

GROWLIFE, INC.  
Form 10-Q  
November 14, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-50385  
GrowLife, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of 90-0821083  
incorporation or organization) (I.R.S. Employer Identification No.)

5400 Carillon Point  
Kirkland, WA 98033  
(Address of principal executive offices and zip code)

(866) 781-5559  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company)    Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 14, 2018, there were 3,217,711,802 shares of the issuer's common stock, \$0.0001 par value per share, outstanding.



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## ITEM 1. FINANCIAL STATEMENTS

GROWLIFE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

September 30, 2018 December 31, 2017

## ASSETS

(Audited)

## CURRENT ASSETS:

Cash and cash equivalents	\$197,180	\$69,191
Inventory, net	486,661	465,678
Deposits	32,921	24,308
Total current assets	716,762	559,177

EQUIPMENT, NET	502,397	302,689
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TOTAL ASSETS	\$1,219,159	\$861,866
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## LIABILITIES AND STOCKHOLDERS' (DEFICIT)

## CURRENT LIABILITIES:

Accounts payable - trade	\$954,218	\$821,398
Accrued expenses	244,910	133,988
Accrued expenses - related parties	47,726	37,776
Derivative liability	1,118,107	2,660,167
Current portion of convertible notes payable	2,319,687	3,015,021
Deferred revenue	10,000	10,000
Total current liabilities	4,694,648	6,678,350

## COMMITMENTS AND CONTINGENCIES

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## STOCKHOLDERS' DEFICIT

Preferred stock - \$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock - \$0.0001 par value, 6,000,000,000 shares authorized, 3,054,218,374 and 2,367,634,022 shares issued and outstanding at 9/30/2018 and 12/31/2017, respectively	305,411	236,752
Additional paid in capital	134,527,801	123,678,069
Accumulated deficit	(138,308,701)	(129,731,305)
Total stockholders' deficit	(3,475,489)	(5,816,484)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$1,219,159	\$861,866
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The accompanying notes are an integral part of these consolidated financial statements.





GROWLIFE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended,		Nine Months Ended,	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
NET REVENUE	\$953,949	\$661,444	\$2,871,300	\$1,650,367
COST OF GOODS SOLD	898,962	476,752	2,628,413	1,353,049
GROSS PROFIT	54,987	184,692	242,887	297,318
GENERAL AND ADMINISTRATIVE EXPENSES	1,116,724	588,969	3,220,994	1,501,924
OPERATING LOSS	(1,061,737)	(404,277)	(2,978,107)	(1,204,606)
OTHER INCOME (EXPENSE):				
Change in fair value of derivative	(120,286)	-	1,534,812	2,163,861
Interest expense, net	(365,859)	(153,216)	(1,075,092)	(468,809)
Impairment of acquired assets	(60,000)	-	(60,000)	-
Loss on debt conversions	(645,483)	(198,706)	(5,999,009)	(1,668,551)
Total other (expense) income	(1,191,628)	(351,922)	(5,599,289)	26,501
(LOSS) BEFORE INCOME TAXES	(2,253,365)	(756,199)	(8,577,396)	(1,178,105)
Income taxes - current benefit	-	-	-	-
NET (LOSS)	\$(2,253,365)	\$(756,199)	\$(8,577,396)	\$(1,178,105)
Basic and diluted (loss) per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)
Weighted average shares of common stock outstanding- basic and diluted	2,996,701,771	2,090,300,854	2,882,328,973	1,973,142,842

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



GROWLIFE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended,

September 30, 2018 September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$(8,577,396)	\$(1,178,105)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	50,292	1,890
Stock based compensation	175,860	161,895
Common stock issued for services	153,206	51,000
Amortization of debt discount	660,472	121,395
Change in fair value of derivative liability	(1,542,060)	(2,701,559)
Accrued interest on convertible notes payable	301,885	317,392
Loss on debt conversions	6,170,022	1,668,551
Write-off of derivaive liability to additional paid in capital	-	537,698
Changes in operating assets and liabilities:		
Inventory	(20,983)	(91)
Deposits	-	1,890
Accounts payable	150,820	(102,753)
Accrued expenses	120,872	(2,137)
Deferred revenue	-	(37,995)
<b>CASH (USED IN) OPERATING ACTIVITIES</b>	<b>(2,357,010)</b>	<b>(1,160,929)</b>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in purchased assets	(250,000)	(220,731)
<b>NET CASH (USED IN) INVESTING ACTIVITIES:</b>	<b>(250,000)</b>	<b>(220,731)</b>

CASH FLOWS FROM FINANCING ACTIVITIES:

Cash provided from Convertible Promissory Note with Chicago Venture Partners, L.P.	1,435,000	2,999,401
Share issuances to St. George Investments LLC	1,300,000	-
Cash payoff to TCA Global Credit Master Fund, LP	-	(1,509,041)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,735,000</b>	<b>1,490,360</b>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 127,990 108,700

**CASH AND CASH EQUIVALENTS, beginning of period** 69,191 103,070

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CASH AND CASH EQUIVALENTS, end of period	\$197,180	\$211,770
Supplemental disclosures of cash flow information:		
Interest paid	\$-	\$-
Taxes paid	\$-	\$-
Non-cash investing and financing activities:		
Shares issued for convertible note and interest conversion	\$3,067,295	\$1,147,923
Common shares issued for accounts payable	\$18,000	\$260,753

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



GROWLIFE, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS AND ORGANIZATION

The accompanying unaudited consolidated condensed financial statements have been prepared by GrowLife, Inc. (“us,” “we,” or “our”) in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial reporting and rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of our management, all adjustments, consisting of only normal recurring accruals, necessary for a fair presentation of the financial position, results of operations, and cash flows for the fiscal periods presented have been included.

These financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report filed on Form 10-K for the year ended December 31, 2017. The results of operations for the three months ended September 30, 2018 are not necessarily indicative of the results expected for the full fiscal year, or for any other fiscal period.

GrowLife, Inc. (“GrowLife” or the “Company”) is incorporated under the laws of the State of Delaware and is headquartered in Kirkland, Washington. The Company was founded in 2012 with the Closing of the Agreement and Plan of Merger with SGT Merger Corporation.

The Company’s goal of becoming the nation’s largest cultivation facility service provider for the production of organics, herbs and greens and plant-based medicines has not changed. The Company’s mission is to best serve more cultivators in the design, build-out, expansion and maintenance of their facilities with products of high quality, exceptional value and competitive price. Through a nationwide network of knowledgeable representatives, regional centers and its e-commerce website, GrowLife provides essential and hard-to-find goods including media (i.e., farming soil), industry-leading hydroponics equipment, organic plant nutrients, and thousands more products to specialty grow operations across the United States.

The Company primarily sells through its wholly owned subsidiary, GrowLife Hydroponics, Inc. GrowLife companies distribute and sell over 15,000 products through its e-commerce distribution channel, GrowLifeEco.com, and through our regional retail storefronts. GrowLife and its business units are organized and directed to operate strictly in accordance with all applicable state and federal laws.

On June 7, 2013, GrowLife Hydroponics completed the purchase of Rocky Mountain Hydroponics, LLC, a Colorado limited liability company (“RMC”), and Evergreen Garden Center, LLC, a Maine limited liability company (“EGC”). The effective date of the purchase was June 7, 2013.

On October 3, 2017, the Company closed the acquisition of 51% of the Purchased Assets from David Reichwein, a Pennsylvania resident, GIP International Ltd, a Hong Kong corporation and DPR International LLC, a Pennsylvania limited liability corporation. The Purchased Assets include intellectual property, copy rights and trademarks related to reflective tiles and flooring.

