,520
Current portion	34,827	—	34,827	20,420	(324)	20,096
Long term	75,410	(2,305)	73,105	81,743	(1,319)	80,424
Total debt	\$110,237	\$(2,305)	\$107,932	\$102,163	\$(1,643)	\$100,520

Term Loan with Brightwood*Overview*

As discussed in Note 1, *Description of the Business, Formation Transaction on May 12, 2017*, the Term Loan in the aggregate principal amount of \$75,000 was obtained by Hydrofarm Holdings LLC and certain of its direct and indirect subsidiaries (the "Term Loan Obligors") from Brightwood Loan Services LLC, as administrative agent ("Brightwood"), and the lenders party thereto (the "Term Loan Lenders") on May 12, 2017 (the "Term Loan Credit Agreement"). Hydrofarm Holdings LLC is a shell entity and a subsidiary of Hydrofarm Holdings Group, Inc. Hydrofarm Holdings LLC's subsidiary is Hydrofarm, LLC, the primary operating entity of the Company.

Hydrofarm Holdings Group, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(in thousands, except share amounts)

The Term Loan matures on May 12, 2022, and initially provided for interest at LIBOR plus a margin of 700 basis points on LIBOR based loans, which included an additional 200 basis points for any period during which the loan was in default. Principal payments at an annual basis of 2.5% of the original loan amount, initially \$469, were to be made quarterly, commencing September 30, 2017. Deferred financing costs totaled \$1,667 and are being amortized to interest expense over the term of the loan using the effective interest method. The Term Loan is secured by substantially all non-working capital assets and a second lien on working capital assets of the Term Loan Obligor.

Activity in 2018

For the quarters ended March 31, 2018 and June 30, 2018, the Term Loan Obligor failed to meet financial covenants. The Term Loan Obligor, Brightwood and Term Loan Lenders then entered into a certain Forbearance Agreement and Amendment to Credit Agreement on May 18, 2018, which was subsequently amended on July 16, 2018 (as amended, the "Brightwood Forbearance Agreement"). The Brightwood Forbearance Agreement temporarily deferred principal amortization and interest payments from May 2018 through July 2018 (the "Brightwood Forbearance Period") and added a minimum earnings before income taxes, depreciation and amortization ("EBITDA") requirement test, as defined, in exchange for Brightwood agreeing to forbear from exercising its rights and remedies under the Term Loan Credit Agreement during the Brightwood Forbearance Period.

On August 24, 2018, the Term Loan Obligor, Brightwood and Term Loan Lenders entered into a certain (i) Waiver and Amendment No. 3 to Credit Agreement (the "Brightwood Third Amendment") and (ii) Waiver and Third Amendment to Amended and Restated Loan and Security Agreement (the "BofA Third Amendment"), whereby Brightwood (and Bank of America) waived certain continuing events of default and agreed to amend certain covenants and provisions of the Term Loan Credit Agreement to bring the Term Loan Obligor back in compliance with the covenants. The Brightwood Third Amendment also provided a waiver of principal payments and an increase in the margin to 1000 basis points with respect to the LIBOR based loans through December 31, 2019; quarterly payments of principal would restart on January 1, 2020 or later when certain conditions are met. Beginning January 1, 2020, the margin was reduced to 700 basis points with respect to LIBOR based loans provided the net leverage ratio was met. In the case that the net leverage ratio is not met, the margin would be increased to 850 basis points. The Brightwood Third Amendment modified the total net leverage ratio, and added covenants related to fixed charge coverage, cumulative EBITDA and liquidity. Fees related to the amendments totaling \$388 were added to the principal of the Term Loan.

In order to comply with the financial covenant provisions as of November 30, 2018, the Term Loan Obligor (and BofA Obligor) issued a cure notice and made a debt service payment of \$1,151 with proceeds from an equity contribution to Hydrofarm Holdings LLC from its ultimate parent, Hydrofarm Holdings Group, Inc., in January 2019 to the BofA Credit Facility (as defined below), thus bringing the Term Loan Obligor (and BofA Obligor) back into compliance with the amended covenants provided for under the Brightwood Third Amendment (and BofA Third Amendment) as of December 31, 2018.

The first, second and third amendments were accounted for as debt modifications, and did not result in the recognition of any gain or loss due to any revisions. In 2018, principal payments totaled \$469 and interest expense recognized totaled \$9,191 of which \$6,795 was added to the principal of the Term Loan. The stated interest rate on the Term Loan was 12.47% as of December 31, 2018, while the effective interest rate on the Term Loan was 12.13% in 2018. Amortization of deferred financing costs was \$493 in 2018.

Activity in 2019

On March 15, 2019, the Term Loan (and the BofA Credit Facility) was amended by that certain Amendment No. 4 (the "Brightwood Fourth Amendment"). The Brightwood Fourth Amendment required

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

that the Term Loan Obligors make a \$3,000 principal prepayment on the Term Loan. Certain key financial provisions in the Brightwood Fourth Amendment included modification of the EBITDA financial covenant and a provision that required the Term Loan Obligors to refinance the BofA Credit Facility prior to its repayment and termination with another credit facility. A fee of \$407 was charged for these amendments which was added to the principal of the Term Loan and was capitalized as an additional deferred financing cost.

The modification on March 15, 2019 included a side letter (the “Brightwood Side Letter”), which gave Brightwood the option to require an intermediate parent to the Term Loan Obligors to enter into a guaranty and security agreement regarding the Term Loan upon a future acquisition by the Company; it limited any dividends from the Term Loan Obligors to their parent; and it provided that a portion of any proceeds from a sale of equity interests be used to pay down the Term Loan.

On July 11, 2019, the Term Loan Credit Agreement was amended by that certain Amendment No. 5 to Credit Agreement (the “Brightwood Fifth Amendment”). This amendment was executed in conjunction with the asset-backed lending credit facility obtained from Encina that replaced the BofA Credit Facility. The primary revisions made in the Brightwood Fifth Amendment were to reflect the replacement of BofA Credit Facility with the Encina Credit Facility, modification of the definition of consolidated EBITDA and adjustment of several financial covenants primarily related to liquidity and equity cure contributions (under the equity cure contribution provisions, the parent is allowed to make a cash contribution to the Term Loan Obligors to cure an event of default as more fully described in the agreement).

On October 15, 2019, the Term Loan Credit Agreement was amended by that certain Amendment No. 6 to Credit Agreement (the “Brightwood Sixth Amendment”). The primary revisions were changes to the period to which the debt covenants apply (referred to as “test period”) from July 1, 2018 to begin on January 1, 2020; the monthly amounts in which minimum cumulative EBITDA needed to exceed were modified; and, the liquidity calculation was modified. Fees charged for the amendment and capitalized as additional deferred financing costs totaled \$415 with 50% paid on the date of the Brightwood Sixth Amendment and 50% added to principal of the Term Loan.

The Brightwood Sixth Amendment was accompanied by that certain Amendment to Side Letter Agreement dated October 15, 2019 (“Brightwood Side Letter Amendment”), which amended the Brightwood Side Letter and provided that the Company would consummate an issuance and sale of convertible preferred equity interest or other equity securities as agreed between the parties and a portion of the proceeds, based on a formula which differs depending on the amount raised, would be applied to pay down the Term Loan. As discussed in Note 13, *Convertible Preferred Stock and Stockholders’ Equity*, as part of the issuance of the Series A Convertible Preferred Stock, \$8,370 of the proceeds was committed to pay down the Term Loan as documented in that certain Amendment to Side Letter Agreement dated January 16, 2020. As of December 31, 2019, cash of \$8,370 is presented as a component of restricted cash on the consolidated balance sheet and an equal amount of the Term Loan is included in current portion of long-term debt. The payment was made in January 2020.

As described above, the Brightwood Third Amendment provided that quarterly principal payments would restart on January 1, 2020 or later when certain conditions are met.

The Brightwood Fourth Amendment, Brightwood Fifth Amendment, Brightwood Sixth Amendment, Brightwood Side Letter, and the Amendment to the Side Letter were each accounted for as debt modifications which did not result in the recognition of any gain or loss from the transactions. In 2019, principal payments totaled \$3,000 and interest expense recognized totaled \$10,151 of which \$7,106 was added to the principal of the Term Loan. The stated interest rate on the term loan was 11.80% as of December 31, 2019, while the effective interest rate on the Term Loan was 13.02% as of December 31, 2019 and the amortization of deferred financing costs was \$483 in 2019. The Term Loan Obligors were in compliance with all debt covenants as of December 31, 2019.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Revolving asset-backed credit facilities

Origination of credit facility at time of Formation Transaction

In connection with the Formation Transaction, the BofA Credit Facility was obtained by Hydrofarm Holdings LLC and certain of its direct and indirect subsidiaries (the “BofA Obligors”) from Bank of America and the lenders’ party thereto. The BofA Credit Facility had an original maturity date of February 10, 2022 and provided for interest at the 30-day LIBOR rate plus applicable margin. A fee of 0.375% was charged for available but unused borrowings. An additional 200 basis points was added to the interest rate for any period during which the loan was in default. As of December 31, 2018, deferred financing costs totaled \$621 and were being amortized over five years using the effective interest method.

The BofA Credit Facility was secured by working capital assets and a second lien on non-working capital assets and required various restrictive covenants and financial ratios. Additionally, the agreement required that the BofA Obligors be in compliance with the financial and qualitative covenants of all other debt agreements.

Activity in 2018

For the periods ended March 31, and June 30, 2018, the BofA Obligors failed to meet financial covenants. The BofA Obligors then entered into a certain Forbearance Agreement with BofA on May 18, 2018 (as amended, the “BofA Forbearance Agreement”). As part of the BofA Forbearance Agreement, a stockholder agreed to provide Hydrofarm Holdings LLC with an unsecured subordinated loan of \$4,000 for a period and at terms specified in the BofA Forbearance Agreement to provide for working capital needs of the BofA Obligors. The BofA Forbearance Agreement included modifications to the borrowing base and to the fixed charge coverage and EBITDA financial covenants. In exchange for the revised terms, BofA agreed to forbear from exercising its rights and remedies under the BofA Credit Facility in connection with such defaults through August 2018. These arrangements were documented in that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 18, 2018 (the “BofA First Amendment”) and First Amendment to Forbearance Agreement and Second Amendment to Amended and Restated Loan and Security Agreement dated as of July 16, 2018 (the “BofA Second Amendment”).

On August 24, 2018, the BofA Obligors entered into that certain Waiver and Third Amendment to Amended and Restated Loan and Security Agreement (the “BofA Third Amendment”) whereby BofA (and Brightwood as discussed above) waived certain continuing events of default and agreed to amend certain covenants and provisions of the Term Loan Credit Agreement to bring the BofA Obligors back in compliance with the covenants under the BofA Credit Facility. A key financial provision in the BofA Third Amendment was a commitment by the Company to conduct a private placement of its common stock; this commitment was fulfilled upon the Offering and Concurrent Offering described in Note 1, *Description of Business, Recapitalization and reverse merger*, which raised \$48,124 of net proceeds. Other key changes in the BofA Third Amendment included the addition of a minimum availability covenant which requires the BofA Loan Obligors to have cash and cash equivalents deposited in BofA and a minimum EBITDA requirement, which requires that the BofA Loan Obligors maintain minimum monthly measured EBITDA for periods as defined.

The BofA First Amendment, BofA Second Amendment and BofA Third Amendment were each accounted for as debt modifications, which did not result in the recognition of any gain or loss due to any revisions. Interest, due monthly, is charged at LIBOR or a base rate, plus an applicable margin ranging between 1.25% and 2.5%. The effective interest rates on the BofA Credit Facility ranged from 5.00% to 5.06% in 2018 and the amortization of deferred financing costs was \$150 in 2018.

Activity in 2019

From January 1, 2019 through June 10, 2019, the BofA Credit Facility was modified a fourth, fifth, sixth and seventh time all in connection with extensions of the due date and eventual payoff. Each amendment was

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)**

accounted for as a debt modification. The effective interest rate on the BofA Credit Facility was 9.19% and the amortization of deferred financing costs was \$79 in 2019. In 2019, \$1,443 of interest and fees were added to principal.

On July 11, 2019, Hydrofarm Holdings LLC and certain of its direct and indirect subsidiaries (the "Encina Obligor") replaced the BofA Credit Facility with the Encina Credit Facility through a certain Loan and Security Agreement, whereby the Encina Obligor 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. The amount of the Encina Credit Facility is limited to the borrowing base (primarily calculated based on eligible accounts receivable and inventory) subject to certain reserves and limitations. The Encina Credit Facility is due on the earlier of July 11, 2022 or 90 days prior to the scheduled maturity date of the Term Loan.

The Company capitalized \$941 of deferred financing costs related to the Encina Credit Facility, which are being amortized using the straight-line method over the life of the Encina Credit Facility. Additionally, the unamortized deferred financing costs related to the BofA Credit Facility totaling \$391 were written off and recognized as a loss on debt extinguishment in the consolidated statements of operations in 2019.

Interest, due monthly, is charged at LIBOR or a base rate, plus an applicable margin ranging between 3.75% to 5.50% per annum determined based on the fixed charge coverage ratio calculated over an applicable time period. A fee of 0.50% per annum is charged for available but unused borrowings as defined. An additional 200 basis points is added to the interest rate for any period during which the loan is in default.

Interest, fees and other monetary obligations owing under the Encina Credit Facility may, in the lender's discretion, be added to principal. In 2019, \$1,095 of interest and fees were added to principal.

The Encina Credit Facility is secured by working capital assets and a second lien on non-working capital assets and requires various restrictive covenants and financial ratios. It also provides for protective advances, overdrafts, early payment/termination premium, events of default and remedies available, limitations on new indebtedness and on dividends to the parent, negative covenants, representations, warranties, limitation of liabilities and indemnities. Additionally, the agreement requires the Encina Obligor to be in compliance with the financial and qualitative covenants of all other existing debt.

The Encina Credit Facility provides for several financial covenants, including a minimum excess availability unless the fixed charge coverage ratio is greater than a specified benchmark, as defined, and limits on capital expenditures.

On October 15, 2019, the Encina Credit Facility was amended pursuant to a certain First Amendment to Loan and Security Agreement (the "Encina First Amendment") concurrently with the Brightwood Side Letter Amendment discussed above, whereby Encina agreed to accept the changes in the Brightwood Side Letter Amendment since any changes to the Brightwood Side Letter needed concurrence from Encina.

On November 26, 2019, the Encina Credit Facility was further amended pursuant to a certain Second Amendment to Loan and Security Agreement (the "Encina Second Amendment") whereby the amendment changed the computation of the line limitation but did not change the maximum amount of the credit facility of \$45,000. The other change was a requirement that Hydrofarm Holdings Group Inc., the ultimate parent of the Encina Obligor, make a capital infusion to the Encina Obligor of \$3,000 for working capital.

The Encina First Amendment and Encina Second Amendment were accounted for as debt modifications which did not result in the recognition of any gain or loss due to any revisions. The stated interest rate was 7.19% on December 31, 2019, while the effective interest rate in 2019 was 9.76%. In 2019, \$1,119 of interest expense was recognized, of which \$149 was related to the amortization of deferred financing costs. The Encina Obligor had \$2,275 available to borrow under the Encina Credit Facility and were in compliance with all debt covenants as of December 31, 2019.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Debt convertible into preferred stock

In September and October 2019, the Company issued debt to investors convertible into preferred stock for cash of \$7,532, less issuance costs of \$552, in the form of unsecured subordinated promissory notes with interest at 6.0% per annum due on March 30, 2020.

The notes contained an automatic conversion feature triggered by a qualified financing as defined (e.g. private placement or initial public offering) of preferred stock of \$5,000 or more. The number of shares into which the notes converted was to be based on a formula which divided outstanding principal and accrued interest by the per share price of the offering. The conditional share-settled conversion feature was deemed to be an embedded derivative that did not meet the criteria to be bifurcated and carried at fair value; accordingly, all of the proceeds net of the issuance costs were allocated to the debt instrument.

In December 2019, the Company completed an offering of convertible preferred stock which triggered conversion of \$7,532 of principal plus \$105 of accrued interest into 2,182,083 shares of the convertible preferred stock (see Note 13, *Convertible Preferred Stock and Stockholders' Equity*, for discussion of the terms of the convertible preferred stock). The unamortized deferred financing costs at the time of conversion of \$288 were written-off and are included in loss on debt extinguishment in the consolidated statements of operations in 2019.

Aggregate future principal payments

As of December 31, 2019, the aggregate future principal payments under long-term debt, excluding payments due under finance lease obligations presented in Note 8, *Leases* are as follows:

Year ending December 31,	
2020	\$ 34,396
2021	1,819
2022	73,192
2023	31
Total debt	<u>\$109,438</u>

Reconciliation of payments due:

	Finance lease obligations	Debt excluding finance leases	Total
Current portion	\$431	\$ 34,396	\$ 34,827
Long-term	368	75,042	75,410
Total payments due	<u>\$799</u>	<u>\$109,438</u>	<u>\$110,237</u>

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

13. CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Capital stock

As of December 31, 2019, the following summarizes shares authorized, issued and outstanding, and reserved for issuance:

	Shares authorized	Shares issued and outstanding, or reserved for issuance
Convertible preferred stock at \$0.0001 par value per share	50,000,000	7,007,429
Common stock at \$0.0001 par value per share	300,000,000	20,688,439
Common stock reserved for issuance:		
Convertible preferred stock		2,078,605
Warrants		3,886,191
Stock options		819,879
Restricted stock units		1,820,598

Convertible preferred stock classified outside of permanent equity

In December 2019, the Company issued 7,007,429 shares of Series A convertible preferred stock with a par value of \$24,526 in return for cash of \$15,439, conversion of debt with a basis of \$7,637, and \$1,450 in receivables that were settled in January 2020. Offering costs totaled \$1,274, of which \$1,239 was included in accrued expense and other current liabilities in the consolidated balance sheet as of December 31, 2019.

A summary of key terms are as follows:

- **Initial purchase price:** \$3.50
- **Ranking:** Senior to all classes of common and preferred stock
- **Use of Proceeds:** Approximately \$8,370 to pay down Term Loan (see Note 12, *Debt*, for discussion of the Brightwood Amendment to Side Letter Agreement dated January 16, 2020), growth investments and general corporate purposes
- **Preferred dividend:** 10% dividend yield, cumulative, payable in cash or PIK (Series A Convertible Preferred Stock) at the issuer's discretion; the rate increases to 11% after the 9-month anniversary and 12% after the 18-month anniversary
- **Liquidation preference:** 1x liquidation preference upon liquidation or wind up; a majority of the Preferred Shareholders can vote to liquidate the Company
- **Conversion rights:** At any time, the holders of the Preferred Stock can convert their shares 3.3712:1 into to common stock subject to typical anti-dilution provisions.
- **Voting rights:** The Preferred Shareholders vote together with the holders of common stock on an as-converted basis.
- **Liquidity rights:** Following the 18-month anniversary of the closing date, if an IPO has not occurred, the Preferred Stock investors can cause the Company to undertake one of the following actions (selection of the specific action is at the Company's discretion):
 - Redeem the securities

Hydrofarm Holdings Group, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(in thousands, except share amounts)

- Initiate a sale of the Company
- Initiate an IPO process
- **Mandatory Conversion upon a Qualified IPO:** Upon an IPO of at least \$75,000, each share of Preferred Stock automatically converts into common stock at the lesser of (x) the then Series A Conversion Price, or (y) the then effective Discounted Qualified IPO price. The Discounted Qualified IPO price is the amount calculated by multiplying the price at which the shares of common stock were issued in the IPO by 0.8 (the Multiplier), provided that commencing 270 days after the issuance of the Preferred Stock, the Multiplier shall be decreased to 0.79 and shall be decreased by an additional 0.01 every thirty days thereafter, provided that the Multiplier shall not decrease below 0.75.
- **Other terms:** Customary rights consistent with offerings of this type, including protective provisions, registration rights, reporting/information rights, right of first refusal/co-sale rights, pre-emptive rights, lock up restrictions, and transfer restrictions

The Series A Convertible Preferred Stock contains a redemption feature not solely within the control of the Company's common shareholders and is, therefore, classified outside of permanent equity. None of the embedded features required bifurcation from the host instrument.

Common stock

Each holder of common stock is entitled to one vote for each share of common stock. Common stockholders have no pre-emptive rights to acquire additional share of common stock or other securities. The common stock is not subject to redemption rights and carries no subscription or conversion rights. In the event of liquidation, the stockholders are entitled to share in corporate assets on a pro rata basis after the Company satisfies all liabilities and after provision is made for any class of capital stock having preference over the common stock. Subject to corporate regulations and preferences to preferred stock if any, dividends are at the discretion of the board of directors.

Warrants

Shares of common stock under warrants totaling 3,369,124 and 517,067 were issued to investors and placement agents, respectively, in the Offering and Concurrent Offering for aggregate shares under warrants of 3,886,191.

Warrants issued to the investors for the purchase of 3,369,124 shares of the Company's common stock are exercisable at \$16.86 per share in whole or in part subject to typical adjustments for anti-dilution and may be exercised on a "cashless" basis. The warrants are exercisable commencing the earliest of a public event defined as the effectiveness of a registration statement as defined, the closing of any initial public offering, or the closing of any other transaction or set of events that results in the Company being subject to the reporting requirement of the Securities Exchange Act of 1934, as amended. The warrants expire three years from the effective date of a public event. The warrants are callable by the Company solely at its discretion if certain conditions are met.

The warrants issued to the investors were accounted for as a component of equity primarily because there were no conditional obligations to issue a variable number of shares nor were there any deemed possibilities that the Company would need to settle the warrants in cash. Accordingly, the value of each warrant issued with each share in the Offering and Concurrent Offering was not accounted for separately.

Of the total shares subject to the placement agent warrants, 172,351 are exercisable at a price of \$16.86 per share and 344,716 are exercisable at a price of \$8.43 per share. Both types of warrants are exercisable in whole or in part subject to typical adjustments for anti-dilution and may be exercised on a "cashless" basis.

Hydrofarm Holdings Group, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(in thousands, except share amounts)

The placement agent warrants are exercisable upon exercise of the investor warrants issued in the Offering and Concurrent Offering.

The placement agent warrants were valued at \$781 and recorded as an offering cost included as a component of equity (an increase for the value of the issuance, and a decrease associated with the offering cost); the valuation of the warrants is discussed in Note 17, *Financial Instruments*.

Refer to Note 1, *Description of the Business, Recapitalization and reverse merger in 2018* for further discussion of warrants.

Restriction on the ability to pay dividends

Under the agreements with Encina and Brightwood, substantially all consolidated net assets of the Brightwood Obligor or Encina Obligor are subject to limitations regarding the restriction of payment of dividends to any direct or indirect parent.

14. STOCK-BASED COMPENSATION AND 401K PLAN

Stock-based Compensation Plan Overview

The Company adopted the 2018 Equity Incentive Plan in August 2018 and the 2019 Employee, Director and Consultant Equity Incentive Plan in December 2019 (collectively, the “Incentive Plans”) whereby certain employees may be granted options or stock appreciation rights for voting or nonvoting shares of the Company or other restricted stock awards of shares, restricted shares and other stock awards that are valued in whole or in part by reference to, or are otherwise based on, the fair market value per share of the Company’s stock. Shares issued under the Incentive Plans are drawn from authorized and unissued shares or shares held or subsequently acquired by the Company as treasury shares. The Incentive Plans are administered by the Board of Directors which administration may be delegated to a committee consisting of one or more members of the Board (the “Plan Administrator”), subject to such limitations as the Board of Directors deems appropriate.

The Incentive Plans provide for the issuance of both non-statutory and incentive stock options and other awards to acquire up to 2,586,080 shares of common stock under the 2018 Equity Incentive Plan, and 1,034,431 shares of common stock under the 2019 Employee, Director and Consultant Equity Incentive Plan. Of the total shares available for grant under the stock compensation plans, 979,954 remain available as of December 31, 2019.

The Incentive Plans provide for granting of three types of awards described as follows:

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

Hydrofarm Holdings Group, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(in thousands, except share amounts)

Certain shares, primarily those associated with restricted stock units, are subject to the Company's right of first refusal under which the Company or its assignee has an assignable right of first refusal to purchase the shares at their then fair value as more fully described in the terms and conditions set forth in the agreement. The right of first refusal terminates upon the initial registration of the Common Stock under Section 12(b) or 12(g) of the Exchange Act.

No awards were granted prior to 2019.

Restricted stock units issued to executives subject to service and performance conditions

On January 11, 2019, pursuant to an employment contract with the chief executive officer ("CEO"), 1,034,431 restricted stock units (the "RSUs") were granted with vesting commencing retroactive to January 1, 2019. On April 10, 2019, in connection with an employment contract with the President, 372,395 RSUs were granted with vesting commencing retroactive to March 4, 2019. On December 19, 2019, 413,772 RSUs were granted to the CEO with vesting commencing on the grant date. The RSUs expire after 10 years from the respective vesting commencement dates.

Each award has two vesting components, subject to certain change in control provisions, both of which must be achieved to vest in any portion of the award. No RSUs will be vested units (as defined in the RSU agreement) unless and until both the time-based vesting requirement (as defined below) and the performance-based vesting requirement (as defined below) are satisfied.

- **Time-Based Vesting Requirement (based on continuous employment):** One fourth of the award will vest one year following the vesting commencement date; then, one sixteenth of the award will vest at the end of every three-month period measured from the one-year anniversary of the vesting commencement date.
- **Performance-Based Vesting Requirement:** The RSUs will satisfy the performance-based vesting requirement only if (i) a liquidity event occurs on or prior to the expiration date and (ii) the employee does not experience a termination of service prior to the date of the liquidity event.

On the date the performance-based vesting requirement is satisfied, the employee will become vested in the number of RSUs that have satisfied the time-based vesting requirement, if any, and the RSU converts into one share of the Company's common stock. If the performance-based vesting requirement is not satisfied, all RSUs will expire regardless of satisfaction of the time-based vesting requirement on the earlier of (x) the date of termination of service and (y) the expiration date. "Liquidity event" means the earlier to occur of (a) a change of control (as defined in the Plan as in effect on the grant date) or (b) an IPO. IPO means the effective date of the registration statement filed with the U.S. Securities and Exchange Commission relating to the initial public offering of a class of the Company's equity securities.

Unvested RSUs are not considered outstanding common stock until the RSUs vest.

Since RSU awards represent equity awards of the Company, such awards are fair valued as of the grant date for the purposes of measurement and recognition under U.S. GAAP. To measure the value of the award, the initial grant-date fair value of shares of common stock underlying RSUs is determined. Such valuation is the responsibility of, and determined by, the Company's board of directors, with input from management. In 2019, there was no public market for the Company's common stock so the board of directors determined the fair value of common stock at the grant date by considering a number of objective and subjective factors including independent third-party valuations of the Company's common stock, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors. Based on the models, for the awards granted in January and April 2019, the fair value was determined to be \$4.82 per common share underlying each RSU, and \$6.07 for the award granted in December 2019, for an aggregate fair value of \$9,293 for all outstanding RSUs granted during the year-ended December 31, 2019.

Hydrofarm Holdings Group, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(in thousands, except share amounts)

The Company has determined that the ultimate vesting of RSUs granted to date is not probable as of December 31, 2019 and, accordingly, the Company has not recognized any expense related to these awards. The unamortized stock-based compensation expense of \$9,293 as of December 31, 2019 will be recognized as expense if and when the Company determines that vesting is probable. At the time vesting becomes probable, a cumulative catch-up adjustment will be made to reflect the portion of the employee's requisite service that has been provided to the probable date (but no less than the actual amount vested under the agreement), with the balance amortized over the remaining requisite service period.

Stock options

In 2019, the Company granted options to employees to acquire 958,570 shares of common stock which vest under one of three schedules as follows:

1. 20% vest as of the date of grant, then 1/45th on the last day of the month for the following 36 months;
2. 25% vest on the first anniversary of the date of grant, then 1/48th on the last day of the month for the following 36 months;
3. All options vest upon grant.

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

Since options represent equity awards of the Company, such awards are fair valued as of the grant date for the purposes of measurement and recognition under generally accepted accounting principles. To measure the fair value of an option, the Black-Scholes valuation model was utilized. The valuation model requires the input of highly subjective assumptions. Inputs to the model in 2019 were as follows:

Volatility	30%
Risk-free rate	1.37% to 2.49%
Dividend yield	Nil
Expected term in years	5.0 to 5.62

The fair value of common stock underlying the options was determined using the same methodology described above for RSUs which was \$4.82 for the first nine months and \$6.07 for the last quarter of 2019. The methodology used to determine the various assumptions above is described in Note 4, *Basis of Preparation and Significant Accounting Policies*.

The following table summarizes the stock option activity in 2019:

	Number	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term
Granted	958,570	\$8.43	\$0.71	
Forfeited	(138,691)	\$8.43	\$0.71	
Exercised	—	—		
Expired	—	—		
Outstanding at December 31, 2019	819,879	\$8.43	\$0.71	9.27
Exercisable at December 31, 2019	266,474	\$8.43	\$0.71	9.15
Unvested at December 31, 2019	553,405	\$8.43	\$0.74	9.33
Vested and expected to vest at December 31, 2019	819,879	\$8.43	\$0.71	9.27

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

Total compensation expense for stock options in 2019 was \$208 and is included in selling, general and administrative expenses in the consolidated statements of operations. No tax benefit related to the stock option expense was recognized as all the awards are classified as qualified incentives options.

As of December 31, 2019, total compensation cost related to unvested awards not yet recognized was \$409 and the weighted-average period over which the compensation is expected to be recognized is 2.77 years.

401K Plan

The Company maintains a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code, which provides for voluntary contributions from the Company and its employees. Contributions from the Company were \$190 and nil in 2019 and 2018, respectively.

15. INCOME TAXES

In December 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. The 2017 Tax Act also provided for prospective changes beginning in 2018 including repeal of the domestic manufacturing deduction, acceleration of tax revenue recognition, global intangible low taxed income, foreign derived intangible income deduction, additional limitations on executive compensation and limitations on the deductibility of interest.

Loss from operations before tax was as follows for the years ended:

	Years ended December 31,			
	2019	2018		As previously reported
As restated and reclassified		Adjustments		
United States	\$(30,409)	\$(31,493)	\$(1,268)	\$(30,225)
Foreign	(10,365)	(4,446)	528	(4,974)
Loss from continuing operations before tax	\$(40,774)	\$(35,939)	\$ (740)	\$(35,199)

Significant components of income tax (benefit) expense from continuing operations consist of the following:

	Years ended December 31,			
	2019	2018		As previously reported
As restated and reclassified		Adjustments		
Current:				
Federal	\$ —	\$ 216	\$ 216	\$ —
State	18	79	18	61
Foreign	9	207	(127)	334
Total current	27	502	107	395
Deferred:				
Federal	—	269	269	—
State	—	—	—	—
Foreign	(718)	(1,168)	(875)	(293)
Total deferred tax benefit	(718)	(899)	(606)	(293)
Total income tax (benefit) expense	\$(691)	\$ (397)	\$(499)	\$ 102

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

The reconciliation of income tax computed at the U.S. federal statutory tax rates of 21% to income tax (benefit) expense from continuing operations consist of the following:

	Years ended December 31,			
	2018			
	2019	As restated and reclassified	Adjustments	As previously reported
Effective rate reconciliation				
U.S. federal tax benefit at statutory rate	\$(8,563)	\$(7,547)	\$ (155)	\$(7,392)
State income taxes, net	(1,247)	(1,009)	466	(1,475)
Permanent items	89	1,692	(153)	1,845
Foreign rate differential	(891)	(590)	(477)	(113)
Deferred adjustments	563	—	—	—
Tax entity classification adjustment	—	(1,927)	342	(2,269)
Non controlling interest	—	433	—	433
Valuation allowance	9,358	6,370	(2,663)	9,033
Other, net	—	2,181	2,141	40
Total income tax (benefit) expense	\$ (691)	\$ (397)	\$ (499)	\$ 102

Deferred income tax assets and liabilities from continuing operations consist of the following as of:

	As of December 31,			
	2018			
	2019	As restated and reclassified	Adjustments	As previously reported
Deferred tax assets				
Lease liabilities	\$ 4,836	\$ —	\$ —	\$ —
Accrued expenses	1,129	1,385	641	744
Intangible assets	10,602	11,139	(4,195)	15,334
Net operating loss	17,589	10,312	2,972	7,340
Inventories	3,022	3,434	3,248	186
Interest expense	3,746	989	(2,118)	3,107
Other	—	104	104	—
Deferred tax assets	40,924	27,363	652	26,711
Valuation allowance	(34,746)	(25,388)	190	(25,578)
Total deferred tax assets	6,178	1,975	842	1,133
Deferred tax liabilities				
Intangible assets, trade names	—	(1,205)	(34)	(1,171)
Property and equipment	(1,054)	(1,118)	(554)	(564)
Operating lease right-of-use assets	(4,729)	—	—	—
Other	—	—	1,311	(1,311)
Total deferred tax liabilities	(5,783)	(2,323)	723	(3,046)
Net deferred tax assets (liabilities)	\$ 395	\$ (348)	\$ 1,565	\$ (1,913)

Hydrofarm Holdings Group, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(in thousands, except share amounts)

Deferred income tax assets and liabilities are presented in the consolidated balance sheets by jurisdiction as follows:

	As of December 31,			
	2019	2018		As previously reported
As restated and reclassified		Adjustments		
Deferred income tax assets included in other current assets	\$ —	\$ —	\$ (429)	\$ 429
Deferred income tax assets included in other long-term assets	395	533	533	—
Deferred income tax liabilities	—	(881)	1,461	(2,342)
Net deferred tax assets (liabilities)	\$395	\$(348)	\$1,565	\$(1,913)

In 2019, the Company had federal and state net operating losses of approximately \$58,000 and \$44,000, respectively. The federal and state net operating losses, if not utilized, will begin to expire in 2037 and 2027, respectively. In 2019, the Company had foreign net operating losses of approximately \$9,000. The foreign net operating losses, if not utilized, will begin to expire in 2037.

The Company determined the amount of its valuation allowance based on its estimates of taxable income by jurisdiction in which it operates over the periods in which the related deferred tax assets will be recoverable. As of December 31, 2019, the Company believes it is more-likely-than-not that it will not be able to realize its US deferred tax assets and therefore has maintained a full valuation allowance against its US deferred tax assets. The Company has also provided a full valuation allowance against the majority of its Canadian and Spanish deferred tax assets. The valuation allowance increased by \$9,358 and \$8,459 (\$8,649 as previously reported) during 2019 and 2018, respectively.

Carryforwards of NOLs are subject to possible limitation should a change in ownership occur, as defined by Internal Revenue Code Section 382. An ownership change is generally defined as a greater than 50% increase in equity ownership by 5% shareholders in any three-year period. The annual limitation may result in the expiration of the NOL carry forwards before utilization.

In 2019 and 2018, the Company did not record any liabilities related to uncertain tax positions. The Company does not have any tax positions for which it is reasonably possible that the total amount of gross unrecognized tax benefits will significantly change within 12 months of December 31, 2019.

The Company recognizes interest and penalties relating to unrecognized tax benefits as part of its income tax expense. The Company's major filing jurisdictions are the United States and Canada. Due to the Company's net operating loss carryforwards, the Company's income tax returns remain subject to examination by federal, foreign and most state taxing authorities for all tax years.

16. COMMITMENTS AND CONTINGENCIES

Purchase commitments

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

In October 2017, the Company entered into an agreement with a supplier to distribute and sell certain garden products for a term ending in December 2022. The Company committed to periodic minimum volumes over the term of the agreement in return for pricing that would provide the Company with a minimum gross margin along with the potential for rebates. Inventory purchased under this agreement totaled \$3,641 and \$2,644 in 2019 and 2018, respectively. Cost of goods sold in 2019 and 2018 include an additional \$1,134 and

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

\$1,108 for payments expected to be made in 2020 and 2021 based on negotiations with the supplier that began in late 2019 associated with volumes purchased below minimum thresholds.

In June 2020, as part of the negotiations with the supplier that began in late 2019, the original distribution agreement was amended and restated with a term ending in December 2024. Significant changes to the agreement were a modification to the pricing program and a revision to the periodic minimum purchase volumes to be acquired on a take-or-pay bases, as defined. Minimum purchase requirements are \$2,500, \$3,000, \$3,500, \$4,000 and \$4,500 for 2020, 2021, 2022, 2023 and 2024, respectively. The Company expects that these minimum purchase commitment obligations will be met.

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 position, results of operations, cash flows or future earnings.

17. FAIR VALUE

Assets and liabilities measured at fair value on a recurring basis

The contingent consideration payable is the only financial asset or liability measured at fair value on a recurring basis. The following table provides a summary of the changes in its fair value using Level 3 inputs:

	December 31,	
	2019	2018
Balance at beginning of year	\$ —	\$ 1,538
Change in contingent consideration payable	—	(1,538)
Balance at end of year	\$ —	\$ —

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, accounts payable, accrued and other current liabilities and revolving asset-backed credit facility approximate their fair value due to their short-term maturities using level 2 inputs. The terms of the Term Loan are similar to those that would be available if the debt were refinanced at year-end, and accordingly its carrying value approximates its fair value using level 3 inputs.

Assets and liabilities measured at fair value on a non-recurring basis

The Company measures certain non-financial assets and liabilities, including long-lived assets, goodwill and intangible assets, at fair value on a nonrecurring basis. Fair value measurements of non-financial assets and non-financial liabilities are used primarily in the impairment analyses of long-lived assets, goodwill and intangible assets. These inputs are classified as Level 3 in the fair value hierarchy. See discussion of impairment losses in Note 10, *Intangible Assets and Goodwill*.

The warrants issued to the placement agents in 2018 discussed in Note 13, *Convertible Preferred Stock and Stockholders' Equity, Warrants*, were valued at \$781 using the Black-Scholes valuation model at the dates of issuance with the following inputs: volatility of 65%, underlying stock price of \$8.19, term of one year, strike price of \$8.43 and \$16.86, and risk-free rate of 2.4%. These inputs are classified as Level 3 in the fair value hierarchy.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018
(in thousands, except share amounts)

18. RELATED PARTY TRANSACTIONS

Hydrofarm Headquarters

The Company leases its headquarters and local distribution center in Petaluma, California from entities in which a related party is an investor. One lease is month to month and another lease terminated in June 2019. In 2019 and 2018, aggregate rent expense for these two leases totaled \$1,445 and \$1,787, respectively.