The Company did not acquire business, customer list or employees.

The Company acquired its 51% interest in the Purchased Assets for \$400,000. The Company funded equipment and rent of an office lease. On February 16, 2018, the Company purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of \$250,000. As September 30, 2018, the Company had recorded investment in purchased assets of \$552,689.

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On August 17, 2018, the Company entered into an Asset Purchase Agreement with Go Green Hydroponics, Inc., a California corporation and TCA – Go Green SPV, LLC, a Florida limited liability pursuant to which the Company acquired the intellectual property and assumed the lease for the property located at 15721 Ventura Blvd., Encino, CA 91436. The Company intends to operate a retail store, sale over the internet and sell on a direct basis at this location.





Concurrently, the Company and Seller entered into a Security Agreement for securing the assets of Company as collateral for the obligations of Company as set forth in the Security Agreement. In consideration for the sale and assignment of the Purchased Assets, the Company agreed to pay the Seller: (i) the proceeds generated from the sale of the closing inventory until all closing inventory has been sold, and (ii) to pay the Seller 5% of all gross revenue of Company earned or in any way related to the Purchased Assets generated between October 1, 2018 and December 31, 2019, up to a maximum of \$200,000.

On October 17, 2017, the Company was informed by Alpine Securities Corporation (“Alpine”) that Alpine has demonstrated compliance with the Financial Industry Regulatory Authority (“FINRA”) Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. As a result, Alpine may initiate an unpriced quotation for the Company’s common stock. The Company filed an application with the OTC Markets to list the Company’s common stock on the OTCQB. On March 20, 2018 the Company’s Common Stock began trading on the OTCQB.

#### NOTE 2 – GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$8,577,396, \$7,694,684 and \$5,688,845 for the nine months ended September 30, 2018 and the years ended December 31, 2017 and 2016, respectively. Our net cash used in operating activities was \$2,357,010, \$2,082,493 and \$1,212,192 for the nine months ended September 30, 2018 and the years ended December 31, 2017 and 2016, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of September 30, 2018, the accumulated deficit was \$138,308,701. The Company has experienced recurring operating losses and negative operating cash flows since inception and has financed its working capital requirements during this period primarily through the recurring issuance of convertible notes payable and advances from a related party. The audit opinion prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2017 and 2016 filed with the SEC on March 28, 2018, and amended July 9, 2018, includes an explanatory paragraph expressing the substantial doubt about our ability to continue as a going concern.

Continuation of the Company as a going concern is dependent upon obtaining additional working capital. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

#### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

**Basis of Presentation** - The accompanying unaudited consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these unaudited consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”).

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. Inter-Company items and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents** - The Company classifies highly liquid temporary investments with an original maturity of nine months or less when purchased as cash equivalents. The Company maintains cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit.

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Accounts Receivable and Revenue - Revenue is recognized at the time the Company sells merchandise to the customer in store. eCommerce sales include shipping revenue and are recorded upon shipment to the customer. This is when the risk of loss transfers to our customers, the fee is fixed and determinable, and collection of the sale is reasonably assured. A product is not shipped without an order from the customer and the completion of credit acceptance procedures. The majority of our sales are cash or credit card; however, we occasionally extend terms to our customers. Accounts receivable are reviewed periodically for collectability.



**Inventories** - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. The reserve for inventory was \$20,000 as of September 30, 2018 and December 31, 2017, respectively.

**Long Lived Assets** – The Company reviews its long-lived assets for impairment annually or when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets under certain circumstances are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value (less the projected cost associated with selling the asset). To the extent carrying values exceed fair values, an impairment loss is recognized in operating results.

**Fair Value Measurements and Financial Instruments** - ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

**Level 1** - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2** - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The carrying value of cash, accounts receivable, investment in a related party, accounts payables, accrued expenses, due to related party, notes payable, and convertible notes approximates their fair values due to their short-term maturities.

**Derivative financial instruments** -The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the balance sheet date.

**Sales Returns** - We allow customers to return defective products when they meet certain established criteria as outlined in our sales terms and conditions. It is our practice to regularly review and revise, when deemed necessary, our estimates of sales returns, which are based primarily on actual historical return rates. We record estimated sales returns as reductions to sales, cost of goods sold, and accounts receivable and an increase to inventory. Returned products which are recorded as inventory are valued based upon the amount we expect to realize upon its subsequent disposition. As of September 30, 2018 and December 31, 2017, there was a reserve for sales returns of \$10,000, which is minimal based upon our historical experience.

**Stock Based Compensation** - The Company has share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, as well as options and warrants to purchase shares of

Company common stock at the fair market value at the time of grant. Stock-based compensation cost to employees is measured by the Company at the grant date, based on the fair value of the award, over the requisite service period under ASC 718. For options issued to employees, the Company recognizes stock compensation costs utilizing the fair value methodology over the related period of benefit. Grants of stock to non-employees and other parties are accounted for in accordance with the ASC 505.



Net (Loss) Per Share - Under the provisions of ASC 260, "Earnings per Share," basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of September 30, 2018, there are also (i) stock option grants outstanding for the purchase of 63 million common shares at a \$0.009 average exercise price; (ii) warrants for the purchase of 644 million common shares at a \$0.0323 average exercise price; and (iii) 111 million shares related to convertible debt that can be converted at \$0.002535 per share. In addition, we have an unknown number of common shares to be issued under the Chicago Venture Partners, L.P. and Iliad Research and Trading L.P, financing agreements and 2.5 million shares not earned under employment agreements. As of September 30, 2017, there are also (i) stock option grants outstanding for the purchase of 14,010,000 common shares at a \$0.010 average exercise price; (ii) warrants for the purchase of 595 million common shares at a \$0.031 average exercise price; and (iii) 138,790,556 million shares related to convertible debt that can be converted at \$0.0036 per share. In addition, we have an unknown number of common shares to be issued under the Chicago Venture Partners, L.P. financing agreements.

Dividend Policy - The Company has never paid any cash dividends and intends, for the foreseeable future, to retain any future earnings for the development of our business. Our future dividend policy will be determined by the board of directors on the basis of various factors, including our results of operations, financial condition, capital requirements and investment opportunities.

Use of Estimates - In preparing these unaudited interim consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that may 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 amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions included in our consolidated financial statements relate to the valuation of long-lived assets, estimates of sales returns, inventory reserves and accruals for potential liabilities, and valuation assumptions related to derivative liability, equity instruments and share based compensation.

#### Recent Accounting Pronouncements

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to the Company's consolidated financial statements.

#### NOTE 4 – TRANSACTIONS WITH CANX USA, LLC AND LOGIC WORKS LLC

##### Transactions with CANX, LLC and Logic Works LLC

On November 19, 2013, the Company entered into a Joint Venture Agreement with CANX, a Nevada limited liability company. Under the terms of the Joint Venture Agreement, the Company and CANX formed Organic Growth International, LLC ("OGI"), a Nevada limited liability company, for the purpose of expanding the Company's operations in its current retail hydroponic businesses and in other synergistic business verticals and facilitating additional funding for commercially financeable transactions of up to \$40,000,000.







The Company initially owned a non-dilutive 45% share of OGI and the Company could acquire a controlling share of OGI as provided in the Joint Venture Agreement. In accordance with the Joint Venture Agreement, the Company and CANX entered into a Warrant Agreement whereby the Company delivered to CANX a warrant to purchase 140,000,000 shares of the Company common stock that is convertible at \$0.033 per share, subject to adjustment as provided in the warrant. The five-year warrant expires November 18, 2018. Also, in accordance with the Joint Venture Agreement, on February 7, 2014 the Company issued an additional warrant to purchase 100,000,000 shares of our common stock that is convertible at \$0.033 per share, subject to adjustment as provided in the warrant. The five-year warrant expires February 6, 2019.

GrowLife received the \$1 million as a convertible note in December 2013, received the \$1.3 million commitment but not executed and by January 2014 OGI had Letters of Intent with four investment and acquisition transactions valued at \$96 million. Before the deals could close, the SEC put a trading halt on our stock on April 10, 2014, which resulted in the withdrawal of all transactions. The business disruption from the trading halt and the resulting class action and derivative lawsuits ceased further investments with the OGI joint venture. The Convertible Note was converted into GrowLife, Inc. common stock as of the year ended December 31, 2016.

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX and Logic Works LLC, a lender and shareholder of the Company.

The Amended and Restated Joint Venture Agreement with CANX modified the Joint Venture Agreement dated November 19, 2013 to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to nine months, subject to extension; (ii) up to \$10,000,000 in working capital loans, with each loan requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to adjustment, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to adjustment, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; and (vi) a four year term, subject to adjustment.

The Company entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding required approval in advance by Logic Works, provided interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.0070 or (B) twenty percent (20%) of the average of the nine (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. As of September 30, 2018, the outstanding balance on the Convertible Note was \$0.

OGI was incorporated on January 7, 2014 in the State of Nevada and had no business activities as of September 30, 2018.

#### NOTE 5 – INVENTORY

Inventory as of September 30, 2018 and December 31, 2017 consists of the following:

September 30,	December 31,
---------------	--------------

2018

2017

Raw materials	\$130,348	\$110,000
Finished goods	376,313	375,678
Inventory reserve	(20,000)	(20,000)
Total	\$486,661	\$465,678

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Finished goods inventory relates to product at the Company's retail stores, which is product purchased from distributors, and in some cases directly from the manufacturer, and resold at our stores.

The Company reviews its inventory on a periodic basis to identify products that are slow moving and/or obsolete, and if such products are identified, the Company records the appropriate inventory impairment charge at such time.

On August 17, 2018, the Company entered into an Asset Purchase Agreement with Go Green Hydroponics, Inc. and TCA – Go Green SPV, LLC. The Company acquired the inventory of Go Green but agreed to pay the Seller 100% of the proceeds generated from the sale of the closing inventory until all closing inventory has been sold. The Company recorded inventory of \$134,497 as of September 30, 2018.

#### NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2018 and December 31, 2017 consists of the following:

	September 30,	December 31,
	2018	2017
Machines and equipment	\$552,689	\$365,861
Furniture and fixtures	-	49,787
Computer equipment	-	52,304
Leasehold improvements	-	56,965
Total property and equipment	552,689	524,917
Less accumulated depreciation and amortization	(50,292)	(222,228)
Net property and equipment	\$502,397	\$302,689

Fixed assets, net of accumulated depreciation, were \$502,397 and \$302,689 as of September 30, 2018 and December 31, 2017, respectively. Accumulated depreciation was \$50,292 and \$222,228 as of September 30, 2018 and December 31, 2017, respectively. Total depreciation expense was \$50,292 and \$1,890 for the nine months ended September 30, 2018 and 2017, respectively. All equipment is used for manufacturing, selling, general and administrative purposes and accordingly all depreciation is classified in cost of goods sold, selling, general and administrative expenses. The Company began depreciation on the purchased machine on January 1, 2018, when significant operations began.

On October 3, 2017, the Company closed the acquisition of 51% of the Purchased Assets from David Reichwein, a Pennsylvania resident, GIP International Ltd, a Hong Kong corporation and DPR International LLC, a Pennsylvania limited liability corporation. The Purchased Assets include intellectual property, copy rights and trademarks related to reflective tiles and flooring.

The Company did not acquire business, customer list or employees.

The Company acquired its 51% interest in the Purchased Assets for \$400,000. The Company funded equipment and rent of an office lease. On February 16, 2018, the Company purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of \$250,000. As of September 30, 2018, the Company had recorded investment in purchased assets of \$552,689.





During the nine months ended September 30, 2018, the Company retired fully depreciated assets of \$222,228.

NOTE 7- ACCOUNTS PAYABLE

Accounts payable were \$954,218 and \$821,398 as of September 30, 2018 and December 31, 2017, respectively. Such liabilities consisted of amounts due to vendors for inventory purchases, audit, legal and other expenses incurred by the Company.

NOTE 8- ACCRUED EXPENSES

Accrued expenses were \$244,910 and \$133,988 as of September 30, 2018 and December 31, 2017, respectively. Such liabilities consisted of amounts due to Go Green Hydroponics, Inc. and TCA – Go Green SPV, LLC and sales tax and payroll liabilities.

On August 17, 2018, the Company entered into an Asset Purchase Agreement with Go Green Hydroponics, Inc. and TCA – Go Green SPV, LLC. The Company acquired the inventory of Go Green but agreed to pay the Seller 100% of the proceeds generated from the sale of the closing inventory until all closing inventory has been sold. The Company recorded accrued expenses \$134,497 as of September 30, 2018 related to the sale of inventory. Also, the Company agreed to pay 5% of all gross revenue of Company earned or in any way related to the Purchased Assets generated between October 1, 2018 and December 31, 2019, up to a maximum of \$200,000. The Company estimated gross revenue for that period to be approximately \$1,200,000 and recorded a \$60,000 liability. The Company recorded an impairment of acquired assets in the amount of \$60,000 as of September 30, 2018.

NOTE 9– CONVERTIBLE NOTES PAYABLE, NET

Convertible notes payable as of September 30, 2018 consisted of the following:

				Balance
	Principal	Accrued Interest	Debt Discount	As of
				September 30, 2018
10% OID Convertible Promissory Notes	\$1,961,340	\$115,146	\$(38,075)	\$2,038,411
7% Convertible note (\$850,000)	270,787	10,489	-	281,276
	\$2,232,127	\$125,635	\$(38,075)	\$2,319,687

Convertible notes payable as of December 31, 2017 consisted of the following:

				Balance
	Accrued	Debt	As of	



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	Principal	Interest	Discount	December 31, 2017
6% Secured convertible note (2014)	\$39,251	\$1,974	\$-	\$41,225
7% Convertible note (\$850,000)	250,000	321,652	-	571,652
10% OID Convertible Promissory Notes	\$2,980,199	\$120,492	\$(698,547)	\$2,402,144
	\$3,269,450	\$444,118	\$(698,547)	\$3,015,021



#### 6% Secured Convertible Note and Secured Credit Facility (2014)

On March 13, 2018, the Company, received a Notice of Conversion from Logic Works LLC converting principal and interest of \$41,690 owed under that a 6% Convertible Note into 16,445,609 shares of our common stock with a fair value of \$248,329. As of March 13, 2018, the outstanding balance on the Convertible Note was \$0.

#### 7% Convertible Notes Payable

As of December 31, 2017, the outstanding principal on the 7% convertible note was \$250,000 and accrued interest was \$321,652, which results in a total liability of \$571,652.

On February 12, 2018, the Company received a Notice of Conversion from Forglen LLC converting principal and interest of \$321,945 owed under that 7% Convertible Note as amended June 19, 2014 into 127,000,000 shares of the Company's common stock with a fair value of \$2,235,200.

On February 23, 2018, the Company, submitted a Notice of Prepayment to Forglen LLC to prepay the balance owed under that 7% Convertible Note as amended June 19, 2014. In response to the Prepay Notice, Forglen submitted a Notice of Conversion on March 8, 2018 to convert the entire balance of the Note and all accrued interest. Upon negotiations between Forglen and the Company, the parties entered into a Second Amendment to the Note, dated March 12, 2018.