Management Agreements

In connection with the Formation Transaction, the Company entered into two management agreements with affiliates of certain of the Company's stockholders. Pursuant to the management agreements, the affiliates provided the Company with various management services including transaction advisory, financial and management consulting. The Company incurred aggregate management fees and reimbursable expenses of \$213 in 2018. The management agreements were terminated in connection with the private placement discussed in Note 1, *Description of the Business*.

Subordinated loans from related party

On May 22, 2018, in connection with forbearance and amendments to the BofA Credit Facility and Term Loan agreements discussed in Note 12, *Debt*, the Company obtained a subordinated note of \$4,000 from a stockholder of the Company to fund operations. Interest was at a rate of 8.24% per annum with no payment of interest and principal made in cash prior to the maturity date. On June 29, 2018, in connection with and under the same terms as the May 22, 2018 subordinated note, an additional amount of \$2,000 was secured from the stockholder. As discussed in Note 1, *Description of the Business*, the \$4,000 note plus accrued interest of \$88 was converted into equity in exchange for shares and warrants. The \$2,000 subordinated loan was repaid in August 2018.

19. IMPAIRMENT, RESTRUCTURING AND OTHER

Certain expenses were incurred in 2019 and 2018 primarily related to recognition of impairment on intangible assets as discussed in Note 10, *Intangible Assets and Goodwill*; several restructuring and recapitalization events discussed in Note 1, *Description of the Business*; fees for various statutory filings; severance costs for a reduction-in-force; and, costs to early terminate several leases.

These costs and expenses are summarized as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Impairment of intangible assets	\$ 5,390	\$2,716
Restructuring costs	1,973	3,431
Costs related to SEC filings	1,080	776
Severance costs	784	—
Costs related to early termination of leases, net of gains	337	—
Other, net	471	246
Total impairment, restructuring and other	<u>\$10,035</u>	<u>\$7,169</u>

Restructuring costs in 2019 and 2018 were for professional fees related to consultation, due diligence, and assistance to research and evaluate various capitalization strategies related to alternative debt and equity refinancing structures, and non-capitalizable costs related to implementation of selected strategies.

Hydrofarm Holdings Group, Inc.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2019 and 2018****(in thousands, except share amounts)****20. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events that have occurred from the balance sheet date of December 31, 2019 through August 14, 2020, the date the consolidated financial statements were available to be issued, and through December 1, 2020, as it relates to the reverse stock split.

In January and February 2020, under the same terms as the Series A Convertible Preferred Stock offering discussed in Note 13, *Convertible Preferred Stock and Stockholders' Equity*, an additional 717,616 shares of stock were issued primarily to existing investors for \$2,511, less offering costs of \$169, for net cash proceeds of \$2,342.

In April 2020, the Company entered into a U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") promissory note in the principal amount of \$3,300 with JPMorgan Chase Bank's SBA loan program under the CARES Act (the "PPP Loan"). The PPP Loan bears interest at 1%, which is deferred for the first six months.

In April 2020, a third amendment to the Encina Credit Facility replaced the existing "fixed charge coverage ratio/minimum excess availability" financial covenant with an amended "availability block," and increased the "inventory sublimit."

In June 2020, as more fully discussed in Note 16, *Commitments and Contingencies*, as part of the negotiations that began in late 2019, the original distribution agreement with a supplier was amended and restated with a term ending in December 2024.

In July 2020, the Company entered into a consulting agreement with a director to serve as an advisor to the board of directors and CEO. The agreement includes an award of 296,630 restricted stock units, which vests over a period of two years in equal quarterly installments commencing after a three-month service period following the award, subject to the satisfaction of a performance-based vesting requirement.

In August 2020, the Company executed a lease for approximately 100,000 square feet of warehouse space in Oregon to be available upon expiration of the lease for existing space on September 30, 2020. The new lease has a term of 64 months, commencing on occupancy, with an option to renew at the then fair market value for another five years. Rent is abated for the first four months. Thereafter, monthly rent is approximately \$53, and increases periodically to the final year where the monthly rent is \$62.

As discussed more fully in Note 7, *Notes Receivable*, the borrower on a note receivable for \$2,931 plus interest was in default as of December 31, 2019 and the Company is currently pursuing its remedies for recovery of the investment which include renegotiating the terms for repayment, and ultimately if necessary, recovery of the equipment serving as collateral which is expected to be sufficient to settle the basis of the loan.

In November 2020, the board of directors of the Company approved a 1-for-3.3712 reverse stock split of the Company's outstanding common stock, which was effected on November 24, 2020. All share and per share data shown in the accompanying condensed consolidated financial statements and related notes has been retroactively revised to give effect to this reverse stock split for all periods presented. Shares of common stock underlying outstanding stock options and other equity instruments were proportionately decreased and the respective per share value and exercise prices, if applicable, were proportionately increased in accordance with the terms of the agreements governing such securities. The formula for the conversion of Series A Convertible Preferred Stock into common stock was adjusted from 1-to-1 to 3.3712-to-1. There were no changes in the authorized shares or par values of the Company's common stock and preferred stock as a result of the reverse stock split.

Schedule II— Valuation and Qualifying Accounts

Hydrofarm Holdings Group, Inc.
For the years ended December 31, 2019 and 2018
(in thousands)

	<u>Balance as of beginning of year</u>	<u>Provision/ (Benefit)</u>	<u>Deductions</u>	<u>Balance as of end of year</u>
Year ended December 31, 2019				
Allowance for doubtful accounts	\$1,227	\$ 933	\$ (384)	\$1,776
Allowance for inventory obsolescence	3,219	707	(104)	3,822
Year ended December 31, 2018				
Allowance for doubtful accounts	2,955	534	(2,262)	1,227
Allowance for inventory obsolescence	4,618	(824)	(575)	3,219

Hydrofarm Holdings Group, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except for share and per share amounts)

	Pro Forma September 30, 2020	September 30, 2020	December 31, 2019
Assets			
Current assets:			
Cash and cash equivalents	\$ 29,088	\$ 31,078	\$ 22,866
Restricted cash	1,777	1,777	9,991
Accounts receivable, net	22,543	22,543	15,246
Inventories	79,990	79,990	50,228
Notes receivable	3,151	3,151	4,796
Prepaid expenses and other current assets	6,364	6,364	1,840
Total current assets	142,913	144,903	104,967
Property and equipment, net	3,303	3,303	3,550
Operating lease right-of-use assets	15,877	15,877	18,521
Intangible assets, net	53,560	53,560	57,406
Other assets	928	928	1,207
Total assets	216,581	\$ 218,571	\$ 185,651
Liabilities, convertible preferred stock and stockholders' equity			
Current liabilities:			
Accounts payable	35,290	\$ 35,290	\$ 17,224
Accrued expenses and other current liabilities	17,121	17,121	9,188
Current portion of lease liabilities	3,142	3,142	3,181
Current portion of long-term debt	37,224	37,224	34,827
Total current liabilities	92,777	92,777	64,420
Long-term lease liabilities	13,350	13,350	15,786
Long-term debt	74,602	74,602	73,105
Other long-term liabilities	581	581	1,160
Total liabilities	181,310	181,310	154,471
Commitments and contingencies (Note 10)			
Convertible preferred stock \$0.0001 par value; 50,000,000 shares authorized; 7,725,045 and 7,007,429 shares issued and outstanding at September 30, 2020 and December 31, 2019 including cumulative dividends of \$1,990 and \$0 respectively; no shares issued and outstanding on a pro forma basis			
	—	27,584	21,802
Stockholders' equity			
Common stock – \$0.0001 par value; 300,000,000 shares authorized; 20,688,439 shares issued and outstanding at September 30, 2020 and December 31, 2019; 22,979,908 shares issued and outstanding on a pro forma basis			
	2	2	2
Additional paid-in capital	180,193	154,599	156,179
Accumulated other comprehensive loss	(390)	(390)	(144)
Accumulated deficit	(144,534)	(144,534)	(146,659)
Total stockholders' equity	35,271	9,677	9,378
Total liabilities, convertible preferred stock and stockholders' equity	\$ 216,581	\$ 218,571	\$ 185,651

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

Hydrofarm Holdings Group, Inc.

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

(In thousands except share and per share amounts)

	Nine months ended September 30,	
	2020	2019
Net sales	\$ 254,763	\$ 181,338
Cost of goods sold	207,139	159,762
Gross profit	47,624	21,576
Operating expenses:		
Selling, general and administrative	37,084	30,759
Impairment, restructuring and other	276	3,589
Income (loss) from operations	10,264	(12,772)
Interest expense	(7,858)	(9,789)
Loss on debt extinguishment	—	(391)
Other income, net	103	334
Income (loss) before tax	2,509	(22,618)
Income tax (expense) benefit	(384)	246
Net income (loss)	2,125	(22,372)
Cumulative dividends allocated to Series A Convertible Preferred Stock	(1,990)	—
Net income (loss) attributable to common stockholders	\$ 135	\$ (22,372)
Net income (loss)	\$ 2,125	\$ (22,372)
Foreign currency translation (loss) gain	(246)	1,193
Total comprehensive income (loss)	\$ 1,879	\$ (21,179)
Historical earnings per share:		
Net income (loss) per share attributable to common stockholders:		
Basic	\$ 0.01	\$ (1.08)
Diluted	\$ 0.01	\$ (1.08)
Weighted-average shares of common stock outstanding:		
Basic	20,688,439	20,688,439
Diluted	20,892,507	20,688,439
Pro forma earnings per share for 2020:		
Net income per share attributable to common stockholders on pro forma basis:		
Basic	\$ 0.09	
Diluted	\$ 0.09	
Weighted-average shares of common stock outstanding on pro forma basis:		
Basic	22,942,435	
Diluted	23,146,503	

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

Hydrofarm Holdings Group, Inc.
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED
 STOCK AND STOCKHOLDERS' EQUITY (UNAUDITED)**
 (In thousands, except for share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2019	—	\$ —	20,688,439	\$ 2	\$ 155,971	\$ (1,853)	\$ (106,576)	\$ 47,544
Stock-based compensation expense	—	—	—	—	173	—	—	173
Net loss	—	—	—	—	—	—	(22,372)	(22,372)
Foreign currency translation gain	—	—	—	—	—	1,193	—	1,193
Balance, September 30, 2019	—	\$ —	20,688,439	\$ 2	\$ 156,144	\$ (660)	\$ (128,948)	\$ 26,538
Balance, January 1, 2020	7,007,429	\$ 21,802	20,688,439	\$ 2	\$ 156,179	\$ (144)	\$ (146,659)	\$ 9,378
Proceeds from issuance of Series A Convertible Preferred Stock, net of issuance costs of \$169	717,616	2,342	—	—	—	—	—	—
Collection of receivable for issuance of Series A Convertible Preferred Stock	—	1,450	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	410	—	—	410
Series A Convertible Preferred Stock cumulative dividend	—	1,990	—	—	(1,990)	—	—	(1,990)
Net income	—	—	—	—	—	—	2,125	2,125
Foreign currency translation loss	—	—	—	—	—	(246)	—	(246)
Balance, September 30, 2020	<u>7,725,045</u>	<u>\$ 27,584</u>	<u>20,688,439</u>	<u>\$ 2</u>	<u>\$ 154,599</u>	<u>\$ (390)</u>	<u>\$ (144,534)</u>	<u>\$ 9,677</u>

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,	
	2020	2019
Operating activities		
Net income (loss)	\$ 2,125	\$ (22,372)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	5,170	5,198
Non-cash operating lease expense	2,538	2,771
Amortization of deferred financing costs	715	470
Interest expense capitalized to principal of long-term debt	20	7,259
Other	276	(314)
Changes in assets and liabilities:		
Accounts receivable	(7,694)	(4,342)
Inventories	(29,730)	(3,677)
Prepaid expenses and other current assets	(3,650)	(3,175)
Accounts payable	18,145	7,566
Accrued expenses and other current liabilities	7,166	1,898
Lease liabilities	(2,379)	(2,542)
Other	(479)	(260)
Net cash used in operating activities	(7,777)	(11,520)
Investing activities		
Purchases of property and equipment	(700)	(541)
Issuance of notes receivable	—	(3,031)
Proceeds on notes receivable	2,000	—
Other	28	—
Net cash provided by (used in) investing activities	1,328	(3,572)
Financing activities		
Proceeds from issuance of Series A Convertible Preferred Stock, net of issuance costs	3,792	—
Proceeds from issuance of convertible debt	—	5,873
Borrowings from PPP Loan	3,274	—
Borrowings under revolving credit facilities	213,621	203,724
Payments of deferred financing costs	(13)	(1,377)
Repayments of long-term debt and revolving credit facilities	(213,709)	(203,420)
Payments of deferred offering costs	(153)	—
Other	(404)	(137)
Net cash provided by financing activities	6,408	4,663
Effect of exchange rate changes on cash, cash equivalents and restricted cash	39	2,347
Net decrease in cash, cash equivalents and restricted cash	(2)	(8,082)
Cash, cash equivalents and restricted cash at beginning of period	32,857	27,923
Cash, cash equivalents and restricted cash at end of period	\$ 32,855	\$ 19,841

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)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(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 under the laws of the state of Delaware to acquire and continue the business of Hydrofarm, LLC which, since 1977, has been in the business of distribution and manufacture 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, CO₂, light intensity and color, nutrient concentration and pH.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim 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 its annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal 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, 2020, or for any other interim period or for any other future year. All intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2019 has been derived from the audited consolidated financial statements of the Company, which are included in the prospectus herein. 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 prospectus herein.

Use of estimates

As of the date of issuance of these condensed consolidated financial statements, the Company is not aware of any specific events or circumstance that would require an update to estimates, assumptions and judgments, or a revision of the carrying value of its assets or liabilities. These estimates may change as new events occur and additional information is obtained and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences could be material to the Company’s condensed consolidated financial statements.

Unaudited pro forma balance sheet information as of September 30, 2020

The Company intends to pay the cumulative dividends on the convertible preferred stock at the time of the initial public offering (“IPO”). U.S. Securities and Exchange Commission Staff Accounting Bulletin 1.B.3 requires that certain distributions to owners prior to or concurrent with an initial public offering be considered as distributions in contemplation of that offering. The accompanying unaudited pro forma balance sheet information presented in the condensed consolidated balance sheet as of September 30, 2020 assumes a \$1,990 reduction of cash to pay the cumulative dividends on the convertible preferred stock and assumes conversion of the outstanding shares of convertible preferred stock into shares of common stock in connection with the

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

IPO. The presentation assumes that the convertible preferred stock converts into 2,291,469 shares of common stock as of September 30, 2020 based on the conversion formula described in Note 8, *Convertible preferred stock and stockholders' equity*, assuming issuance at the Series A Conversion Price of \$11.80 per share. Upon conversion of shares of preferred stock into common stock, the basis in the convertible preferred stock is transferred to stockholders' equity as an increase in par value and additional paid-in capital. The unaudited pro forma balance sheet information does not assume any proceeds from the IPO.

Segment and entity-wide information

Segment information

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.

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 and equipment, net in the United States and Canada, determined by the location of the subsidiaries, were as follows:

	For the nine months ended	
	September 30,	
	<u>2020</u>	<u>2019</u>
United States	\$212,706	\$148,993
Canada	44,352	35,457
Intersegment eliminations	(2,295)	(3,112)
Total consolidated net sales	<u>\$254,763</u>	<u>\$181,338</u>
	September 30,	December 31,
	<u>2020</u>	<u>2019</u>
United States	\$2,633	\$2,660
Canada	670	890
Total property and equipment, net	<u>\$3,303</u>	<u>\$3,550</u>

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.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

Cash, cash equivalents and restricted cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets to the consolidated statements of cash flows.

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$31,078	\$22,866
Restricted cash	1,777	9,991
Cash and cash equivalents, and restricted cash	<u>\$32,855</u>	<u>\$32,857</u>

Cash and cash equivalents and restricted cash as of September 30, 2019 were \$18,226 and \$1,615, respectively, for total cash, cash equivalents, and restricted cash as of September 30, 2019 of \$19,841.

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 (“CEA”, principally hydroponics) equipment and supplies. Inventory is maintained in regional distribution centers. Payment terms are primarily at the point of sale or due within thirty days.

Revenue is recognized as control of promised goods or services is transferred to customers which generally occurs upon receipt at customers’ locations determined by the specific terms of the contract. Arrangements have a single performance obligation and revenue is reported net of variable consideration which includes applicable volume rebates, cash discounts and sales returns and allowances. Variable consideration is estimated and recorded at the time of sale; these allowances and accruals are not material to the financial statements.

The amount billed to customers for shipping and handling costs included in net sales was \$3,475 and \$2,234 for the nine months ended September 30, 2020 and 2019, 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 under the practical expedient provisions of ASC 606. Deferred revenues are not material. The Company does not receive noncash consideration for the sale of goods. 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 under the practical expedient provisions.

Notes receivable

During 2019, the Company advanced a total of \$2,931 in the form of a note receivable secured by equipment to another third party, which earned interest at a rate of 8.0%. The note was to mature on the earlier of a) four months or 12 months after abandonment of a potential merger by the third party or the Company, respectively, b) acceleration due to default conditions or c) May 29, 2023. As of December 31, 2019, the third party had defaulted on the interest payment due on September 20, 2019, triggering an increase to the default rate of 13%. In January 2020, the Company formally abandoned the merger and arranged for the principal balance to be paid in monthly installments of \$254 through January 2021. Effective April 23, 2020, due to the third party being in default on the note, the parties entered a forbearance agreement stipulating that payments will commence beginning May 8, 2020. The Company and the third party are currently in discussions to amend the note. The amendment is intended to allow the third party to receive equity financing

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

that will be used to fund operations and make a payment on the note upon the effective date of the amendment. The Company expects the amendment will provide for financial covenants, a first priority security on all assets, amortization, and a 2024 maturity. In the event of a further default by the third party, the Company will pursue its remedies in the note, including recovery of the equipment serving as collateral, which is expected to be sufficient to settle the basis of the loan.

Deferred offering costs

The Company capitalizes certain legal, accounting and other third-party fees that are directly related to an equity financing that is probable of successful completion until such financing is consummated. After consummation of an equity financing, these costs are recorded as a reduction of the proceeds received as a result of the financing. Should a planned equity financing be abandoned, terminated or significantly delayed, the deferred offering costs are immediately written off to operating expenses in the condensed consolidated statements of operations and comprehensive income (loss) in the period of determination. As of September 30, 2020, \$940 of deferred offering costs were included in prepaid expenses and other current assets in the condensed consolidated balance sheets.

Income taxes — interim tax provision

The income tax provision is calculated for an interim period by distinguishing between elements recognized in the income tax provision through applying an estimated annual effective tax rate (the “ETR”) to a measure of year-to-date operating results referred to as “ordinary income (or loss),” and discretely recognizing specific events referred to as “discrete items” as they occur. The income tax provision or benefit for each interim period is the difference between the year-to-date amount for the current period and the year-to-date amount for the prior period. Under ASC 740-270-30-36, entities subject to income taxes in multiple jurisdictions should apply one overall ETR instead of separate ETRs for each jurisdiction when calculating the interim-period income tax or benefit related to consolidated ordinary income (or loss) for the year-to-date interim period, except in certain circumstances.

The Company’s effective tax rates for the nine months ended September 30, 2020 and 2019 differ from the federal statutory rate of 21% principally as a result of valuation allowances expected to be applied to net operating loss carry-forwards which will not meet the threshold for recognition as deferred tax assets.

Fair value

No financial assets or liabilities are measured at fair value on a recurring basis for the periods presented.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, accounts payable, accrued and other current liabilities and revolving asset-backed credit facility approximate their fair value due to their short-term maturities using level 2 inputs. The terms of the Term Loan are similar to those that would be available if the debt were refinanced at period-end, and accordingly its carrying value approximates its fair value using level 3 inputs.

Recently issued accounting pronouncements

Adopted in 2020

In August 2018, the FASB issued Accounting Standards Update (“ASU”) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates certain disclosure requirements for fair value measurement for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. The Company adopted the standard effective January 1, 2020 with no impact on its disclosures about fair value measurements.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. The Company adopted the standard effective March 12, 2020 with no impact on the condensed consolidated financial statements and related disclosures.

Accounting standards not yet effective

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, with additional amendments issued subsequently. Topic 326 changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. Topic 326 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of Topic 326 will have on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and improving consistent application of and simplifying GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This ASU is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact the adoption of Topic 740 will have on its condensed consolidated financial statements.

3. NET INCOME (LOSS) PER COMMON SHARE (“EPS”)

Basic EPS is computed using net income (loss) attributable to common stockholders 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) attributable to common stockholders 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 performance condition, before the end of the contingency period (i.e., before the performance or market conditions have been satisfied), the number of contingently issuable shares (i.e., RSUs) to be included in diluted EPS would be based on the number 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.

Net income (loss) per share attributable to common stockholders

The following table presents information necessary to calculate basic and diluted EPS for the nine months ended September 30, 2020 and 2019:

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

	Nine months ended September 30,	
	2020	2019
Net income (loss)	\$ 2,125	\$ (22,372)
Cumulative dividends allocated to Series A Convertible Preferred Stock	(1,990)	—
Net income (loss) available for distribution	135	(22,372)
Less: Undistributed earnings allocable to participating securities	(13)	—
Basic and diluted net income (loss) attributable to common stockholders	\$ 122	\$ (22,372)
Less: Effect on net income (loss) of dilutive securities using the “if converted” method	—	—
Diluted net income (loss) attributable to common stockholders after adjustment for assumed conversions	\$ 122	\$ (22,372)
Weighted-average shares of common stock outstanding for basic net income (loss) per share attributable to common stockholders	20,688,439	20,688,439
Dilutive effect of restricted stock units subject only to time-based vesting using the treasury stock method	127,544	—
Dilutive effect of warrants using the treasury stock method	29,113	—
Dilutive effect of stock options using the treasury stock method	47,411	—
Weighted-average shares of common stock outstanding for diluted net income (loss) per share attributable to common stockholders	20,892,507	20,688,439
Basic net income (loss) per share attributable to common stockholders	\$ 0.01	\$ (1.08)
Diluted net income (loss) per share attributable to common stockholders	\$ 0.01	\$ (1.08)

Basic and diluted net income (loss) per share attributable to common stockholders is computed using the two-class method as the convertible preferred stock is determined to be a participating security and the application of the if-converted method is not more dilutive. 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:

	Nine months ended September 30,	
	2020	2019
Shares subject to warrants outstanding	344,716	—
Shares subject to stock options outstanding	848,837	—
Shares subject to unvested restricted stock units subject only to time-based vesting	402,151	—

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(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:

	Nine months ended September 30,	
	2020	2019
Shares subject to warrants outstanding	3,541,475	3,886,191
Shares subject to stock options outstanding	—	796,593
Shares subject to unvested restricted stock units with performance conditions	2,117,228	1,406,826
Shares of common stock subject to conversion of 7,725,045 shares Series A preferred stock	2,291,469	—
Shares of common stock subject to share settlement of \$1,990 cumulative dividend on Series A preferred stock	168,644	—

The 2,117,228 and 1,406,826 RSUs as of September 30, 2020 and 2019 respectively, included in the preceding table, are subject to time and performance-based vesting criteria which would not have been met if the end of the contingency (e.g., performance) period were September 30, 2020.

If determined by the Corporation that the cumulative Series A preferred stock dividend would be paid in shares of Series A preferred stock, the 568,571 shares of Series A preferred stock convertible into 168,644 shares of common stock, included in the table, reflect the shares that would have been issued as of September 30, 2020 (cumulative dividend on preferred stock of \$1,990 at \$11.80 per share, the Series A Conversion Price). See Note 8, *Convertible Preferred Stock and Stockholders' Equity*, under *Convertible preferred stock classified outside of permanent equity*, for a description of "mandatory conversion upon a qualified IPO." The issuance of shares associated with the dividend would be considered a "nominal issuance" (issuance for little or no additional consideration) and, accordingly, included in EPS retroactively to the date the underlying dividends were earned on a weighted average basis unless anti-dilutive.

Unaudited pro forma net income (loss) per share attributable to common stockholders for the nine months ended September 30, 2020

The following table sets forth the computation of the Company's unaudited pro forma basic and diluted net income per share attributable to common stockholders assuming the automatic conversion of convertible preferred stock into 2,291,469 shares of common stock (based on the conversion formula described in Note 8, *Convertible preferred stock and stockholders' equity*) (and assumes that no dividends have accrued as of such date in accordance with the terms of the convertible preferred stock) upon consummation of the IPO as if the IPO had occurred as of January 1, 2020 or the original issuance date of the convertible preferred stock if after January 1, 2020:

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

	Nine months ended September 30, 2020
Basic and diluted net income attributable to common stockholders	\$ 122
Add-back: Cumulative dividends allocated to Series A Convertible Preferred Stock, assuming conversion	1,990
Add-back: Undistributed earnings allocable to participating securities, assuming conversion	13
Net income used to calculate basic pro forma net income per share attributable to common stockholders	2,125
Less: Effect on net income of dilutive securities using the "if converted" method	—
Net income used to calculate dilutive pro forma net income per share attributable to common stockholders	\$ 2,125
Weighted-average shares of common stock outstanding for basic earnings per share	20,688,439
Add: Pro forma adjustment to reflect assumed conversion of all outstanding shares of Series A Preferred Stock	2,253,996
Weighted-average shares of common stock outstanding for pro forma basic earnings per share	22,942,435
Add: Dilutive effect of restricted stock units, warrants and stock options using the treasury stock method	204,068
Weighted-average shares of common stock outstanding used to compute pro forma diluted net income per share attributable to common stockholders	23,146,503
Pro forma basic net income per share attributable to common stockholders	\$ 0.09
Pro forma diluted net income per share attributable to common stockholders	\$ 0.09

4. ACCOUNTS RECEIVABLE, NET AND INVENTORIES

Accounts receivable, net comprised the following:

	September 30, 2020	December 31, 2019
Trade accounts receivable	\$22,761	\$16,577
Allowance for doubtful accounts	(1,323)	(1,776)
Other receivables	1,105	445
Total accounts receivable, net	\$22,543	\$15,246

Inventories comprised the following:

	September 30, 2020	December 31, 2019
Finished goods	\$83,089	\$54,050
Allowance for inventory obsolescence	(3,099)	(3,822)
Total inventories	\$79,990	\$50,228

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

5. OPERATING LEASES

The Company leases its distribution centers from third parties under various non-cancelable lease agreements expiring at various dates through 2030. Certain lease agreements contain renewal options. The Company recognizes operating lease costs over the respective lease periods, including short-term and month-to-month leases. During the nine months ended September 30, 2020 and 2019, the Company incurred operating lease costs of \$4,246 and \$4,350, respectively, included within selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive income (loss).

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

	September 30, 2020	December 31, 2019
Assets		
Operating lease right-of-use assets	\$15,877	\$18,521
Total leased assets	<u>\$15,877</u>	<u>\$18,521</u>
Liabilities		
Current portion of lease liabilities	\$ 3,142	\$ 3,181
Long-term lease liabilities	13,350	15,786
Total lease liabilities	<u>\$16,492</u>	<u>\$18,967</u>

As of September 30, 2020, future minimum lease payments under non-cancelable operating leases are as follows:

	Operating
For the period of October 1, 2020 to December 31, 2020	\$ 945
Year ending December 31	
2021	3,823
2022	3,335
2023	1,803
2024	1,397
2025	1,428
Thereafter	6,730
Total rental payments	<u>19,461</u>
Less portion representing interest	(2,969)
Total principal	<u>16,492</u>
Less current portion	(3,142)
Long-term portion	<u>\$13,350</u>

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities comprised the following:

	September 30, 2020	December 31, 2019
Goods in transit accrual	\$ 4,126	\$ 1,005
Freight, custom and duty accrual	3,486	977
Accrued compensation and benefits	3,355	1,857
Obligations due under a distribution agreement	586	1,154
Costs related to issuance of Series A Convertible Preferred Stock	—	1,239
Other accrued liabilities	5,568	2,956
Total accrued expenses and other current liabilities	\$17,121	\$9,188

7. DEBT

Debt is comprised of the following:

	September 30, 2020			December 31, 2019		
	Outstanding Principal	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount	Outstanding Principal	Unamortized Discount and Deferred Financing Costs	Net Carrying Amount
Term loan	\$ 76,292	\$(1,035)	\$ 75,257	\$ 85,111	\$(1,513)	\$ 83,598
Line of credit	32,494	(568)	31,926	23,864	(792)	23,072
PPP Loan	3,274	—	3,274	—	—	—
Other	1,369	—	1,369	1,262	—	1,262
Total debt	113,429	(1,603)	111,826	110,237	(2,305)	107,932
Current portion	37,224	—	37,224	34,827	—	34,827
Long term	76,205	(1,603)	74,602	75,410	(2,305)	73,105
Total debt	\$113,429	\$(1,603)	\$111,826	\$110,237	\$(2,305)	\$107,932

Term Loan with Brightwood

In May 2017, a term loan in the aggregate principal amount of \$75,000 (the “Term Loan”) was obtained by Hydrofarm Holdings LLC and certain of its direct and indirect subsidiaries (the “Term Loan Obligors”) from Brightwood Loan Services LLC, as administrative agent (“Brightwood”), and the lenders party thereto. Hydrofarm Holdings LLC is a shell entity and a subsidiary of Hydrofarm Holdings Group, Inc. Hydrofarm Holdings LLC’s subsidiary is Hydrofarm, LLC, the primary operating entity of the Company.

The Term Loan matures on May 12, 2022. Interest is calculated at LIBOR plus a margin of 700 basis points on LIBOR based loans assuming the net leverage ratio as defined is met, otherwise at LIBOR plus a margin of 850 basis points; an additional 200 basis points is added to the rate for any period during which the loan is in default. Principal payments at an annual basis of 2.5% of the original loan amount, \$469 are due quarterly. Deferred financing costs are being amortized to interest expense over the term of the loan. The Term Loan is secured by substantially all non-working capital assets and a second lien on working capital assets of the Term Loan Obligors.

The Term Loan has been subject to numerous amendments since its origination generally in connection with modifications to debt service, interest payments, interest rates, and debt covenants. Certain amendments required payments of fees. All amendments were accounted for as debt modifications.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

The Brightwood sixth amendment and a related side letter dated October 15, 2019 provided that a portion of the proceeds raised in the December 2019 offering of Series A Convertible Preferred Stock would be used pay down the Term Loan; the amount was ultimately determined to be \$8,370. As of December 31, 2019, cash of \$8,370 is presented as a component of restricted cash on the accompanying unaudited condensed consolidated balance sheet and an equal amount of the Term Loan is included in current portion of long-term debt. The payment was made in January 2020.

For the nine months ended September 30, 2019, the effective interest rate was 13.11%, interest expense was \$7,606, of which \$5,324 was added to the principal, and amortization of deferred financing costs was \$330. For the nine months ended September 30, 2020, the effective interest rate was 10.22%, interest expense was \$5,460, and amortization of deferred financing costs was \$478.

The Term Loan Obligors were in compliance with all debt covenants as of September 30, 2020.

Revolving asset-backed credit facilities

In May 2017, a credit facility (“BofA Credit facility”) was obtained by Hydrofarm Holdings LLC and certain of its direct and indirect subsidiaries (the “BofA Obligors”) from Bank of America and the lenders’ party thereto. From January 1, 2019 through June 10, 2019, the BofA Credit Facility was amended in connection with extensions of the due date and eventual payoff in July 2019. Each amendment was accounted for as a debt modification.

On July 11, 2019, Hydrofarm Holdings LLC and certain of its direct and indirect subsidiaries (the “Encina Obligors”) replaced the BofA Credit Facility with 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 (“Encina”). The amount of the facility is limited to the borrowing base (primarily calculated based on eligible accounts receivable and inventory) subject to certain reserves and limitations. The Encina Credit Facility is due on the earlier of July 11, 2022 or 90 days prior to the scheduled maturity date of the Term Loan.

Interest, due monthly, is charged at LIBOR or a base rate, plus an applicable margin ranging between 3.75% to 5.50% per annum determined based on the fixed charge coverage ratio calculated over an applicable time period. A fee of 0.50% per annum is charged for available but unused borrowings as defined. An additional 200 basis points is added to the interest rate for any period during which the loan is in default. Deferred financing costs are being amortized over the term of the Encina Credit Facility.

The Encina Credit Facility is secured by working capital assets and a second lien on non-working capital assets, and requires various restrictive covenants and financial ratios. It also provides for protective advances, overdrafts, early payment/termination premium, events of default and remedies available, limitations on new indebtedness and on dividends to the parent, negative covenants, representations, warranties, limitation of liabilities and indemnities. Additionally, the agreement requires the Encina Obligors to be in compliance with the financial and qualitative covenants of all other existing debt. The Encina Credit Facility provides for several financial covenants, as defined and limits on capital expenditures. In April 2020 and May 2020, the Encina Credit Facility was amended by the third, fourth and fifth amendments, which (i) replaced the existing “fixed charge coverage ratio/minimum excess availability” financial covenant with an amended “availability block” and increased the “inventory sublimit,” each as more fully described in the amendment, (ii) provided for permitted indebtedness related to the PPP Loan, and (iii) increased permitted capital expenditures during any fiscal year to \$750. In September 2020, the Encina Credit Facility was amended by the sixth amendment, which (i) further increased the “inventory sublimit” (as defined), and (ii) increased permitted capital expenditures during any fiscal year to \$2,000.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

For the nine months ended September 30, 2019, the effective interest rate was 9.94%, interest expense was \$1,649, all of which was added to the principal, and amortization of deferred financing costs was \$150. For the nine months ended September 30, 2020, the effective interest rate was 9.27%, interest expense was \$1,625 and amortization of deferred financing costs was \$237. The Encina Obligor had approximately \$3,554 available to borrow under the Encina Credit Facility as of September 30, 2020.

The Encina Obligor was in compliance with all debt covenants as of September 30, 2020.

Note under Paycheck Protection Program

In April 2020, the Company entered into a U.S. Small Business Administration (“SBA”) Paycheck Protection Program promissory note in the principal amount of \$3,274 with JPMorgan Chase Bank’s SBA loan program under the CARES Act (the “PPP Loan”). The PPP Loan bears interest at 1% per annum and payments are deferred for the first six months. Interest expense incurred for the nine months ended September 30, 2020 was \$16. The maturity date is April 7, 2022.

Aggregate future principal payments

As of September 30, 2020, the aggregate future principal payments under long-term debt and finance lease obligations are as follows:

	Finance lease obligations	Debt	Total
For the period from October 1, 2020 to December 31, 2020	\$101	\$ 33,709	\$ 33,810
Year ending December 31,			
2021	400	4,214	4,614
2022	232	74,754	74,986
2023	56	32	88
Total	789	112,709	113,498
Less portion representing interest	(69)	—	(69)
Total debt	\$720	\$112,709	\$113,429

The following is a reconciliation of payment due:

	Finance lease obligations	Debt	Total
Current portion	\$356	\$ 36,868	\$ 37,224
Long-term	364	75,841	76,205
Total payments due	\$720	\$112,709	\$113,429

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

8. CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Capital stock

As of September 30, 2020, the following summarizes shares authorized, issued and outstanding:

Capital stock authorized and outstanding:	Shares authorized	Shares outstanding
Convertible preferred stock	50,000,000	7,725,045
Common stock	300,000,000	20,688,439

As of September 30, 2020, the following summarizes shares of common stock reserved for issuance:

Common stock reserved for issuance:	Shares reserved for issuance
Convertible preferred stock	2,291,469
Warrants	3,886,191
Stock options	848,837
Restricted stock units	2,519,379

Convertible preferred stock classified outside of permanent equity

In December 2019, the Company issued 7,007,429 shares of Series A convertible preferred stock with a par value of \$24,526 in return for cash of \$15,439, conversion of debt with a basis of \$7,637, and \$1,450 in receivables that were settled in January 2020. Offering costs totaled \$1,274, of which \$1,239 was included in accrued expense and other current liabilities in the consolidated balance sheet as of December 31, 2019. In January and February 2020, an additional 717,616 shares of preferred stock were issued primarily to existing investors for \$2,511, less offering costs of \$169, for net cash proceeds of \$2,342.

A summary of key terms are as follows:

- **Initial purchase price:** \$3.50
- **Ranking:** Senior to all classes of common and preferred stock
- **Use of Proceeds:** Approximately \$8,370 to pay down Term Loan (see Note 7, *Debt*), growth investments and general corporate purposes
- **Preferred dividend:** 10% dividend yield, cumulative, payable in cash or PIK (Series A Convertible Preferred Stock) at the issuer's discretion; the rate increases to 11% after the 9-month anniversary and 12% after the 18-month anniversary
- **Liquidation preference:** 1x liquidation preference upon liquidation or wind up; a majority of the Preferred Shareholders can vote to liquidate the Company
- **Conversion rights:** At any time, the holders of the Preferred Stock can convert their shares 3.3712:1 into to common stock subject to typical anti-dilution provisions.
- **Voting rights:** The Preferred Shareholders vote together with the holders of common stock on an as-converted basis.
- **Liquidity rights:** Following the 18-month anniversary of the closing date, if an IPO has not occurred, the Preferred Stock investors can cause the Company to undertake one of the following actions (selection of the specific action is at the Company's discretion):

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

- Redeem the securities
- Initiate a sale of the Company
- Initiate an IPO process
- **Mandatory Conversion upon a Qualified IPO:** Upon an IPO of at least \$75,000 of gross proceeds, each share of outstanding Series A Preferred Stock automatically converts into common shares at the lesser of (x) the then Series A Conversion Price of (\$11.80), or (y) the then effective Discounted Qualified IPO price. The Discounted Qualified IPO price is the amount calculated by multiplying the price at which the shares of common stock were issued in the IPO by 0.8 (the Multiplier), provided that commencing 270 days after the issuance of the Preferred Stock, the Multiplier shall be decreased to 0.79 and shall be decreased by an additional 0.01 every thirty days thereafter, provided that the Multiplier shall not decrease below 0.75. If determined by the Corporation that the cumulative Series A preferred stock dividend would be paid in shares of Series A preferred stock, the newly issued shares would be determined by dividing the amount of the cumulative dividend by the Series A Conversion Price of \$11.80 per share.
- **Other terms:** Customary rights consistent with offerings of this type, including protective provisions, registration rights, reporting/information rights, right of first refusal/co-sale rights, pre-emptive rights, lock up restrictions, and transfer restrictions.

The Series A Convertible Preferred Stock contains a redemption feature not solely within the control of the Company's common shareholders and is, therefore, classified outside of permanent equity. None of the embedded features required bifurcation from the host instrument.