Pursuant to the Amendment, the Note's maturity date has been extended to December 31, 2019, and interest on the Note shall accrue at 7% per annum, compounding on the maturity date. As consideration for the Amendment, the Company rescinded its Prepay Notice and Forglen rescinded its Conversion Notice. Additionally, after review of the Note and accrued interest, the Parties agreed that as of March 12, 2018, the outstanding balance on the Note was \$270,787.

As of September 30, 2018, the outstanding principal on this 7% convertible note was \$270,787 and accrued interest was \$10,489, which results in a total liability of \$281,276.

#### 10% Convertible Promissory Notes

##### Funding from Chicago Venture Partners, L.P. ("Chicago Venture")

As of December 31, 2017, the outstanding principal balance due to Chicago Venture was \$2,980,199, accrued interest was \$120,492, net of the discount of \$698,547, which results in a total amount of \$2,402,144.

As of September 30, 2018, the outstanding principal balance due to Chicago Venture is \$1,426,342, accrued interest was \$110,964, net of the discount of \$38,075, which results in a total amount of \$1,499,231.

During the nine months ended September 30, 2018, Chicago Venture converted principal and interest of \$2,779,358 into 469,401,651 shares of our common stock at a per share conversion price of \$0.0058 with a fair value of \$6,994,433. The Company recognized \$4,256,766 of loss on debt conversions during the nine months ended September 30, 2018.

During the nine months ended September 30, 2018, the Company recorded an OID debt discount expense of \$660,472 to interest expense related to the Chicago Venture financing.

##### Securities Purchase Agreement, Secured Promissory Notes and Security Agreement with Iliad Research and Trading, L.P. ("Iliad")

On August 10, 2018, the Company closed the transactions described below with Iliad.

On August 7, 2018, the Company executed the following agreements with Iliad: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security Agreement (collectively the “Iliad Agreements”). The Company entered into the Iliad Agreements with the intent to acquire working capital to grow our businesses.



The total amount of funding under the Iliad Agreements is \$1,500,000. The Convertible Promissory Note carries an original issue discount of \$150,000 and a transaction expense amount of \$5,000, for total debt of \$1,655,000. The Company agreed to reserve three times the number of shares based on the redemption value with a minimum of 150 million shares of its common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before August 7, 2019. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Iliad's option, into our common stock at \$0.015 per share subject to adjustment as provided for in the Secured Promissory Notes. The Company's obligation to pay the Debt, or any portion thereof, is secured by all of our assets. The Company has \$1,055,000 available under this debt financing.

At September 30, 2018 the outstanding principal balance due to Iliad Research and Trading, L.P. is \$535,000, accrued interest of \$4,182 resulting in a total of \$539,182.

NOTE 10 – DERIVATIVE LIABILITY

In April 2008, the FASB issued a pronouncement that provides guidance on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in the pronouncement on accounting for derivatives. This pronouncement was effective for financial statements issued for fiscal years beginning after December 15, 2008.

If the conversion features of conventional convertible debt provide for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (BCF). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20. Debt with Conversion and Other Options. In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense over the life of the debt using the effective interest method. The debt is convertible at the lesser of 65% of the fair value of the Company's common stock or \$0.009 requiring the conversion feature to be bifurcated from the host debt contract and accounting for separately as a derivative, resulting in periodic revaluations.

There was a derivative liability of \$1,118,107 as of September 30, 2018. For the nine months ended September 30, 2018, the Company recorded non-cash income of \$1,534,812 related to the "change in fair value of derivative" expense related to the Chicago Venture and Iliad financing. The income related to a decline in the share price and Chicago Venture converted principal and interest of \$2,737,688 into 469,401,651 shares of our common stock during the nine months ended September 30, 2018.

Derivative liability as of September 30, 2018 was as follows:

				Carrying
				Amount at
Fair Value Measurements Using				
Inputs				
Financial Instruments	Level 1	Level 2	Level 3	September 30, 2018

Liabilities:

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Derivative Instruments	\$-	\$1,118,107	\$-	\$1,118,107
Total	\$-	\$1,118,107	\$-	\$1,118,107





## NOTE 11 – RELATED PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS

### Related Party Transactions

Since January 1, 2018, the Company engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

On February 7, 2018, the Company issued 7,660,274 shares to three directors. The shares were valued at the fair market price of \$0.020 per share or \$153,205. The shares were issued for annual director service to the Company.

### Certain Relationships

Please see the transactions with CANX, LLC and Logic Works in Note 4, and Chicago Venture Partners, L.P. discussed in Note 9, 10 and 11.

## NOTE 12 – EQUITY

### Authorized Capital Stock

The Company has authorized 6,010,000,000 shares of capital stock, of which 6,000,000,000 are shares of voting common stock, par value \$0.0001 per share, and 10,000,000 are shares of preferred stock, par value \$0.0001 per share. On October 24, 2017 the Company filed a Certificate of Amendment of Certificate of Incorporation with the Secretary of State of the State of Delaware to increase the authorized shares of common stock from 3,000,000,000 to 6,000,000,000 shares.

### Non-Voting Preferred Stock

Under the terms of our articles of incorporation, the Company's board of directors is authorized to issue shares of non-voting preferred stock in one or more series without stockholder approval. The Company's board of directors has the discretion to determine the rights, preferences, privileges and restrictions, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of non-voting preferred stock.

The purpose of authorizing the Company's board of directors to issue non-voting preferred stock and determine the Company's rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of non-voting preferred stock, while providing flexibility in connection with possible acquisitions, future financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from seeking to acquire, a majority of our outstanding voting stock. Other than the Series B and C Preferred Stock discussed below, there are no shares of non-voting preferred stock presently outstanding and we have no present plans to issue any shares of preferred stock.

### Common Stock

Unless otherwise indicated, all of the following sales or issuances of Company securities were conducted under the exemption from registration as provided under Section 4(2) of the Securities Act of 1933 (and also qualified for exemption under 4(5), formerly 4(6) of the Securities Act of 1933, except as noted below). All of the shares issued were issued in transactions not involving a public offering, are considered to be restricted stock as defined in Rule 144 promulgated under the Securities Act of 1933 and stock certificates issued with respect thereto bear legends to that effect.

The Company has compensated consultants and service providers with restricted common stock during the development of our business and when our capital resources were not adequate to provide payment in cash.

#### Equity Issuances

During the nine months ended September 30, 2018, the Company had had the following sales of unregistered of equity securities to accredited investors unless otherwise indicated:



On February 7, 2018, the Company issued 7,660,274 shares to three directors. The shares were valued at the fair market price of \$0.020 per share or \$153,205. The shares were issued for annual director service to the Company.

On February 12, 2018, the Company received a Notice of Conversion from Forglen LLC converting principal and interest of \$321,945 owed under that certain 7% Convertible Note as amended June 19, 2014 into 127,000,000 shares of the Company's common stock with a fair value of \$2,235,200.

On February 16, 2018, the Company issued 900,000 shares of its common stock to a service provider pursuant to a conversion of debt totaling \$18,000. The shares were valued at the fair market price of \$0.020 per share.

On March 13, 2018, the Company, received a Notice of Conversion from Logic Works LLC converting principal and interest of \$41,690 owed under that a 6% Convertible Note into 16,445,609 shares of our common stock with a fair value of \$248,329. As of March 13, 2018, the outstanding balance on the Convertible Note was \$0.

During the nine months ended September 30, 2018, Chicago Venture and Iliad converted principal and interest of \$2,779,358 into 469,401,651 shares of our common stock at a per share conversion price of \$0.0058 with a fair value of \$6,994,433. The Company recognized \$4,526,766 of loss on debt conversions during the nine months ended September 30, 2018.

#### Securities Purchase Agreements with St. George Investments, LLC

On February 9, 2018, the Company executed the following agreements with St. George Investments LLC, a Utah limited liability company: (i) Securities Purchase Agreement; and (ii) Warrant to Purchase Shares of Common Stock. The Company entered into the St. George Agreements with the intent to acquire working capital to grow the Company's businesses.

Pursuant to the St. George Agreements, the Company agreed to sell and to issue to St. George for an aggregate purchase price of \$1,000,000: (a) 48,687,862 Shares of newly issued restricted Common Stock of the Company; and (b) the Warrant. St. George has paid the entire Purchase Price for the Securities.

The Warrant is exercisable for a period of five (5) years from the Closing, for the purchase of up to 48,687,862 shares of the Company's Common Stock at an exercise price of \$0.05 per share of Common Stock. The Warrant is subject to a cashless exercise option at the election of St. George and other adjustments as detailed in the Warrant.

On March 20, 2018, the Company entered into and closed on a Common Stock Purchase Agreement with St. George Investments, LLC, a Utah limited liability company. The Company issued St. George 6,410,256 shares of newly issued restricted Common Stock of the Company at a purchase price of \$0.0156 per share.

On April 26, 2018, the Company entered into and closed on a Common Stock Purchase Agreement with St. George Investments, LLC, Pursuant to the St. George Agreements, the Company sold and agreed to issue to St. George 4,950,495 shares of newly issued restricted Common Stock of the Company at a purchase price of \$0.0202 per share.

On May 25, 2018, the Company entered into and closed on a Common Stock Purchase Agreement with St. George Investments, LLC, Pursuant to the St. George Agreements, the Company sold and agreed to issue to St. George 5,128,205 shares of newly issued restricted Common Stock of the Company at a purchase price of \$0.0195 per share.

#### Warrants

The Company issued the following warrants during the nine months ended September 30, 2018:

Securities Purchase Agreements with St. George Investments, LLC

On February 9, 2018, the Company executed the following agreements with St. George Investments LLC and issued a warrant to purchase of up to 48,687,862 shares of the Company's Common Stock at an exercise price of \$0.05 per share. The Warrant is subject to a cashless exercise option at the election of St. George and other adjustments as repricing as detailed in the Warrant.



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A summary of the warrants issued as of September 30, 2018 is as follows:

September 30, 2018

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	595,000,000	\$0.032
Issued	48,687,862	0.050
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at end of period	643,687,862	\$0.032
Exerciseable at end of period	643,687,862	

A summary of the status of the warrants outstanding as of September 30, 2018 is presented below:

September 30, 2018

	Weighted Average	Weighted Average	Shares	Weighted Average Exercise Price
Number of Warrants	Remaining Life	Exercise Price	Exerciseable	Exercise Price
540,000,000	0.53	\$0.033	540,000,000	\$0.033
55,000,000	1.73	0.010	45,000,000	0.010
48,687,862	4.33	0.050	48,687,862	0.050
643,687,862	1.00	\$0.032	633,687,862	\$0.029

Warrants totaling 55 million shares of common stock had an intrinsic value of \$110,000 as of September 30, 2018.

NOTE 13– STOCK OPTIONS

Description of Stock Option Plan

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On October 23, 2017, the Company's Shareholders authorized a Stock Incentive Plan whereby a maximum of 100,000,000 shares of the Company's common stock could be granted in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards. The Company has outstanding unexercised stock option grants totaling 37,000,000 shares as of September 30, 2018. The Company filed a registration statement on Form S-8 to register 100,000,000 shares of Company's common stock related to the 2017 Stock Incentive Plan.

#### Determining Fair Value under ASC 505

The Company records compensation expense associated with stock options and other equity-based compensation using the Black-Scholes-Merton option valuation model for estimating fair value of stock options granted under our plan. The Company amortizes the fair value of stock options on a ratable basis over the requisite service periods, which are generally the vesting periods. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company estimates the volatility of our common stock based on the historical volatility of its own common stock over the most recent period corresponding with the estimated expected life of the award. The Company bases the risk-free interest rate used in the Black Scholes-Merton option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. The Company has not paid any cash dividends on our common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes-Merton option valuation model and adjusts share-based compensation for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed.

#### Stock Option Activity

During the nine months ended September 30, 2018, the Company had the following stock option activity:

On February 23, 2018, an employee was granted an option to purchase 2,000,000 shares of common stock at an exercise price of \$0.020 per share. The stock option grant vests quarterly over two years and is exercisable for 5 years. The stock option grant was valued at \$13,000.

On February 23, 2018, an employee was granted an option to purchase 1,000,000 shares of common stock at an exercise price of \$0.020 per share. The stock option grant vests quarterly over one year and is exercisable for 5 years. The stock option grant was valued at \$20,000.

On February 23, 2018, an employee was granted an option to purchase 1,000,000 shares of common stock at an exercise price of \$0.020 per share. The stock option grant vests quarterly over one year and is exercisable for 5 years. The stock option grant was valued at \$6,500.

On May 1, 2018, an employee was granted an option to purchase 2,000,000 shares of common stock at an exercise price of \$0.020 per share. The stock option grant vests quarterly over one year and is exercisable for 5 years. The stock option grant was valued at \$13,000.

On June 1, 2018, an employee was granted an option to purchase 2,000,000 shares of common stock at an exercise price of \$0.020 per share. The stock option grant vests quarterly over one year and is exercisable for 5 years. The stock option grant was valued at \$13,000.

As of September 30, 2018, there are 63,000,000 options to purchase common stock at an average exercise price of \$0.010 per share outstanding under the 2017 Stock Incentive Plan. The Company recorded \$29,619 and \$23,352 of compensation expense, net of related tax effects, relative to stock options for the nine months ended September 30,

2018 and 2017 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.00). As of September 30, 2018, there is \$80,043 of total unrecognized costs related to employee granted stock options that are not vested. These costs are expected to be recognized over a period of approximately 3.45 years.



Stock option activity for the nine months ended September 30, 2018 and the years ended December 31, 2017 and 2016 is as follows:

		Weighted Average	
	Options	Exercise Price	\$
Outstanding as of December 31, 2015	29,020,000	\$0.03	\$811,000
Granted	-	-	-
Exercised	-	-	-
Forfeitures	(17,010,000)	(0.041)	(690,500)
Outstanding as of December 31, 2016	12,010,000	0.01	120,500
Granted	44,000,000	0.006	280,000
Exercised	-	-	-
Forfeitures	(10,000)	(0.050)	(500)
Outstanding as of December 31, 2017	56,000,000	0.007	400,000
Granted	7,000,000	0.020	140,000
Exercised	-	-	-
Forfeitures	-	-	-
Outstanding as of September 30, 2018	63,000,000	\$0.009	\$540,000

The following table summarizes information about stock options outstanding and exercisable as of September 30, 2018:

Range of	Number	Weighted	Weighted	Number	Weighted
		Average	Average		Average
Exercise Prices	Outstanding	Remaining Life	Exercise Price	Exercisable	Exercisable
\$0.006	32,000,000	4.00	\$0.006	4,000,000	\$0.006
0.007	10,000,000	4.00	0.007	3,333,333	0.007
0.009	2,000,000	1.75	0.009	833,333	0.009
0.010	12,000,000	1.13	0.010	12,000,000	0.010
0.020	7,000,000	4.64	0.020	833,333	0.020
	63,000,000	3.45	\$0.009	21,000,000	\$0.009



Stock option grants totaling 56,000,000 shares of common stock had an intrinsic value of \$180,100 as of September 30, 2018.