Common stock

Each holder of common stock is entitled to one vote for each share of common stock. Common stockholders have no pre-emptive rights to acquire additional share of common stock or other securities. The common stock is not subject to redemption rights and carries no subscription or conversion rights. In the event of liquidation, the stockholders are entitled to share in corporate assets on a pro rata basis after the Company satisfies all liabilities and after provision is made for any class of capital stock having preference over the common stock. Subject to corporate regulations and preferences to preferred stock, if any, dividends are at the discretion of the Company's board of directors (the "Board").

Warrants

As of September 30, 2020 and December 31, 2019, aggregate shares of common stock under warrants totaled 3,886,191.

Warrants issued to investors for the purchase of 3,369,124 shares (the "Investor Warrants") are exercisable at \$16.86 per share commencing the earliest of a public event defined as the effective date of a registration statement, the closing of any initial public offering, or the closing of any other transaction or set of events that results in the Company being subject to the reporting requirement of the Securities Exchange Act of 1934, as amended. The warrants expire three years from the effective date of a public event. The warrants are callable by the Company solely at its discretion if certain conditions are met.

Warrants for the purchase of 172,351 shares of common stock are exercisable at a price of \$16.86 per share and 344,716 are exercisable at a price of \$8.43 per share. These warrants are exercisable upon exercise of the Investor Warrants.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

Restriction on the ability to pay dividends

Under the loan agreements with Encina and Brightwood, substantially all consolidated net assets of the Brightwood Obligors or Encina Obligors are subject to limitations regarding the restriction of payment of dividends to any direct or indirect parent.

9. STOCK-BASED COMPENSATION

Stock-based compensation plan overview

The Company adopted the 2018 Equity Incentive Plan in August 2018 and the 2019 Employee, Director and Consultant Equity Incentive Plan in December 2019 (collectively, the “Incentive Plans”) which provide for the issuance of both non-statutory and incentive stock options and other awards to acquire up to 2,586,080 shares of common stock under the 2018 Equity Incentive Plan, and 1,034,431 shares of common stock under the 2019 Employee, Director and Consultant Equity Incentive Plan. Of the total shares available for grant under the stock compensation plans, 548,834 remain available as of September 30, 2020. No awards were granted prior to 2019.

Restricted stock units issued to executives’ subject to service and performance conditions

From January 1, 2019 through September 30, 2020, the Company granted RSUs to certain executives which expire 10 years after the grant date. All awards have a time-based vesting requirement (based on continuous employment) and certain awards also have a performance-based vesting requirement (defined as a liquidity event including an initial public offering); on the date the performance-based vesting requirement is satisfied, the employee will become vested in the number of RSUs that have satisfied the time-based vesting requirement, if any. Upon vesting, the RSUs convert into shares of the Company’s common stock; unvested RSUs are not considered outstanding common shares.

Since RSUs represent equity awards of the Company, such awards are fair valued as of the grant date for the purposes of measurement under U.S. GAAP. Expense is recognized over the vesting period for awards with only time-based vesting. Expense for awards subject to both time and performance-based vesting begins when the performance criteria is deemed probable of occurrence; as of September 30, 2020, the Company has determined that the ultimate vesting of RSUs subject to performance-based vesting is not probable and, accordingly, the Company has not recognized any expense related to these awards.

The following table summarizes the RSU activity for the nine months ended September 30, 2020:

	Number of RSUs
Balance, January 1, 2020	1,820,598
Granted April 2020	402,151
Granted July 2020	296,630
Balance, September 30, 2020	<u>2,519,379</u>

To measure the value of the award, the initial grant-date fair value of shares of common stock underlying RSUs is determined. Such valuation is the responsibility of, and determined by the Company. In 2019 and 2020, there was no public market for the Company’s common stock so the board of directors determined the fair value of common stock at the grant date by considering a number of objective and subjective factors including independent third-party valuations of the Company’s common stock, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

The award granted in July 2020 contains a market condition (based on the trade value of shares of the Company's common stock following an IPO during a defined period shortly after the IPO) in addition to time and performance vesting requirements. For this award, the market condition is factored into its fair value; otherwise, all accounting is the same as awards with both time and performance vesting conditions. Expense is recognized regardless whether the market condition is eventually met. To estimate the fair value of the award, the "Monte Carlo Simulation Method" (the MCSM) was used which assesses the likelihood of vesting of the RSU grant based on the probability of both a triggering event (e.g., IPO) and achievement of the qualifying traded share price within the specified time frame. The resulting risk-adjusted likely probability of vesting is then applied to the underlying fair value of common stock incorporating scenarios under which various performance conditions and share price outcomes are modeled over the course of numerous iterations. Key assumptions in the MCSM include volatility of 50%; time horizon of 2.5 years corresponding to the vesting measurement period of the award forecasted based on daily trading prices; risk-free rate: 0.11%; and, number of simulation trials of 10,000.

The following table summarizes the grant date fair value, expense for the nine months ended September 30, 2020 (no expense was recognized during the nine months ended September 30, 2019), and the balance of unamortized stock-based compensation related to RSUs as of September 30, 2020:

	Number of RSUs	Grant date fair value	Expense during period	Unamortized compensation
RSUs subject to passage of time and performance, all unvested	2,117,228	\$ 11,293	\$ —	\$ 11,293
RSUs subject only to the passage of time:				
Vested	—	—	—	—
Unvested	402,151	2,440	(301)	2,139
Total RSUs outstanding	<u>2,519,379</u>	<u>\$ 13,733</u>	<u>\$(301)</u>	<u>\$ 13,432</u>

Unamortized stock-based compensation cost of \$11,293 as of September 30, 2020 for RSUs with time and performance-based vesting will be recognized as expense if and when the Company determines that vesting is probable. At the time vesting becomes probable, a cumulative catch-up adjustment will be made to reflect the portion of the employee's requisite service that has been provided to the probable date (but no less than the actual amount vested under the agreement), with the balance amortized over the remaining requisite service period. As of September 30, 2020, the performance condition has not met the criteria to be considered probable of vesting. On a pro forma basis, if these RSUs were to have vested on September 30, 2020 because the performance based criteria was met (for example, the IPO was completed in the third quarter of 2020), approximately \$3,550 would have been recognized as additional expense for the nine months ended September 30, 2020.

As of September 30, 2020, total unamortized stock-based compensation cost related to unvested RSUs subject only to time-based vesting was \$2,139 and the weighted-average period over which the compensation is expected to be recognized is 3.46 years.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

Stock options

The following table summarizes the stock option activity for the nine months ended September 30, 2020:

	Number	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (yrs)
Outstanding at January 1, 2020	819,879	\$ 8.43	\$0.71	9.27
Granted	75,962	\$10.48	\$4.32	
Forfeited	(47,004)	\$ 8.43	\$0.71	
Exercised	—	—		
Expired	—	—		
Outstanding at September 30, 2020	848,837	\$ 8.60	\$1.08	8.63
Options exercisable as of September 30, 2020	421,110	\$ 8.43	\$0.71	8.44
Options vested and expected to vest as of September 30, 2020	848,837	\$ 8.60	\$1.08	8.63

Since options represent equity awards of the Company, such awards are fair valued as of the grant date for the purposes of measurement and recognition under U.S. GAAP. To measure the fair value of an option, the Black-Scholes valuation model was utilized. The fair value of common stock underlying the options was determined using the same methodology described for RSUs. The valuation model requires the input of highly subjective assumptions. Inputs to the models were as follows for the periods indicated:

	Nine months ended September 30,	
	2020	2019
Fair value of common stock underlying the options	\$6.07 to \$11.06	\$4.82
Volatility	50% to 55%	30%
Risk-free rate	0.03% to 0.89%	1.37% to 2.49%
Dividend yield	Nil	Nil
Expected term in years	5.0 to 5.61	5.0 to 5.62

One of the inputs into the Black-Scholes model is the estimated fair value of the common stock underlying the options. The estimated fair value was \$6.07 per share for the first six months of 2020 and \$11.06 per share for the third quarter of 2020. These amounts compare to \$4.82 per share used for all option grants during the nine months ended September 30, 2019. The change in the estimated fair value of common stock was due to a number of factors including a higher enterprise valuation in 2020 due to an improvement in financial performance, namely (i) an increase in net sales; and (ii) a higher gross profit margin percentage. Another factor which impacted assumptions for the fair value of the common stock during the nine months ended September 30, 2020 was a higher probability of a successful IPO compared to assumptions for the nine months ended September 30, 2019. Also, the exercise prices for options granted after June 2020 were no longer in excess of the fair value of the underlying common share which further increased the option value compared to awards granted in 2019. The volatility for the nine months ended September 30, 2020 increased compared to the same period in 2019 as a result of increases in the volatilities of the public comparable companies used to determine the Company's volatility. As result of these factors, the weighted average fair value per share of \$0.71 for options outstanding as of January 1, 2020 was increased to a weighted average fair value per share of \$4.32 for options granted during the nine months ended September 30, 2020.

Total compensation expense for stock options including RSUs was approximately \$410 and \$173 for the nine months ended September 30, 2020 and 2019, respectively, and is included in selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

(loss). No tax benefit related to the stock option expense was recognized as all the awards are classified as qualified incentives options.

As of September 30, 2020, total compensation cost related to unvested awards not yet recognized was \$586 and the weighted-average period over which the compensation is expected to be recognized is 2.32 years.

10. COMMITMENTS AND 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.

In June 2020, as part of negotiations with the supplier that began in late 2019, the Company amended its October 2017 agreement to distribute and sell certain garden products for a term ending in December 2024. Under the amended agreement, the Company committed to purchase inventory in periodic minimum volumes on a take-or-pay basis, as defined, over the term of the agreement in return for pricing that would provide the Company with a minimum gross margin along with the potential for rebates.

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 Headquarters

The Company leases its headquarters and local distribution center in Petaluma, California from entities in which a related party is an investor. One lease is month to month and another lease terminated in June 2019. For the nine months ended September 30, 2020 and 2019, aggregate rent expense for these two leases totaled \$959 and \$1,126, respectively.

Related party transactions — Consulting Agreement

In July 2020, the Company entered into a consulting agreement with a director to serve as an advisor to the Board and the chief executive officer. The agreement includes an award of 296,630 restricted stock units (see Note 9, *Stock-based compensation*).

11. SUBSEQUENT EVENTS

The Company has evaluated subsequent events that have occurred from the balance sheet date of September 30, 2020 through November 12, 2020, the date the condensed consolidated financial statements were available to be issued, and through December 1, 2020 when these condensed consolidated financial statements were reissued.

In August 2020, the Company executed a lease for approximately 100,000 square feet of warehouse space in Oregon to be available upon expiration of the lease for existing space. The new lease commencing October 7, 2020 has a term of 64 months with an option to renew at the then fair market value for another five years. Rent

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of September 30, 2020 and December 31, 2019 and for the nine months ended September 30, 2020 and 2019
(in thousands, except share and per share amounts)

is abated for the first four months. Thereafter, monthly rent is approximately \$53, and increases periodically to the final year where the monthly rent is \$62.

On October 7, 2020, the Small Business Administration and Treasury Department confirmed a ten month extension of the deferral period, granted by the PPP Flexibility Act of 2020, which automatically applies to all PPP Loans. The extension allows borrowers to defer payments of principal, interest and fees and does not require a formal modification to the promissory note.

In November 2020, five new independent directors were appointed to the Board replacing most of the members who previously served on the Board. In anticipation of reconstituting the Board, in October 2020, the compensation committee of the Board approved grants of 74,152 restricted stock units, in the aggregate, to certain Board members who were being replaced and their affiliates. These awards are fully vested at the time of grant and are considered outstanding shares of common stock from the time of vesting. Also, in October 2020, the compensation committee of the Board approved 44,493 restricted stock units, in the aggregate, to certain employees. Such awards are subject to time-based vesting.

As a result of this change and other Board actions in November 2020, the holder of the 296,630 restricted stock unit award granted in July 2020 discussed in Note 9, Stock-based compensation, was replaced on the Board, the related consulting agreement was canceled and the vesting in the award was modified as provided in the Amended and Restated Restricted Stock Unit Award Notice and Agreement. The grant will be remeasured, using the MCSM, to its fair value as of the date of modification and the full value of the award will be recognized as expense in the period during which the performance condition (completion of an IPO) is met. Management preliminarily estimates the stock-based compensation expense for this particular award to be approximately \$3,500 subject to finalization during the quarter ending December 31, 2020.

In November 2020, the Board and stockholders approved the 2020 Equity Incentive Plan (the Plan) and reserved an aggregate of 2,284,053 shares of Common Stock for issuance under the Plan.

Also, in November 2020, the compensation committee of the Board authorized the chairman and chief executive officer to issue 74,157 options to purchase common stock, in the aggregate, to certain employees. Such awards are subject to time-based vesting and a stated exercise price.

In November 2020, the board of directors of the Company approved a 1-for-3.3712 reverse stock split of the Company's outstanding common stock, which was effected on November 24, 2020. All share and per share data shown in the accompanying condensed consolidated financial statements and related notes has been retroactively revised to give effect to this reverse stock split for all periods presented. Shares of common stock underlying outstanding stock options and other equity instruments were proportionately decreased and the respective per share value and exercise prices, if applicable, were proportionately increased in accordance with the terms of the agreements governing such securities. The formula for the conversion of Series A Convertible Preferred Stock into common stock was adjusted from 1-to-1 to 3.3712-to-1. There were no changes in the authorized shares or par values of the Company's common stock and preferred stock as a result of the reverse stock split.

HYDROFARM HOLDINGS GROUP, INC.



8,666,667 shares of Common stock

Prospectus

J.P. Morgan

Stifel

Deutsche Bank Securities

Truist Securities

William Blair

, 2020

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other expenses of issuance and distribution.

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, paid or payable by the Registrant in connection with the sale of the shares of common stock being registered hereby. All amounts shown are estimates except for the SEC registration fee and the FINRA filing fee:

SEC registration fee	\$ 17,398
FINRA filing fee	24,420
Accounting fees and expenses	950,000
Legal fees and expenses	1,100,000
Printing expenses	235,000
Transfer agent and registrar fees and expenses	4,500
Miscellaneous fees and expenses	<u>568,682</u>
Total	<u>\$2,900,000</u>

Item 14. Indemnification of directors and officers.

Section 145(a) of the Delaware General Corporation Law provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), because he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Section 145(b) of the Delaware General Corporation Law provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor because the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made with respect to any claim, issue or matter as to which he or she shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, he or she is fairly and reasonably entitled to indemnity for such expenses that the Court of Chancery or other adjudicating court shall deem proper.

Section 145(g) of the Delaware General Corporation Law provides, in general, that a corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify the person against such liability under Section 145 of the Delaware General Corporation Law.

Our amended and restated by-laws (the "Bylaws"), provide that we will indemnify each of our directors and officers to the fullest extent permitted by the Delaware General Corporation Law as the same may be

amended (except that in the case of amendment, only to the extent that the amendment permits us to provide broader indemnification rights than the Delaware General Corporation Law permitted us to provide prior to such the amendment) against expenses, liability and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by the director or officer or on the director's or officer's behalf in connection with any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director of an officer of the Company, while a director or officer of the Company, is or was serving at the request of the Company as a director, officer or trustee of another corporation, or of a partnership, joint venture, trust, employee benefit plan or other enterprise. The Bylaws also provides for the advancement of expenses (including attorney's fees) to each of our directors and officers. As permitted by the Delaware General Corporation Law, our amended and restated certificate of incorporation (the "Certificate of Incorporation") and Bylaws includes provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The Bylaws further provides that we may, at the discretion of the board of directors, grant rights of indemnification and to the advancement of expenses to any employee or agent of the Company to the fullest extent of the provisions of our Certificate of Incorporation with respect to the indemnification and advancement of expenses of our directors and officers.

In addition, the Bylaws provide that the right of each of our directors and officers to indemnification and advancement of expenses shall be a contract right and shall not be exclusive of any other right now possessed or hereafter acquired under any statute, provision of our Certificate of Incorporation or Bylaws, agreement, vote of stockholders or otherwise. Furthermore, the Bylaws authorizes us to provide insurance for our directors, officers and employees, against any liability, whether or not we would have the power to indemnify such person against such liability under the Delaware General Corporation Law or the provisions of the Bylaws.

We have entered into indemnification agreements with each of our directors and our executive officers. These agreements provide that we will indemnify each of our directors and such officers to the fullest extent permitted by law and the Certificate of Incorporation and Bylaws. In addition, such agreements may be, in some cases, broader than the specific indemnification provisions contained under the Delaware General Corporation Law.

We also maintain a directors and officers liability insurance policy, which covers certain liabilities of directors and officers of our company arising out of claims based on acts or omissions in their capacities as directors or officers.

Item 15. Recent sales of unregistered securities.

In the three years preceding the filing of this registration statement, the Company has issued the following securities that were not registered under the Securities Act of 1933, as amended, or the Securities Act:

Private Placement and Merger

In October 2018, we consummated a private placement offering of 4,929,725 (pre-split:16,619,616) units (each a "Unit," and collectively, the "Units") for gross proceeds of approximately \$41.5 million. Each Unit consisted of (i) one (1) share of our common stock and (ii) a warrant (each a "Investor Warrant," and collectively, the "Investor Warrants"), expiring three years after the earliest of (x) the effectiveness of a resale registration statement, (y) the closing of an initial public offering of the Company's common stock or (z) the closing of any other transaction or set of events that results in the Company being subject to the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), entitling the holder to purchase one-half (1/2) share of our common stock at an initial exercise price of \$16.86 per full share (the "Private Placement"). As part of the Private Placement, we issued A.G.P./Alliance Global Partners and SternAegis Ventures warrants to purchase 517,067 shares of our common stock.

Concurrently with the closing of the Private Placement, one of our wholly-owned subsidiaries merged with and into Hydrofarm Investment Corp. ("HIC"), with HIC becoming our wholly-owned subsidiary and continuing its and its subsidiaries' existing business operations, including those of Hydrofarm, LLC, a subsidiary of HIC (the "Merger").

In connection with the Private Placement and Merger, (i) HIC raised \$15.2 million from its existing stockholders through the issuance of 1,807,838 (pre-split:6,094,617) units (the “Concurrent Offering”) and (ii) Hydrofarm Holdings, LLC (“Hydrofarm Holdings”), a subsidiary of HIC, and its affiliates entered into certain amendments to Hydrofarm Holdings’ credit facilities to amend certain covenants and other provisions under such credit facilities. The consideration in the Concurrent Offering consisted of \$11.1 million in cash from existing stockholders of HIC and the conversion of \$4.1 million of an aggregate principal amount plus interest outstanding under an outstanding note. As part of the Merger, the securities of HIC issued in the Concurrent Offering were exchanged into shares of our common stock and warrants to purchase our common stock having the same terms and conditions as the securities included in the Units issued in this Private Placement.

On December 31, 2019, we entered into a securities purchase agreement with certain investors named therein, pursuant to which we issued and sold, in a private placement offering between December 2019 and February 2020, 7,725,045 shares of our Series A Convertible Preferred Stock, par value \$0.0001 per share, at an offering price of \$3.50. We received gross proceeds of approximately \$27 million (which includes proceeds of approximately \$8 million raised from the issuances of convertible unsecured subordinated promissory notes in September and October 2019 which converted into shares of our Series A Preferred Stock) in connection with this offering, before deducting fees and related offering expenses.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. We believe the offers, sales and issuances of the above securities were exempt from registration under the Securities Act (or Regulation D or Regulation S promulgated thereunder) by virtue of Section 4(a)(2) of the Securities Act because the issuance of securities to the recipients did not involve a public offering. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about us. The sales of these securities were made without any general solicitation or advertising.

Plan-Related Issuances

From September 30, 2017 through the filing date of this registration statement, we granted to our directors, officers, employees, consultants and other service providers options to purchase an aggregate of 1,108,689 shares of our common stock under our equity compensation plans at an exercise price of \$8.75 per share.

From September 30, 2017 through the filing date of this registration statement, we granted to our directors, officers, employees, consultants and other service providers an aggregate of 2,638,024 restricted stock units to be settled in shares of our common stock under our equity compensation plans.

The offers, sales and issuances of the securities described above were deemed to be exempt from registration either under Rule 701 promulgated under the Securities Act, in that the transactions were under compensatory benefit plans and contracts relating to compensation, or under Section 4(a)(2) in that the transactions were between an issuer and members of its senior executive management and did not involve any public offering within the meaning of Section 4(a)(2). The recipients of such securities were our employees, directors, or consultants and received the securities under our equity incentive plans. Appropriate legends were affixed to the securities issued in these transactions.

Item 16. Exhibits and financial statement schedules.

(a) Exhibits.

Exhibit	Description
1.1	<u>Form of Underwriting Agreement.</u>
2.1	<u>Amended and Restated Agreement and Plan of Merger, dated August 28, 2018, by and among Hydrofarm Holdings Group, Inc., Hydrofarm Merger Sub, Inc. and Hydrofarm Investment Corp.*</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Hydrofarm Holdings Group, Inc.*</u>
3.2	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Hydrofarm Holdings Group, Inc.</u>
3.3	<u>Certificate of Designations, Preferences and Rights of the Series A Convertible Preferred Stock of Hydrofarm Holdings Group, Inc.*</u>
3.4	<u>Amended and Restated Bylaws.</u>
4.1	<u>Specimen Common Stock Certificate of the Hydrofarm Holdings Group, Inc.*</u>
4.2	<u>Form of Warrant To Purchase Common Stock.*</u>
4.3	<u>Form of Placement Agent Warrant to Purchase Common Stock.*</u>
4.4	<u>Form of Registration Rights Agreement from Private Placement.*</u>
4.5	<u>Investor Rights Agreement, dated August 28, 2018, by and among Hydrofarm Holdings LLC and certain of its stockholders identified on the signature pages thereto.*</u>
4.6	<u>Amendment No. 1 to Investor Rights Agreement, dated November 10, 2020, by and among Hydrofarm Holdings LLC and certain of its stockholders identified on the signature pages thereto.*</u>
5.1	<u>Opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.</u>
10.1#	<u>Loan And Security Agreement, dated May 12, 2017, by and between Hydrofarm Holdings LLC, Hydrofarm, LLC, WJCO LLC, EHH Holdings, LLC, SunBlaster LLC, and Bank of America, N.A.*</u>
10.2#	<u>Amended and Restated Loan and Security Agreement, dated November 8, 2017, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, WJCO LLC, EHH Holdings, LLC, SunBlaster LLC, GS Distribution Inc., SunBlaster Holdings ULC, EWGS Distribution Inc., Eddi's Wholesale Garden Supplies Ltd., and Bank of America, N.A.*</u>
10.3#	<u>Forbearance Agreement and First Amendment to Amended and Restated Loan and Security Agreement, dated May 18, 2018, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, WJCO, LLC, Hydrofarm Canada, LLC, GS Distribution Inc., Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>
10.4#	<u>First Amendment To Forbearance Agreement And Second Amendment To Amended And Restated Loan And Security Agreement, dated July 16, 2018, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, WJCO LLC, Hydrofarm Canada, LLC, GS Distribution Inc., Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>
10.5#	<u>Waiver And Third Amendment To Amended And Restated Loan And Security Agreement, dated August 24, 2018, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, GS Distribution Inc., Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>

Exhibit	Description
10.6#	<u>Fourth Amendment To Amended And Restated Loan And Security Agreement, dated March 15, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>
10.7#	<u>Fifth Amendment To Amended And Restated Loan And Security Agreement, dated May 31, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>
10.8#	<u>Sixth Amendment To Amended And Restated Loan And Security Agreement, dated June 10, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>
10.9#	<u>Seventh Amendment To Amended And Restated Loan And Security Agreement, dated June 27, 2020, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>
10.10#	<u>Payoff Letter, dated July 11, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, WJCO LLC, GS Distribution, Inc., EWGS Distribution, Inc., Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC, and Bank of America, N.A.*</u>
10.11#	<u>Credit Agreement dated, May 12, 2017, by and between Hydrofarm Holdings LLC (to be succeeded as a Borrower by Hydrofarm, LLC, WJCO LLC, EHH Holdings, LLC and SunBlaster LLC) and Brightwood Loan Services LLC.*</u>
10.12#	<u>Forbearance Agreement and Amendment to Credit Agreement, dated May 18, 2018, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, Hydrofarm Canada, LLC, WJCO LLC, EHH Holdings, LLC, SunBlaster LLC, and Brightwood Loan Services LLC.*</u>
10.13#	<u>Amendment No. 1 Forbearance Agreement, dated July 16, 2018, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, Hydrofarm Canada, LLC, WJCO LLC, EHH Holdings, LLC, SunBlaster LLC, and Brightwood Loan Services LLC.*</u>
10.14#	<u>Waiver and Amendment No. 1 to Credit Agreement, dated September 21, 2017, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, WJCO LLC and Brightwood Loan Services LLC.*</u>
10.15#	<u>Amendment No. 2 to Credit Agreement, dated November 8, 2017, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, WJCO LLC, EHH Holdings, LLC, SunBlaster, LLC and Brightwood Loan Services LLC.*</u>
10.16#	<u>Waiver And Amendment No. 3 to Credit Agreement, dated August 24, 2018, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, and Brightwood Loan Services LLC.*</u>
10.17#	<u>Amendment No. 4 to Credit Agreement, dated March 15, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, and Brightwood Loan Services LLC.*</u>
10.18#	<u>Amendment No. 5 to Credit Agreement, dated July 11, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, and Brightwood Loan Services LLC.*</u>
10.19#	<u>Amendment No. 6 to Credit Agreement, dated October 15, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, and Brightwood Loan Services LLC.*</u>

Exhibit	Description
10.20#	<u>Loan And Security Agreement, dated July 11, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC and Encina Business Credit, LLC.*</u>
10.21#	<u>Intercreditor Agreement, dated July 11, 2019, by and between Brightwood Loan Services, LLC and Encina Business Credit, LLC.*</u>
10.22#	<u>First Amendment to Loan And Security Agreement, dated October 15, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC and Encina Business Credit, LLC.*</u>
10.23#	<u>Second Amendment to Loan And Security Agreement, dated November 26, 2019, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC and Encina Business Credit, LLC.*</u>
10.24#	<u>Third Amendment to Loan And Security Agreement, dated April 3, 2020, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC and Encina Business Credit, LLC.*</u>
10.25#	<u>Fourth Amendment to Loan And Security Agreement, dated May 29, 2020, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC and Encina Business Credit, LLC.*</u>
10.26#	<u>Fifth Amendment to Loan And Security Agreement, dated May 30, 2020, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC and Encina Business Credit, LLC.*</u>
10.27#	<u>Sixth Amendment to Loan And Security Agreement, dated September 30, 2020, by and among Hydrofarm Holdings LLC, Hydrofarm, LLC, EHH Holdings, LLC, SunBlaster LLC, Hydrofarm Canada, LLC, Eddi's Wholesale Garden Supplies Ltd., SunBlaster Holdings ULC and Encina Business Credit, LLC.*</u>
10.28+	<u>Employment Agreement, dated April 10, 2017, by and between Hydrofarm, LLC and Peter Wardenburg.*</u>
10.29+	<u>Employment Agreement, dated April 23, 2018, by and between Hydrofarm, LLC and Bob Clamp.*</u>
10.30+	<u>Employment Agreement, dated April 10, 2017, by and between Hydrofarm, Holdings Group LLC and Jeffrey Peterson.*</u>
10.31+	<u>Employment Agreement, dated January 1, 2019, by and between Hydrofarm Holdings Group, Inc. and William Toler.*</u>
10.32+	<u>Employment Agreement, dated March 4, 2019, by and between Hydrofarm Holdings Group, Inc. and Terence Fitch.*</u>
10.33+	<u>Offer Letter, dated February 26, 2020, by and between Hydrofarm Holdings Group, Inc. and B. John Lindeman.*</u>
10.34+	<u>Hydrofarm Holdings Group, Inc. 2018 Equity Incentive Plan.*</u>
10.35+	<u>Form of Hydrofarm Holdings Group, Inc. 2018 Equity Incentive Plan Stock Option Grant Notice.*</u>
10.36+	<u>Hydrofarm Holdings Group, Inc. 2019 Equity Incentive Plan.*</u>
10.37+	<u>Form of Hydrofarm Holdings Group, Inc. 2019 Equity Incentive Plan Stock Option Grant Notice.*</u>

Exhibit	Description
10.38+	Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan.
10.39+	Form of Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan Stock Option Notice.
10.40	Form of Indemnification Agreement.*
10.41	Placement Agency Agreement, dated August 3, 2018, by and among Hydrofarm Holdings Group, Inc., Hydrofarm Investment Corp. and A.G.P./Alliance Global Partners, as lead placement agent, and Aegis Capital Corp., as co-placement agent.*
16.1	Letter from MNP LLP regarding statements made in the registration statement concerning its dismissal.*
21.1	Subsidiaries of Hydrofarm Holdings Group, Inc.
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm.
23.2	Consent of MNP, LLP, independent registered public accounting firm.
23.3	Consent of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. (included in Exhibit 5.1).
24.1	Power of Attorney (included on signature page to this registration statement).*

* Previously filed.

+ Indicates a management contract or compensatory plan.

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.

(b) Financial Statement Schedules.

No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or notes.

Item 17. Undertakings.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

- (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Petaluma, California, on the day of December 1, 2020.

Hydrofarm Holdings Group, Inc.

/s/ William Toler

 William Toler
 Chief Executive Officer
 (Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ William Toler _____ William Toler	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	December 1, 2020
* _____ B. John Lindeman	Chief Financial Officer (Principal Financial and Accounting Officer)	December 1, 2020
* _____ Susan Peters	Director	December 1, 2020
* _____ Patrick Chung	Director	December 1, 2020
* _____ Renah Persofsky	Director	December 1, 2020
* _____ Richard D. Moss	Director	December 1, 2020
/s/ Melisa Denis _____ Melisa Denis	Director	December 1, 2020

By: /s/ William Toler

 Name: William Toler
 Title: Attorney-in-fact

Hydrofarm Holdings Group, Inc.

[·] shares of common stock
Underwriting Agreement

[·], 2020

J.P. Morgan Securities LLC
Stifel, Nicolaus & Company, Incorporated
As Representatives of the
several Underwriters listed
in Schedule 1 hereto

c/o J.P. Morgan Securities LLC
383 Madison Avenue
New York, New York 10179

c/o Stifel, Nicolaus & Company, Incorporated
One South Street, 15th Floor
Baltimore, Maryland 21202

Ladies and Gentlemen:

Hydrofarm Holdings Group, Inc., a Delaware corporation (the “Company”), proposes to issue and sell to the several underwriters listed in Schedule 1 hereto (the “Underwriters”), for whom you are acting as representatives (the “Representatives”), an aggregate of [·] shares of common stock, par value \$0.0001 per share, of the Company (the “Underwritten Shares”) and, at the option of the Underwriters, up to an additional [·] shares of common stock, par value \$0.0001 per share, of the Company (the “Option Shares”). The Underwritten Shares and the Option Shares are herein referred to as the “Shares”. The shares of common stock of the Company to be outstanding after giving effect to the sale of the Shares are referred to herein as the “Stock”.

J.P. Morgan Securities LLC (the “Directed Share Underwriter”) has agreed to reserve a portion of the Shares to be purchased by it under this Agreement, up to [·] Shares, for sale to the Company’s directors, officers, and certain employees and other parties related to the Company (collectively, “Participants”), as set forth in the Prospectus (as hereinafter defined) under the heading “Underwriting” (the “Directed Share Program”). The Shares to be sold by the Directed Share Underwriter and its affiliates pursuant to the Directed Share Program are referred to hereinafter as the “Directed Shares”. Any Directed Shares not orally confirmed for purchase by any Participant by [·] [A/P].M., New York City time on the business day on which this Agreement is executed will be offered to the public by the Underwriters as set forth in the Prospectus.

The Company hereby confirms its agreement with the several Underwriters concerning the purchase and sale of the Shares, as follows:

1. Registration Statement. The Company has prepared and filed with the Securities and Exchange Commission (the “Commission”) under the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the “Securities Act”), a registration statement on Form S-1 (File No. 333-250037), including a prospectus, relating to the Shares. Such registration statement, as amended at the time it became effective, including the information, if any, deemed pursuant to Rule 430A, 430B or 430C under the Securities Act to be part of the registration statement at the time of its effectiveness (“Rule 430 Information”), is referred to herein as the “Registration Statement”; and as used herein, the term “Preliminary Prospectus” means each prospectus included in such registration statement (and any amendments thereto) before effectiveness, any prospectus filed with the Commission pursuant to Rule 424(a) under the Securities Act and the prospectus included in the Registration Statement at the time of its effectiveness that omits Rule 430 Information, and the term “Prospectus” means the prospectus in the form first used (or made available upon request of purchasers pursuant to Rule 173 under the Securities Act) in connection with confirmation of sales of the Shares. If the Company has filed an abbreviated registration statement pursuant to Rule 462(b) under the Securities Act (the “Rule 462 Registration Statement”), then any reference herein to the term “Registration Statement” shall be deemed to include such Rule 462 Registration Statement. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Registration Statement and the Prospectus.

At or prior to the Applicable Time (as defined below), the Company had prepared the following information (collectively with the pricing information set forth on Annex A, the “Pricing Disclosure Package”): a Preliminary Prospectus dated [·], 2020 and each “free-writing prospectus” (as defined pursuant to Rule 405 under the Securities Act) listed on Annex A hereto.

“Applicable Time” means [·] [A/P].M., New York City time, on [·], 2020.

2. Purchase of the Shares.

(a) The Company agrees to issue and sell the Underwritten Shares to the several Underwriters as provided in this underwriting agreement (this “Agreement”), and each Underwriter, on the basis of the representations, warranties and agreements set forth herein and subject to the conditions set forth herein, agrees, severally and not jointly, to purchase at a price per share of \$[·] (the “Purchase Price”) from the Company the respective number of Underwritten Shares set forth opposite such Underwriter’s name in Schedule 1 hereto.

In addition, the Company agrees to issue and sell the Option Shares to the several Underwriters as provided in this Agreement, and the Underwriters, on the basis of the representations, warranties and agreements set forth herein and subject to the conditions set forth herein, shall have the option to purchase, severally and not jointly, from the Company the Option Shares at the Purchase Price less an amount per share equal to any dividends or distributions declared by the Company and payable on the Underwritten Shares but not payable on the Option Shares.

If any Option Shares are to be purchased, the number of Option Shares to be purchased by each Underwriter shall be the number of Option Shares which bears the same ratio to the aggregate number of Option Shares being purchased as the number of Underwritten Shares set forth opposite the name of such Underwriter in Schedule 1 hereto (or such number increased as set forth in Section 10 hereof) bears to the aggregate number of Underwritten Shares being purchased from the Company by the several Underwriters, subject, however, to such adjustments to eliminate any fractional Shares as the Representatives in their sole discretion shall make.

The Underwriters may exercise the option to purchase Option Shares at any time in whole, or from time to time in part, on or before the thirtieth day following the date of the Prospectus, by written notice from the Representatives to the Company. Such notice shall set forth the aggregate number of Option Shares as to which the option is being exercised and the date and time when the Option Shares are to be delivered and paid for, which may be the same date and time as the Closing Date (as hereinafter defined) but shall not be earlier than the Closing Date nor later than the tenth full business day (as hereinafter defined) after the date of such notice (unless such time and date are postponed in accordance with the provisions of Section 10 hereof). Any such notice shall be given at least two business days prior to the date and time of delivery specified therein.

(b) The Company understands that the Underwriters intend to make a public offering of the Shares, and initially to offer the Shares on the terms set forth in the Pricing Disclosure Package. The Company acknowledges and agrees that the Underwriters may offer and sell Shares to or through any affiliate of an Underwriter.

(c) Payment for the Shares shall be made by wire transfer in immediately available funds to the account specified by the Company to the Representatives in the case of the Underwritten Shares, at the offices of Davis Polk & Wardwell LLP at 10:00 A.M. New York City time on [·], 2020, or at such other time or place on the same or such other date, not later than the fifth business day thereafter, as the Representatives and the Company may agree upon in writing or, in the case of the Option Shares, on the date and at the time and place specified by the Representatives in the written notice of the Underwriters' election to purchase such Option Shares. The time and date of such payment for the Underwritten Shares is referred to herein as the "Closing Date", and the time and date for such payment for the Option Shares, if other than the Closing Date, is herein referred to as the "Additional Closing Date".

Payment for the Shares to be purchased on the Closing Date or the Additional Closing Date, as the case may be, shall be made against delivery to the Representatives for the respective accounts of the several Underwriters of the Shares to be purchased on such date or the Additional Closing Date, as the case may be, with any transfer taxes payable in connection with the sale of such Shares duly paid by the Company. Delivery of the Shares shall be made through the facilities of The Depository Trust Company ("DTC") unless the Representatives shall otherwise instruct. The certificates for the Shares will be made available for inspection and packaging by the Representatives at the office of DTC or its designated custodian not later than 1:00 P.M., New York City time, on the business day prior to the Closing Date or the Additional Closing Date, as the case may be.

(d) The Company acknowledges and agrees that the Representatives and the other Underwriters are acting solely in the capacity of an arm's length contractual counterparty to the Company with respect to the offering of Shares contemplated hereby (including in connection with determining the terms of the offering) and not as a financial advisor or a fiduciary to, or an agent of, the Company or any other person. Additionally, neither the Representatives nor any other Underwriter is advising the Company or any other person as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction. The Company shall consult with its own advisors concerning such matters and shall be responsible for making its own independent investigation and appraisal of the transactions contemplated hereby, and neither the Representatives nor the other Underwriters shall have any responsibility or liability to the Company with respect thereto. Any review by the Representatives and the other Underwriters of the Company, the transactions contemplated hereby or other matters relating to such transactions will be performed solely for the benefit of the Underwriters and shall not be on behalf of the Company.

3. Representations and Warranties of the Company. The Company represents and warrants to each Underwriter that:

(a) *Preliminary Prospectus.* No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus included in the Pricing Disclosure Package, at the time of filing thereof, complied in all material respects with the Securities Act, and no Preliminary Prospectus, at the time of filing thereof, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation or warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use in any Preliminary Prospectus, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 7(b) hereof.

(b) *Pricing Disclosure Package.* The Pricing Disclosure Package as of the Applicable Time did not, and as of the Closing Date and as of the Additional Closing Date, as the case may be, will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation or warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use in such Pricing Disclosure Package, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 7(b) hereof. No statement of material fact included in the Prospectus has been omitted from the Pricing Disclosure Package and no statement of material fact included in the Pricing Disclosure Package that is required to be included in the Prospectus has been omitted therefrom.