#### NOTE 14 – COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

##### Legal Proceedings

From time to time, the Company may become subject to various legal proceedings that are incidental to the ordinary conduct of its business. Although the Company cannot accurately predict the amount of any liability that may ultimately arise with respect to any of these matters, it makes provision for potential liabilities when it deems them probable and reasonably estimable. These provisions are based on current information and may be adjusted from time to time according to developments.

##### Sales, Payroll and Other Tax Liabilities

As of September 30, 2018, the Company owes \$94,217 in sales tax to the City of Boulder, CO. The Company expects to pay \$5,000 per month.

##### Other Legal Proceedings

The Company may be sued for non-payment of lease payments at closed stores. We may be subject to legal actions with vendors.

##### Operating Leases

On December 7, 2016, the Company entered into entered into a Consent to Judgement and Settlement Agreement related to its retail hydroponics store located in Portland, Maine. This Agreement provides for a monthly lease payment of \$5,373 through July 31, 2020. We also agreed to a repayment schedule for past due rent and owe \$54,010 as of December 31, 2017. The Company is past due on the repayment schedule by \$58,678 as of September 30, 2018. The Company terminated the lease in April 2018.

On May 31, 2018, the Company rented space at 5400 Carillon Point, Kirkland, Washington 98033 for \$623 per month for our corporate office and use of space in the Regus network, including California. The Company's agreement expires May 31, 2019.

On October 1, 2017, GrowLife Hydroponics, Inc. entered into a lease in Calgary, Canada. The monthly lease is approximately \$3,246. The lease expires September 30, 2022.

On December 19, 2017, GrowLife Innovations, Inc. entered into a lease in Grand Prairie, Texas dated October 9, 2017, for 5,000 square feet for the manufacturing and distribution of its flooring products. The monthly lease payment is \$15,000. The lease expires December 1, 2022 and can be renewed.

On July 2, 2018, GrowLife Hydroponics, Inc. entered into a store lease for 1,950 square feet in Portland, Maine. The monthly lease is approximately \$2,113, with 3% increases in year two and three. The lease expires July 2, 2021 and can be extended.

On August 31, 2018, GrowLife, Inc. entered into the Fourth Amendment to the Lease Agreement for the store in Encino California. The monthly lease is approximately \$6,720, with a 3% increase on March 1, 2019. The lease expires February 28, 2019 and can be extended. The Company agreed to provide six months' notice to terminate the lease.







The aggregate future minimum lease payments under operating leases, to the extent the leases have early cancellation options and excluding escalation charges, are as follows:

Years Ended September 30, Total

2019	\$249,281
2020	486,419
2021	83,948
2022	-
2023	-
Beyond	-
Total	\$819,648

Employment and Consulting Agreements

First Addendum to Agreements with David Reichwein

On February 16, 2018, the Company entered into an Addendum to amend the terms between the Company and David Reichwein. Pursuant to the First Addendum, the Company purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of \$250,000 and the cancellation of Reichwein’s right to receive a 10% commission on certain sales of Free Fit products as was set forth in Reichwein’s employment agreement. In exchange for the cancellation of the commission in the employment agreement, Reichwein may earn a common stock bonus of up to 2,500,000 shares if certain revenue and gross margin goals are met by December 31, 2018.

Consulting Agreement with an Entity Controlled by Michael E. Fasci

On March 20, 2018, the Company terminated a Consulting Agreement dated October 21, 2016 with an entity controlled by Michael E. Fasci. Mr. Fasci had provided services related to lender management, financing and acquisitions.

NOTE 15 – SUBSEQUENT EVENTS

The Company evaluates subsequent events, for the purpose of adjustment or disclosure, up through the date the financial statements are available.

There were the material events subsequent to September 30, 2018:

Rights Offering to Shareholders

On September 18, 2018, the Company filed its proposed Rights Offering on Amendment 1 to Form S-1 that would allow the Company’s shareholders to acquire additional shares of common stock (the “Offering”). The Offering is designed to give record shareholders the opportunity to invest directly into the Company at a set price with additional warrants to support the Company’s capital raise to be used for continued expansion.

Each shareholder will receive one non-transferable right (the “Right”) for each share of common stock held on the record date (October 12, 2018). Each Right will include one share of Common Stock and two one-half warrants. The purchase price will be payable in cash to the Company.

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The warrants included in each Right will be exercisable for one-half of the number of rights for one share of our Common Stock at an exercise price of \$0.018 per share and one-half warrant exercisable for one share of our Common Stock at an exercise price of \$0.024. For example: if you subscribe for 100 Units you will receive 100 common stock shares and 100 warrants divided into 50 warrants exercisable at \$0.018 and 50 warrants exercisable at \$0.024).



The Record date shareholders who fully exercise their Subscription Rights will be eligible for an over-subscription privilege entitling these shareholders to subscribe, subject to certain limitations and a pro-rata allotment, for any additional shares of common stock not purchased pursuant to the Subscription.

The Offering expired at 6:00 PM Eastern Time on November 12, 2018, unless extended.

The SEC declared Amendment 1 to Form S-1 effective on October 15, 2018.

On November 8, 2018, the Company filed its prospectus supplement and announced the extension of its Rights Offering as previously announced (the "Rights Offering"). The Company has chosen to extend the offering period of the Rights Offering to November 20, 2018 to give stockholders, particularly those holding shares in street name who may have only recently received applicable materials, additional time to participate in the Rights Offering should they desire to do so and due to the original expiration date falling on a holiday.

The Offering expires at 6:00 PM Eastern Time on November 20, 2018, unless extended.

Purchase and Sale Agreement- EZ Clone Enterprises, Inc.

On October 15, 2018, the Company closed the Purchase and Sale Agreement with EZ Clone Enterprises, Inc., a California corporation. EZ Clone is the manufacturer of multiple award-winning products specifically designed for the commercial cloning and propagation stage of indoor plant cultivation including cannabis, food, and other hydroponic farming. The Company acquired 51% of EZ Clone for \$2,040,000, payable as follows: (i) a cash payment of \$645,000; and (ii) the issuance of 107,307,692 restricted shares of the Company's common stock at a price of \$0.013 per share or \$1,395,000.

The Company has the obligation to acquire the remaining 49% of EZ Clone within one year for \$1,960,000, payable as follows: (i) a cash payment of \$855,000; and (ii) the issuance of 85,000,000 shares of the Company's common stock at a price of \$0.013 per share or \$1,105,000.

Mr. William Blackburn will remain as President of EZ Clone.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement

On October 15, 2018, the Company executed the following agreements with Iliad: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; (iii) Security Agreement; and (iv) Warrant to Purchase Shares of Common Shares (collectively the "Iliad Agreements"). The Company entered into the Iliad Agreements with the intent to acquire EZ Clone Enterprises, Inc.

The total amount of funding under the Iliad Agreements is \$700,000. The Convertible Promissory Note carries an original issue discount of \$70,000 and a transaction expense amount of \$5,000, for total debt of \$775,000. The Company agreed to reserve 350 million shares of its common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before July 15, 2018. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Iliad's option, into the Company's common stock at 65% of the lowest trading prices in the twenty trading days before conversion.

The Warrant is exercisable for a period of five (5) years from the Closing, for the purchase of up to \$387,500 shares of the Company's Common Stock at the market price as of the date of closing. The Warrant is subject to a cashless exercise option at the election of Iliad and other adjustments as detailed in the Warrant.

The Company's obligation to pay the Debt, or any portion thereof, is secured by all of the Company's assets as described in Schedule A to the Security Agreement attached hereto and incorporated herein by this reference.



#### Employment Agreement with Marco Hegyi

On October 15, 2018, the Board of Directors of GrowLife, Inc. (the “Company”) entered into an Employment Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its Chief Executive Officer through October 15, 2021. Mr. Hegyi’s previous Employment Agreement was set to expire on October 21, 2018.

Mr. Hegyi’s annual compensation is \$275,000. Mr. Hegyi is also entitled to receive an annual bonus equal to four percent (4%) of the Company’s EBITDA for that year. The annual bonus shall be paid no later than 31 days following the end of each calendar year.

Mr. Hegyi received a Warrant to purchase up to 16,000,000 shares of common stock of the Company at an exercise price of \$0.012 per share which vest immediately. In addition, Mr. Hegyi received two Warrants to purchase up to 16,000,000 shares of common stock of the Company at an exercise price of \$0.012 per share which vest on October 15, 2019 and 2020, respectively. The Warrants are exercisable for 5 years.

Mr. Hegyi will be entitled to participate in all group employment benefits that are offered by the Company to the Company’s senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements. In addition, the Company will purchase and maintain during the Term an insurance policy on Mr. Hegyi’s life in the amount of \$2,000,000 payable to Mr. Hegyi’s named heirs or estate as the beneficiary.

If the Company terminates Mr. Hegyi’s employment at any time prior to the expiration of the Term without Cause, as defined in the Employment Agreement, or if Mr. Hegyi terminates his employment at any time for “Good Reason” or due to a “Disability”, Mr. Hegyi will be entitled to receive (i) his Base Salary amount through the end of the Term; and (ii) his Annual Bonus amount for each year during the remainder of the Term.

#### Employment Agreement with Mark Scott

On October 15, 2018, the Compensation Committee of the Company entered into an Employment Agreement with Mark Scott pursuant to which the Company engaged Mr. Scott as its Chief Financial Officer through October 15, 2021. Mr. Scott’s previous Agreement was cancelled.

Mr. Scott’s annual compensation is \$165,000. Mr. Scott is also entitled to receive an annual bonus equal to two percent (2%) of the Company’s EBITDA for that year. The annual bonus shall be paid no later than 31 days following the end of each calendar year.

The Company’s Board of Directors granted Mr. Scott an option to purchase twenty million shares of the Company’s Common Stock under the Company’s 2017 Stock Incentive Plan at an exercise price of \$0.012 per share. The Shares vest quarterly over three years. All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of the Company’s Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott’s continuous status as employee to the Company is terminated by the Company without Cause or Mr. Scott terminates his employment with the Company for Good Reason as defined in the Scott Agreement, in either case upon or within twelve months after a Change in Control as defined in the Company’s Stock Incentive, then 100% of the total number of Shares shall immediately become vested.

Mr. Scott is entitled to participate in all group employment benefits that are offered by the Company to the Company’s senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements. In addition, the Company is required purchase and maintain an insurance policy on Mr. Scott’s life in the amount of \$2,000,000 payable to Mr. Scott’s named heirs or estate as the beneficiary.



Finally, Mr. Scott is entitled to twenty days of vacation annually and also has certain insurance and travel employment benefits.

If the Company terminates Mr. Scott's employment at any time prior to the expiration of the Term without Cause, as defined in the Employment Agreement, or if Mr. Scott terminates his employment at any time for "Good Reason" or due to a "Disability", Mr. Scott will be entitled to receive (i) his Base Salary amount for ninety days; and (ii) his Annual Bonus amount for each year during the remainder of the Term.



#### Employment Agreement with Joseph Barnes

On October 15, 2018, the Compensation Committee of the Company entered into an Employment Agreement with Joseph Barnes pursuant to which the Company engaged Mr. Barnes as President of the GrowLife Hydroponics Company through October 15, 2021. Mr. Barnes's previous Agreement was cancelled.

Mr. Barnes's annual compensation is \$165,000. Mr. Barnes is also entitled to receive an annual bonus equal to two percent (2%) of the Company's EBITDA for that year. The annual bonus shall be paid no later than 31 days following the end of each calendar year.

The Company's Board of Directors granted Mr. Barnes an option to purchase eighteen million shares of the Company's Common Stock under the Company's 2017 Stock Incentive Plan at an exercise price of \$0.012 per share. The Shares vest quarterly over three years. All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of the Company's Stock Incentive Plan, including vesting requirements. In the event that Mr. Barnes's continuous status as employee to the Company is terminated by the Company without Cause or Mr. Barnes terminates his employment with the Company for Good Reason as defined in the Barnes Agreement, in either case upon or within twelve months after a Change in Control as defined in the Company's Stock Incentive, then 100% of the total number of Shares shall immediately become vested.

Mr. Barnes is entitled to participate in all group employment benefits that are offered by the Company to the Company's senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements. In addition, the Company is required purchase and maintain an insurance policy on Mr. Barnes's life in the amount of \$2,000,000 payable to Mr. Barnes's named heirs or estate as the beneficiary. Finally, Mr. Barnes is entitled to twenty days of vacation annually and also has certain insurance and travel employment benefits.

If the Company terminates Mr. Barnes's employment at any time prior to the expiration of the Term without Cause, as defined in the Employment Agreement, or if Mr. Barnes terminates his employment at any time for "Good Reason" or due to a "Disability", Mr. Barnes will be entitled to receive (i) his Base Salary amount for ninety days; and (ii) his Annual Bonus amount for each year during the remainder of the Term.

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

Forward-looking statements in this report reflect the good-faith judgment of our management and the statements are based on facts and factors as we currently know them. Forward-looking statements are subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, but are not limited to, those discussed below as well as those discussed elsewhere in this report (including in Part II, Item 1A (Risk Factors)). Readers are urged not to place undue reliance on these forward-looking statements because they speak only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report.

### THE COMPANY AND OUR BUSINESS

GrowLife, Inc. ("GrowLife" or the "Company") is incorporated under the laws of the State of Delaware and is headquartered in Kirkland, Washington. We were founded in 2012 with the Closing of the Agreement and Plan of Merger with SGT Merger Corporation.

GrowLife's goal is to become the nation's largest cultivation facility service provider for the production of organics, herbs and greens and plant-based medicines.

GrowLife provides essential and hard-to-find goods including growing media, industry-leading hydroponics equipment, organic plant nutrients, and thousands more products through its knowledgeable representatives and our distribution channels, to specialty grow operations across the United States and Canada.



We primarily sell supplies through our wholly owned subsidiary, GrowLife Hydroponics, Inc. GrowLife also distributes and sells over 15,000 products along with a handful of its own branded products through its e-commerce distribution channels, ShopGrowLife.com and GrowLifeEco.com, as well as through GrowLife licensed retail storefronts. GrowLife and its business units are organized and directed to operate strictly in accordance with all applicable state and federal laws.

The GrowLife mission is to measure its success by its customer's success; serving cultivators of all sizes as a reliable business partner and its shareholders with value and trust.

The 'their success is our success' focus has helped us understand the challenges and needs our customers are enduring and the many products and services we can provide to help them grow. We recognize that the cost of customer acquisition is 10x higher than retention so it is in GrowLife's best interest to retain its customers by supporting their needs with innovative offerings, lower pricing and reliable delivery. The indoor cultivation industry, primarily driven by indoor Cannabis farming, is in its formative stages where it is developing a recurring track record. Due to the conflicting laws and policies throughout the United States our customers consist mostly of smaller, early-stage companies that face unusual challenges not experienced in most larger established industries.

As a result, agility takes the place over predictability and trust surpasses price and convenience. Therefore, there are few public or billion dollar companies operating in this industry. Thus, the GrowLife mission of aligning itself with the success of its customer's.

GrowLife's vision of indoor cultivation is that it is inevitable; not another gardening alternative.