(c) *Issuer Free Writing Prospectus.* Other than the Registration Statement, the Preliminary Prospectus and the Prospectus, the Company (including its agents and representatives, other than the Underwriters in their capacity as such) has not prepared, made, used, authorized, approved or referred to and will not prepare, make, use, authorize, approve or refer to any “written communication” (as defined in Rule 405 under the Securities Act) that constitutes an offer to sell or solicitation of an offer to buy the Shares (each such communication by the Company or its agents and representatives (other than a communication referred to in clause (i) below) an “Issuer Free Writing Prospectus”) other than (i) any document not constituting a prospectus pursuant to Section 2(a)(10)(a) of the Securities Act or Rule 134 under the Securities Act or (ii) the documents listed on Annex A hereto, each electronic road show and any other written communications approved in writing in advance by the Representatives, such approval not to be unreasonably withheld or delayed. Each such Issuer Free Writing Prospectus complies in all material respects with the Securities Act, has been or will be (within the time period specified in Rule 433) filed in accordance with the Securities Act (to the extent required thereby) and does not conflict with the information contained in the Registration Statement or the Pricing Disclosure Package, and, when taken together with the Preliminary Prospectus accompanying, or delivered prior to delivery of, such Issuer Free Writing Prospectus, did not, and as of the Closing Date and as of the Additional Closing Date, as the case may be, will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation or warranty with respect to any statements or omissions made in each such Issuer Free Writing Prospectus or Preliminary Prospectus in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use in such Issuer Free Writing Prospectus or Preliminary Prospectus, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 7(b) hereof.

(d) *Emerging Growth Company.* From the time of initial confidential submission of the Registration Statement to the Commission (or, if earlier, the first date on which the Company engaged directly or through any person authorized to act on its behalf in any Testing-the-Waters Communication (as defined below) undertaken in reliance on Section 5(d) of the Securities Act) through the date hereof, the Company has been and is an “emerging growth company,” as defined in Section 2(a) of the Securities Act (an “Emerging Growth Company”). “Testing-the-Waters Communication” means any oral or written communication with potential investors undertaken in reliance on either Section 5(d) of, or Rule 163B under, the Securities Act.

(e) *Testing-the-Waters Materials.* The Company (i) has not alone engaged in any Testing-the-Waters Communications other than Testing-the-Waters Communications with the consent of the Representatives (x) with entities that are qualified institutional buyers (“QIBs”) within the meaning of Rule 144A under the Securities Act or institutions that are accredited investors within the meaning of Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act (“IAIs”) and otherwise in compliance with the requirements of Section 5(d) of the Securities Act or (y) with entities that the Company reasonably believed to be QIBs or IAIs and otherwise in compliance with the requirements of Rule 163B under the Securities Act and (ii) has not authorized anyone other than the Representatives to engage in Testing-the-Waters Communications. The Company reconfirms that the Representatives have been authorized to act on its behalf in undertaking Testing-the-Waters Communications by virtue of a writing substantially in the form of Exhibit A hereto. The Company has not distributed or approved for distribution any Written Testing-the-Waters Communications other than those listed on Annex B hereto. “Written Testing-the-Waters Communication” means any Testing-the-Waters Communication that is a written communication within the meaning of Rule 405 under the Securities Act. Any individual Written Testing-the-Waters Communication does not conflict with the information contained in the Registration Statement or the Pricing Disclosure Package, complied in all material respects with the Securities Act, and when taken together with the Pricing Disclosure Package as of the Applicable Time, did not, and as of the Closing Date and as of the Additional Closing Date, as the case may be, will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(f) *Registration Statement and Prospectus.* The Registration Statement has been declared effective by the Commission. No order suspending the effectiveness of the Registration Statement has been issued by the Commission, and no proceeding for that purpose or pursuant to Section 8A of the Securities Act against the Company or related to the offering of the Shares has been initiated or, to the knowledge of the Company, threatened by the Commission; as of the applicable effective date of the Registration Statement and any post-effective amendment thereto, the Registration Statement and any such post-effective amendment complied and will comply in all material respects with the applicable requirements of the Securities Act, and did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading; and as of the date of the Prospectus and any amendment or supplement thereto and as of the Closing Date and as of the Additional Closing Date, as the case may be, the Prospectus will comply in all material respects with the Securities Act and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation or warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use in the Registration Statement and the Prospectus and any amendment or supplement thereto, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 7(b) hereof.

(g) *Financial Statements.* The financial statements (including the related notes thereto) of the Company and its consolidated subsidiaries included in the Registration Statement, the Pricing Disclosure Package and the Prospectus comply in all material respects with the applicable requirements of the Securities Act and present fairly in all material respects the financial position of the Company and its consolidated subsidiaries as of the dates indicated and the results of their operations and the changes in their cash flows for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States applied on a consistent basis throughout the periods covered thereby, and any supporting schedules included in the Registration Statement present fairly in all material respects the information required to be stated therein; and the other financial information included in the Registration Statement, the Pricing Disclosure Package and the Prospectus has been derived from the accounting records of the Company and its consolidated subsidiaries and presents fairly in all material respects the information shown thereby; all disclosures included in the Registration Statement, the Pricing Disclosure Package and the Prospectus regarding “non-GAAP financial measures” (as such term is defined by the rules and regulations of Commission) comply with Regulation G of the Exchange Act and Item 10 of Regulation S-K of the Securities Act, to the extent applicable.

(h) *No Material Adverse Change.* Since the date of the most recent financial statements of the Company included in the Registration Statement, the Pricing Disclosure Package and the Prospectus, (i) there has not been any change in the capital stock (other than the issuance of shares of common stock upon exercise of stock options and warrants described as outstanding in, and the grant of options and awards under existing equity incentive plans described in, the Registration Statement, the Pricing Disclosure Package and the Prospectus), short-term debt or long-term debt of the Company or any of its subsidiaries, or any dividend or distribution of any kind declared, set aside for payment, paid or made by the Company on any class of capital stock, or any material adverse change, or any development that would reasonably be expected to result in a material adverse change, in or affecting the business, properties, management, financial position, stockholders’ equity, results of operations or prospects of the Company and its subsidiaries taken as a whole; (ii) neither the Company nor any of its subsidiaries has entered into any transaction or agreement (whether or not in the ordinary course of business) (x) that is material to the Company and its subsidiaries taken as a whole or incurred any liability or obligation, direct or contingent, that is material to the Company and its subsidiaries taken as a whole, or (y) with marijuana growers or retailers that sell only to the marijuana industry (a “Marijuana-Related Business”); and (iii) neither the Company nor any of its subsidiaries has sustained any loss or interference with its business that is material to the Company and its subsidiaries taken as a whole and that is either from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor disturbance or dispute or any action, order or decree of any court or arbitrator or governmental or regulatory authority, except in each case as otherwise disclosed in the Registration Statement, the Pricing Disclosure Package and the Prospectus.

(i) *Organization and Good Standing.* The Company and each of its subsidiaries have been duly organized and are validly existing and in good standing under the laws of their respective jurisdictions of organization, are duly qualified to do business and are in good standing in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged, except where the failure to be so qualified or in good standing or have such power or authority would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, properties, management, financial position, stockholders’ equity, results of operations or prospects of the Company and its subsidiaries taken as a whole or on the performance by the Company of its obligations under this Agreement (a “Material Adverse Effect”). The subsidiaries listed in Schedule 2 to this Agreement are the only significant subsidiaries of the Company as such term is defined in Rule 1-02 of Regulation S-X.

(j) *Capitalization.* The Company has an authorized capitalization as set forth in the Registration Statement, the Pricing Disclosure Package and the Prospectus under the heading “Capitalization”; all the outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable and are not subject to any pre-emptive or similar rights that have not been duly waived or satisfied; except as described in or expressly contemplated by the Registration Statement, the Pricing Disclosure Package and the Prospectus, there are no outstanding rights (including, without limitation, pre-emptive rights that have not been duly waived or satisfied), warrants or options to acquire, or instruments convertible into or exchangeable for, any shares of capital stock or other equity interest in the Company or any of its subsidiaries, or any contract, commitment, agreement, understanding or arrangement of any kind relating to the issuance of any capital stock of the Company or any such subsidiary, any such convertible or exchangeable securities or any such rights, warrants or options; the capital stock of the Company conforms in all material respects to the description thereof contained in the Registration Statement, the Pricing Disclosure Package and the Prospectus; and all the outstanding shares of capital stock or other equity interests of each subsidiary owned, directly or indirectly, by the Company have been duly and validly authorized and issued, are fully paid and non-assessable (except as otherwise described in the Registration Statement, the Pricing Disclosure Package and the Prospectus) and are owned directly or indirectly by the Company, free and clear of any lien, charge, encumbrance, security interest, restriction on voting or transfer or any other claim of any third party.

(k) *Stock Options.* With respect to the stock options (the “Stock Options”) granted pursuant to the stock-based compensation plans of the Company and its subsidiaries (the “Company Stock Plans”), (i) each Stock Option intended to qualify as an “incentive stock option” under Section 422 of the Code so qualifies, (ii) each grant of a Stock Option was duly authorized no later than the date on which the grant of such Stock Option was by its terms to be effective (the “Grant Date”) by all necessary corporate action, including, as applicable, approval by the board of directors of the Company (or a duly constituted and authorized committee thereof) and any required stockholder approval by the necessary number of votes or written consents, and, to the knowledge of the Company (other than with respect to due execution and delivery by the Company) the award agreement governing such grant (if any) was duly executed and delivered by each party thereto, (iii) each such grant was made, in all material respects, in accordance with the terms of the Company Stock Plans, the applicable provisions of the Exchange Act and all other applicable laws and regulatory rules or requirements, including the applicable rules of the Nasdaq Global Market (the “Nasdaq Market”) and any other exchange on which Company securities are traded, and (iv) each such grant was properly accounted for in accordance with GAAP in the financial statements (including the related notes) of the Company. The Company has not knowingly granted, and there is no and has been no policy or practice of the Company of granting, Stock Options prior to, or otherwise coordinating the grant of Stock Options with, the release or other public announcement of material information regarding the Company or its subsidiaries or their results of operations or prospects.

(l) *Due Authorization.* The Company has full right, power and authority to execute and deliver this Agreement and to perform its obligations hereunder; and all action required to be taken for the due and proper authorization, execution and delivery by it of this Agreement and the consummation by it of the transactions contemplated hereby has been duly and validly taken.

(m) *Underwriting Agreement.* This Agreement has been duly authorized, executed and delivered by the Company.

(n) *The Shares.* The Shares to be issued and sold by the Company hereunder have been duly authorized by the Company and, when issued and delivered and paid for as provided herein, will be duly and validly issued, will be fully paid and nonassessable and will conform to the descriptions thereof in the Registration Statement, the Pricing Disclosure Package and the Prospectus; and the issuance of the Shares is not subject to any preemptive or similar rights that have not been waived or satisfied.

(o) *Descriptions of the Underwriting Agreement.* This Agreement conforms in all material respects to the description thereof contained in the Registration Statement, the Pricing Disclosure Package and the Prospectus.

(p) *No Violation or Default.* Neither the Company nor any of its subsidiaries is (i) in violation of its charter or by-laws or similar organizational documents; (ii) in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any property or asset of the Company or any of its subsidiaries is subject; (iii) in violation of any law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority; or (iv) in violation of any applicable federal, state, local and foreign laws (including common law), rules, regulations, requirements, decisions, judgments, decrees, orders and other legally enforceable requirements regarding the legality of Marijuana-Related Businesses, except, in the case of clauses (ii) and (iii) above, for any such default or violation that would not, individually or in the aggregate, have a Material Adverse Effect.

(q) *No Conflicts.* The execution, delivery and performance by the Company of this Agreement, the issuance and sale of the Shares and the consummation of the transactions contemplated by this Agreement or the Pricing Disclosure Package and the Prospectus will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, result in the termination, modification or acceleration of, or result in the creation or imposition of any lien, charge or encumbrance upon any property, right or asset of the Company or any of its subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any property, right or asset of the Company or any of its subsidiaries is subject, (ii) result in any violation of the provisions of the charter or by-laws or similar organizational documents of the Company or any of its subsidiaries or (iii) result in the violation of any law or statute or any judgment, order, rule or regulation of any court or arbitrator or governmental or regulatory authority having jurisdiction over the Company, except, in the case of clauses (i) and (iii) above, for any such conflict, breach, violation, default, lien, charge or encumbrance that would not, individually or in the aggregate, have a Material Adverse Effect.

(r) *No Consents Required.* No consent, approval, authorization, order, registration or qualification of or with any court or arbitrator or governmental or regulatory authority is required for the execution, delivery and performance by the Company of this Agreement, the issuance and sale of the Shares and the consummation of the transactions contemplated by this Agreement, except for the registration of the Shares under the Securities Act and such consents, approvals, authorizations, orders and registrations or qualifications as may be required by the Financial Industry Regulatory Authority, Inc. (“FINRA”) and under applicable state securities laws in connection with the purchase and distribution of the Shares by the Underwriters.

(s) *Legal Proceedings.* Except as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus, there are no legal, governmental or regulatory investigations, actions, demands, claims, suits, arbitrations, inquiries or proceedings (“Actions”) pending to which the Company or any of its subsidiaries is or may reasonably be expected to become a party or to which any property of the Company or any of its subsidiaries is or may reasonably be expected to become the subject that, individually or in the aggregate, if determined adversely to the Company or any of its subsidiaries, could have a Material Adverse Effect; to the knowledge of the Company, no such Actions are threatened or contemplated by any governmental or regulatory authority or threatened by others; and (i) there are no current or pending Actions that are required under the Securities Act to be described in the Registration Statement, the Pricing Disclosure Package or the Prospectus that are not so described in the Registration Statement, the Pricing Disclosure Package and the Prospectus and (ii) there are no statutes, regulations or contracts or other documents that are required under the Securities Act to be filed as exhibits to the Registration Statement or described in the Registration Statement, the Pricing Disclosure Package or the Prospectus that are not so filed as exhibits to the Registration Statement or described in the Registration Statement, the Pricing Disclosure Package and the Prospectus.

(t) *Independent Accountants.* Deloitte & Touche LLP, who have certified certain financial statements of the Company and its subsidiaries for the year ended December 31, 2019, and MNP LLP, who have certified certain financial statements of the Company and its subsidiaries for the year ended December 31, 2018, is each an independent registered public accounting firm with respect to the Company and its subsidiaries within the applicable rules and regulations adopted by the Commission and the Public Company Accounting Oversight Board (United States) and as required by the Securities Act.

(u) *Title to Real and Personal Property.* The Company and its subsidiaries have good and marketable title in fee simple (in the case of real property) to, or have valid rights to lease or otherwise use, all items of real and personal property that are material to the respective businesses of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances, claims and defects and imperfections of title except those that (i) do not materially interfere with the use made and proposed to be made of such property by the Company and its subsidiaries or (ii) could not, individually or in the aggregate, have a Material Adverse Effect.

(v) *Intellectual Property.* Except as would not, individually or in the aggregate, have a Material Adverse Effect: (i) the Company and its subsidiaries own or have a valid and enforceable written license to use any and all patents, trademarks, service marks, trade names, domain names, other source indicators, copyrights, copyrightable works, software, know-how, trade secrets, systems, procedures, proprietary information, confidential information and any and all other worldwide intellectual property, industrial property and proprietary rights, including any and all registrations and applications for registration thereof and any and all goodwill associated therewith (collectively, "Intellectual Property"), in each case used in or otherwise necessary for the conduct of their respective businesses as currently conducted and as proposed to be conducted by them as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus (the "Company Intellectual Property"); (ii) to the knowledge of the Company, the Company's and its subsidiaries' conduct of their respective businesses as currently conducted and as proposed to be conducted by them as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus does not infringe, misappropriate or otherwise violate, and has not infringed, misappropriated or otherwise violated, any Intellectual Property of any person; (iii) all Company Intellectual Property is valid and enforceable, and all Company Intellectual Property owned or purported to be owned by the Company or any of its subsidiaries is owned solely and exclusively by the Company or one of its subsidiaries, in each case, free and clear of all liens, encumbrances, defects or other restrictions; (iv) neither the Company nor any of its subsidiaries have received any written notice of any claim relating to Intellectual Property; (v) to the knowledge of the Company, the Company Intellectual Property is not being and has not been infringed, misappropriated or otherwise violated by any person; (vi) there is no pending or, to the Company's knowledge, threatened, action, suit, proceeding or claim by any third party (A) challenging the ownership, validity, enforceability or scope of any Company Intellectual Property or (B) alleging that the Company or any of its subsidiaries has infringed, misappropriated or otherwise violated any Intellectual Property of any third party, and, in each case, the Company is not aware of any facts that would form the basis for any such action, suit, proceeding or claim; and (vii) the Company and its subsidiaries have taken commercially reasonable steps consistent with prevalent industry practices to (A) secure interests in any Company Intellectual Property developed by their employees, consultants, agents and contractors in the course of their service to the Company or any of its subsidiaries, including the execution of valid assignment agreements for the benefit of the Company and/or its subsidiaries by such employees, consultants, agents and contractors under which they have assigned to the Company or one of its subsidiaries all of their right, title and interest in and to any Company Intellectual Property and (B) maintain the confidentiality of all Company Intellectual Property the value of which to the Company or any of its subsidiaries is contingent upon maintaining the confidentiality thereof, including any trade secrets and confidential information owned, used or held for use by the Company or any of its subsidiaries.

(w) *No Undisclosed Relationships.* No relationship, direct or indirect, exists between or among the Company or any of its subsidiaries, on the one hand, and the directors, officers, stockholders, customers, suppliers or other affiliates of the Company or any of its subsidiaries, on the other, that is required by the Securities Act to be described in each of the Registration Statement and the Prospectus and that is not so described in such documents and in the Pricing Disclosure Package.

(x) *Investment Company Act.* The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus, will not be required to register as an “investment company” or an entity “controlled” by an “investment company” within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder (collectively, the “Investment Company Act”).

(y) *Taxes.* The Company and its subsidiaries have paid all federal, state, local and foreign taxes and filed all tax returns required to be paid (except for taxes being contested in good faith) or filed (taking into account any duly requested extension thereof) through the date hereof, except in each case as would not, individually or in the aggregate, have a Material Adverse Effect; and except as otherwise disclosed in each of the Registration Statement, the Pricing Disclosure Package and the Prospectus, there is no tax deficiency that has been, or could reasonably be expected to be, asserted against the Company or any of its subsidiaries or any of their respective properties or assets that would have, individually or in the aggregate, a Material Adverse Effect.

(z) *Licenses and Permits.* The Company and its subsidiaries possess all licenses, sub-licenses, certificates, permits and other authorizations issued by, and have made all declarations and filings with, the appropriate federal, state, local or foreign governmental or regulatory authorities that are necessary for the ownership or lease of their respective properties or the conduct of their respective businesses as currently conducted and described in each of the Registration Statement, the Pricing Disclosure Package and the Prospectus, except where the failure to possess or make the same would not, individually or in the aggregate, have a Material Adverse Effect; and except as described in each of the Registration Statement, the Pricing Disclosure Package and the Prospectus, neither the Company nor any of its subsidiaries has received notice of any revocation or modification of any such license, sub-license, certificate, permit or authorization or has any reason to believe that any such license, sub-license, certificate, permit or authorization will not be renewed in the ordinary course, except where such revocation, modification or renewal would not, individually or in the aggregate, have a Material Adverse Effect.

(aa) *No Labor Disputes.* No labor disturbance by or dispute with employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is contemplated or threatened, and the Company is not aware of any existing or imminent labor disturbance by, or dispute with, the employees of any of its or its subsidiaries' principal suppliers, contractors or customers, except as would not have a Material Adverse Effect. Neither the Company nor any of its subsidiaries has received any notice of cancellation or termination with respect to any collective bargaining agreement to which it is a party.

(bb) *Compliance with Marijuana Laws.* The Company and its subsidiaries are in compliance with all, and have not violated any, applicable federal, state, local and foreign laws (including common law), rules, regulations, requirements, decisions, judgments, decrees, orders and other legally enforceable requirements regarding the legality of Marijuana-Related Businesses;

(cc) *Certain Environmental Matters.* (i) The Company and its subsidiaries (x) are in compliance with all, and have not violated any, applicable federal, state, local and foreign laws (including common law), rules, regulations, requirements, decisions, judgments, decrees, orders and other legally enforceable requirements relating to pollution or the protection of human health or safety, the environment, natural resources, hazardous or toxic substances or wastes, pollutants or contaminants (collectively, "Environmental Laws"); (y) have received and are in compliance with all, and have not violated any, permits, licenses, certificates or other authorizations or approvals required of them under applicable Environmental Laws to conduct their respective businesses; and (z) have not received notice of any actual or potential liability or obligation under or relating to, or any actual or potential violation of, any Environmental Laws, including for the investigation or remediation of any disposal or release of hazardous or toxic substances or wastes, pollutants or contaminants, and have no knowledge of any event or condition that would reasonably be expected to result in any such notice; (ii) there are no costs or liabilities associated with Environmental Laws of or relating to the Company or its subsidiaries other than in the ordinary course of business, except in the case of each of (i) and (ii) above, for any such matter as would not, individually or in the aggregate, have a Material Adverse Effect; and (iii) except as described in each of the Pricing Disclosure Package and the Prospectus, (x) there is no proceeding that is pending, or that is known by the Company to be contemplated, against the Company or any of its subsidiaries under any Environmental Laws in which a governmental entity is also a party, other than such proceeding regarding which it is reasonably believed no monetary sanctions of \$100,000 or more will be imposed, (y) the Company and its subsidiaries are not aware of any facts or issues regarding compliance with Environmental Laws, or liabilities or other obligations under Environmental Laws or concerning hazardous or toxic substances or wastes, pollutants or contaminants, that could have a Material Adverse Effect, and (z) none of the Company or its subsidiaries anticipates material capital expenditures relating to any Environmental Laws.

(dd) *Compliance with ERISA.* (i) Each employee benefit plan, within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), for which the Company or any member of its “Controlled Group” (defined as any entity, whether or not incorporated, that is under common control with the Company within the meaning of Section 4001(a)(14) of ERISA or any entity that would be regarded as a single employer with the Company under Section 414(b),(c),(m) or (o) of the Internal Revenue Code of 1986, as amended (the “Code”)) would have any liability (each, a “Plan”) has been maintained in compliance with its terms and the requirements of any applicable statutes, orders, rules and regulations, including but not limited to ERISA and the Code, except for noncompliance that would not reasonably be expected to result in material liability to the Company or its subsidiaries; (ii) no prohibited transaction, within the meaning of Section 406 of ERISA or Section 4975 of the Code, has, to the knowledge of the Company, occurred with respect to any Plan, excluding transactions effected pursuant to a statutory or administrative exemption that would reasonably be expected to result in a material liability to the Company or its subsidiaries; (iii) for each Plan that is subject to the funding rules of Section 412 of the Code or Section 302 of ERISA, no Plan has failed (whether or not waived), or is reasonably expected to fail, to satisfy the minimum funding standards (within the meaning of Section 302 of ERISA or Section 412 of the Code) applicable to such Plan; (iv) no Plan is, or is reasonably expected to be, in “at risk status” (within the meaning of Section 303(i) of ERISA) and no Plan that is a “multiemployer plan” within the meaning of Section 4001(a)(3) of ERISA is in “endangered status” or “critical status” (within the meaning of Sections 304 and 305 of ERISA) (v) the fair market value of the assets of each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan); (vi) no “reportable event” (within the meaning of Section 4043(c) of ERISA and the regulations promulgated thereunder) has occurred or is reasonably expected to occur; (vii) each Plan that is intended to be qualified under Section 401(a) of the Code is so qualified, and to the knowledge of the Company, nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification; (viii) neither the Company nor any member of the Controlled Group has incurred, nor reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guarantee Corporation, in the ordinary course and without default) in respect of a Plan (including a “multiemployer plan” within the meaning of Section 4001(a)(3) of ERISA); and (ix) none of the following events has occurred or is reasonably likely to occur: (A) a material increase in the aggregate amount of contributions required to be made to all Plans by the Company or its Controlled Group affiliates in the current fiscal year of the Company and its Controlled Group affiliates compared to the amount of such contributions made in the Company’s and its Controlled Group affiliates’ most recently completed fiscal year; or (B) a material increase in the Company and its subsidiaries’ “accumulated post-retirement benefit obligations” (within the meaning of Accounting Standards Codification Topic 715-60) compared to the amount of such obligations in the Company and its subsidiaries’ most recently completed fiscal year, except in each case with respect to the events or conditions set forth in (i) through (ix) hereof, as would not, individually or in the aggregate, have a Material Adverse Effect.

(ee) *Disclosure Controls.* Except as disclosed in the Registration Statement, the Pricing Disclosure Package and the Prospectus, the Company and its subsidiaries maintain an effective system of “disclosure controls and procedures” (as defined in Rule 13a-15(e) of the Exchange Act) that complies with the applicable requirements of the Exchange Act and that has been designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms, including controls and procedures designed to ensure that such information is accumulated and communicated to the Company’s management as appropriate to allow timely decisions regarding required disclosure. The Company and its subsidiaries have carried out evaluations of the effectiveness of their disclosure controls and procedures as required by Rule 13a-15 of the Exchange Act.

(ff) *Accounting Controls.* The Company and its subsidiaries have established systems of “internal control over financial reporting” (as defined in Rule 13a-15(f) of the Exchange Act) that are designed to comply with the applicable requirements of the Exchange Act and have been designed by, or under the supervision of, their respective principal executive and principal financial officers, or persons performing similar functions, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company and its subsidiaries maintain internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Except as disclosed in the Registration Statement, the Pricing Disclosure Package and the Prospectus, there are no material weaknesses in the Company’s internal controls. The Company’s auditors and the Audit Committee of the Board of Directors of the Company have been advised of: (i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which have adversely affected or are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal controls over financial reporting.

(gg) *Insurance.* The Company and its subsidiaries have insurance covering their respective properties, operations, personnel and businesses, including business interruption insurance, which insurance is in amounts and insures against such losses and risks as the Company reasonably believes are adequate to protect the Company and its subsidiaries and their respective businesses; and neither the Company nor any of its subsidiaries has (i) received notice from any insurer or agent of such insurer that capital improvements or other expenditures are required or necessary to be made in order to continue such insurance or (ii) any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage at reasonable cost from similar insurers as may be necessary to continue its business.

(hh) *IT Systems; Cybersecurity.* The Company and its subsidiaries' respective information technology assets, equipment, computers, systems, networks, hardware, software, websites, applications, and databases, including any and all data and information stored thereon or transmitted thereby (collectively, "IT Systems") are adequate for, and operate and perform in all material respects as required in connection with, the operation of the respective businesses of the Company and its subsidiaries as currently conducted and as proposed to be conducted by them as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus, in each case, to the knowledge of the Company, free and clear of all material bugs, errors, defects, Trojan horses, time bombs, malware and other corruptants. The Company and its subsidiaries have implemented and maintained all reasonably necessary controls, policies, procedures and safeguards, consistent with prevalent industry practices for similarly situated companies, to maintain and protect the integrity, continuous operation, redundancy and security of all material IT Systems, and there have been no breaches, violations, outages or unauthorized uses or disclosures of, accesses to, or malfunctions or failures of, the same.

(ii) *Data Protection.* With regard to their receipt, collection, handling, processing, sharing, transfer, usage, disclosure, interception, security, storage and disposal of any and all personal, personally identifiable, household, sensitive, confidential or regulated data (collectively, "Personal Data"), (i) the Company and its subsidiaries currently comply and at all times have complied with, and have implemented reasonably necessary policies and procedures consistent with prevalent industry practices for similarly situated companies to ensure compliance with, all applicable laws, regulations, rules, judgments, orders, internal and external policies and contractual obligations (including the California Consumer Privacy Act and the European Union General Data Protection Regulation) ("Privacy Legal Obligations"); (ii) the Company and its subsidiaries have required and do require all third parties to which they provide any Personal Data to maintain the privacy and security of such Personal Data and to comply with applicable Privacy Legal Obligations, including by contractually requiring such third parties to protect such Personal Data from unauthorized access, use and/or disclosure; (iii) to the Company's knowledge, there has been no unauthorized access to, or use or disclosure of, any such Personal Data collected, maintained, handled, stored, transferred, used, disclosed or otherwise processed by or for the Company or any of its subsidiaries; (iv) neither the Company nor any of its subsidiaries have received any notification of or complaint regarding, or is aware of any other facts that would reasonably indicate, non-compliance with any Privacy Legal Obligation; and (v) to the Company's knowledge, there is no pending or threatened action, suit, proceeding or claim by or before any court or governmental agency, authority or body alleging non-compliance by the Company or any of its subsidiaries with any Privacy Legal Obligation.

(jj) *No Unlawful Payments.* Neither the Company nor any of its directors, officers or subsidiaries nor, to the knowledge of the Company, any employee, agent, affiliate or other person associated with or acting on behalf of the Company or any of its subsidiaries has (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made or taken an act in furtherance of an offer, promise or authorization of any direct or indirect unlawful payment or benefit to any foreign or domestic government official or employee, including of any government-owned or controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any of the foregoing, or any political party or party official or candidate for political office; (iii) violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977, as amended, or any applicable law or regulation implementing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, or committed an offence under the Bribery Act 2010 of the United Kingdom or any other applicable anti-bribery or anti-corruption law; or (iv) made, offered, agreed, requested or taken an act in furtherance of any unlawful bribe or other unlawful benefit, including, without limitation, any rebate, payoff, influence payment, kickback or other unlawful or improper payment or benefit. The Company and its subsidiaries have instituted, maintain and enforce, and will continue to maintain and enforce policies and procedures designed to promote and ensure compliance with all applicable anti-bribery and anti-corruption laws.

(kk) *Compliance with Anti-Money Laundering Laws.* The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements, including those of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the applicable money laundering statutes of all jurisdictions where the Company or any of its subsidiaries conducts business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines issued, administered or enforced by any governmental agency (collectively, the “Anti-Money Laundering Laws”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Anti-Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(ll) *No Conflicts with Sanctions Laws.* Neither the Company nor any of its director, officer, employee or subsidiaries, nor, to the knowledge of the Company, any agent, affiliate or other person associated with or acting on behalf of the Company or any of its subsidiaries is currently the subject or the target of any sanctions administered or enforced by the U.S. government, (including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC”) or the U.S. Department of State and including, without limitation, the designation as a “specially designated national” or “blocked person”), the United Nations Security Council (“UNSC”), the European Union, Her Majesty’s Treasury (“HMT”) or other relevant sanctions authority (collectively, “Sanctions”), nor is the Company or any of its subsidiaries located, organized or resident in a country or territory that is the subject or target of Sanctions, including, without limitation, Crimea, Cuba, Iran, North Korea and Syria (each, a “Sanctioned Country”); and the Company will not directly or indirectly use the proceeds of the offering of the Shares hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity (i) to fund or facilitate any activities of or business with any person that, at the time of such funding or facilitation, is the subject or target of Sanctions, (ii) to fund or facilitate any activities of or business in any Sanctioned Country or (iii) in any other manner that will result in a violation by any person (including any person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions. For the past five years, the Company and its subsidiaries have not knowingly engaged in and are not now knowingly engaged in any dealings or transactions with any person that at the time of the dealing or transaction is or was the subject or the target of Sanctions or with any Sanctioned Country.

(mm) *No Restrictions on Subsidiaries.* Subject to any restrictions under any applicable laws, no subsidiary of the Company is currently prohibited, directly or indirectly, under any agreement or other instrument to which it is a party or is subject, from paying any dividends to the Company, from making any other distribution on such subsidiary's capital stock or similar ownership interest, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's properties or assets to the Company or any other subsidiary of the Company.

(nn) *No Broker's Fees.* Neither the Company nor any of its subsidiaries is a party to any contract, agreement or understanding with any person (other than this Agreement) that would give rise to a valid claim against any of them or any Underwriter for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Shares.

(oo) *No Registration Rights.* Except as described in the Registration Statement, the Pricing Disclosure Package, and the Prospectus relating to the resale registration rights on any future registration statement other than the Registration Statement, no person has the right to require the Company or any of its subsidiaries to register any securities for sale under the Securities Act by reason of the filing of the Registration Statement with the Commission or the issuance and sale of the Shares.

(pp) *No Stabilization.* Neither the Company nor, to the Company's knowledge, any of its subsidiaries or affiliates has taken, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the price of the Shares.

(qq) *Margin Rules.* Neither the issuance, sale and delivery of the Shares nor the application of the proceeds thereof by the Company as described in each of the Registration Statement, the Pricing Disclosure Package and the Prospectus will violate Regulation T, U or X of the Board of Governors of the Federal Reserve System or any other regulation of such Board of Governors.

(rr) *Forward-Looking Statements.* No forward-looking statement (within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act) included in any of the Registration Statement, the Pricing Disclosure Package or the Prospectus has been made without a reasonable basis or has been disclosed other than in good faith.

(ss) *Statistical and Market Data.* Nothing has come to the attention of the Company that has caused the Company to believe that the statistical and market-related data included in each of the Registration Statement, the Pricing Disclosure Package and the Prospectus is not based on or derived from sources that are reliable and accurate in all material respects.

(tt) *Sarbanes-Oxley Act.* There is and has been no failure on the part of the Company or, to the knowledge of the Company, any of the Company's directors or officers, in their capacities as such, to comply with any applicable provision of the Sarbanes-Oxley Act of 2002, as amended and the rules and regulations promulgated in connection therewith (the "Sarbanes-Oxley Act"), with which the Company is required to comply, including Section 402 related to loans and Sections 302 and 906 related to certifications.

(uu) *Status under the Securities Act.* At the time of filing the Registration Statement and any post-effective amendment thereto, at the earliest time thereafter that the Company or any offering participant made a *bona fide* offer (within the meaning of Rule 164(h)(2) under the Securities Act) of the Shares and at the date hereof, the Company was not and is not an "ineligible issuer" as defined in Rule 405 under the Securities Act.

(vv) *No Ratings.* There are (and prior to the Closing Date, will be) no debt securities, convertible securities or preferred stock issued or guaranteed by the Company or any of its subsidiaries that are rated by a "nationally recognized statistical rating organization", as such term is defined in Section 3(a)(62) under the Exchange Act.

(ww) *Directed Share Program.* The Company represents and warrants that (i) the Registration Statement, the Pricing Disclosure Package and the Prospectus, any Preliminary Prospectus and any Issuer Free Writing Prospectuses comply in all material respects, and any further amendments or supplements thereto will comply in all material respects, with any applicable laws or regulations of foreign jurisdictions in which the Pricing Disclosure Package, the Prospectus, any Preliminary Prospectus and any Issuer Free Writing Prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Share Program, and that (ii) no authorization, approval, consent, license, order, registration or qualification of or with any government, governmental instrumentality or court, other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed Shares are offered outside the United States. The Company has not offered, or caused the underwriters to offer, Shares to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (i) a customer or supplier of the Company to alter the customer or supplier's level or type of business with the Company, or (ii) a trade journalist or publication to write or publish favorable information about the Company or its products.

4. Further Agreements of the Company. The Company covenants and agrees with each Underwriter that:

(a) *Required Filings.* The Company will file the final Prospectus with the Commission within the time periods specified by Rule 424(b) and Rule 430A, 430B or 430C under the Securities Act, will file any Issuer Free Writing Prospectus to the extent required by Rule 433 under the Securities Act; and the Company will furnish copies of the Prospectus and each Issuer Free Writing Prospectus (to the extent not previously delivered) to the Underwriters in New York City prior to 10:00 A.M., New York City time, on the business day next succeeding the date of this Agreement in such quantities as the Representatives may reasonably request.

(b) *Delivery of Copies.* Upon written request of the Representatives, the Company will deliver, without charge, (i) to the Representatives, two signed copies of the Registration Statement as originally filed and each amendment thereto, in each case including all exhibits and consents filed therewith; and (ii) to each Underwriter (A) a conformed copy of the Registration Statement as originally filed and each amendment thereto (without exhibits) and (B) during the Prospectus Delivery Period (as defined below), as many copies of the Prospectus (including all amendments and supplements thereto and each Issuer Free Writing Prospectus) as the Representatives may reasonably request. As used herein, the term "Prospectus Delivery Period" means such period of time after the first date of the public offering of the Shares as in the opinion of counsel for the Underwriters a prospectus relating to the Shares is required by law to be delivered (or required to be delivered but for Rule 172 under the Securities Act) in connection with sales of the Shares by any Underwriter or dealer.

(c) *Amendments or Supplements, Issuer Free Writing Prospectuses.* Before making, preparing, using, authorizing, approving, referring to or filing any Issuer Free Writing Prospectus, and before filing any amendment or supplement to the Registration Statement, the Pricing Disclosure Package or the Prospectus, the Company will furnish to the Representatives and counsel for the Underwriters a copy of the proposed Issuer Free Writing Prospectus, amendment or supplement for review and will not make, prepare, use, authorize, approve, refer to or file any such Issuer Free Writing Prospectus or file any such proposed amendment or supplement to which the Representatives reasonably object in a timely manner.

(d) *Notice to the Representatives.* The Company will advise the Representatives promptly, and confirm such advice in writing (which may be by electronic mail), (i) when the Registration Statement has become effective; (ii) when any amendment to the Registration Statement has been filed or becomes effective; (iii) when any supplement to the Pricing Disclosure Package, the Prospectus, or any Issuer Free Writing Prospectus or any Written Testing-the-Waters Communication or any amendment to the Prospectus has been filed or distributed; (iv) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or the receipt of any comments from the Commission relating to the Registration Statement or any other request by the Commission for any additional information including, but not limited to, any request for information concerning any Testing-the-Waters Communication; (v) of the issuance by the Commission or any other governmental or regulatory authority of any order suspending the effectiveness of the Registration Statement or preventing or suspending the use of any Preliminary Prospectus, any of the Pricing Disclosure Package, the Prospectus or any Written Testing-the-Waters Communication or, to the knowledge of the Company, the initiation or threatening of any proceeding for that purpose or pursuant to Section 8A of the Securities Act; (vi) of the occurrence of any event or development within the Prospectus Delivery Period as a result of which the Prospectus, any of the Pricing Disclosure Package, any Issuer Free Writing Prospectus or any Written Testing-the-Waters Communication as then amended or supplemented would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing when the Prospectus, the Pricing Disclosure Package, any such Issuer Free Writing Prospectus or any Written Testing-the-Waters Communication is delivered to a purchaser, not misleading; and (vii) of the receipt by the Company of any notice with respect to any suspension of the qualification of the Shares for offer and sale in any jurisdiction or, to the knowledge of the Company, the initiation or threatening of any proceeding for such purpose; and the Company will use its reasonable best efforts to prevent the issuance of any such order suspending the effectiveness of the Registration Statement, preventing or suspending the use of any Preliminary Prospectus, any of the Pricing Disclosure Package or the Prospectus or any Written Testing-the-Waters Communication or suspending any such qualification of the Shares and, if any such order is issued, will use its reasonable best efforts to obtain as soon as possible the withdrawal thereof.

(e) *Ongoing Compliance.* (1) If during the Prospectus Delivery Period (i) any event or development shall occur or condition shall exist as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, not misleading or (ii) it is necessary to amend or supplement the Prospectus to comply with law, the Company will promptly notify the Underwriters thereof and forthwith prepare and, subject to paragraph (c) above, file with the Commission and furnish to the Underwriters and to such dealers as the Representatives may designate such amendments or supplements to the Prospectus as may be necessary so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus will comply with law and (2) if at any time prior to the Closing Date (i) any event or development shall occur or condition shall exist as a result of which the Pricing Disclosure Package as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing when the Pricing Disclosure Package is delivered to a purchaser, not misleading or (ii) it is necessary to amend or supplement the Pricing Disclosure Package to comply with law, the Company will promptly notify the Underwriters thereof and forthwith prepare and, subject to paragraph (c) above, file with the Commission (to the extent required) and furnish to the Underwriters and to such dealers as the Representatives may designate such amendments or supplements to the Pricing Disclosure Package as may be necessary so that the statements in the Pricing Disclosure Package as so amended or supplemented will not, in the light of the circumstances existing when the Pricing Disclosure Package is delivered to a purchaser, be misleading or so that the Pricing Disclosure Package will comply with law.

(f) *Blue Sky Compliance.* The Company will use commercially reasonable efforts, with the Underwriters' cooperation, if necessary, to qualify the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Representatives shall reasonably request and will use commercially reasonable efforts, with the Underwriters' cooperation, if necessary, to continue such qualifications in effect so long as required for distribution of the Shares; provided that the Company shall not be required to (i) qualify as a foreign corporation or other entity or as a dealer in securities in any such jurisdiction where it would not otherwise be required to so qualify, (ii) file any general consent to service of process in any such jurisdiction or (iii) subject itself to taxation in any such jurisdiction if it is not otherwise so subject.

(g) *Earnings Statement.* The Company will make generally available to its security holders and the Representatives as soon as reasonably practicable an earnings statement that satisfies the provisions of Section 11(a) of the Securities Act and Rule 158 of the Commission promulgated thereunder covering a period of at least twelve months beginning with the first fiscal quarter of the Company occurring after the "effective date" (as defined in Rule 158) of the Registration Statement, it being understood and agreed that such earnings statement will be deemed to have been made available by the Company if the Company is in compliance with its reporting obligations pursuant to the Exchange Act, if such compliance satisfies the conditions of Rule 158 and if such earnings statement is deemed to have been made available on the Commission's Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

(h) *Clear Market.* For a period of 180 days after the date of the Prospectus, the Company will not (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, or submit to, or file with, the Commission a registration statement under the Securities Act relating to, any shares of Stock or any securities convertible into or exercisable or exchangeable for Stock, or publicly disclose the intention to undertake any of the foregoing, or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Stock or any such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Stock or such other securities, in cash or otherwise, without the prior written consent of the Representatives, other than the Shares to be sold hereunder.

The restrictions described above do not apply to (i) the issuance of shares of Stock or securities convertible into or exercisable for shares of Stock pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options (including net exercise) or the settlement of RSUs (including net settlement), in each case outstanding on the date of this Agreement and described in the Prospectus; (ii) grants of stock options, stock awards, restricted stock, RSUs, or other equity awards and the issuance of shares of Stock or securities convertible into or exercisable or exchangeable for shares of Stock (whether upon the exercise of stock options or otherwise) to the Company's employees, officers, directors, advisors, or consultants pursuant to the terms of an equity compensation plan in effect as of the Closing Date and described in the Prospectus, provided that such recipients enter into a lock-up agreement with the Underwriters; (iii) the issuance of up to ten percent (10%) of the outstanding shares of Stock, or securities convertible into, exercisable for, or which are otherwise exchangeable for, Stock, immediately following the Closing Date, in acquisitions or other similar strategic transactions, provided that such recipients enter into a lock-up agreement with the Underwriters; (iv) the filing of any registration statement on Form S-8 relating to securities granted or to be granted pursuant to any plan in effect on the date of this Agreement and described in the Prospectus or any assumed benefit plan pursuant to an acquisition or similar strategic transaction; or (v) the issuance of shares of Stock pursuant to the conversion of Series A Preferred Stock, par value \$0.0001, of the Company outstanding on the date of this Agreement and described in the Prospectus.

If the Representatives, in their sole discretion, agree to release or waive the restrictions set forth in a lock-up letter described in Section 6(k) hereof for an officer or director of the Company and provide the Company with notice of the impending release or waiver substantially in the form of Exhibit B hereto at least three business days before the effective date of the release or waiver, the Company agrees to announce the impending release or waiver substantially in the form of Exhibit C hereto through a major news service at least two business days before the effective date of the release or waiver.

(i) *Market Stand-Off.* The Company will not waive the market stand-off provisions set forth in (i) Section 3(f)(C) of the Registration Rights Agreement, dated August 28, 2018, by and among the Company and the purchasers party thereto and (ii) Section 7 of each Stock Purchase Agreement, dated on or about December 31, 2019, by and among the Company and each investor party thereto, whereby the investors purchased the Company's Series A Convertible Preferred Stock, par value \$0.0001 per share, in each case without the written consent of the Representatives.

(j) *Use of Proceeds.* The Company will apply the net proceeds from the sale of the Shares as described in each of the Registration Statement, the Pricing Disclosure Package and the Prospectus under the heading "Use of proceeds".

(k) *No Stabilization.* Neither the Company nor its subsidiaries or affiliates will take, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the price of the Stock.

(l) *Exchange Listing.* The Company will use its reasonable best efforts to list for quotation the Shares on the Nasdaq Market.

(m) *Reports.* For a period of three years from the effective date of the Registration Statement (provided that the Company remains subject to the reporting requirements of either Section 13 or 15(d) of the Exchange Act), the Company will furnish to the Representatives, as soon as commercially reasonable after the date that they are available, copies of all reports or other communications (financial or other) furnished to holders of the Shares, and copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange or automatic quotation system; provided the Company will be deemed to have furnished such reports and financial statements to the Representatives to the extent they are filed on EDGAR.

(n) *Record Retention.* The Company will, pursuant to reasonable procedures developed in good faith, retain copies of each Issuer Free Writing Prospectus that is not filed with the Commission in accordance with Rule 433 under the Securities Act for the time required by such rule.

(o) *Filings.* The Company will file with the Commission such reports as may be required by Rule 463 under the Securities Act.

(p) *Directed Share Program.* The Company will comply with all applicable securities and other laws, rules and regulations in each jurisdiction in which the Directed Shares are offered in connection with the Directed Share Program.

(q) *Emerging Growth Company.* The Company will promptly notify the Representatives if the Company ceases to be an Emerging Growth Company at any time prior to the later of (i) completion of the distribution of Shares within the meaning of the Securities Act and (ii) completion of the 180-day restricted period referred to in Section 4(h) hereof.

(r) *Repayment of Paycheck Protection Program (“PPP”) Promissory Note.* On or around the Closing Date, the Company shall repay the PPP promissory note in the outstanding principal amount in full.

5. Certain Agreements of the Underwriters. Each Underwriter hereby represents and agrees that:

(a) It has not and will not use, authorize use of, refer to or participate in the planning for use of, any “free writing prospectus”, as defined in Rule 405 under the Securities Act (which term includes use of any written information furnished to the Commission by the Company and not incorporated by reference into the Registration Statement and any press release issued by the Company) other than (i) a free writing prospectus that contains no “issuer information” (as defined in Rule 433(h)(2) under the Securities Act) that was not included (including through incorporation by reference) in the Preliminary Prospectus or a previously filed Issuer Free Writing Prospectus, (ii) any Issuer Free Writing Prospectus listed on Annex A or prepared pursuant to Section 3(c) or Section 4(c) above (including any electronic road show), or (iii) any free writing prospectus prepared by such underwriter and approved by the Company in advance in writing (each such free writing prospectus referred to in clauses (i) or (iii), an “Underwriter Free Writing Prospectus”).

(b) It has not and will not, without the prior written consent of the Company, use any free writing prospectus that contains the final terms of the offering of the Shares unless such terms have previously been included in a free writing prospectus filed with the Commission.

(c) It is not subject to any pending proceeding under Section 8A of the Securities Act with respect to the offering (and will promptly notify the Company if any such proceeding against it is initiated during the Prospectus Delivery Period).

6. Conditions of Underwriters' Obligations. The obligation of each Underwriter to purchase the Underwritten Shares on the Closing Date or the Option Shares on the Additional Closing Date, as the case may be, as provided herein is subject to the performance by the Company of its covenants and other obligations hereunder and to the following additional conditions:

(a) *Registration Compliance; No Stop Order.* No order suspending the effectiveness of the Registration Statement shall be in effect, and no proceeding for such purpose or pursuant to Section 8A under the Securities Act shall be pending before or threatened by the Commission; the Prospectus and each Issuer Free Writing Prospectus shall have been timely filed with the Commission under the Securities Act (in the case of an Issuer Free Writing Prospectus, to the extent required by Rule 433 under the Securities Act) and in accordance with Section 4(a) hereof; and all requests by the Commission for additional information shall have been complied with to the reasonable satisfaction of the Representatives.

(b) *Representations and Warranties.* The representations and warranties of the Company contained herein shall be true and correct on the date hereof and on and as of the Closing Date or the Additional Closing Date, as the case may be; and the statements of the Company and its officers made in any certificates delivered pursuant to this Agreement shall be true and correct on and as of the Closing Date or the Additional Closing Date, as the case may be.

(c) *No Material Adverse Change.* No event or condition of a type described in Section 3(h) hereof shall have occurred or shall exist, which event or condition is not described in the Pricing Disclosure Package (excluding any amendment or supplement thereto) and the Prospectus (excluding any amendment or supplement thereto) and the effect of which in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Shares on the Closing Date or the Additional Closing Date, as the case may be, on the terms and in the manner contemplated by this Agreement, the Pricing Disclosure Package and the Prospectus.

(d) *Officers' Certificate.* The Representatives shall have received on and as of the Closing Date or the Additional Closing Date, as the case may be, a certificate, on behalf of the Company, of the chief financial officer or chief accounting officer of the Company and one additional senior executive officer of the Company who is satisfactory to the Representatives (i) confirming that such officers have reviewed the Registration Statement, the Pricing Disclosure Package and the Prospectus and, to the knowledge of such officers, the representations set forth in Sections 3(b) and 3(d) hereof are true and correct, (ii) confirming that the other representations and warranties of the Company in this Agreement are true and correct and that the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date or the Additional Closing Date, as the case may be, and (iii) to the effect set forth in paragraphs (a) and (c) above.

(e) *Comfort Letters.* On the date of this Agreement and on the Closing Date or the Additional Closing Date, as the case may be, each of Deloitte & Touche LLP and MNP LLP shall have furnished to the Representatives, at the request of the Company, letters, dated the respective dates of delivery thereof and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives, containing statements and information of the type customarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in each of the Registration Statement, the Pricing Disclosure Package and the Prospectus; provided, that the letter delivered on the Closing Date or the Additional Closing Date, as the case may be, shall use a "cut-off" date no more than two business days prior to such Closing Date or such Additional Closing Date, as the case may be.

(f) *Opinion and 10b-5 Statement of Counsel for the Company.* Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., counsel for the Company, shall have furnished to the Representatives, at the request of the Company, their written opinion and 10b-5 statement, dated the Closing Date or the Additional Closing Date, as the case may be, and addressed to the Underwriters, in form and substance reasonably satisfactory to the Representatives to the effect set forth in Annex D hereto.

(g) *Opinion and 10b-5 Statement of Counsel for the Underwriters.* The Representatives shall have received on and as of the Closing Date or the Additional Closing Date, as the case may be, an opinion and 10b-5 statement, addressed to the Underwriters, of Davis Polk & Wardwell LLP, counsel for the Underwriters, with respect to such matters as the Representatives may reasonably request, and such counsel shall have received such documents and information as they may reasonably request to enable them to pass upon such matters.

(h) *No Legal Impediment to Issuance and Sale.* No action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any federal, state or foreign governmental or regulatory authority that would, as of the Closing Date or the Additional Closing Date, as the case may be, prevent the issuance or sale of the Shares; and no injunction or order of any federal, state or foreign court shall have been issued that would, as of the Closing Date or the Additional Closing Date, as the case may be, prevent the issuance or sale of the Shares.

(i) *Good Standing.* The Representatives shall have received on and as of the Closing Date or the Additional Closing Date, as the case may be, satisfactory evidence of the good standing of the Company and its subsidiaries in their respective jurisdictions of organization and their good standing in such other jurisdictions as the Representatives may reasonably request, in each case in writing or any standard form of telecommunication from the appropriate governmental authorities of such jurisdictions.

(j) *Exchange Listing.* The Shares to be delivered on the Closing Date or the Additional Closing Date, as the case may be, shall have been approved for listing on the Nasdaq Market, subject to official notice of issuance.

(k) *Lock-up Agreements.* The “lock-up” agreements, each substantially in the form of Exhibit D hereto, between you and certain shareholders, officers and directors of the Company relating to sales and certain other dispositions of shares of Stock or certain other securities, delivered to you on or before the date hereof, shall be full force and effect on the Closing Date or the Additional Closing Date, as the case may be.

(l) *Conversion of All Shares of Series A Preferred Stock.* On or before the Closing Date, the Company shall have delivered evidence satisfactory to the Representatives that all issued and outstanding shares of Series A Preferred Stock, par value \$0.0001, of the Company have been converted to shares of Common Stock, and the related agreements shall have been terminated on or prior to the Closing Date.

(m) *Additional Documents.* On or prior to the Closing Date or the Additional Closing Date, as the case may be, the Company shall have furnished to the Representatives such further certificates and documents as the Representatives may reasonably request.

All opinions, letters, certificates and evidence mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

7. Indemnification and Contribution.

(a) *Indemnification of the Underwriters.* The Company agrees to indemnify and hold harmless each Underwriter, its affiliates, directors and officers and each person, if any, who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, reasonable and documented legal fees and other reasonable and documented expenses incurred in connection with any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred), joint or several, that arise out of, or are based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in the Prospectus (or any amendment or supplement thereto), any Preliminary Prospectus, any Issuer Free Writing Prospectus, any “issuer information” filed or required to be filed pursuant to Rule 433(d) under the Securities Act, any Written Testing-the-Waters Communication, any road show as defined in Rule 433(h) under the Securities Act (a “road show”) or any Pricing Disclosure Package (including any Pricing Disclosure Package that has subsequently been amended), or caused by any omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, in each case except insofar as such losses, claims, damages or liabilities arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in paragraph (b) below.

(b) *Indemnification of the Company.* Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company and its directors, its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the indemnity set forth in paragraph (a) above, but only with respect to any losses, claims, damages or liabilities that arise out of, or are based upon, any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with any information relating to such Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use in the Registration Statement, the Prospectus (or any amendment or supplement thereto), any Preliminary Prospectus, any Issuer Free Writing Prospectus, any Written Testing-the-Waters Communication, any road show or any Pricing Disclosure Package (including any Pricing Disclosure Package that has subsequently been amended), it being understood and agreed upon that the only such information furnished by any Underwriter consists of the following information in the Prospectus furnished on behalf of each Underwriter: the concession and reallowance figures appearing in the third paragraph under the caption “Underwriting” and the information contained in the fifteenth paragraph under the caption “Underwriting”.

(c) *Notice and Procedures.* If any suit, action, proceeding (including any governmental or regulatory investigation), claim or demand shall be brought or asserted against any person in respect of which indemnification may be sought pursuant to the preceding paragraphs of this Section 7, such person (the “Indemnified Person”) shall promptly notify the person against whom such indemnification may be sought (the “Indemnifying Person”) in writing; provided that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have under the preceding paragraphs of this Section 7 except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided, further, that the failure to notify the Indemnifying Person shall not relieve it from any liability that it may have to an Indemnified Person otherwise than under the preceding paragraphs of this Section 7. If any such proceeding shall be brought or asserted against an Indemnified Person and it shall have notified the Indemnifying Person thereof, the Indemnifying Person shall retain counsel reasonably satisfactory to the Indemnified Person (who shall not, without the consent of the Indemnified Person, be counsel to the Indemnifying Person) to represent the Indemnified Person and any others entitled to indemnification pursuant to this Section that the Indemnifying Person may designate in such proceeding and shall pay the reasonable and documented fees and expenses in such proceeding and shall pay the reasonable and documented fees and expenses of such counsel related to such proceeding, as incurred. In any such proceeding, any Indemnified Person shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless (i) the Indemnifying Person and the Indemnified Person shall have mutually agreed to the contrary; (ii) the Indemnifying Person has failed within a reasonable time to retain counsel reasonably satisfactory to the Indemnified Person; (iii) the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the Indemnifying Person; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Indemnifying Person and the Indemnified Person and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood and agreed that the Indemnifying Person shall not, in connection with any proceeding or related proceeding in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all Indemnified Persons, and that all such reasonable and documented fees and expenses shall be paid or reimbursed as they are incurred. Any such separate firm for any Underwriter, its affiliates, directors and officers and any control persons of such Underwriter shall be designated in writing by J.P. Morgan Securities LLC and any such separate firm for the Company, its directors, its officers who signed the Registration Statement and any control persons of the Company shall be designated in writing by the Company. The Indemnifying Person shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent, the Indemnifying Person agrees to indemnify each Indemnified Person from and against any loss or liability by reason of such settlement. Notwithstanding the foregoing sentence, if at any time an Indemnified Person shall have requested that an Indemnifying Person reimburse the Indemnified Person for reasonable and documented fees and expenses of counsel as contemplated by this paragraph, the Indemnifying Person shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by the Indemnifying Person of such request and (ii) the Indemnifying Person shall not have reimbursed the Indemnified Person in accordance with such request prior to the date of such settlement. No Indemnifying Person shall, without the written consent of the Indemnified Person, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Person is or could have been a party and indemnification could have been sought hereunder by such Indemnified Person, unless such settlement (x) includes an unconditional release of such Indemnified Person, in form and substance reasonably satisfactory to such Indemnified Person, from all liability on claims that are the subject matter of such proceeding and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any Indemnified Person.

(d) *Contribution.* If the indemnification provided for in paragraphs (a) or (b) above is unavailable to an Indemnified Person or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Person under such paragraph, in lieu of indemnifying such Indemnified Person thereunder, shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other, from the offering of the Shares or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative fault of the Company, on the one hand, and the Underwriters, on the other, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriters, on the other, shall be deemed to be in the same respective proportions as the net proceeds (before deducting expenses) received by the Company from the sale of the Shares and the total underwriting discounts and commissions received by the Underwriters in connection therewith, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate offering price of the Shares. The relative fault of the Company, on the one hand, and the Underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties’ relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) *Limitation on Liability.* The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to paragraph (d) above were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an Indemnified Person as a result of the losses, claims, damages and liabilities referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any reasonable and documented legal or other expenses incurred by such Indemnified Person in connection with any such action or claim. Notwithstanding the provisions of paragraphs (d) and (e), in no event shall an Underwriter be required to contribute any amount in excess of the amount by which the total underwriting discounts and commissions received by such Underwriter with respect to the offering of the Shares exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to paragraphs (d) and (e) are several in proportion to their respective purchase obligations hereunder and not joint.

(f) *Non-Exclusive Remedies.* The remedies provided for in this Section 7 paragraphs (a) through (e) are not exclusive and shall not limit any rights or remedies which may otherwise be available to any Indemnified Person at law or in equity.

(g) *Directed Share Program Indemnification.* The Company agrees to indemnify and hold harmless the Directed Share Underwriter, its affiliates, directors and officers and each person, if any, who controls the Directed Share Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act (each a "Directed Share Underwriter Entity") from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal fees and other expenses incurred in connection with defending or investigating any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred) (i) caused by any untrue statement or alleged untrue statement of a material fact contained in any material prepared by or with the consent of the Company for distribution to Participants in connection with the Directed Share Program or caused by any omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (ii) caused by the failure of any Participant to pay for and accept delivery of Directed Shares that the Participant agreed to purchase; or (iii) related to, arising out of, or in connection with the Directed Share Program, other than losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of the Directed Share Underwriter Entities.

(h) In case any proceeding (including any governmental investigation) shall be instituted involving any Directed Share Underwriter Entity in respect of which indemnity may be sought pursuant to paragraph (g) above, the Directed Share Underwriter Entity seeking indemnity shall promptly notify the Company in writing and the Company, upon request of the Directed Share Underwriter Entity, shall retain counsel reasonably satisfactory to the Directed Share Underwriter Entity to represent the Directed Share Underwriter Entity and any others the Company may designate in such proceeding and shall pay the reasonable fees and disbursements of such counsel related to such proceeding. In any such proceeding, any Directed Share Underwriter Entity shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Directed Share Underwriter Entity unless (i) the Company and such Directed Share Underwriter Entity shall have mutually agreed to the retention of such counsel, (ii) the Company has failed within a reasonable time to retain counsel reasonably satisfactory to such Directed Share Underwriter Entity, (iii) the Directed Share Underwriter Entity shall have reasonably concluded that there may be legal defenses available to it that are different from or in addition to those available to the Company or (iv) the named parties to any such proceeding (including any impleaded parties) include both the Company and the Directed Share Underwriter Entity and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. The Company shall not, in respect of the legal expenses of the Directed Share Underwriter Entities in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all Directed Share Underwriter Entities. The Company shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent, the Company agrees to indemnify the Directed Share Underwriter Entities from and against any loss or liability by reason of such settlement. Notwithstanding the foregoing sentence, if at any time any Directed Share Underwriter Entity shall have requested the Company to reimburse such Directed Share Underwriter Entity for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the Company agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by the Company of the aforesaid request and (ii) the Company shall not have reimbursed such Directed Share Underwriter Entity in accordance with such request prior to the date of such settlement. The Company shall not, without the prior written consent of the Directed Share Underwriter, effect any settlement of any pending or threatened proceeding in respect of which any Directed Share Underwriter Entity is or could have been a party and indemnity could have been sought hereunder by such Directed Share Underwriter Entity, unless (x) such settlement includes an unconditional release of the Directed Share Underwriter Entities from all liability on claims that are the subject matter of such proceeding and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of the Directed Share Underwriter Entity.

(i) To the extent the indemnification provided for in paragraph (g) above is unavailable to a Directed Share Underwriter Entity or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then the Company in lieu of indemnifying the Directed Share Underwriter Entity thereunder, shall contribute to the amount paid or payable by the Directed Share Underwriter Entity as a result of such losses, claims, damages or liabilities (1) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Directed Share Underwriter Entities on the other hand from the offering of the Directed Shares or (2) if the allocation provided by clause 7(i)(1) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 7(i)(1) above but also the relative fault of the Company on the one hand and of the Directed Share Underwriter Entities on the other hand in connection with any statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Directed Share Underwriter Entities on the other hand in connection with the offering of the Directed Shares shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Directed Shares (before deducting expenses) and the total underwriting discounts and commissions received by the Directed Share Underwriter Entities for the Directed Shares, bear to the aggregate public offering price of the Directed Shares. If the loss, claim, damage or liability is caused by an untrue or alleged untrue statement of material fact or the omission or alleged omission to state a material fact, the relative fault of the Company on the one hand and the Directed Share Underwriter Entities on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement or the omission or alleged omission relates to information supplied by the Company or by the Directed Share Underwriter Entities and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(j) The Company and the Directed Share Underwriter Entities agree that it would be not just or equitable if contribution pursuant to paragraph (i) above were determined by pro rata allocation (even if the Directed Share Underwriter Entities were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (i) above. The amount paid or payable by the Directed Share Underwriter Entities as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by the Directed Share Underwriter Entities in connection with investigating or defending such any action or claim. Notwithstanding the provisions of paragraph (i) above, no Directed Share Underwriter Entity shall be required to contribute any amount in excess of the amount by which the total price at which the Directed Shares distributed to the public were offered to the public exceeds the amount of any damages that such Directed Share Underwriter Entity has otherwise been required to pay. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in paragraphs (g) through (j) are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(k) The indemnity and contribution provisions contained in paragraphs (g) through (j) shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Directed Share Underwriter Entity or the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Directed Shares.

8. Effectiveness of Agreement. This Agreement shall become effective as of the date first written above.

9. Termination. This Agreement may be terminated in the absolute discretion of the Representatives, by notice to the Company, if after the execution and delivery of this Agreement and on or prior to the Closing Date or, in the case of the Option Shares, prior to the Additional Closing Date, (i) trading generally shall have been suspended or materially limited on or by any of the New York Stock Exchange or The Nasdaq Stock Market; (ii) trading of any securities issued or guaranteed by the Company shall have been suspended on any exchange or in any over-the-counter market; (iii) a general moratorium on commercial banking activities shall have been declared by federal or New York State authorities; or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis, either within or outside the United States, that, in the judgment of the Representatives, is material and adverse and makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Shares on the Closing Date or the Additional Closing Date, as the case may be, on the terms and in the manner contemplated by this Agreement, the Pricing Disclosure Package and the Prospectus.

10. Defaulting Underwriter.

(a) If, on the Closing Date or the Additional Closing Date, as the case may be, any Underwriter defaults on its obligation to purchase the Shares that it has agreed to purchase hereunder on such date, the non-defaulting Underwriters may in their discretion arrange for the purchase of such Shares by other persons satisfactory to the Company on the terms contained in this Agreement. If, within 36 hours after any such default by any Underwriter, the non-defaulting Underwriters do not arrange for the purchase of such Shares, then the Company shall be entitled to a further period of 36 hours within which to procure other persons satisfactory to the non-defaulting Underwriters to purchase such Shares on such terms. If other persons become obligated or agree to purchase the Shares of a defaulting Underwriter, either the non-defaulting Underwriters or the Company may postpone the Closing Date or the Additional Closing Date, as the case may be, for up to five full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement and the Prospectus or in any other document or arrangement, and the Company agrees to promptly prepare any amendment or supplement to the Registration Statement and the Prospectus that effects any such changes. As used in this Agreement, the term "Underwriter" includes, for all purposes of this Agreement unless the context otherwise requires, any person not listed in Schedule 1 hereto that, pursuant to this Section 10, purchases Shares that a defaulting Underwriter agreed but failed to purchase.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the non-defaulting Underwriters and the Company as provided in paragraph (a) above, the aggregate number of Shares that remain unpurchased on the Closing Date or the Additional Closing Date, as the case may be, does not exceed one-eleventh of the aggregate number of Shares to be purchased on such date, then the Company shall have the right to require each non-defaulting Underwriter to purchase the number of Shares that such Underwriter agreed to purchase hereunder on such date plus such Underwriter's pro rata share (based on the number of Shares that such Underwriter agreed to purchase on such date) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the non-defaulting Underwriters and the Company as provided in paragraph (a) above, the aggregate number of Shares that remain unpurchased on the Closing Date or the Additional Closing Date, as the case may be, exceeds one-eleventh of the aggregate amount of Shares to be purchased on such date, or if the Company shall not exercise the right described in paragraph (b) above, then this Agreement or, with respect to any Additional Closing Date, the obligation of the Underwriters to purchase Shares on the Additional Closing Date, as the case may be, shall terminate without liability on the part of the non-defaulting Underwriters. Any termination of this Agreement pursuant to this Section 10 shall be without liability on the part of the Company, except that the Company and the Underwriters will continue to be liable for the payment of expenses as set forth in Section 11 hereof and except that the provisions of Section 7 hereof shall not terminate and shall remain in effect.

(d) Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company or any non-defaulting Underwriter for damages caused by its default.

11. Payment of Expenses.

(a) Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Company will pay or cause to be paid all costs and expenses incident to the performance of its obligations hereunder, including without limitation, (i) the costs incident to the authorization, issuance, sale, preparation and delivery of the Shares and any taxes payable in that connection; (ii) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statement, the Preliminary Prospectus, any Issuer Free Writing Prospectus, any Pricing Disclosure Package and the Prospectus (including all exhibits, amendments and supplements thereto) and the distribution thereof; (iii) the fees and expenses of the Company's counsel and independent accountants; (iv) the reasonable fees and expenses incurred in connection with the registration or qualification and determination of eligibility for investment of the Shares under the laws of such jurisdictions as the Representatives may designate and the preparation, printing and distribution of a Blue Sky Memorandum (including the related fees and expenses of counsel for the Underwriters, not to exceed \$5,000); (v) the cost of preparing stock certificates; (vi) the costs and charges of any transfer agent and any registrar; (vii) all expenses and application fees incurred in connection with any filing with, and clearance of the offering by, FINRA (including the reasonable and documented fees and expenses of counsel for the Underwriters, not to exceed \$40,000); (viii) all expenses incurred by the Company in connection with any "road show" presentation to potential investors; (ix) all expenses and application fees related to the listing of the Shares on the Nasdaq Market; and (x) all of the fees and disbursements of counsel incurred by the Underwriters in connection with the Directed Share Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Directed Share Program.

(b) If (i) this Agreement is terminated pursuant to Section 9, (ii) the Company for any reason fails to tender the Shares for delivery to the Underwriters (other than by reason of a default by any Underwriter) or (iii) the Underwriters decline to purchase the Shares for any reason permitted under this Agreement, the Company agrees to reimburse the Underwriters for all reasonable and documented out-of-pocket costs and expenses (including the reasonable and documented fees and expenses of their counsel) reasonably incurred by the Underwriters in connection with this Agreement and the offering contemplated hereby. For the avoidance of doubt, the Company will not pay or reimburse pursuant to this Section 11 any costs, fees or expenses incurred by any Underwriter that defaults on its obligations to purchase the Shares or following termination of this Agreement by the Underwriters pursuant to clauses (i), (iii) or (iv) of Section 9.

12. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and any controlling persons referred to herein, and the affiliates of each Underwriter referred to in Section 7 hereof. Nothing in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein. No purchaser of Shares from any Underwriter shall be deemed to be a successor merely by reason of such purchase.

13. Survival. The respective indemnities, rights of contribution, representations, warranties and agreements of the Company and the Underwriters contained in this Agreement or made by or on behalf of the Company or the Underwriters pursuant to this Agreement or any certificate delivered pursuant hereto shall survive the delivery of and payment for the Shares and shall remain in full force and effect, regardless of any termination of this Agreement or any investigation made by or on behalf of the Company or the Underwriters or the directors, officers, controlling persons or affiliates referred to in Section 7 hereof.

14. Certain Defined Terms. For purposes of this Agreement, (a) except where otherwise expressly provided, the term “affiliate” has the meaning set forth in Rule 405 under the Securities Act; (b) the term “business day” means any day other than a day on which banks are permitted or required to be closed in New York City; (c) the term “subsidiary” has the meaning set forth in Rule 405 under the Securities Act; and (d) the term “significant subsidiary” has the meaning set forth in Rule 1-02 of Regulation S-X under the Exchange Act.

15. Compliance with USA Patriot Act. In accordance with the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), the Underwriters are required to obtain, verify and record information that identifies their respective clients, including the Company, which information may include the name and address of their respective clients, as well as other information that will allow the Underwriters to properly identify their respective clients.

16. Miscellaneous.

(a) *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted and confirmed by any standard form of telecommunication. Notices to the Underwriters shall be given to the Representatives, c/o J.P. Morgan Securities LLC, 383 Madison Avenue, New York, New York 10179 (fax: (212) 622-8358); Attention: Equity Syndicate Desk and c/o Stifel, Nicolaus & Company, Incorporated, One South Street, 15th Floor, Baltimore, Maryland 21202; Fax No. (443) 224-1254; Attention: Syndicate Department. Notices to the Company shall be given to it at 2249 South McDowell Boulevard Ext. Petaluma, California 94954; Attention: John Lindeman.

(b) *Governing Law.* This Agreement and any claim, controversy or dispute arising under or related to this Agreement shall be governed by and construed in accordance with the laws of the State of New York.

(c) *Submission to Jurisdiction.* The Company hereby submits to the exclusive jurisdiction of the U.S. federal and New York state courts in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. The Company waives any objection which it may now or hereafter have to the laying of venue of any such suit or proceeding in such courts. The Company agrees that final judgment in any such suit, action or proceeding brought in such court shall be conclusive and binding upon the Company and may be enforced in any court to the jurisdiction of which Company is subject by a suit upon such judgment.

(d) *Waiver of Jury Trial.* Each of the parties hereto hereby waives any right to trial by jury in any suit or proceeding arising out of or relating to this Agreement.

(e) *Recognition of the U.S. Special Resolution Regimes.*

(i) In the event that any Underwriter that is a Covered Entity becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer from such Underwriter of this Agreement, and any interest and obligation in or under this Agreement, will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if this Agreement, and any such interest and obligation, were governed by the laws of the United States or a state of the United States.

(ii) In the event that any Underwriter that is a Covered Entity or a BHC Act Affiliate of such Underwriter becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under this Agreement that may be exercised against such Underwriter are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if this Agreement were governed by the laws of the United States or a state of the United States.

As used in this Section 16(g):

“BHC Act Affiliate” has the meaning assigned to the term “affiliate” in, and shall be interpreted in accordance with, 12 U.S.C. § 1841(k).

“Covered Entity” means any of the following:

- (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);
- (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or
- (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“U.S. Special Resolution Regime” means each of (i) the Federal Deposit Insurance Act and the regulations promulgated thereunder and (ii) Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder.

(f) *Counterparts.* This Agreement may be signed in counterparts (which may include counterparts delivered by any standard form of telecommunication), each of which shall be an original and all of which together shall constitute one and the same instrument.

(g) *Amendments or Waivers.* No amendment or waiver of any provision of this Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

(h) *Headings.* The headings herein are included for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing is in accordance with your understanding, please indicate your acceptance of this Agreement by signing in the space provided below.

Very truly yours,

HYDROFARM HOLDINGS GROUP, INC.

By: _____

Name:

Title:

Accepted: As of the date first written above

J.P. MORGAN SECURITIES LLC
STIFEL, NICOLAUS & COMPANY, INCORPORATED

For themselves and on behalf of the
several Underwriters listed
in Schedule 1 hereto.

J.P. MORGAN SECURITIES LLC

By: _____
Authorized Signatory

STIFEL, NICOLAUS & COMPANY, INCORPORATED

By: _____
Authorized Signatory

[Signature Page to Underwriting Agreement]

Underwriter	Number of Shares
J.P. Morgan Securities LLC	[·]
Stifel, Nicolaus & Company, Incorporated	[·]
Deutsche Bank Securities Inc.	[·]
Truist Securities, Inc.	[·]
William Blair & Company, L.L.C.	[·]
Total	[·]

Significant Subsidiaries

Schedule 2-1

a. **Pricing Disclosure Package**

None.

b. **Pricing Information Provided Orally by Underwriters**

1. Price per share: \$[.]
2. The number of Underwritten Shares to be sold by the Company: [.]

Written Testing-the-Waters Communications

None.

Pricing Term Sheet

None.

Annex C-1

Form of Opinion of Counsel for the Company

Annex D-1

EGC – Testing the waters authorization (to be delivered by the issuer to J.P. Morgan in email or letter form)

In reliance on Section 5(d) of the Securities Act of 1933, as amended (the “Act”), Hydrofarm Holdings Group, Inc. (the “Issuer”) hereby authorizes J.P. Morgan Securities LLC (“J.P. Morgan”) and Stifel, Nicolaus & Company, Incorporated (“Stifel”) and their affiliates and their respective employees, to engage on behalf of the Issuer in oral and written communications with potential investors that are “qualified institutional buyers”, as defined in Rule 144A under the Act, or institutions that are “accredited investors”, within the meaning of Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Act, to determine whether such investors might have an interest in the Issuer’s contemplated initial public offering (“Testing-the-Waters Communications”). A “Written Testing-the Waters Communication” means any Testing-the-Waters Communication that is a written communication within the meaning of Rule 405 under the Act. Each of J.P. Morgan and Stifel, individually and not jointly, agrees that it shall not distribute any Written Testing-the Waters Communication that has not been approved by the Issuer.

The Issuer represents that it is an “emerging growth company” as defined in Section 2(a)(19) of the Act (“Emerging Growth Company”) and agrees to promptly notify J.P. Morgan and Stifel in writing if the Issuer hereafter ceases to be an Emerging Growth Company while this authorization is in effect. If at any time following the distribution of any Written Testing-the-Waters Communication there occurs an event or development as a result of which such Written Testing-the-Waters Communication included or would include an untrue statement of a material fact or omitted or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at that subsequent time, not misleading, the Issuer will promptly notify J.P. Morgan and Stifel and will promptly amend or supplement, at its own expense, such Written Testing-the-Waters Communication to eliminate or correct such untrue statement or omission.

Nothing in this authorization is intended to limit or otherwise affect the ability of J.P. Morgan and Stifel and their affiliates and their respective employees, to engage in communications in which they could otherwise lawfully engage in the absence of this authorization, including, without limitation, any written communication containing only one or more of the statements specified under Rule 134(a) under the Act. This authorization shall remain in effect until the Issuer has provided to J.P. Morgan and Stifel a written notice revoking this authorization. All notices as described herein shall be sent by email to J.P. Morgan at the attention of [·] at [·] with copies to [·]; and Stifel at the attention of [·] at [·] with copies to [·].

Form of Waiver of Lock-up

**J.P. MORGAN SECURITIES LLC
STIFEL, NICOLAUS & COMPANY, INCORPORATED**

Hydrofarm Holdings Group, Inc.
Public Offering of Common Stock

[·], 2020

[Name and Address of
Officer or Director
Requesting Waiver]

Dear Mr./Ms. [Name]:

This letter is being delivered to you in connection with the offering by Hydrofarm Holdings Group, Inc. (the “Company”) of [·] shares of common stock, \$0.0001 par value (the “Common Stock”), of the Company and the lock-up letter dated _____, 20__ (the “Lock-up Letter”), executed by you in connection with such offering, and your request for a [waiver] [release] dated _____, 20__, with respect to [·] shares of Common Stock (the “Shares”).

J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated hereby agree to [waive] [release] the transfer restrictions set forth in the Lock-up Letter, but only with respect to the Shares, effective _____, 20__; provided, however, that such [waiver] [release] is conditioned on the Company announcing the impending [waiver] [release] by press release through a major news service at least two business days before effectiveness of such [waiver] [release]. This letter will serve as notice to the Company of the impending [waiver] [release].

Except as expressly [waived] [released] hereby, the Lock-up Letter shall remain in full force and effect.

Yours very truly,

cc: Company

Form of Press Release

Hydrofarm Holdings Group, Inc.
[Date]

Hydrofarm Holdings Group, Inc. (the “Company”) announced today that J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated, the lead book-running managers in the Company’s recent public sale of [·] shares of common stock, is [waiving] [releasing] a lock-up restriction with respect to [·] shares of the Company’s common stock held by [certain officers or directors] [an officer or director] of the Company. The [waiver] [release] will take effect on _____, 20__, and the shares may be sold on or after such date.

This press release is not an offer for sale of the securities in the United States or in any other jurisdiction where such offer is prohibited, and such securities may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended.

FORM OF LOCK-UP AGREEMENT

[·], 2020

J.P. MORGAN SECURITIES LLC
STIFEL, NICOLAUS & COMPANY, INCORPORATED

As Representatives of
the several Underwriters listed in
Schedule 1 to the Underwriting
Agreement referred to below

c/o J.P. Morgan Securities LLC
383 Madison Avenue
New York, NY 10179

c/o Stifel, Nicolaus & Company, Incorporated
One South Street, 15th Floor
Baltimore, Maryland 21202

Re: Hydrofarm Holdings Group, Inc. --- Public Offering

Ladies and Gentlemen:

The undersigned understands that you, as Representatives of the several Underwriters (as defined below), propose to enter into an underwriting agreement (the "Underwriting Agreement") with Hydrofarm Holdings Group, Inc., a Delaware corporation (the "Company"), providing for the public offering (the "Public Offering") by the several Underwriters named in Schedule 1 to the Underwriting Agreement (the "Underwriters"), of common stock, par value \$0.0001, of the Company (the "Common Stock"). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Underwriting Agreement.

In consideration of the Underwriters' agreement to purchase and make the Public Offering of the Securities, and for other good and valuable consideration receipt of which is hereby acknowledged, the undersigned hereby agrees that, without the prior written consent of J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated on behalf of the Underwriters, the undersigned will not, and will not cause any direct or indirect affiliate to, during the period beginning on the date of this letter agreement (this "Letter Agreement") and ending at the close of business 180 days after the date of the final prospectus relating to the Public Offering (the "Prospectus") (such period, the "Restricted Period"), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock (including without limitation, Common Stock or such other securities which may be deemed to be beneficially owned by the undersigned in accordance with the rules and regulations of the Securities and Exchange Commission and securities which may be issued upon exercise of a stock option or warrant) (collectively with the Common Stock, "Lock-Up Securities"), (2) enter into any hedging, swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of the Lock-Up Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Lock-Up Securities, in cash or otherwise, (3) make any demand for or exercise any right with respect to the registration of any Lock-Up Securities, or (4) publicly disclose the intention to do any of the foregoing. The undersigned acknowledges and agrees that the foregoing precludes the undersigned from engaging in any hedging or other transactions or arrangements (including, without limitation, any short sale or the purchase or sale of, or entry into, any put or call option, or combination thereof, forward, swap or any other derivative transaction or instrument, however described or defined) designed or intended, or which could reasonably be expected to lead to or result in, a sale or disposition or transfer (whether by the undersigned or any other person) of any economic consequences of ownership, in whole or in part, directly or indirectly, of any Lock-Up Securities, whether any such transaction or arrangement (or instrument provided for thereunder) would be settled by delivery of Lock-Up Securities, in cash or otherwise. The undersigned further confirms that it has furnished J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated with the details of any transaction the undersigned, or any of its affiliates, is a party to as of the date hereof, which transaction would have been restricted by this Letter Agreement if it had been entered into by the undersigned during the Restricted Period.

Notwithstanding the foregoing, the undersigned may:

(a) transfer or dispose of the undersigned's Lock-Up Securities:

(i) as a bona fide gift or gifts, or for bona fide estate planning purposes,

(ii) by will, other testamentary document or intestacy,

(iii) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, or if the undersigned is a trust, to a trustor or beneficiary of the trust or to the estate of a beneficiary of such trust (for purposes of this Letter Agreement, "immediate family" shall mean any relationship by blood, current or former marriage, domestic partnership or adoption, not more remote than first cousin),

(iv) to a corporation, partnership, limited liability company, trust or other entity of which the undersigned and/or one or more members of the immediate family of the undersigned are, directly or indirectly, the legal and beneficial owner of all of the outstanding equity securities or similar interests,

(v) to a nominee or custodian of a person or entity to whom a disposition or transfer would be permissible under clauses (i) through (iv) above,

(vi) if the undersigned is a corporation, partnership, limited liability company, trust or other business entity, (A) to another corporation, partnership, limited liability company, trust or other business entity that is an affiliate (as defined in Rule 405 promulgated under the Securities Act of 1933, as amended) of the undersigned, or to any investment fund or other entity controlling, controlled by, managing or managed by or under common control with the undersigned or affiliates of the undersigned (including, for the avoidance of doubt, where the undersigned is a partnership, to its general partner or a successor partnership or fund, or any other funds managed by such partnership), or (B) as part of a distribution or other transfer to general or limited partners to members or shareholders, or other holders of equity in, of the undersigned,

(vii) by operation of law, such as pursuant to a qualified domestic order, divorce settlement, divorce decree, separation agreement or court order,

(viii) to the Company from an employee or other service provider of the Company upon death, disability or termination of employment or service, in each case, of such employee or other service provider,

(ix) as part of a sale of the undersigned's Lock-Up Securities acquired in open market transactions after the closing date for the Public Offering,

(x) to the Company in connection with the vesting, settlement, or exercise of restricted stock units, options, warrants or other rights to purchase shares of Common Stock (including, in each case, by way of "net" or "cashless" exercise), including for the payment of exercise price and tax and remittance payments due as a result of the vesting, settlement, or exercise of such restricted stock units, options, warrants or rights, provided that any such shares of Common Stock received upon such exercise, vesting or settlement shall be subject to the terms of this Letter Agreement, and provided further that any such restricted stock units, options, warrants or rights are held by the undersigned pursuant to an agreement or equity awards granted under a stock incentive plan or other equity award plan, each such agreement or plan which is described in the Registration Statement, the Pricing Disclosure Package and the Prospectus, or

(xi) pursuant to a bona fide third-party tender offer, merger, consolidation or other similar transaction that is approved by the Board of Directors of the Company and made to all holders of the Company's capital stock involving a Change of Control (as defined below) of the Company (for purposes hereof, "Change of Control" shall mean the transfer (whether by tender offer, merger, consolidation or other similar transaction), in one transaction or a series of related transactions, to a person or group of affiliated persons, of shares of capital stock if, after such transfer, such person or group of affiliated persons would hold at least a majority of the outstanding voting securities of the Company (or the surviving entity)); provided that in the event that such tender offer, merger, consolidation or other similar transaction is not completed, the undersigned's Lock-Up Securities shall remain subject to the provisions of this Letter Agreement;

provided that (A) in the case of any transfer, disposition or distribution pursuant to clause (a)(i), (ii), (iii), (iv), (v), (vi) and (vii), such transfer shall not involve a disposition for value and each donee, devisee, transferee or distributee shall execute and deliver to the Representatives a lock-up letter in the form of this Letter Agreement, (B) in the case of any transfer or distribution pursuant to clause (a)(i), (ii), (iii), (iv), (v), (vi), (ix) and (x), no filing by any party (donor, donee, devisee, transferor, transferee, distributor or distributee) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or other public announcement shall be required or shall be made voluntarily in connection with such transfer or distribution (other than a filing on a Form 5 made after the expiration of the Restricted Period referred to above) and (C) in the case of any transfer or distribution pursuant to clause (a)(vii) and (viii) it shall be a condition to such transfer that no public filing, report or announcement shall be voluntarily made and if any filing under Section 16(a) of the Exchange Act, or other public filing, report or announcement reporting a reduction in beneficial ownership of shares of Common Stock in connection with such transfer or distribution shall be legally required during the Restricted Period, such filing, report or announcement shall clearly indicate in the footnotes thereto the nature and conditions of such transfer;

(b) exercise outstanding options, settle restricted stock units or other equity awards or exercise warrants pursuant to plans described in the Registration Statement, the Pricing Disclosure Package and the Prospectus; provided that any Lock-up Securities received upon such exercise, vesting or settlement shall be subject to the terms of this Letter Agreement;

(c) convert outstanding preferred stock, warrants to acquire preferred stock or convertible securities into shares of Common Stock or warrants to acquire shares of Common Stock; provided that any such shares of Common Stock or warrants received upon such conversion shall be subject to the terms of this Letter Agreement; and

(d) establish one or more trading plans pursuant to Rule 10b5-1 under the Exchange Act for the transfer or disposition of shares of Lock-Up Securities; provided that (1) such plans do not provide for the transfer or disposition of Lock-Up Securities during the Restricted Period and (2) no filing by any party under the Exchange Act or other public announcement shall be required or made voluntarily in connection with such trading plan.

If the undersigned is not a natural person, the undersigned represents and warrants that no single natural person, entity or "group" (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) beneficially owns, directly or indirectly, 50% or more of the common equity interests, or 50% or more of the voting power, in the undersigned.

If the undersigned is an officer or director of the Company, the undersigned further agrees that the foregoing provisions shall be equally applicable to any Company-directed Securities the undersigned may purchase in the Public Offering.

If the undersigned is an officer or director of the Company, (i) J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated on behalf of the Underwriters agree that, at least three business days before the effective date of any release or waiver of the foregoing restrictions in connection with a transfer of shares of Lock-Up Securities, J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated on behalf of the Underwriters will notify the Company of the impending release or waiver, and (ii) the Company has agreed in the Underwriting Agreement to announce the impending release or waiver through a major news service at least two business days before the effective date of the release or waiver. Any release or waiver granted by J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated on behalf of the Underwriters hereunder to any such officer or director shall only be effective two business days after the publication date of such announcement. The provisions of this paragraph will not apply if (a) the release or waiver is effected solely to permit a transfer not for consideration or that is to an immediate family member as defined in FINRA Rule 5130(i)(5) and (b) the transferee has agreed in writing to be bound by the same terms described in this letter to the extent and for the duration that such terms remain in effect at the time of the transfer.

In furtherance of the foregoing, the Company, and any duly appointed transfer agent for the registration or transfer of the securities described herein, are hereby authorized to decline to make any transfer of securities if such transfer would constitute a violation or breach of this Letter Agreement.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this Letter Agreement. All authority herein conferred or agreed to be conferred and any obligations of the undersigned shall be binding upon the successors, assigns, heirs or personal representatives of the undersigned.

The undersigned acknowledges and agrees that the Underwriters have not provided any recommendation or investment advice nor have the Underwriters solicited any action from the undersigned with respect to the Public Offering of the Securities and the undersigned has consulted their own legal, accounting, financial, regulatory and tax advisors to the extent deemed appropriate. The undersigned further acknowledges and agrees that, although the Representatives may be required or choose to provide certain Regulation Best Interest and Form CRS disclosures to you in connection with the Public Offering, the Representatives and the other Underwriters are not making a recommendation to you to enter into this Letter Agreement, participate in the Public Offering, or sell any Shares at the price determined in the Public Offering, and nothing set forth in such disclosures is intended to suggest that the Representatives or any Underwriter is making such a recommendation.

This Letter Agreement shall automatically, and without any action on the part of any other party, terminate and be of no further force and effect, and the undersigned shall automatically be released from all obligations under this Letter Agreement if: (i) the Underwriting Agreement does not become effective by December 31, 2020 (provided, however, that the undersigned agrees that this Letter Agreement shall be automatically extended by three months if the Company provides written notice to the undersigned that the Company is still pursuing the Public Offering contemplated by the Underwriting Agreement); (ii) the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated prior to payment for and delivery of the Common Stock to be sold thereunder; (iii) either the Company, on the one hand, or the Representatives, on the other hand, notifies the other in writing prior to the execution of the Underwriting Agreement that it does not intend to proceed with the Public Offering; or (iv) the registration statement filed with the Securities and Exchange Commission in connection with the Public Offering is withdrawn prior to the execution of the Underwriting Agreement. The undersigned understands that the Underwriters are entering into the Underwriting Agreement and proceeding with the Public Offering in reliance upon this Letter Agreement.

This Letter Agreement and any claim, controversy or dispute arising under or related to this Letter Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

[NAME OF STOCKHOLDER]

By: _____
Name:
Title:

Exhibit D-6

CERTIFICATE OF AMENDMENT
TO THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
HYDROFARM HOLDINGS GROUP, INC.

Pursuant to Section 242 of the General Corporation Law of the State of Delaware, Hydrofarm Holdings Group, Inc., a corporation organized and existing under the laws of the State of Delaware (the “**Corporation**”), does hereby certify as follows:

1. The name of the Corporation is Hydrofarm Holdings Group, Inc. The date of filing of its original certificate of incorporation with the Secretary of State of the State of Delaware (the “**Secretary of State**”) was January 3, 2017, under the name of Innovation Acquisition One Corp. The name of the Corporation was changed to Hydrofarm Holdings Group, Inc. by filing a certificate of amendment to the original certificate of incorporation, as amended to date, with the Secretary of State on August 3, 2018. An amended and restated certification of incorporation of the Corporation was duly filed with the Secretary of State on August 28, 2018 (the “**Certificate**”).

2. The board of directors of the Corporation (the “**Board of Directors**,” and each such director, in such capacity, a “**Director**”) have duly adopted a resolution pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth a proposed amendment to the Certificate and declaring said amendment to be advisable. The requisite stockholders of the Corporation have duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware. The amendment amends the Certificate as follows:

3. The Certificate is hereby amended to effect a reverse stock split and change the capitalization of the Corporation by replacing Article IV, Section A, in its entirety set forth as follows:

“The total number of shares of capital stock which the Corporation shall have authority to issue is three hundred fifty million (350,000,000) shares, of which (i) three hundred million (300,000,000) shares shall be a class designated as common stock, par value \$0.0001 per share (the “Common Stock”), and (ii) fifty million shares (50,000,000) shares shall be a class designated as preferred stock, par value \$0.0001 per share (the “Preferred Stock”).

The number of authorized shares of Common Stock or Preferred Stock may from time to time be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority in voting power of the outstanding shares of stock of the Corporation entitled to vote thereon irrespective of the provisions of Section 242(b)(2) of the DGCL (or any successor provision thereto), and no vote of the holders of any of the Common Stock or the Preferred Stock voting separately as a class shall be required therefor, unless a vote of any such holder is required pursuant to this Certificate (including pursuant to any certificate of designation of any series of Preferred Stock).

The powers, preferences and rights of, and the qualifications, limitations and restrictions upon, each class or series of stock shall be determined in accordance with, or as set forth below in, this Article IV.

Upon effectiveness of the filing of this amendment to the Certificate (the “Effective Time”), the shares of Common Stock issued and outstanding immediately prior to the Effective Time and the shares of Common Stock issued and held in the treasury of the Corporation immediately prior to the Effective Time are reclassified into a smaller number of shares such that each 3.3712 shares of issued Common Stock immediately prior to the Effective Time is reclassified into one (1) share of Common Stock (the “Reverse Stock Split”). Notwithstanding the immediately preceding sentence, no fractional shares shall be issued as a result of the Reverse Stock Split (and for each holder who would otherwise be entitled to a fractional share as a result of the Reverse Stock Split, rounding down to the next whole share, and such holder shall be entitled to receive cash for such holder’s fractional share in an amount equal to the price per share at which shares of Common Stock are sold in the contemplated initial public offering). Notwithstanding the foregoing, the Corporation shall not be obliged to issue certificates evidencing the shares of Common Stock outstanding as a result of the Reverse Stock Split, unless and until the certificates evidencing the shares held by a holder prior to the Reverse Stock Split are either delivered to the Corporation or its transfer agent, or the holder notifies the Corporation or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificates.

Each stock certificate that, immediately prior to the Effective Time, represented shares of Common Stock that were issued and outstanding immediately prior to the Effective Time shall, from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent that the number of whole shares of Common Stock after the Effective Time into which the shares of Common Stock formerly represented by such certificate shall have been reclassified, provided, however, that each person of record holding a certificate that represented shares of Common Stock that were issued and outstanding immediately prior to the Effective Time shall receive, upon surrender of such certificate, a new certificate evidencing and representing the number of whole shares of Common Stock after the Effective Time into which the shares of Common Stock formerly represented by such certificate shall have been reclassified.”

4. The Certificate is hereby amended to establish a staggered Board of Directors of the Corporation by replacing Article V, Section 3 in its entirety set forth as follows:

“Number of Directors; Term of Office. Except as otherwise provided for or fixed pursuant to the provisions of Article IV of the Certificate, as amended, including any certificate of designation of any series of a class designated as Preferred Stock, and this Article V relating to the rights of the holders of any series of Preferred Stock to elect additional Directors, the number of Directors of the Corporation shall be fixed solely and exclusively by resolution duly adopted from time to time by the Board of Directors. The Directors, other than those who may be elected by the holders of any series of Preferred Stock, shall be elected at each annual meeting of stockholders to hold office until the expiration of the term for which they are elected and until their successors have been duly elected and qualified or until their death, resignation or removal. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

During any period when the holders of any series of Preferred Stock have the right to elect additional Directors, then upon commencement and for the duration of the period during which such right continues: (i) the then otherwise total authorized number of Directors shall automatically be increased by such specified number of Directors, and the holders of such Preferred Stock shall be entitled to elect the additional Directors so provided for or fixed pursuant to said provisions, and (ii) each such additional Director shall serve until such Director’s successor shall have been duly elected and qualified, or until such Director’s right to hold such office terminates pursuant to said provisions, whichever occurs earlier, subject to his or her earlier death, resignation, retirement, disqualification or removal. Except as otherwise provided by the Board of Directors in the resolution or resolutions establishing such series, whenever the holders of any series of Preferred Stock having such right to elect additional Directors are divested of such right pursuant to the provisions of such stock, the terms of office of all such additional Directors elected by the holders of such stock, or elected to fill any vacancies resulting from the death, resignation, disqualification or removal of such additional Directors, shall forthwith terminate and the total authorized number of Directors of the Corporation shall be reduced accordingly.

Effective as of the closing of the Corporation's first public offering of shares of Common Stock registered pursuant to the Securities Act of 1933, as amended, subject to the rights of the holders of any series of Preferred Stock, the Board of Directors shall be divided into three classes (the "Classified Board"), as nearly equal in number as possible and designated as class one (1) Directors ("Class I Directors"), class two (2) Directors ("Class II Directors") and class three (3) Directors ("Class III Directors"). The Board of Directors is authorized to assign members of the Board of Directors already in office at the time of the closing of the Corporation's first public offering, or who have agreed to become directors subject to the closing of such public offering, as Class I Directors, Class II Directors and Class III Directors, which assignments shall become effective at the same time that the Classified Board becomes effective. The term of the initial Class I Directors shall expire at the first annual meeting of the stockholders of the Corporation following the effectiveness of this amendment to the Certificate; the term of the initial Class II Directors shall expire at the second annual meeting of the stockholders of the Corporation following the effectiveness of this amendment to the Certificate; and the term of the initial Class III Directors shall expire at the third annual meeting of the stockholders of the Corporation following the effectiveness of this amendment to the Certificate. At each succeeding annual meeting of the stockholders of the Corporation, beginning with the first annual meeting of the stockholders of the Corporation following the effectiveness of this amendment to the Certificate, successors to the class of Directors whose term expires at that annual meeting shall be elected to hold office until the third succeeding annual meeting. Subject to the rights of the holders of any series of Preferred Stock, if the number of Directors is changed, any increase or decrease shall be apportioned by the Board of Directors among the classes so as to maintain the number of Directors in each class as nearly equal as possible. Subject to the rights of the holders of any series of Preferred Stock, if the number of directors is increased by the Board of Directors and any newly created directorships are filled by the Board of Directors, there shall be no classification of the additional Directors until the next annual meeting of stockholders."

5. The Certificate is hereby amended to revise the exclusive forum provision of the Corporation by replacing Article IX in its entirety set forth as follows:

"A. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware does not have subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) shall be the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former Director, officer or other employee of the Corporation, to the Corporation or the Corporation's stockholders, (iii) any action or proceeding asserting a claim against the Corporation or any current or former Director, officer or other employee of the Corporation arising out of or pursuant to any provision of the DGCL or this amendment to the Certificate or the Bylaws of the Corporation (in each case, as they may be amended from time to time), (iv) any action or proceeding to interpret, apply, enforce or determine the validity of this amendment to the Certificate or the Bylaws (including any right, obligation, or remedy thereunder), (v) any action or proceeding as to which the DGCL confers jurisdiction to the Court of Chancery of the State of Delaware or (vi) any action asserting a claim governed by the internal affairs doctrine against the Corporation or any Director, officer or other employee of the Corporation, in all cases to the fullest extent permitted by law and subject to the court's having personal jurisdiction over the indispensable parties named as defendants. This Section A of Article IX shall not apply to actions brought to enforce a duty or liability created by the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or any claim for which the federal courts have exclusive jurisdiction.

B. Unless the Corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by applicable law, be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended.

Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article IX.”

6. To the extent not expressly amended hereby, the Certificate remains in full force and effect.

7. This amendment to the Certificate has been duly adopted in accordance with the provisions of Sections 141, 228 and 242 of the General Corporation Law of the State of Delaware.

8. Pursuant to Section 228(a) of the Delaware General Corporation Law, the holders of outstanding shares of the Corporation having no less than the minimum number of votes that would be necessary to authorize or take such actions at a meeting at which all shares entitled to vote thereon were present and voted, consented to the adoption of the aforesaid amendments without a meeting, without a vote and without prior notice and that written notice of the taking of such actions has been given in accordance with Section 228(e) of the Delaware General Corporation Law.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Corporation has caused this amendment to the Certificate to be signed by its duly authorized officer on November 24, 2020.

HYDROFARM HOLDINGS GROUP, INC.

By: /s/ B. John Lindeman

Name: B. John Lindeman

Title: Chief Financial Officer

AMENDED AND RESTATED BYLAWS
OF
HYDROFARM HOLDINGS GROUP, INC.

(the "Corporation")

ARTICLE I
Stockholders

SECTION 1.

(a) Annual Meeting. The annual meeting of stockholders (any such meeting being referred to herein as an "Annual Meeting") shall be held at the hour, date and place, if any, within or without the United States which is fixed by the Board of Directors of the Corporation (the "Board of Directors") which time, date and place may subsequently be changed at any time by vote of the Board of Directors.

(b) Registered Office. The address of the registered office of the Corporation in the State of Delaware shall be as stated in the Corporation's certificate of incorporation, as may be amended and restated from time to time as provided by law (the "Certificate of Incorporation"). The Corporation may have other offices, both within and without the State of Delaware, as the Board of Directors from time to time shall determine or the business of the Corporation may require.

(c) Books and Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be maintained on any information storage device or method; provided that the records so kept can be converted into clearly legible paper form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect such records pursuant to applicable law.

SECTION 2. Notice of Stockholder Business and Nominations.

(a) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors and the proposal of other business to be considered by the stockholders may be brought before an Annual Meeting only (i) pursuant to the Corporation's notice of meeting (or any supplement thereto), (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting, and who complies with the notice procedures set forth in this Bylaw as to such nomination or business. For the avoidance of doubt, the foregoing clause (iii) shall be the exclusive means for a stockholder to bring nominations or business properly before an Annual Meeting (other than matters properly brought under Rule 14a-8 (or any successor rule) under the Securities Exchange Act of 1934, as amended (with the rules and regulations promulgated thereunder, the "Exchange Act")), and such stockholder must comply with the notice and other procedures set forth in Article I, Section 2 of this Bylaw to bring such nominations or business properly before an Annual Meeting. In addition to the other requirements set forth in this Bylaw, for any proposal of business (other than the nomination of persons for election to the Board of Directors) to be considered at an Annual Meeting, it must be a proper subject for action by stockholders of the Corporation under Delaware law.

(2) For nominations or other business to be properly brought before an Annual Meeting by a stockholder pursuant to clause (iii) of Article I, Section 2(a)(1) of this Bylaw, the stockholder must (i) have given Timely Notice (as defined below) thereof in writing to the Secretary of the Corporation, (ii) have provided any updates or supplements to such notice at the times and in the forms required by this Bylaw and (iii) together with the beneficial owner(s), if any, on whose behalf the nomination or business proposal is made, have acted in accordance with the representations set forth in the Solicitation Statement (as defined below) required by this Bylaw. To be timely, a stockholder's written notice shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the one-year anniversary of the preceding year's Annual Meeting; provided, however, that in the event the Annual Meeting is first convened more than thirty (30) days before or more than sixty (60) days after such anniversary date, or if no Annual Meeting were held in the preceding year, notice by the stockholder to be timely must be received by the Secretary of the Corporation not later than the close of business on the later of the ninetieth (90th) day prior to the scheduled date of such Annual Meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made (such notice within such time periods shall be referred to as "Timely Notice"). Notwithstanding anything to the contrary provided herein, for the first Annual Meeting following the effective date of the Corporation's registration statement submitted with the U.S. Securities and Exchange Commission, a stockholder's notice shall be timely if received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of the ninetieth (90th) day prior to the scheduled date of such Annual Meeting or the tenth (10th) day following the day on which public announcement of the date of such Annual Meeting is first made or sent by the Corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's Timely Notice shall set forth:

(A) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) provided, further, that the Corporation may require any proposed nominee to furnish such other information as the Corporation may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.;

(B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Corporation's bylaws (the "Bylaws"), the language of the proposed amendment), the reasons for conducting such business at the meeting, and any material interest in such business of each Proposing Person (as defined below);

(C) (i) the name and address of the stockholder giving the notice, as they appear on the Corporation's books, and the names and addresses of the other Proposing Persons (if any) and (ii) as to each Proposing Person, the following information: (a) the class or series and number of all shares of capital stock of the Corporation which are, directly or indirectly, owned beneficially or of record by such Proposing Person or any of its affiliates or associates (as such terms are defined in Rule 12b-2 promulgated under the Exchange Act), including any shares of any class or series of capital stock of the Corporation as to which such Proposing Person or any of its affiliates or associates has a right to acquire beneficial ownership at any time in the future, (b) all Synthetic Equity Interests (as defined below) in which such Proposing Person or any of its affiliates or associates, directly or indirectly, holds an interest including a description of the material terms of each such Synthetic Equity Interest, including without limitation, identification of the counterparty to each such Synthetic Equity Interest and disclosure, for each such Synthetic Equity Interest, as to (x) whether or not such Synthetic Equity Interest conveys any voting rights, directly or indirectly, in such shares to such Proposing Person, (y) whether or not such Synthetic Equity Interest is required to be, or is capable of being, settled through delivery of such shares and (z) whether or not such Proposing Person and/or, to the extent known, the counterparty to such Synthetic Equity Interest has entered into other transactions that hedge or mitigate the economic effect of such Synthetic Equity Interest, (c) any proxy (other than a revocable proxy given in response to a public proxy solicitation made pursuant to, and in accordance with, the Exchange Act), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to, directly or indirectly, vote any shares of any class or series of capital stock of the Corporation, (d) any rights to dividends or other distributions on the shares of any class or series of capital stock of the Corporation, directly or indirectly, owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the Corporation, and (e) any performance-related fees (other than an asset based fee) that such Proposing Person, directly or indirectly, is entitled to based on any increase or decrease in the value of shares of any class or series of capital stock of the Corporation or any Synthetic Equity Interests (the disclosures to be made pursuant to the foregoing clauses (a) through (e) are referred to, collectively, as "Material Ownership Interests"), (iii) a description of the material terms of all agreements, arrangements or understandings (whether or not in writing) entered into by any Proposing Person or any of its affiliates or associates with any other person for the purpose of acquiring, holding, disposing or voting of any shares of any class or series of capital stock of the Corporation and (iv) any other information relating to such stockholder and beneficial owner, if any, required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies for, as applicable, the proposal and/or for the election of directors in an election contest pursuant to and in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder;

(D) (i) a description of all agreements, arrangements or understandings by and among any of the Proposing Persons, or by and among any Proposing Persons and any other person (including with any proposed nominee(s)), pertaining to the nomination(s) or other business proposed to be brought before the meeting of stockholders (which description shall identify the name of each other person who is party to such an agreement, arrangement or understanding), and (ii) identification of the names and addresses of other stockholders (including beneficial owners) known by any of the Proposing Persons to support such nominations or other business proposal(s), and to the extent known the class and number of all shares of the Corporation's capital stock owned beneficially or of record by such other stockholder(s) or other beneficial owner(s); and

(E) a statement whether or not the stockholder giving the notice and/or the other Proposing Person(s), if any, will (i) deliver a proxy statement and form of proxy to holders of, in the case of a business proposal, at least the percentage of voting power of all of the shares of capital stock of the Corporation required under applicable law to approve the proposal or, in the case of a nomination or nominations, at least the percentage of voting power of all of the shares of capital stock of the Corporation reasonably believed by such Proposing Person to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder and/or (ii) otherwise solicit proxies or votes from stockholders in support of such proposal or nomination (such statement, the "Solicitation Statement").

For purposes of this Article I of these Bylaws, the term "Proposing Person" shall mean the following persons: (i) the stockholder of record providing the notice of nominations or business proposed to be brought before a stockholders' meeting, and (ii) the beneficial owner(s), if different, on whose behalf the nominations or business proposed to be brought before a stockholders' meeting is made. For purposes of this Section 2 of Article I of these Bylaws, the term "Synthetic Equity Interest" shall mean any transaction, agreement or arrangement (or series of transactions, agreements or arrangements), including, without limitation, any derivative, swap, hedge, repurchase or so-called "stock borrowing" agreement or arrangement, the purpose or effect of which is to, directly or indirectly: (a) give a person or entity economic benefit and/or risk similar to ownership of shares of any class or series of capital stock of the Corporation, in whole or in part, including due to the fact that such transaction, agreement or arrangement provides, directly or indirectly, the opportunity to profit or avoid a loss from any increase or decrease in the value of any shares of any class or series of capital stock of the Corporation, (b) mitigate loss to, reduce the economic risk of or manage the risk of share price changes for, any person or entity with respect to any shares of any class or series of capital stock of the Corporation, (c) otherwise provide in any manner the opportunity to profit or avoid a loss from any decrease in the value of any shares of any class or series of capital stock of the Corporation, or (d) increase or decrease the voting power of any person or entity with respect to any shares of any class or series of capital stock of the Corporation.

(3) A stockholder providing Timely Notice of nominations or business proposed to be brought before an Annual Meeting shall further update and supplement such notice, if necessary, so that the information (including, without limitation, the Material Ownership Interests information) provided or required to be provided in such notice pursuant to this Bylaw shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to such Annual Meeting, and such update and supplement shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the fifth (5th) business day after the record date for the Annual Meeting (in the case of the update and supplement required to be made as of the record date), and not later than the close of business on the eighth (8th) business day prior to the date of the Annual Meeting (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting).

(4) Notwithstanding anything in the second sentence of Article I, Section 2(a)(2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least ten (10) days before the last day a stockholder may deliver a notice of nomination in accordance with the second sentence of Article I, Section 2(a)(2), a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(5) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations for persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (i) by or at the direction of the Board of Directors or any committee thereof or (ii) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 2 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 2. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (a)(2) of this Section 2 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(b) General.

(1) Except as otherwise expressly provided in any applicable rule or regulation promulgated under the Exchange Act, only such persons who are nominated in accordance with the provisions of this Bylaw shall be eligible for election and to serve as directors and only such business shall be conducted at a meeting as shall have been brought before the meeting in accordance with the provisions of this Bylaw. The Board of Directors or a designated committee thereof shall have the power to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the provisions of this Bylaw. If prior to the meeting neither the Board of Directors nor such designated committee makes a determination as to whether any stockholder proposal or nomination was made in accordance with the provisions of this Bylaw, the presiding officer of the meeting shall have the power and duty to determine whether the stockholder proposal or nomination was made in accordance with the provisions of this Bylaw. If the Board of Directors or a designated committee thereof or the presiding officer, as applicable, determines that any stockholder proposal or nomination was not made in accordance with the provisions of this Bylaw, such proposal or nomination shall be disregarded and shall not be presented for action at the meeting.

(2) Except as otherwise required by any applicable law or rule or regulation promulgated under the Exchange Act, nothing in this Article I, Section 2 shall obligate the Corporation or the Board of Directors to include in any proxy statement or other stockholder communication distributed on behalf of the Corporation or the Board of Directors information with respect to any nominee for director or any other matter of business submitted by a stockholder.

(3) Notwithstanding the foregoing provisions of this Article I, Section 2, if the proposing stockholder (or a qualified representative of the stockholder) does not appear at the meeting to present a nomination or any business, such nomination or business shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Article I, Section 2, to be considered a qualified representative of the proposing stockholder, a person must be authorized by a written instrument executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such written instrument or electronic transmission, or a reliable reproduction of the written instrument or electronic transmission, to the presiding officer at the meeting of stockholders.

(4) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(5) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of (i) stockholders to have proposals included in the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor rule) under the Exchange Act and, to the extent required by such rule, have such proposals considered and voted on at an Annual Meeting or (ii) the holders of any series of Preferred Stock as specified in the Certificate, as the same may hereafter be amended and/or restated, including any certificate of designation relating to any series of Preferred Stock.

(6) In addition to the requirements set forth elsewhere in these Bylaws, to be eligible to be a nominee for election or re-election as a director of the Corporation pursuant to a nomination under clause (iii) of Article I, Section 2(a)(1) and under clause (ii) of Article I, Section 2(a)(5) of this Bylaw, such proposed nominee or a person on such proposed nominee's behalf must deliver, in accordance with the time periods for delivery of Timely Notice under Section 2(a)(2) of Article 1 and under clause (ii) of Article I, Section 2(a)(5) of this Bylaw, to the Secretary of the Corporation at the principal executive offices of the Corporation a completed and signed questionnaire with respect to the background and qualification of such proposed nominee and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in the form provided by the Secretary upon written request) that such proposed nominee (i) is not and will not become a party to (A) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such proposed nominee, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or (B) any Voting Commitment that could limit or interfere with such proposed nominee's fiduciary duties under applicable law, (ii) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed to the Corporation, and (iii) in such proposed nominee's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the Corporation, and will comply with, all applicable publicly disclosed corporate governance, code of conduct and ethics, conflict of interest, confidentiality, corporate opportunities, trading and any other policies and guidelines of the Corporation applicable to directors.

SECTION 3. Special Meetings. Except as otherwise required by statute and subject to the rights, if any, of the holders of any series of Preferred Stock, special meetings of the stockholders of the Corporation may be called only by (a) the Board of Directors acting pursuant to a resolution approved by the affirmative vote of a majority of the total number of directors that the Corporation would have if there were no vacancies or (b) the Chairman of the Board of Directors to be held at such date, time and place either within or without the State of Delaware as may be stated in the notice of the meeting, and any power of stockholders to call a special meeting is specifically denied. The Board of Directors may postpone or reschedule any previously scheduled special meeting of stockholders. Only those matters set forth in the notice of the special meeting may be considered or acted upon at a special meeting of stockholders of the Corporation.

SECTION 4. Notice of Meetings; Adjournments.

(a) A notice of each Annual Meeting stating the hour, date and place, if any, of such Annual Meeting, the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, and the record date for determining the stockholders entitled to vote at the meeting (if such date is different from the record date for stockholders entitled to notice of the meeting) shall be given not less than ten (10) days nor more than sixty (60) days before the Annual Meeting, to each stockholder entitled to vote thereat as of the record date for determining the stockholders entitled to notice of the meeting by delivering such notice to such stockholder or by mailing it, postage prepaid, addressed to such stockholder at the address of such stockholder as it appears on the Corporation's stock transfer books. Without limiting the manner by which notice may otherwise be given to stockholders, any notice to stockholders may be given by electronic transmission in the manner provided in Section 232 of the Delaware General Corporation Law ("DGCL").

(b) Notice of all special meetings of stockholders shall be given in the same manner as provided for Annual Meetings, except that the notice of all special meetings shall state the purpose or purposes for which the meeting has been called.

(c) Notice of an Annual Meeting or special meeting of stockholders need not be given to a stockholder if a waiver of notice is executed, or waiver of notice by electronic transmission is provided, before or after such meeting by such stockholder or if such stockholder attends such meeting, unless such attendance is for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened.

(d) The Board of Directors may postpone and reschedule any previously scheduled Annual Meeting or special meeting of stockholders, regardless of whether any notice or public disclosure with respect to any such meeting has been sent or made pursuant to Section 2 of this Article I of these Bylaws or otherwise.

(e) When any meeting is convened, the presiding officer may adjourn the meeting. When any Annual Meeting or special meeting of stockholders is adjourned to another hour, date or place, notice need not be given of the adjourned meeting other than an announcement at the meeting at which the adjournment is taken of the hour, date and place, if any, to which the meeting is adjourned and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting; provided, however, that if the adjournment is for more than thirty (30) days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting, or, if after the adjournment a new record date is fixed for the adjourned meeting, the Board of Directors shall fix as the record date for determining stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote at the adjourned meeting, and shall give notice of the adjourned meeting to each stockholder of record as of the record date so fixed for notice of such adjourned meeting.

SECTION 5. Quorum. A majority in voting power of the shares entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum at any meeting of stockholders. If less than a quorum is present at a meeting, the holders of voting stock representing a majority of the voting power present at the meeting or the presiding officer may adjourn the meeting from time to time, and the meeting may be held as adjourned without further notice, except as provided in Section 4 of this Article I. At such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed. The stockholders present at a duly constituted meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 6. Voting and Proxies. Stockholders shall have one vote for each share of stock entitled to vote owned by them of record according to the stock ledger of the Corporation as of the record date, unless otherwise provided by law or by the Certificate. Stockholders may vote either (i) in person, (ii) by written proxy or (iii) by a transmission permitted by Section 212(c) of the DGCL. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission permitted by Section 212(c) of the DGCL may be substituted for or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. Proxies shall be filed in accordance with the procedures established for the meeting of stockholders. Except as otherwise limited therein or as otherwise provided by law, proxies authorizing a person to vote at a specific meeting shall entitle the persons authorized thereby to vote at any adjournment or postponement of such meeting, but they shall not be valid after final adjournment of such meeting.

SECTION 7. Action at Meeting. When a quorum is present at any meeting of stockholders, any matter before any such meeting (other than an election of a director or directors) shall be decided by a majority of the votes properly cast on such matter, except where a different vote is required by law, by the Certificate, by these Bylaws, by the rules or regulations of any stock exchange applicable to the Corporation, or pursuant to any regulation applicable to the Corporation or its securities, in which case, such different vote shall apply. For purposes of this Section 7, a majority of votes cast shall mean that the number of votes cast “for” a matter exceeds the number of votes cast “against” the matter (with “abstentions” and “broker nonvotes” not counted as a vote cast either “for” or “against” the matter). Any election of directors by stockholders shall be determined by a plurality of the votes properly cast on the election of directors.

SECTION 8. Stockholder Lists. The officer who has charge of the stock ledger shall prepare and make, at least ten (10) days before every Annual Meeting or special meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting (provided, however, if the record date for determining the stockholders entitled to vote is less than ten (10) days before the date of the meeting, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date), arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting at least ten (10) days prior to the meeting (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of meeting or (ii) during ordinary business hours at the principal place of business of the Corporation. If the meeting is to be held at a place, then a list of stockholders entitled to vote at the meeting shall be produced and kept at the time and place of the meeting during the whole time thereof and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Except as otherwise provided by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to examine the list of stockholders required by this Section 8 or to vote in person or by proxy at any meeting of stockholders.

SECTION 9. Conduct of Meeting. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting by the person presiding over the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the person presiding over any meeting of stockholders (referred to herein as the “presiding officer”) shall have the right and authority to convene and (for any or no reason) to recess and/or adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of the presiding officer, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the presiding officer, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders entitled to vote at the meeting, their duly authorized and constituted proxies or such other persons as the presiding officer shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. The presiding officer at any meeting of stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if the presiding officer should so determine, the presiding officer shall so declare to the meeting and any such matter or business not properly brought before the meeting shall not be transacted or considered. Unless and to the extent determined by the Board of Directors or the presiding officer, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

SECTION 10. Inspectors of Elections. The Corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the presiding officer shall appoint one or more inspectors to act at the meeting. Any inspector may, but need not, be an officer, employee or agent of the Corporation. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall perform such duties as are required by the DGCL, including the counting of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors. The presiding officer may review all determinations made by the inspectors, and in so doing the presiding officer shall be entitled to exercise his or her sole judgment and discretion and he or she shall not be bound by any determinations made by the inspectors. All determinations by the inspectors and, if applicable, the presiding officer, shall be subject to further review by any court of competent jurisdiction.

SECTION 11. Action Without Meeting. Except as otherwise provided in the Certificate, no action shall be taken by the stockholders of the Corporation except at a duly called Annual Meeting or special meeting of stockholders of the Corporation called in accordance with these Bylaws and no action shall be taken by the stockholders of the Corporation by written consent.

ARTICLE II Directors

SECTION 1. Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors except as otherwise provided by the Certificate or required by law.

SECTION 2. Number and Terms. The number of directors of the Corporation shall be fixed solely and exclusively by resolution duly adopted from time to time by the Board of Directors. The directors shall hold office in the manner provided in the Certificate.

SECTION 3. Qualification. No director need be a stockholder of the Corporation.

SECTION 4. Vacancies. Vacancies in the Board of Directors shall be filled in the manner provided in the Certificate.

SECTION 5. Removal. Directors may be removed from office only in the manner provided in the Certificate.

SECTION 6. Resignation. A director may resign at any time by giving written notice, or notice by electronic transmission, to the Chairman of the Board, if one is elected, the President or the Secretary. A resignation shall be effective upon receipt, unless the resignation otherwise provides.

SECTION 7. Regular Meetings. The regular annual meeting of the Board of Directors shall be held, without notice other than this Section 7, on the same date and at the same place as the Annual Meeting following the close of such meeting of stockholders. Other regular meetings of the Board of Directors may be held at such hour, date and place as the Board of Directors may by resolution from time to time determine and publicized among all directors.

SECTION 8. Special Meetings. Special meetings of the Board of Directors may be called, orally or in writing or by electronic transmission, by or at the request of a majority of the directors, the Chairman of the Board, if one is elected, or the President. The person calling any such special meeting of the Board of Directors may fix the hour, date and place thereof.

SECTION 9. Notice of Meetings. Notice of the hour, date and place of all special meetings of the Board of Directors shall be given to each director by the Secretary or an Assistant Secretary, or by the Chairman of the Board, if one is elected, or the President or such other officer designated by the Chairman of the Board, if one is elected, or the President. Notice of any special meeting of the Board of Directors shall be given to each director in person, by telephone, or by facsimile, electronic mail or other form of electronic communication, sent to his or her business or home address, at least twenty-four (24) hours in advance of the meeting, or by written notice mailed to his or her business or home address, at least three (3) business days in advance of the meeting. Such notice shall be deemed to be delivered when hand-delivered to such address, read to such director by telephone, deposited in the mail so addressed, with postage thereon prepaid if mailed, dispatched or transmitted if sent by facsimile transmission or by electronic mail or other form of electronic communications. A written waiver of notice signed, or an electronic waiver given, before or after a meeting by a director and filed with the records of the meeting shall be deemed to be equivalent to notice of the meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because such meeting is not lawfully called or convened. Except as otherwise required by law, by the Certificate or by these Bylaws, neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 10. Quorum. At any meeting of the Board of Directors, a majority of the Board of Directors shall constitute a quorum for the transaction of business, but if less than a quorum is present at a meeting, a majority of the directors present may adjourn the meeting from time to time, and the meeting may be held as adjourned without further notice. Any business which might have been transacted at the meeting as originally noticed may be transacted at such adjourned meeting at which a quorum is present.

SECTION 11. Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of the directors present shall constitute action by the Board of Directors, unless otherwise required by law, by the Certificate or by these Bylaws.

SECTION 12. Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the records of the meetings of the Board of Directors. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Such consent shall be treated as a resolution of the Board of Directors for all purposes.

SECTION 13. Manner of Participation. Directors may participate in meetings of the Board of Directors by means of conference telephone or other communications equipment by means of which all directors participating in the meeting can hear each other, and participation in a meeting in accordance herewith shall constitute presence in person at such meeting for purposes of these Bylaws.

SECTION 14. Presiding Director. The Board of Directors shall designate a representative to preside over all meetings of the Board of Directors, provided that if the Board of Directors does not so designate such a presiding director or such designated presiding director is unable to so preside or is absent, then the Chairman of the Board, if one is elected, shall preside over all meetings of the Board of Directors. If both the designated presiding director, if one is so designated, and the Chairman of the Board, if one is elected, are unable to preside or are absent, the Board of Directors shall designate an alternate representative to preside over a meeting of the Board of Directors.

SECTION 15. Committees. The Board of Directors may designate one or more committees, including, without limitation, a Compensation Committee, a Nominating & Corporate Governance Committee and an Audit Committee, and may delegate thereto some or all of its powers except those which by law, by the Certificate or by these Bylaws may not be delegated. Except as the Board of Directors may otherwise determine, any such committee may make rules for the conduct of its business, but unless otherwise provided by the Board of Directors or in such rules, its business shall be conducted so far as possible in the same manner as is provided by these Bylaws for the Board of Directors. All members of such committees shall hold such offices at the pleasure of the Board of Directors. The Board of Directors may abolish any such committee at any time. Any committee to which the Board of Directors delegates any of its powers or duties shall keep records of its meetings and shall report its action to the Board of Directors. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member.

SECTION 16. Compensation of Directors. Directors shall receive such compensation for their services as shall be determined by the Board of Directors, or a designated committee thereof, provided that directors who are serving the Corporation as employees and who receive compensation for their services as such, shall not receive any salary or other compensation for their services as directors of the Corporation.

ARTICLE III Officers

SECTION 1. Enumeration. The officers of the Corporation shall consist of a President, a Chief Executive Officer, a Secretary, a Treasurer and such other officers, including, without limitation, a Chairman of the Board of Directors, a Chief Financial Officer, and one or more Vice Presidents (including Executive Vice Presidents or Senior Vice Presidents), Assistant Vice Presidents and Assistant Secretaries, as the Board of Directors may determine.

SECTION 2. Election. At the regular annual meeting of the Board of Directors following the Annual Meeting, the Board of Directors shall elect the President, the Chief Executive Officer, the Secretary and the Treasurer. Other officers may be elected by the Board of Directors at such regular annual meeting of the Board of Directors or at any other regular or special meeting.

SECTION 3. Qualification. No officer need be a stockholder or a director. Any person may occupy more than one office of the Corporation at any time.

SECTION 4. Tenure. Except as otherwise provided by the Certificate or by these Bylaws, each of the officers of the Corporation shall hold office until the regular annual meeting of the Board of Directors following the next Annual Meeting and until his or her successor is elected and qualified or until his or her earlier resignation or removal.

SECTION 5. Resignation. Any officer may resign by delivering his or her written resignation to the Corporation addressed to the President or the Secretary, and such resignation shall be effective upon receipt, unless the resignation otherwise provides.

SECTION 6. Removal. Except as otherwise provided by law, the Board of Directors may remove any officer with or without cause by the affirmative vote of a majority of the directors then in office.

SECTION 7. Absence or Disability. In the event of the absence or disability of any officer, the Board of Directors may designate another officer to act temporarily in place of such absent or disabled officer.

SECTION 8. Vacancies. Any vacancy in any office may be filled for the unexpired portion of the term by the Board of Directors.

SECTION 9. Chairman of the Board. The Chairman of the Board, if one is elected, shall have such powers and shall perform such duties as the Board of Directors may from time to time designate.

SECTION 10. Chief Executive Officer. The Chief Executive Officer shall have such powers and shall perform such duties as the Board of Directors may from time to time designate.

SECTION 11. President. The President shall, subject to the direction of the Board of Directors, have such powers and shall perform such duties as the Board of Directors may from time to time designate.

SECTION 12. Vice Presidents and Assistant Vice Presidents. Any Vice President (including any Executive Vice President or Senior Vice President) and any Assistant Vice President shall have such powers and shall perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

SECTION 13. Chief Financial Officer. The Chief Financial Officer, if one is elected, shall, subject to the direction of the Board of Directors and except as the Board of Directors or the Chief Executive Officer may otherwise provide, have general charge of the financial affairs of the Corporation and shall cause to be kept accurate books of account. He or she shall have such other duties and powers as may be designated from time to time by the Board of Directors or the Chief Executive Officer.

SECTION 14. Secretary and Assistant Secretaries. The Secretary shall record all the proceedings of the meetings of the stockholders and the Board of Directors (including committees of the Board of Directors) in books kept for that purpose. In his or her absence from any such meeting, a temporary secretary chosen at the meeting shall record the proceedings thereof. The Secretary shall have charge of the stock ledger (which may, however, be kept by any transfer or other agent of the Corporation). The Secretary shall have custody of the seal of the Corporation, and the Secretary, or an Assistant Secretary, shall have authority to affix it to any instrument requiring it, and, when so affixed, the seal may be attested by his or her signature or that of an Assistant Secretary. The Secretary shall have such other duties and powers as may be designated from time to time by the Board of Directors or the Chief Executive Officer. In the absence of the Secretary, any Assistant Secretary may perform his or her duties and responsibilities. Any Assistant Secretary shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

SECTION 15. Treasurer and Assistant Treasurers. The Treasurer shall have custody of all moneys and securities of the Corporation as are authorized and shall render from time to time an account of all such transactions. The Treasurer shall also perform such other duties and have such other powers as are commonly incident to the officer of Treasurer, or as may be designated from time to time by the Board of Directors or the Chief Executive Officer. In the absence of the Treasurer, any Assistant Treasurer may perform his or her duties and responsibilities. Any Assistant Treasurer shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

SECTION 16. Other Powers and Duties. Subject to these Bylaws and to such limitations as the Board of Directors may from time to time prescribe, the officers of the Corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board of Directors or the Chief Executive Officer.

ARTICLE IV
Capital Stock

SECTION 1. Certificates of Stock. The shares of the Corporation shall be represented by certificates in such form as may from time to time be prescribed by the Board of Directors. Such certificate shall be signed by the Chief Executive Officer, the President or a Vice President and by the Chief Financial Officer, the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary. The Corporation seal and the signatures by the Corporation's officers, the transfer agent or the registrar may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the time of its issue. Every certificate for shares of stock which are subject to any restriction on transfer and every certificate issued when the Corporation is authorized to issue more than one class or series of stock shall contain such legend with respect thereto as is required by law. Notwithstanding anything to the contrary provided in these Bylaws, the Board of Directors of the Corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares (except that the foregoing shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation), and by the approval and adoption of these Bylaws the Board of Directors has determined that all classes or series of the Corporation's stock may be uncertificated, whether upon original issuance, re-issuance, or subsequent transfer.

SECTION 2. Transfers. Subject to any restrictions on transfer pursuant to applicable federal or state securities law or as otherwise agreed to in writing and unless otherwise provided by the Board of Directors, shares of stock that are represented by a certificate may be transferred on the books of the Corporation by the surrender to the Corporation or its transfer agent of the certificate theretofore properly endorsed or accompanied by a written assignment or power of attorney properly executed, with transfer stamps (if necessary) affixed, and with such proof of the authenticity of signature as the Corporation or its transfer agent may reasonably require. Shares of stock that are not represented by a certificate may be transferred on the books of the Corporation by submitting to the Corporation or its transfer agent such evidence of transfer and following such other procedures as the Corporation or its transfer agent may require.

SECTION 3. Record Holders. Except as may otherwise be required by law, by the Certificate or by these Bylaws, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the Corporation in accordance with the requirements of these Bylaws.

SECTION 4. Record Date.

(a) In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall, unless otherwise required by law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance herewith at the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall not be more than sixty (60) days prior to such action. If no such record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

SECTION 5. Replacement of Certificates. In case of the alleged loss, destruction or mutilation of a certificate of stock of the Corporation, a duplicate certificate may be issued in place thereof, upon such terms as the Corporation may prescribe.

ARTICLE V
Indemnification and Advancement

SECTION 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or an officer of the Corporation or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, or trustee of another corporation, or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "Indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer or trustee or in any other capacity while serving as a director, officer or trustee, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith; provided, however, that, except with respect to proceedings to enforce rights to indemnification or an advancement of expenses or as otherwise required by law, the Corporation shall not be required to indemnify or advance expenses to any such Indemnitee in connection with a proceeding (or part thereof) initiated by such Indemnitee unless such proceeding (or part thereof) was authorized by the Board of Directors.

SECTION 2. Right to Advancement of Expenses. In addition to the right to indemnification conferred in Article V, Section 1 of this Bylaw, an Indemnitee shall also have the right to be paid by the Corporation the expenses (including attorney's fees) incurred in defending any such proceeding in advance of its final disposition (an "advancement of expenses"); provided, however, that, if the DGCL requires, an advancement of expenses incurred by an Indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such Indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such Indemnitee is not entitled to be indemnified for such expenses under this Section 2 or otherwise.

SECTION 3. Right of Indemnitees to Bring Suit. If a claim under Article V, Section 1 or 2 of this Bylaw is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, or if a claim for an advancement of expense is not paid in full within thirty (30) days after a statement or statements requesting such amounts to be advanced has been received by the Corporation, the Indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. To the fullest extent permitted by law, if successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Indemnitee shall also be entitled to be paid the expenses of prosecuting or defending such suit. In (i) any suit brought by the Indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the Indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the Indemnitee has not met any applicable standard for indemnification set forth in the DGCL. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) that the Indemnitee has not met such applicable standard of conduct, shall create a presumption that the Indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the Indemnitee, be a defense to such suit. In any suit brought by the Indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the Indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article V or otherwise shall be on the Corporation.

SECTION 4. Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article V with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

SECTION 5. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article V shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Certificate as amended from time to time, these Bylaws, any agreement, any vote of stockholders or disinterested directors or otherwise.

SECTION 6. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

SECTION 7. Indemnity Agreements. The Corporation may enter into indemnity agreements with any director or officer of the Corporation, with any employee or agent of the Corporation as the Board of Directors may designate and with any officer, director, employee or agent of subsidiaries as the Board of Directors may designate, such indemnity agreements to provide in substance that the Corporation will indemnify such persons as contemplated by this Article V, and to include any other substantive or procedural provisions regarding indemnification as are not inconsistent with the DGCL.

SECTION 8. Nature of Rights. The rights conferred upon Indemnitees in this Article V shall be contract rights and such rights shall continue as to an Indemnitee who has ceased to be a director, officer, employee, agent or trustee and shall inure to the benefit of the Indemnitee's heirs, executors and administrators. Any amendment, alteration or repeal of this Article V that adversely affects any right of an Indemnitee or its successors shall be prospective only and shall not limit, eliminate, or impair any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment, alteration or repeal. The Corporation's obligation, if any, to indemnify or to advance expenses to any Indemnitee who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such Indemnitee may collect as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, enterprise or non-profit enterprise.

SECTION 9. Severability. If any word, clause, provision or provisions of this Article V shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article V (including, without limitation, each portion of any section of this Article V containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article V (including, without limitation, each such portion of any section of this Article V containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

ARTICLE VI Miscellaneous Provisions

SECTION 1. Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

SECTION 2. Seal. The Board of Directors shall have power to adopt and alter the seal of the Corporation.

SECTION 3. Execution of Instruments. All deeds, leases, transfers, contracts, bonds, notes and other obligations to be entered into by the Corporation in the ordinary course of its business without director action may be executed on behalf of the Corporation by the Chairman of the Board, if one is elected, the President, the Chief Executive Officer, the Chief Financial Officer, if one is elected, the Secretary, the Treasurer or any other officer, employee or agent of the Corporation as the Board of Directors or appropriate committee of the Board may authorize.

SECTION 4. Voting of Securities. Unless the Board of Directors otherwise provides, Chairman of the Board, if one is elected, the President, the Chief Executive Officer, the Chief Financial Officer, if one is elected, the Secretary or the Treasurer may waive notice of and act on behalf of the Corporation, or appoint another person or persons to act as proxy or attorney in fact for the Corporation with or without discretionary power and/or power of substitution, at any meeting of stockholders or shareholders of any other corporation or organization, any of whose securities are held by the Corporation. The power so conferred upon such officers or other persons shall include, without limitation, the voting of any securities of any other entity held by the Corporation, including executing and delivery written consents with respect to such securities.

SECTION 5. Corporate Records. The original or attested copies of the Certificate, Bylaws and records of all meetings of the incorporators, stockholders and the Board of Directors and the stock transfer books, which shall contain the names of all stockholders, their record addresses and the amount of stock held by each, may be kept outside the State of Delaware and shall be kept at the principal office of the Corporation, at an office of its counsel, at an office of its transfer agent or at such other place or places as may be designated from time to time by the Board of Directors.

SECTION 6. Amendment of Bylaws. In furtherance and not in limitation of the powers conferred by law, the Board of Directors is expressly authorized to make, alter, amend and repeal these Bylaws, subject to the power of the stockholders of the Corporation to make, alter, amend or repeal the Bylaws; provided, however, that, with respect to the powers of stockholders to make, alter, amend and repeal the Bylaws, notwithstanding any other provision of these Bylaws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the stockholders of any particular class or series of the Corporation required by law, these Bylaws or any Preferred Stock of the Corporation, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of the voting power of all of the then-outstanding shares entitled to vote generally in the election of directors, voting together as a single class, shall be required to make, alter, amend or repeal any provisions of these Bylaws.

SECTION 7. Notices. If mailed, notice to stockholders shall be deemed given when deposited in the mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation.

SECTION 8. Exclusive Forum Provision. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware does not have subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) shall be the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or other employee of the Corporation, to the Corporation or the Corporation's stockholders, (iii) any action or proceeding asserting a claim against the Corporation or any current or former director, officer or other employee of the Corporation arising out of or pursuant to any provision of the DGCL or the Corporation's Certificate or the Bylaws of the Corporation (in each case, as they may be amended from time to time), (iv) any action or proceeding to interpret, apply, enforce or determine the validity of the Corporation's Certificate or the Bylaws of the Corporation (including any right, obligation, or remedy thereunder), (v) any action or proceeding as to which the DGCL confers jurisdiction to the Court of Chancery of the State of Delaware or (vi) any action asserting a claim governed by the internal affairs doctrine against the Corporation or any director, officer or other employee of the Corporation, in all cases to the fullest extent permitted by law and subject to the court's having personal jurisdiction over the indispensable parties named as defendants. This Article VI, Section 8 shall not apply to actions brought to enforce a duty or liability created by the Securities Act of 1933, as amended, the Exchange Act, or any claim for which the federal courts have exclusive jurisdiction. Unless the Corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by applicable law, be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article VI, Section 8.



Chrysler Center
666 Third Avenue
New York, NY 10017
212-935-3000
www.mintz.com

December 1, 2020

Hydrofarm Holdings Group, Inc.
2249 South McDowell Boulevard Ext.
Petaluma, California 94954

Ladies and Gentlemen:

We have acted as legal counsel to Hydrofarm Holdings Group, Inc., a Delaware corporation (the “Company”), in connection with the preparation and filing with the Securities and Exchange Commission (the “Commission”) of a Registration Statement (No. 333-250037) on Form S-1, as amended (the “Registration Statement”), pursuant to which the Company is registering the offering for sale under the Securities Act of 1933, as amended (the “Securities Act”), of an aggregate of 9,966,667 shares (the “Shares”) of the Company’s common stock, par value \$0.0001 per share (the “Common Stock”), including 1,300,000 shares of Common Stock subject to the underwriters’ option to purchase additional shares.

The Shares are to be sold by the Company pursuant to an underwriting agreement (the “Underwriting Agreement”) to be entered into by and among the Company and J.P. Morgan Securities LLC and Stifel, Nicolaus & Company, Incorporated, as representatives of the several underwriters to be named therein. The form of the Underwriting Agreement has been filed as Exhibit 1.1 to the Registration Statement. This opinion is being rendered in connection with the filing of the Registration Statement with the Commission. All capitalized terms used herein and not otherwise defined shall have the respective meanings given to them in the Registration Statement.

In connection with this opinion, we have examined the Company’s Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, each as currently in effect, and the form of the Underwriting Agreement; such other records of the corporate proceedings of the Company and certificates of the Company’s officers as we have deemed relevant; and the Registration Statement and the exhibits thereto.

BOSTON LONDON LOS ANGELES NEW YORK SAN DIEGO SAN FRANCISCO WASHINGTON
MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.

In our examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such copies.

Our opinion is limited to the General Corporation Law of the State of Delaware and we express no opinion with respect to the laws of any other jurisdiction. No opinion is expressed herein with respect to the qualification of the Shares under the securities or blue sky laws of any state or any foreign jurisdiction.

Please note that we are opining only as to the matters expressly set forth herein, and no opinion should be inferred as to any other matters. This opinion is based upon currently existing statutes, rules, regulations and judicial decisions, and we disclaim any obligation to advise you of any change in any of these sources of law or subsequent legal or factual developments which might affect any matters or opinions set forth herein.

Based upon the foregoing, we are of the opinion that the Shares, when issued and sold in accordance with the form of the Underwriting Agreement most recently filed as an exhibit to the Registration Statement and the prospectus that forms a part of the Registration Statement, will be validly issued, fully paid and non-assessable.

We understand that you wish to file this opinion with the Commission as an exhibit to the Registration Statement in accordance with the requirements of Item 601(b)(5) of Regulation S-K promulgated under the Securities Act and to reference the firm's name under the caption "Legal Matters" in the prospectus which forms part of the Registration Statement, and we hereby consent thereto. In giving this consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

/s/ Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

HYDROFARM HOLDINGS GROUP, INC.

2020 EMPLOYEE, DIRECTOR AND CONSULTANT EQUITY INCENTIVE PLAN

1. DEFINITIONS.

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Hydrofarm Holdings Group, Inc. 2020 Employee, Director and Consultant Equity Incentive Plan, have the following meanings:

Administrator means the Board of Directors, unless it has delegated power to act on its behalf to the Committee, in which case the term “Administrator” means the Committee.

Affiliate means a corporation or other entity, which, for purposes of Section 424 of the Code, is a parent or subsidiary of the Company, direct or indirect.

Agreement means a written or electronic document setting forth the terms of a Stock Right delivered pursuant to the Plan, in such form as the Administrator shall approve.

Board of Directors means the Board of Directors of the Company.

California Participant means a Participant who resides in the State of California.

Cause means, with respect to a Participant (a) dishonesty with respect to the Company or any Affiliate, (b) insubordination, substantial malfeasance or non-feasance of duty, (c) unauthorized disclosure of confidential information, (d) breach by a Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or similar agreement between the Participant and the Company or any Affiliate, and (e) conduct substantially prejudicial to the business of the Company or any Affiliate; provided, however, that any provision in an agreement between a Participant and the Company or an Affiliate, which contains a conflicting definition of Cause for termination and which is in effect at the time of such termination, shall supersede this definition with respect to that Participant. The determination of the Administrator as to the existence of Cause will be conclusive on the Participant and the Company.

Change of Control means the occurrence of any of the following events:

Ownership. Any “Person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “Beneficial Owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company’s then outstanding voting securities (excluding for this purpose any such voting securities held by the Company or its Affiliates or by any employee benefit plan of the Company) pursuant to a transaction or a series of related transactions which the Board of Directors does not approve; or

Merger/Sale of Assets. (A) A merger or consolidation of the Company whether or not approved by the Board of Directors, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or the parent of such entity) more than 50% of the total voting power represented by the voting securities of the Company or such surviving entity or parent of such corporation, as the case may be, outstanding immediately after such merger or consolidation; or (B) the sale or disposition by the Company of all or substantially all of the Company's assets in a transaction requiring shareholder approval; or

Change in Board Composition. A change in the composition of the Board of Directors, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the date this Plan was initially adopted, or (B) are elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

provided, that if any payment or benefit payable hereunder upon or following a Change of Control would be required to comply with the limitations of Section 409A(a)(2)(A)(v) of the Code in order to avoid an additional tax under Section 409A of the Code, such payment or benefit shall be made only if such Change of Control constitutes a change in ownership or control of the Company, or a change in ownership of the Company's assets in accordance with Section 409A of the Code.

Code means the United States Internal Revenue Code of 1986, as amended including any successor statute, regulation and guidance thereto.

Committee means the committee of the Board of Directors, if any, to which the Board of Directors has delegated power to act under or pursuant to the provisions of the Plan.

Common Stock means shares of the Company's common stock, \$0.0001 par value per share.

Company means Hydrofarm Holdings Group, Inc., a Delaware corporation.

Consultant means any natural person who is an advisor or consultant who provides bona fide services to the Company or its Affiliates, provided that such services are not in connection with the offer or sale of securities in a capital raising transaction, and do not directly or indirectly promote or maintain a market for the Company's or its Affiliates' securities.

Corporate Transaction means a merger, consolidation, or sale of all or substantially all of the Company's assets or the acquisition of all of the outstanding voting stock of the Company in a single transaction or a series of related transactions by a single entity other than a transaction to merely change the state of incorporation.

Disability or Disabled means permanent and total disability as defined in Section 22(e)(3) of the Code.

Employee means any employee of the Company or of an Affiliate (including, without limitation, an employee who is also serving as an officer or director of the Company or of an Affiliate), designated by the Administrator to be eligible to be granted one or more Stock Rights under the Plan.

Exchange Act means the United States Securities Exchange Act of 1934, as amended.

Fair Market Value of a Share of Common Stock means:

If the Common Stock is listed on a national securities exchange or traded in the over-the-counter market and sales prices are regularly reported for the Common Stock, the closing or, if not applicable, the last price of the Common Stock on the composite tape or other comparable reporting system for the trading day on the applicable date and if such applicable date is not a trading day, the last market trading day prior to such date;

If the Common Stock is not traded on a national securities exchange but is traded on the over-the-counter market, if sales prices are not regularly reported for the Common Stock for the trading day referred to in clause (1), and if bid and asked prices for the Common Stock are regularly reported, the mean between the bid and the asked price for the Common Stock at the close of trading in the over-the-counter market for the most recent trading day on which Common Stock was traded on the applicable date and if such applicable date is not a trading day, the last market trading day prior to such date; and

If the Common Stock is neither listed on a national securities exchange nor traded in the over-the-counter market, such value as the Administrator, in good faith, shall determine in compliance with applicable laws.

ISO means a stock option intended to qualify as an incentive stock option under Section 422 of the Code.

Non-Qualified Option means a stock option which is not intended to qualify as an ISO.

Option means an ISO or Non-Qualified Option granted under the Plan.

Participant means an Employee, director or Consultant of the Company or an Affiliate to whom one or more Stock Rights are granted under the Plan. As used herein, "Participant" shall include "Participant's Survivors" where the context requires.

Performance-Based Award means a Stock Grant or Stock-Based Award which vests based on the attainment of written Performance Goals as set forth in Paragraph 9 hereof.

Performance Goals means performance goals determined by the Committee in its sole discretion and set forth in an Agreement. The satisfaction of Performance Goals shall be subject to certification by the Committee. The Committee has the authority to take appropriate action with respect to the Performance Goals (including, without limitation, making adjustments to the Performance Goals or determining the satisfaction of the Performance Goals in connection with a Corporate Transaction) provided that any such action does not otherwise violate the terms of the Plan.

Plan means this Hydrofarm Holdings Group, Inc. 2020 Employee, Director and Consultant Equity Incentive Plan.

Securities Act means the United States Securities Act of 1933, as amended.

Shares means shares of the Common Stock as to which Stock Rights have been or may be granted under the Plan or any shares of capital stock into which the Shares are changed or for which they are exchanged within the provisions of Paragraph 3 of the Plan. The Shares issued under the Plan may be authorized and unissued shares or shares held by the Company in its treasury, or both.

Stock-Based Award means a grant by the Company under the Plan of an equity award or an equity based award, which is not an Option or a Stock Grant.

Stock Grant means a grant by the Company of Shares under the Plan.

Stock Right means a right to Shares or the value of Shares of the Company granted pursuant to the Plan -- an ISO, a Non-Qualified Option, a Stock Grant or a Stock-Based Award.

Survivor means a deceased Participant's legal representatives and/or any person or persons who acquired the Participant's rights to a Stock Right by will or by the laws of descent and distribution.

2. PURPOSES OF THE PLAN.

The Plan is intended to encourage ownership of Shares by Employees and directors of and certain Consultants to the Company and its Affiliates in order to attract and retain such people, to induce them to work for the benefit of the Company or of an Affiliate and to provide additional incentive for them to promote the success of the Company or of an Affiliate. The Plan provides for the granting of ISOs, Non-Qualified Options, Stock Grants and Stock-Based Awards.

3. SHARES SUBJECT TO THE PLAN.

(a) The number of Shares which may be issued from time to time pursuant to this Plan shall be the sum of: (i) seven million, seven hundred thousand (7,700,000) shares of Common Stock and (ii) any shares of Common Stock that are represented by awards granted under the Company's Hydrofarm Holdings Group, Inc. 2019 Employee, Director and Consultant Equity Incentive Plan and Hydrofarm Holdings Group, Inc. 2018 Equity Incentive Plan that are forfeited, expire or are cancelled without delivery of shares of Common Stock or which result in the forfeiture of shares of Common Stock back to the Company on or after November 19, 2020, or the equivalent of such number of Shares after the Administrator, in its sole discretion, has interpreted the effect of any stock split, stock dividend, combination, recapitalization or similar transaction in accordance with Paragraph 25 of this Plan, all of which Shares are eligible to be issued as ISOs; provided, however, that no more than 11,500,000 Shares shall be added to the Plan pursuant to subsection (ii).

(b) Notwithstanding Subparagraph (a) above, on the first day of each fiscal year of the Company during the period beginning in fiscal year 2021, and ending on the second day of fiscal year 2030, the number of Shares that may be issued from time to time pursuant to the Plan, shall be increased by an amount equal to the lesser of (i) 4% of the number of outstanding shares of Common Stock on such date and (ii) an amount determined by the Administrator. Notwithstanding the foregoing, the maximum number of Shares that may be issued as ISOs under the Plan shall be two hundred million (200,000,000).

(c) If an Option ceases to be "outstanding", in whole or in part (other than by exercise), or if the Company shall reacquire (at not more than its original issuance price) any Shares issued pursuant to a Stock Grant or Stock-Based Award, or if any Stock Right expires or is forfeited, cancelled, or otherwise terminated or results in any Shares not being issued, the unissued or reacquired Shares which were subject to such Stock Right shall again be available for issuance from time to time pursuant to this Plan. Without limiting the generality of the foregoing, the number of Shares underlying any awards under the Plan that are retained or repurchased on the exercise of an Option or the vesting or issuance of any Stock Right to cover the exercise price or tax withholding required by the Company in connection with vesting shall be added back to the Shares available for issuance under the Plan; provided, however that, in the case of ISOs, the foregoing provisions shall be subject to any limitations under the Code.

4. ADMINISTRATION OF THE PLAN.

The Administrator of the Plan will be the Board of Directors, except to the extent the Board of Directors delegates its authority to the Committee, in which case the Committee shall be the Administrator. Subject to the provisions of the Plan, the Administrator is authorized to:

- (a) Interpret the provisions of the Plan and all Stock Rights and to make all rules and determinations which it deems necessary or advisable for the administration of the Plan;
- (b) Determine which Employees, directors and Consultants shall be granted Stock Rights;
- (c) Determine the number of Shares for which a Stock Right or Stock Rights shall be granted; provided, however, that in no event shall the aggregate grant date fair value (determined in accordance with ASC 718) of Stock Rights to be granted and any other cash compensation paid to any non-employee director in any calendar year, exceed \$750,000, increased to \$1,000,000 in the year in which such non-employee director initially joins the Board of Directors;
- (d) Specify the terms and conditions upon which a Stock Right or Stock Rights may be granted provided that no dividends or dividend equivalents shall be paid on any Stock Right prior to the vesting of the underlying Shares.
- (e) Amend any term or condition of any outstanding Stock Right, provided that (i) such term or condition as amended is not prohibited by the Plan; (ii) any such amendment shall not impair the rights of a Participant under any Stock Right previously granted without such Participant's consent or in the event of death of the Participant the Participant's Survivors; and (iii) any such amendment shall be made only after the Administrator determines whether such amendment would cause any adverse tax consequences to the Participant, including, but not limited to, the annual vesting limitation contained in Section 422(d) of the Code and described in Paragraph 6(b)(iv) below with respect to ISOs and pursuant to Section 409A of the Code;
- (f) Determine and make any adjustments in the Performance Goals included in any Performance-Based Awards; and
- (g) Adopt any sub-plans applicable to residents of any specified jurisdiction as it deems necessary or appropriate in order to comply with or take advantage of any tax or other laws applicable to the Company, any Affiliate or to Participants or to otherwise facilitate the administration of the Plan, which sub-plans may include additional restrictions or conditions applicable to Stock Rights or Shares issuable pursuant to a Stock Right;

provided, however, that all such interpretations, rules, determinations, terms and conditions shall be made and prescribed in the context of potential tax consequences under Section 409A of the Code and preserving the tax status under Section 422 of the Code of those Options which are designated as ISOs. Subject to the foregoing, the interpretation and construction by the Administrator of any provisions of the Plan or of any Stock Right granted under it shall be final, unless otherwise determined by the Board of Directors, if the Administrator is the Committee. In addition, if the Administrator is the Committee, the Board of Directors may take any action under the Plan that would otherwise be the responsibility of the Committee.

To the extent permitted under applicable law, the Board of Directors or the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any portion of its responsibilities and powers to any other person selected by it. The Board of Directors or the Committee may revoke any such allocation or delegation at any time. Notwithstanding the foregoing, only the Board of Directors or the Committee shall be authorized to grant a Stock Right to any director of the Company or to any "officer" of the Company as defined by Rule 16a-1 under the Exchange Act.

5. ELIGIBILITY FOR PARTICIPATION.

The Administrator will, in its sole discretion, name the Participants in the Plan; provided, however, that each Participant must be an Employee, director or Consultant of the Company or of an Affiliate at the time a Stock Right is granted. Notwithstanding the foregoing, the Administrator may authorize the grant of a Stock Right to a person not then an Employee, director or Consultant of the Company or of an Affiliate; provided, however, that the actual grant of such Stock Right shall be conditioned upon such person becoming eligible to become a Participant at or prior to the time of the execution of the Agreement evidencing such Stock Right. ISOs may be granted only to Employees. Non-Qualified Options, Stock Grants and Stock-Based Awards may be granted to any Employee, director or Consultant of the Company or an Affiliate. The granting of any Stock Right to any individual shall neither entitle that individual to, nor disqualify that individual from, participation in any other grant of Stock Rights or any grant under any other benefit plan established by the Company or any Affiliate for Employees, directors or Consultants.

6. TERMS AND CONDITIONS OF OPTIONS.

Each Option shall be set forth in an Option Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Administrator may provide that Options be granted subject to such terms and conditions, consistent with the terms and conditions specifically required under this Plan, as the Administrator may deem appropriate including, without limitation, subsequent approval by the shareholders of the Company of this Plan or any amendments thereto. The Option Agreements shall be subject to at least the following terms and conditions:

(a) Non-Qualified Options: Each Option intended to be a Non-Qualified Option shall be subject to the terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company, subject to the following minimum standards for any such Non-Qualified Option:

- (i) Exercise Price: Each Option Agreement shall state the exercise price (per share) of the Shares covered by each Option, which exercise price shall be determined by the Administrator and shall be at least equal to the Fair Market Value per share of the Common Stock on the date of grant of the Option.
- (ii) Number of Shares: Each Option Agreement shall state the number of Shares to which it pertains.
- (iii) Vesting: Each Option Agreement shall state the date or dates on which it first is exercisable and the date after which it may no longer be exercised, and may provide that the Option rights accrue or become exercisable in installments over a period of months or years, or upon the occurrence of certain performance conditions or the attainment of stated goals or events. For California Participants, the exercise period of the Option set forth in the Option Agreement shall not be more than 120 months from the date of grant.

- (iv) Additional Conditions: Exercise of any Option may be conditioned upon the Participant's execution of a shareholders agreement in a form satisfactory to the Administrator providing for certain protections for the Company and its other shareholders, including requirements that:
 - A. The Participant's or the Participant's Survivors' right to sell or transfer the Shares may be restricted; and
 - B. The Participant or the Participant's Survivors may be required to execute letters of investment intent and must also acknowledge that the Shares will bear legends noting any applicable restrictions.
 - (v) Term of Option: Each Option shall terminate not more than ten years from the date of the grant or at such earlier time as the Option Agreement may provide.
- (b) ISOs: Each Option intended to be an ISO shall be issued only to an Employee who is deemed to be a resident of the United States for tax purposes, and shall be subject to the following terms and conditions, with such additional restrictions or changes as the Administrator determines are appropriate but not in conflict with Section 422 of the Code and relevant regulations and rulings of the Internal Revenue Service:
- (i) Minimum Standards: The ISO shall meet the minimum standards required of Non-Qualified Options, as described in Paragraph 6(a) above, except clause (i) and (v) thereunder.
 - (ii) Exercise Price: Immediately before the ISO is granted, if the Participant owns, directly or by reason of the applicable attribution rules in Section 424(d) of the Code:
 - A. 10% or less of the total combined voting power of all classes of stock of the Company or an Affiliate, the exercise price per share of the Shares covered by each ISO shall not be less than 100% of the Fair Market Value per share of the Common Stock on the date of grant of the Option; or
 - B. More than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, the exercise price per share of the Shares covered by each ISO shall not be less than 110% of the Fair Market Value per share of the Common Stock on the date of grant of the Option.
 - (iii) Term of Option: For Participants who own:

- A. 10% or less of the total combined voting power of all classes of stock of the Company or an Affiliate, each ISO shall terminate not more than ten years from the date of the grant or at such earlier time as the Option Agreement may provide; or
- B. More than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, each ISO shall terminate not more than five years from the date of the grant or at such earlier time as the Option Agreement may provide.

- (iv) Limitation on Yearly Exercise: The Option Agreements shall restrict the amount of ISOs which may become exercisable in any calendar year (under this or any other ISO plan of the Company or an Affiliate) so that the aggregate Fair Market Value (determined on the date each ISO is granted) of the stock with respect to which ISOs are exercisable for the first time by the Participant in any calendar year does not exceed \$100,000.

7. TERMS AND CONDITIONS OF STOCK GRANTS.

Each Stock Grant to a Participant shall state the principal terms in an Agreement duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. For California Participants, each Stock Grant shall be issued within ten (10) years from the date the Plan is adopted. The Agreement shall be in a form approved by the Administrator and shall contain terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company, subject to the following minimum standards:

(a) Each Agreement shall state the purchase price per share, if any, of the Shares covered by each Stock Grant, which purchase price shall be determined by the Administrator but shall not be less than the minimum consideration required by the Delaware General Corporation Law, if any, on the date of the grant of the Stock Grant;

(b) Each Agreement shall state the number of Shares to which the Stock Grant pertains;

(c) Each Agreement shall include the terms of any right of the Company to restrict or reacquire the Shares subject to the Stock Grant, including the time period or attainment of Performance Goals or such other performance criteria upon which such rights shall accrue and the purchase price therefor, if any; and

(d) Dividends (other than stock dividends to be issued pursuant to Section 25 of the Plan) may accrue but shall not be paid prior to the time, and may be paid only to the extent that the restrictions or rights to reacquire the Shares subject to the Stock Grant lapse.

8. TERMS AND CONDITIONS OF OTHER STOCK-BASED AWARDS.

The Administrator shall have the right to grant other Stock-Based Awards based upon the Common Stock having such terms and conditions as the Administrator may determine, including, without limitation, the grant of Shares based upon certain conditions, the grant of securities convertible into Shares and the grant of stock appreciation rights, phantom stock awards or stock units. The principal terms of each Stock-Based Award shall be set forth in an Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Agreement shall be in a form approved by the Administrator and shall contain terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company. Each Agreement shall include the terms of any right of the Company including the right to terminate the Stock-Based Award without the issuance of Shares, the terms of any vesting conditions, Performance Goals or events upon which Shares shall be issued, provided that dividends (other than stock dividends to be issued pursuant to Section 25 of the Plan) or dividend equivalents may accrue but shall not be paid prior to and may be paid only to the extent that the Shares subject to the Stock-Based Award vest. Under no circumstances may the Agreement covering stock appreciation rights (a) have an exercise or base price (per share) that is less than the Fair Market Value per share of Common Stock on the date of grant or (b) expire more than ten years following the date of grant.

The Company intends that the Plan and any Stock-Based Awards granted hereunder be exempt from the application of Section 409A of the Code or meet the requirements of paragraphs (2), (3) and (4) of subsection (a) of Section 409A of the Code, to the extent applicable, and be operated in accordance with Section 409A so that any compensation deferred under any Stock-Based Award (and applicable investment earnings) shall not be included in income under Section 409A of the Code. Any ambiguities in the Plan shall be construed to effect the intent as described in this Paragraph 8.

9. PERFORMANCE-BASED AWARDS.

The Committee shall determine whether, with respect to a performance period, the applicable Performance Goals have been met with respect to a given Participant and, if they have, to so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be issued for such performance period until such certification is made by the Committee. The number of Shares issued in respect of a Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period, and any dividends (other than stock dividends to be issued pursuant to Section 25 of the Plan) or dividend equivalents that accrue shall only be paid in respect of the number of Shares earned in respect of such Performance-Based Award.

10. EXERCISE OF OPTIONS AND ISSUE OF SHARES.

An Option (or any part or installment thereof) shall be exercised by giving written notice to the Company or its designee (in a form acceptable to the Administrator, which may include electronic notice), together with provision for payment of the aggregate exercise price in accordance with this Paragraph for the Shares as to which the Option is being exercised, and upon compliance with any other condition(s) set forth in the Option Agreement. Such notice shall be signed by the person exercising the Option (which signature may be provided electronically in a form acceptable to the Administrator), shall state the number of Shares with respect to which the Option is being exercised and shall contain any representation required by the Plan or the Option Agreement. Payment of the exercise price for the Shares as to which such Option is being exercised shall be made (a) in United States dollars in cash or by check; or (b) at the discretion of the Administrator, through delivery of shares of Common Stock held for at least six months (if required to avoid negative accounting treatment) having a Fair Market Value equal as of the date of the exercise to the aggregate cash exercise price for the number of Shares as to which the Option is being exercised; or (c) at the discretion of the Administrator, by having the Company retain from the Shares otherwise issuable upon exercise of the Option, a number of Shares having a Fair Market Value equal as of the date of exercise to the aggregate exercise price for the number of Shares as to which the Option is being exercised; or (d) at the discretion of the Administrator, in accordance with a cashless exercise program established with a securities brokerage firm, and approved by the Administrator; or (e) at the discretion of the Administrator, by any combination of (a), (b), (c) and (d) above or (f) at the discretion of the Administrator, by payment of such other lawful consideration as the Administrator may determine. Notwithstanding the foregoing, the Administrator shall accept only such payment on exercise of an ISO as is permitted by Section 422 of the Code.

The Company shall then reasonably promptly deliver the Shares as to which such Option was exercised to the Participant (or to the Participant's Survivors, as the case may be). In determining what constitutes "reasonably promptly," it is expressly understood that the issuance and delivery of the Shares may be delayed by the Company in order to comply with any law or regulation (including, without limitation, state securities or "blue sky" laws) which requires the Company to take any action with respect to the Shares prior to their issuance. The Shares shall, upon delivery, be fully paid, non-assessable Shares.

11. PAYMENT IN CONNECTION WITH THE ISSUANCE OF STOCK GRANTS AND STOCK-BASED AWARDS AND ISSUE OF SHARES.

Any Stock Grant or Stock-Based Award requiring payment of a purchase price for the Shares as to which such Stock Grant or Stock-Based Award is being granted shall be made (a) in United States dollars in cash or by check; or (b) at the discretion of the Administrator, through delivery of shares of Common Stock held for at least six months (if required to avoid negative accounting treatment) and having a Fair Market Value equal as of the date of payment to the purchase price of the Stock Grant or Stock-Based Award; or (c) by delivery of a promissory note, if the Board of Directors has expressly authorized the loan of funds to the Participant for the purpose of enabling or assisting the Participant to effect such purchase; (d) at the discretion of the Administrator, by any combination of (a) through (c) above; or (e) at the discretion of the Administrator, by payment of such other lawful consideration as the Administrator may determine.

The Company shall when required by the applicable Agreement, reasonably promptly deliver the Shares as to which such Stock Grant or Stock-Based Award was made to the Participant (or to the Participant's Survivors, as the case may be), subject to any escrow provision set forth in the applicable Agreement. In determining what constitutes "reasonably promptly," it is expressly understood that the issuance and delivery of the Shares may be delayed by the Company in order to comply with any law or regulation (including, without limitation, state securities or "blue sky" laws) which requires the Company to take any action with respect to the Shares prior to their issuance.

12. RIGHTS AS A SHAREHOLDER.

No Participant to whom a Stock Right has been granted shall have rights as a shareholder with respect to any Shares covered by such Stock Right except after due exercise of an Option or issuance of Shares as set forth in any Agreement, tender of the aggregate exercise or purchase price, if any, for the Shares being purchased and registration of the Shares in the Company's share register in the name of the Participant.

13. ASSIGNABILITY AND TRANSFERABILITY OF STOCK RIGHTS.

By its terms, a Stock Right granted to a Participant shall not be transferable by the Participant other than (i) by will or by the laws of descent and distribution, or (ii) as approved by the Administrator in its discretion and set forth in the applicable Agreement provided that no Stock Right may be transferred by a Participant for value. Notwithstanding the foregoing, an ISO transferred except in compliance with clause (i) above shall no longer qualify as an ISO. The designation of a beneficiary of a Stock Right by a Participant, with the prior approval of the Administrator and in such form as the Administrator shall prescribe, shall not be deemed a transfer prohibited by this Paragraph. Except as provided above during the Participant's lifetime a Stock Right shall only be exercisable by or issued to such Participant (or his or her legal representative) and shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of any Stock Right or of any rights granted thereunder contrary to the provisions of this Plan, or the levy of any attachment or similar process upon a Stock Right, shall be null and void.

14. EFFECT ON OPTIONS OF TERMINATION OF SERVICE OTHER THAN FOR CAUSE OR DEATH OR DISABILITY.

Except as otherwise provided in a Participant's Option Agreement, in the event of a termination of service (whether as an Employee, director or Consultant) with the Company or an Affiliate before the Participant has exercised an Option, the following rules apply:

(a) A Participant who ceases to be an Employee, director or Consultant of the Company or of an Affiliate (for any reason other than termination for Cause, Disability, or death for which events there are special rules in Paragraphs 15, 16, and 17, respectively), may exercise any Option granted to such Participant to the extent that the Option is exercisable on the date of such termination of service, but only within such term as the Administrator has designated in a Participant's Option Agreement. For Options granted to California Participants, notwithstanding the terms of any Option Agreement, such Option shall be exercisable for at least thirty (30) days from the date of a Participant's termination of employment other than for Cause, but in no event later than the originally prescribed term of the Option.

(b) Except as provided in Subparagraph (c) below, or Paragraph 16 or 17, in no event may an Option intended to be an ISO, be exercised later than three months after the Participant's termination of employment.

(c) The provisions of this Paragraph, and not the provisions of Paragraph 16 or 17, shall apply to a Participant who subsequently becomes Disabled or dies after the termination of employment, director status or consultancy; provided, however, in the case of a Participant's Disability or death within three months after the termination of employment, director status or consultancy, the Participant or the Participant's Survivors may exercise the Option within one year after the date of the Participant's termination of service, but in no event after the date of expiration of the term of the Option.

(d) Notwithstanding anything herein to the contrary, if subsequent to a Participant's termination of employment, termination of director status or termination of consultancy, but prior to the exercise of an Option, the Administrator determines that, either prior or subsequent to the Participant's termination, the Participant engaged in conduct which would constitute Cause, then such Participant shall forthwith cease to have any right to exercise any Option.

(e) A Participant to whom an Option has been granted under the Plan who is absent from the Company or an Affiliate because of temporary disability (any disability other than a Disability as defined in Paragraph 1 hereof), or who is on leave of absence for any purpose, shall not, during the period of any such absence, be deemed, by virtue of such absence alone, to have terminated such Participant's employment, director status or consultancy with the Company or with an Affiliate, except as the Administrator may otherwise expressly provide; provided, however, that, for ISOs, any leave of absence granted by the Administrator of greater than three months, unless pursuant to a contract or statute that guarantees the right to reemployment, shall cause such ISO to become a Non-Qualified Option on the date that is six months following the commencement of such leave of absence.

(f) Except as required by law or as set forth in a Participant's Option Agreement, Options granted under the Plan shall not be affected by any change of a Participant's status within or among the Company and any Affiliates, so long as the Participant continues to be an Employee, director or Consultant of the Company or any Affiliate.

15. EFFECT ON OPTIONS OF TERMINATION OF SERVICE FOR CAUSE.

Except as otherwise provided in a Participant's Option Agreement, the following rules apply if the Participant's service (whether as an Employee, director or Consultant) with the Company or an Affiliate is terminated for Cause prior to the time that all his or her outstanding Options have been exercised:

(a) All outstanding and unexercised Options as of the time the Participant is notified his or her service is terminated for Cause will immediately be forfeited.

(b) Cause is not limited to events which have occurred prior to a Participant's termination of service, nor is it necessary that the Administrator's finding of Cause occur prior to termination. If the Administrator determines, subsequent to a Participant's termination of service but prior to the exercise of an Option, that either prior or subsequent to the Participant's termination the Participant engaged in conduct which would constitute Cause, then the right to exercise any Option is forfeited.

16. EFFECT ON OPTIONS OF TERMINATION OF SERVICE FOR DISABILITY.

Except as otherwise provided in a Participant's Option Agreement:

(a) A Participant who ceases to be an Employee, director or Consultant of the Company or of an Affiliate by reason of Disability may exercise any Option granted to such Participant to the extent that the Option has become exercisable but has not been exercised on the date of the Participant's termination of service due to Disability; and in the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of the Participant's termination of service due to Disability of any additional vesting rights that would have accrued on the next vesting date had the Participant not become Disabled. The proration shall be based upon the number of days accrued in the current vesting period prior to the date of the Participant's termination of service due to Disability.

(a) (b) A Disabled Participant may exercise the Option only within the period ending one year after the date of the Participant's termination of service due to Disability, notwithstanding that the Participant might have been able to exercise the Option as to some or all of the Shares on a later date if the Participant had not been terminated due to Disability and had continued to be an Employee, director or Consultant or, if earlier, within the originally prescribed term of the Option. Notwithstanding the terms of any Option Agreement, for Options granted to California Participants, a Participant may exercise such rights for at least six (6) months from the date of termination of service due to Disability but in no event later than the originally prescribed term of the Option.

(c) The Administrator shall make the determination both of whether Disability has occurred and the date of its occurrence (unless a procedure for such determination is set forth in another agreement between the Company and such Participant, in which case such procedure shall be used for such determination). If requested, the Participant shall be examined by a physician selected or approved by the Administrator, the cost of which examination shall be paid for by the Company.

17. EFFECT ON OPTIONS OF DEATH WHILE AN EMPLOYEE, DIRECTOR OR CONSULTANT.

Except as otherwise provided in a Participant's Option Agreement:

(a) In the event of the death of a Participant while the Participant is an Employee, director or Consultant of the Company or of an Affiliate, such Option may be exercised by the Participant's Survivors to the extent that the Option has become exercisable but has not been exercised on the date of death; and in the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of death of any additional vesting rights that would have accrued on the next vesting date had the Participant not died. The proration shall be based upon the number of days accrued in the current vesting period prior to the Participant's date of death.

(a) (b) If the Participant's Survivors wish to exercise the Option, they must take all necessary steps to exercise the Option within one year after the date of death of such Participant, notwithstanding that the decedent might have been able to exercise the Option as to some or all of the Shares on a later date if he or she had not died and had continued to be an Employee, director or Consultant or, if earlier, within the originally prescribed term of the Option. For Options granted to California Participants, notwithstanding the terms of any Option Agreement, the Participant's Survivors shall be allowed to take all necessary steps to exercise the Option for at least six (6) months from the date of death of such Participant but in no event later than the originally prescribed term of the Option.

18. EFFECT OF TERMINATION OF SERVICE ON UNACCEPTED STOCK GRANTS AND STOCK-BASED AWARDS.

In the event of a termination of service (whether as an Employee, director or Consultant) with the Company or an Affiliate for any reason before the Participant has accepted a Stock Grant or a Stock-Based Award and paid the purchase price, if required, such grant shall terminate.

For purposes of this Paragraph 18 and Paragraph 19 below, a Participant to whom a Stock Grant or a Stock-Based Award has been issued under the Plan who is absent from work with the Company or with an Affiliate because of temporary disability (any disability other than a Disability as defined in Paragraph 1 hereof), or who is on leave of absence for any purpose, shall not, during the period of any such absence, be deemed, by virtue of such absence alone, to have terminated such Participant's employment, director status or consultancy with the Company or with an Affiliate, except as the Administrator may otherwise expressly provide.

In addition, for purposes of this Paragraph 18 and Paragraph 19 below, any change of employment or other service within or among the Company and any Affiliates shall not be treated as a termination of employment, director status or consultancy so long as the Participant continues to be an Employee, director or Consultant of the Company or any Affiliate.

19. EFFECT ON STOCK GRANTS AND STOCK-BASED AWARDS OF TERMINATION OF SERVICE OTHER THAN FOR CAUSE, DEATH OR DISABILITY.

Except as otherwise provided in a Participant's Agreement, in the event of a termination of service for any reason (whether as an Employee, director or Consultant), other than termination for Cause, death or Disability for which there are special rules in Paragraphs 20, 21, and 22 below, before all forfeiture provisions or Company rights of repurchase shall have lapsed, then the Company shall have the right to cancel or repurchase that number of Shares subject to a Stock Grant or Stock-Based Award as to which the Company's forfeiture or repurchase rights have not lapsed.

20. EFFECT ON STOCK GRANTS AND STOCK-BASED AWARDS OF TERMINATION OF SERVICE FOR CAUSE.

Except as otherwise provided in a Participant's Agreement, the following rules apply if the Participant's service (whether as an Employee, director or Consultant) with the Company or an Affiliate is terminated for Cause:

(a) All Shares subject to any Stock Grant or Stock-Based Award that remain subject to forfeiture provisions or as to which the Company shall have a repurchase right shall be immediately forfeited to the Company as of the time the Participant is notified his or her service is terminated for Cause.

(b) Cause is not limited to events which have occurred prior to a Participant's termination of service, nor is it necessary that the Administrator's finding of Cause occur prior to termination. If the Administrator determines, subsequent to a Participant's termination of service, that either prior or subsequent to the Participant's termination the Participant engaged in conduct which would constitute Cause, then all Shares subject to any Stock Grant or Stock-Based Award that remained subject to forfeiture provisions or as to which the Company had a repurchase right on the date of termination shall be immediately forfeited to the Company.

21. EFFECT ON STOCK GRANTS AND STOCK-BASED AWARDS OF TERMINATION OF SERVICE FOR DISABILITY.

Except as otherwise provided in a Participant's Agreement, the following rules apply if a Participant ceases to be an Employee, director or Consultant of the Company or of an Affiliate by reason of Disability: to the extent the forfeiture provisions or the Company's rights of repurchase have not lapsed on the date of Disability, they shall be exercisable; provided, however, that in the event such forfeiture provisions or rights of repurchase lapse periodically, such provisions or rights shall lapse to the extent of a pro rata portion of the Shares subject to such Stock Grant or Stock-Based Award through the date of Disability as would have lapsed had the Participant not become Disabled. The proration shall be based upon the number of days accrued prior to the date of Disability.

The Administrator shall make the determination both as to whether Disability has occurred and the date of its occurrence (unless a procedure for such determination is set forth in another agreement between the Company and such Participant, in which case such procedure shall be used for such determination). If requested, the Participant shall be examined by a physician selected or approved by the Administrator, the cost of which examination shall be paid for by the Company.

22. EFFECT ON STOCK GRANTS AND STOCK-BASED AWARDS OF DEATH WHILE AN EMPLOYEE, DIRECTOR OR CONSULTANT.

Except as otherwise provided in a Participant's Agreement, the following rules apply in the event of the death of a Participant while the Participant is an Employee, director or Consultant of the Company or of an Affiliate: to the extent the forfeiture provisions or the Company's rights of repurchase have not lapsed on the date of death, they shall be exercisable; provided, however, that in the event such forfeiture provisions or rights of repurchase lapse periodically, such provisions or rights shall lapse to the extent of a pro rata portion of the Shares subject to such Stock Grant or Stock-Based Award through the date of death as would have lapsed had the Participant not died. The proration shall be based upon the number of days accrued prior to the Participant's date of death.

23. PURCHASE FOR INVESTMENT.

Unless the offering and sale of the Shares shall have been effectively registered under the Securities Act, the Company shall be under no obligation to issue Shares under the Plan unless and until the following conditions have been fulfilled:

(a) The person who receives a Stock Right shall warrant to the Company, prior to the receipt of Shares, that such person is acquiring such Shares for his or her own account, for investment, and not with a view to, or for sale in connection with, the distribution of any such Shares, in which event the person acquiring such Shares shall be bound by the provisions of the following legend (or a legend in substantially similar form) which shall be endorsed upon the certificate evidencing the Shares issued pursuant to such exercise or such grant of a Stock Right:

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

(b) At the discretion of the Administrator, the Company shall have received an opinion of its counsel that the Shares may be issued in compliance with the Securities Act without registration thereunder.

24. DISSOLUTION OR LIQUIDATION OF THE COMPANY.

Upon the dissolution or liquidation of the Company, all Options granted under this Plan which as of such date shall not have been exercised and all Stock Grants and Stock-Based Awards which have not been accepted, to the extent required under the applicable Agreement, will terminate and become null and void; provided, however, that if the rights of a Participant or a Participant's Survivors have not otherwise terminated and expired, the Participant or the Participant's Survivors will have the right immediately prior to such dissolution or liquidation to exercise or accept any Stock Right to the extent that the Stock Right is exercisable or subject to acceptance as of the date immediately prior to such dissolution or liquidation. Upon the dissolution or liquidation of the Company, any outstanding Stock-Based Awards shall immediately terminate unless otherwise determined by the Administrator or specifically provided in the applicable Agreement.

25. ADJUSTMENTS.

Upon the occurrence of any of the following events, a Participant's rights with respect to any Stock Right granted to such Participant hereunder shall be adjusted as hereinafter provided, unless otherwise specifically provided in a Participant's Agreement.

(a) Stock Dividends and Stock Splits. If (i) the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, or (ii) additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Common Stock, each Stock Right and the number of shares of Common Stock deliverable thereunder shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made including, in the exercise, base or purchase price per share and in the Performance Goals applicable to outstanding Performance-Based Awards to reflect such events. The number of Shares subject to the limitations in Paragraph 3(a) and 4(c) shall also be proportionately adjusted upon the occurrence of such events.

(b) Corporate Transactions. If the Company is to be consolidated with or acquired by another entity in a Corporate Transaction, the Administrator or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board"), shall, as to outstanding Options, either: (i) make appropriate provision for the continuation of such Options by substituting on an equitable basis for the Shares then subject to such Options either the consideration payable with respect to the outstanding shares of Common Stock in connection with the Corporate Transaction or securities of any successor or acquiring entity; or (ii) upon written notice to the Participants, provide that such Options must be exercised (either (A) to the extent then exercisable or (B) at the discretion of the Administrator, any such Options being made partially or fully exercisable for purposes of this Subparagraph), within a specified number of days of the date of such notice, at the end of which period such Options which have not been exercised shall terminate; or (iii) terminate such Options in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of Common Stock into which such Option would have been exercisable (either (A) to the extent then exercisable or, (B) at the discretion of the Administrator, any such Options being made partially or fully exercisable for purposes of this Subparagraph) less the aggregate exercise price thereof. For purposes of determining the payments to be made pursuant to Subclause (iii) above, in the case of a Corporate Transaction the consideration for which, in whole or in part, is other than cash, the consideration other than cash shall be valued at the fair value thereof as determined in good faith by the Board of Directors.

With respect to outstanding Stock Grants or Stock-Based Awards, the Administrator or the Successor Board, shall make appropriate provision for the continuation of such Stock Grants or Stock-Based Awards on the same terms and conditions by substituting on an equitable basis for the Shares then subject to such Stock Grants or Stock-Based Awards either the consideration payable with respect to the outstanding Shares of Common Stock in connection with the Corporate Transaction or securities of any successor or acquiring entity. In lieu of the foregoing, in connection with any Corporate Transaction, the Administrator may provide that each outstanding Stock Grant or Stock-Based Award shall be terminated in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of Common Stock comprising such Stock Grant or Stock-Based Award (to the extent such Stock Grant or Stock-Based Award is no longer subject to any forfeiture or repurchase rights then in effect or, at the discretion of the Administrator, all forfeiture and repurchase rights being waived).

In taking any of the actions permitted under this Paragraph 25(b), the Administrator shall not be obligated by the Plan to treat all Stock Rights, all Stock Rights held by a Participant, or all Stock Rights of the same type, identically.

(c) Recapitalization or Reorganization. In the event of a recapitalization or reorganization of the Company other than a Corporate Transaction pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, a Participant upon exercising an Option or accepting a Stock Grant after the recapitalization or reorganization shall be entitled to receive for the price paid upon such exercise or acceptance if any, the number of replacement securities which would have been received if such Option had been exercised or Stock Grant accepted prior to such recapitalization or reorganization.

(d) Adjustments to Stock-Based Awards. Upon the happening of any of the events described in Subparagraphs (a), (b) or (c) above, any outstanding Stock-Based Award shall be appropriately adjusted to reflect the events described in such Subparagraphs. The Administrator or the Successor Board shall determine the specific adjustments to be made under this Paragraph 25, including, but not limited to the effect of any, Corporate Transaction and Change of Control and, subject to Paragraph 4, its determination shall be conclusive.

(e) Modification of Options. Notwithstanding the foregoing, any adjustments made pursuant to Subparagraph (a), (b) or (c) above with respect to Options shall be made only after the Administrator determines whether such adjustments would (i) constitute a “modification” of any ISOs (as that term is defined in Section 424(h) of the Code) or (ii) cause any adverse tax consequences for the holders of Options, including, but not limited to, pursuant to Section 409A of the Code. If the Administrator determines that such adjustments made with respect to Options would constitute a modification or other adverse tax consequence, it may in its discretion refrain from making such adjustments, unless the holder of an Option specifically agrees in writing that such adjustment be made and such writing indicates that the holder has full knowledge of the consequences of such “modification” on his or her income tax treatment with respect to the Option. This paragraph shall not apply to the acceleration of the vesting of any ISO that would cause any portion of the ISO to violate the annual vesting limitation contained in Section 422(d) of the Code, as described in Paragraph 6(b)(iv).

26. ISSUANCES OF SECURITIES.

Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Stock Rights. Except as expressly provided herein, no adjustments shall be made for dividends paid in cash or in property (including without limitation, securities) of the Company prior to any issuance of Shares pursuant to a Stock Right.

27. FRACTIONAL SHARES.

No fractional shares shall be issued under the Plan and the person exercising a Stock Right shall receive from the Company cash in lieu of such fractional shares equal to the Fair Market Value thereof.

28. WITHHOLDING.

In the event that any federal, state, or local income taxes, employment taxes, Federal Insurance Contributions Act withholdings or other amounts are required by applicable law or governmental regulation to be withheld from the Participant’s salary, wages or other remuneration in connection with the issuance of a Stock Right or Shares under the Plan or for any other reason required by law, the Company may withhold from the Participant’s compensation, if any, or may require that the Participant advance in cash to the Company, or to any Affiliate of the Company which employs or employed the Participant, the statutory minimum amount of such withholdings unless a different withholding arrangement, including the use of shares of the Company’s Common Stock or a promissory note, is authorized by the Administrator (and permitted by law). For purposes hereof, the fair market value of the shares withheld for purposes of payroll withholding shall be determined in the manner set forth under the definition of Fair Market Value provided in Paragraph 1 above, as of the most recent practicable date. If the Fair Market Value of the shares withheld is less than the amount of payroll withholdings required, the Participant may be required to advance the difference in cash to the Company or the Affiliate employer.

29. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION.

Each Employee who receives an ISO must agree to notify the Company in writing immediately after the Employee makes a Disqualifying Disposition of any Shares acquired pursuant to the exercise of an ISO. A Disqualifying Disposition is defined in Section 424(c) of the Code and includes any disposition (including any sale or gift) of such Shares before the later of (a) two years after the date the Employee was granted the ISO, or (b) one year after the date the Employee acquired Shares by exercising the ISO, except as otherwise provided in Section 424(c) of the Code. If the Employee has died before such Shares are sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

30. TERMINATION OF THE PLAN.

The Plan will terminate on November 10, 2030, the date which is ten years from the earlier of the date of its adoption by the Board of Directors and the date of its approval by the shareholders of the Company. The Plan may be terminated at an earlier date by vote of the shareholders or the Board of Directors of the Company; provided, however, that any such earlier termination shall not affect any Agreements executed prior to the effective date of such termination. Termination of the Plan shall not affect any Stock Rights theretofore granted.

31. AMENDMENT OF THE PLAN AND AGREEMENTS.

The Plan may be amended by the shareholders of the Company. The Plan may also be amended by the Administrator; provided that any amendment approved by the Administrator which the Administrator determines is of a scope that requires shareholder approval shall be subject to obtaining such shareholder approval including, without limitation, to the extent necessary to qualify any or all outstanding Stock Rights granted under the Plan or Stock Rights to be granted under the Plan for favorable federal income tax treatment as may be afforded ISOs under Section 422 of the Code and to the extent necessary to qualify the Shares issuable under the Plan for listing on any national securities exchange or quotation in any national automated quotation system of securities dealers. Any modification or amendment of the Plan shall not, without the consent of a Participant, adversely affect his or her rights under a Stock Right previously granted to such Participant, unless such amendment is required by applicable law or necessary to preserve the economic value of such Stock Right. With the consent of the Participant affected, the Administrator may amend outstanding Agreements in a manner which may be adverse to the Participant but which is not inconsistent with the Plan. In the discretion of the Administrator, outstanding Agreements may be amended by the Administrator in a manner which is not adverse to the Participant. Nothing in this Paragraph 31 shall limit the Administrator's authority to take any action permitted pursuant to Paragraph 25.

32. EMPLOYMENT OR OTHER RELATIONSHIP.

Nothing in this Plan or any Agreement shall be deemed to prevent the Company or an Affiliate from terminating the employment, consultancy or director status of a Participant, nor to prevent a Participant from terminating his or her own employment, consultancy or director status or to give any Participant a right to be retained in employment or other service by the Company or any Affiliate for any period of time.

33. SECTION 409A.

If a Participant is a “specified employee” as defined in Section 409A of the Code (and as applied according to procedures of the Company and its Affiliates) as of his separation from service, to the extent any payment under this Plan or pursuant to the grant of a Stock-Based Award constitutes deferred compensation (after taking into account any applicable exemptions from Section 409A of the Code), and to the extent required by Section 409A of the Code, no payments due under this Plan or pursuant to a Stock-Based Award may be made until the earlier of: (i) the first day of the seventh month following the Participant’s separation from service, or (ii) the Participant’s date of death; provided, however, that any payments delayed during this six-month period shall be paid in the aggregate in a lump sum, without interest, on the first day of the seventh month following the Participant’s separation from service.

The Administrator shall administer the Plan with a view toward ensuring that Stock Rights under the Plan that are subject to Section 409A of the Code comply with the requirements thereof and that Options under the Plan be exempt from the requirements of Section 409A of the Code, but neither the Administrator nor any member of the Board of Directors, nor the Company nor any of its Affiliates, nor any other person acting hereunder on behalf of the Company, the Administrator or the Board of Directors shall be liable to a Participant or any Survivor by reason of the acceleration of any income, or the imposition of any additional tax or penalty, with respect to a Stock Right, whether by reason of a failure to satisfy the requirements of Section 409A of the Code or otherwise.

34. INDEMNITY.

Neither the Board of Directors nor the Administrator, nor any members of either, nor any employees of the Company or any parent, subsidiary, or other Affiliate, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with their responsibilities with respect to this Plan, and the Company hereby agrees to indemnify the members of the Board or Directors, the members of the Committee, and the employees of the Company and its parent or subsidiaries in respect of any claim, loss, damage, or expense (including reasonable counsel fees) arising from any such act, omission, interpretation, construction or determination to the full extent permitted by law.

35. CLAWBACK.

Notwithstanding anything to the contrary contained in this Plan, the Company may recover from a Participant any compensation received from any Stock Right (whether or not settled) or cause a Participant to forfeit any Stock Right (whether or not vested) in the event that the Company's Clawback Policy as then in effect is triggered.

36. GOVERNING LAW.

This Plan shall be construed and enforced in accordance with the law of Delaware.

HYDROFARM HOLDINGS GROUP, INC.

Stock Option Grant Notice

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

- 1. Name and Address of Participant: _____

- 2. Grant Date: _____
- 3. Type of Grant: _____
- 4. Maximum Number of Shares for which this Option is exercisable: _____
- 5. Exercise (purchase) price per share: _____
- 6. Option Expiration Date: _____
- 7. Vesting Start Date: _____
- 8. Vesting Schedule: This Option shall become exercisable (and the Shares issued upon exercise shall be vested) as follows provided the Participant is an Employee, director or Consultant of the Company or of an Affiliate on the applicable vesting date:

[Insert Vesting Schedule]

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

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

HYDROFARM HOLDINGS GROUP, INC.

By: _____
Name: _____
Title: _____

Participant

HYDROFARM HOLDINGS GROUP, INC.

STOCK OPTION AGREEMENT - INCORPORATED TERMS AND CONDITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. TAXES. The Participant acknowledges and agrees that (i) any income or other taxes due from the Participant with respect to this Option or the Shares issuable pursuant to this Option shall be the Participant's responsibility; (ii) the Participant was free to use professional advisors of his or her choice in connection with this Agreement, has received advice from his or her professional advisors in connection with this Agreement, understands its meaning and import, and is entering into this Agreement freely and without coercion or duress; (iii) the Participant has not received and is not relying upon any advice, representations or assurances made by or on behalf of the Company or any Affiliate or any employee of or counsel to the Company or any Affiliate regarding any tax or other effects or implications of the Option, the Shares or other matters contemplated by this Agreement; and (iv) neither the Administrator, the Company, its Affiliates, nor any of its officers or directors, shall be held liable for any applicable costs, taxes, or penalties associated with the Option if, in fact, the Internal Revenue Service were to determine that the Option constitutes deferred compensation under Section 409A of the Code.

If this Option is designated in the Stock Option Grant Notice as a Non-Qualified Option or if the Option is an ISO and is converted into a Non-Qualified Option and such Non-Qualified Option is exercised, the Participant agrees that the Company may withhold from the Participant's remuneration, if any, the minimum statutory amount of federal, state and local withholding taxes attributable to such amount that is considered compensation includable in such person's gross income. At the Company's discretion, the amount required to be withheld may be withheld in cash from such remuneration, or in kind from the Shares otherwise deliverable to the Participant on exercise of the Option. The Participant further agrees that, if the Company does not withhold an amount from the Participant's remuneration sufficient to satisfy the Company's income tax withholding obligation, the Participant will reimburse the Company on demand, in cash, for the amount under-withheld.

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

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

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

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

12. RESTRICTIONS ON TRANSFER OF SHARES.

- (a) The Participant agrees that in the event the Company proposes to offer for sale to the public any of its equity securities and such Participant is requested by the Company and any underwriter engaged by the Company in connection with such offering to sign an agreement restricting the sale or other transfer of Shares, then it will promptly sign such agreement and will not transfer, whether in privately negotiated transactions or to the public in open market transactions or otherwise, any Shares or other securities of the Company held by him or her during such period as is determined by the Company and the underwriters, not to exceed 180 days following the closing of the offering, plus such additional period of time as may be required to comply with FINRA rules or similar rules thereto promulgated by another regulatory authority (such period, the “Lock-Up Period”). Such agreement shall be in writing and in form and substance reasonably satisfactory to the Company and such underwriter and pursuant to customary and prevailing terms and conditions. Notwithstanding whether the Participant has signed such an agreement, the Company may impose stop-transfer instructions with respect to the Shares or other securities of the Company subject to the foregoing restrictions until the end of the Lock-Up Period.

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

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

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

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

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

15. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION OF AN ISO. If this Option is designated in the Stock Option Grant Notice as an ISO then the Participant agrees to notify the Company in writing immediately after the Participant makes a Disqualifying Disposition of any of the Shares acquired pursuant to the exercise of the ISO. A Disqualifying Disposition is defined in Section 424(c) of the Code and includes any disposition (including any sale) of such Shares before the later of (a) two years after the date the Participant was granted the ISO or (b) one year after the date the Participant acquired Shares by exercising the ISO, except as otherwise provided in Section 424(c) of the Code. If the Participant has died before the Shares are sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

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

If to the Company:

Hydrofarm Holdings Group, Inc.

Attention:

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

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

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

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

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

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

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

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

NOTICE OF EXERCISE OF STOCK OPTION

Form for Shares registered in the United States

To: Hydrofarm Holdings Group, Inc.

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

Ladies and Gentlemen:

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

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

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

Please issue the Shares (check one):

to me; or

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

at the following address:

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

Very truly yours,

Participant (signature)

Print Name

Date

Exhibit A-2

Exhibit 21.1

Subsidiaries of Hydrofarm Holdings Group, Inc.

Name	Place of Incorporation/Formation
Hydrofarm Investment Corp.	Delaware
Hydrofarm Holdings LLC	Delaware
Hydrofarm, LLC	California
EHH Holdings, LLC	Delaware
Shenzhen Representative Office of Hydrofarm Inc. (USA)	China
Sunblaster LLC	Delaware
Hydrofarm Canada, LLC	Delaware
Eltac XXI S.L.	Spain
Sunblaster Holdings ULC	Canada
Eddi's Wholesale Garden Supplies Ltd.	Canada

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement No. 333-250037 on Form S-1 of our report dated August 14, 2020, (December 1, 2020 as to the effects of the reverse stock split described in Note 20) relating to the financial statements of Hydrofarm Holdings Group, Inc. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ Deloitte & Touche

San Francisco, California

December 1, 2020



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent the use of our auditor’s report dated May 10, 2019 (December 1, 2020 as to the effects of the reverse stock split discussed in Note 20) with respect to the consolidated financial statements of Hydrofarm Holdings Group, Inc. (the “Company”) as at December 31, 2018 and for the year then ended, included in the Amendment No. 1 to the Registration Statement on Form S-1 of the Company dated December 1, 2020, as filed with the United States Securities Exchange Commission.

We also consent to the reference to us under the caption “Experts” in the Prospectus constituting part of this Registration Statement.

MNP LLP

**Chartered Professional Accountants
Licensed Public Accountants
December 1, 2020
Toronto, Canada**



KINCENTRIC
Best Employer
CANADA 2019

ACCOUNTING > CONSULTING > TAX
SUITE 300, 111 RICHMOND STREET W, TORONTO ON, M5H 2G4
1.877.251.2922 T: 416.596.1711 F: 416.596.7894 MNP.ca