We seek to support the mission of GrowLife helping its customers be successful by minimizing the operating costs of indoor cultivators of fruits, vegetables and Cannabis so they can better serve their markets and customers.

Outdoor farming is a wasteful, destructive and an inefficient use of precious resources. Current water, land and harvest cycles are limited and, if left unchecked, will fail to support the world's population growth. However, indoor cultivation allows our customers to replicate nature in a controllable manner that uses a fraction of water and land while providing 2–5 times the crop cycles of outdoor. The challenge is in getting the economics right. Subsidies are not the answer. Even many large-scale indoor grow operations with large capital investments have had a difficult time staying in business because the poor economic models fail to deliver a profit. Fruits and vegetables have limited revenue benefit due to their low prices and saturated supply from international and domestic growers.

Cannabis on the other hand currently has an attractive revenue model and valuation multiple but modest demand of about 5% of the population due to shadows cast by interstate commerce restrictions, banking issues and threatening federal laws. However, Cannabis laws are not the only expected changes. We must prepare for significantly lower prices if Cannabis is to become a mainstream alternative to beer, wine and other alcohol in the future. Expecting a \$12 Cannabis cigarette to drop to \$1 over the next couple of years is not unreasonable.

Therefore, as an indoor cultivation industry, we must lower production costs to provide local, safer, healthier and affordable food and Cannabis crops. We see this as the game changer: Over time we must support a production cost at 10% of the current price point. This means increasing efficiencies, scaling up production volumes and driving down indoor operating costs. Given this vision of the future, lowering our customer's production costs serves as our compass to mergers, acquisitions and partnerships.

To profitably achieve such a goal, we see GrowLife building out five strategic pillars. These pillars represent unfulfilled needs, which if capitalized upon, can provide PHOT investors with a lasting diversified portfolio of products and services.

GrowLife's is organized into four divisions --- GrowLife Commercial, GrowLife Innovations, GrowLife Hydroponics (e-Commerce) and GrowLife Retail --- are organized across four audience-centric divisions. We sell to commercial customers through our GrowLife Commercial division to large-scale customers for both hydroponics and FreeFit, our business materials products.





GrowLife will continue to provide growing supplies to cultivators, known as “picks and shovels” to the green rush industry, we are investing in developing proprietary products that will enhance higher gross profit, differentiation and a greater ecological benefit and value to the industry through GrowLife Innovations, Inc., a whole-owned subsidiary. For example, GrowLife recently acquired FreeFit building material assets which bring several benefits to the Company: Revenue, higher gross profits and intellectual properties that will serve as the foundation to upcoming products including complete GrowLife room solutions. These solutions are aimed at providing lower production costs for our legal commercial customers that are growing at large scales. Over the last three months the Company organized its operating structure into four divisions to be aligned with its business initiatives towards focused growth.

The GrowLife Hydroponics and Retail divisions will continue to distribute and sell the many commonly demanded products and FreeFit through its e-commerce distribution channels, ShopGrowLife.com, www.freefit.com and www.shopcustomfloors.com. New proprietary products will be developed by GrowLife Innovations Inc., the research and development arm of the company, and include EZ Clone, a recently majority acquired cloning products company. GrowLife Retail will drive our three key fulfillment centers in Portland, Maine, Calgary, Alberta Canada, and recently acquired storefront formally known as Go Green in Los Angeles, California. Also, GrowLife has independently-owned with GrowLife licensed retail storefronts. GrowLife, Inc. and its divisions are organized and directed to operate strictly in accordance with all applicable state and federal laws.

We focus on customer success. In that regard, we believe that the indoor cultivation industry will continue to experience significant growth and, as a result, serving this industry has become highly competitive, cash intensive and customer centric. However, we have plans to address these challenges.



First, the opportunity to sell both infrastructure equipment and recurring supplies to the indoor cultivation industry is constantly increasing as demand for indoor cultivation grows across the United States and Canada. GrowLife believes the demand will continue to grow and more states, municipalities and recent legalization of Cannabis in Canada will promote greater indoor cultivation activities. GrowLife continues with its multi-faceted distribution strategy, which we believe serves customers in the following manner: Direct consulting sales to large cultivation customers through GrowLife Commercial, e-commerce via ShopGrowLife.com to fulfill all orders across the nation from customers of all sizes, and GrowLife Retail for local purchasing convenience.

Second, selling through multiple channels with readily available products is foundational to GrowLife, however differentiation comes from unique products available only from GrowLife. In October 2017 we formed GrowLife Innovations, Inc., which is where we housed our acquired FreeFit building material assets. FreeFit® is a patented product line of eco-friendly and easy to install vinyl floor tiles with patterns and prints that can provide passive (no resource demands such as power) benefits to our customers and used in our Commercial Cube vertical growing system. GrowLife is currently testing custom configurations to quantify its economic value to customers. Building materials is a starting point for GrowLife Innovations. After the first and second test phases we learned that the quality of the clone was critical to the yield (amount of plant produced). As a result, we accelerated the majority acquisition of EZ Clone Enterprises, Inc. to October.

Third, GrowLife's customers come in different stages from small caregiver cultivators to large 80,000+ square foot commercial operations. Along with our business-to-business (B2B) focus we have been expanding to the business-to-consumer (B2C) by offering the GrowLife Consumer Cube products. We recognize demand is increasing from small, aspiring cultivation consumers across the country seeking to learn and use a complete indoor growing solution. To address this demand, we packaged GrowLife Consumer Cube, an entry-level offering for consumers to get hands-on experience with indoor growing. Although many still buy the components separately, we are working on developing videos and supplier tools to attract them to this one-stop shop program. Many states are giving individuals the legal freedom to cultivate crops in their own home and GrowLife Consumer Cube gives them the necessary tools.

GrowLife started the expansion of sales and store personnel and marketing efforts with continued funding from Chicago Venture Partners, L.P. Chicago Venture is supportive in the expansion of the sales and marketing teams in a growing market. GrowLife is growing in several markets including California and Canada. GrowLife received \$1 million in equity financing in February 2018 for expansion in addition to continuing as-needed capital for operating costs.



GrowLife also considered the lack of capital access since 2014 and the new funding vehicles with Chicago Venture Partners, L.P. Operations were significantly impacted during 2014- 2016 as a result of the lack of access to capital. GrowLife did not have cash to ship all orders. With the addition of GrowLife's new partners, we have access to capital and are growing our sales again.

#### Resumed Trading of our Common Stock

On October 17, 2017, we were informed by Alpine Securities Corporation ("Alpine") that Alpine had demonstrated compliance with the Financial Industry Regulatory Authority ("FINRA") Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. We filed an amended application with the OTC Markets to list the Company's common stock on the OTCQB and began to trade on this market as of March 20, 2018.

#### Market Size and Growth

##### Markets Serviced

GrowLife Inc. is engaged in the business of offering general hydroponic growing equipment including complete indoor lighting systems, growing mediums, soils, tools for cutting and propagation, hydroponics systems, growing accessories, bulbs, ballasts, reflectors, meters and timers and climate control equipment for the indoor plant cultivation and cannabis industries.

Additionally, GrowLife, through its recent asset acquisition, has begun servicing the Luxury Vinyl Tile market segment of the Floor Covering industry, which it will use in its GrowLife clean grow room initiative.

##### Hydroponic Growing Equipment (US)

##### Industry Definition:

The Hydroponic Growing Equipment industry is primarily engaged in selling hydroponic horticulture equipment. Hydroponics is a method of growing plants using mineral nutrient solutions in water without the use of soil.

##### 2017 Key Industry Statistics:

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In 2017, the Hydroponic Growing Equipment Stores industry generated \$689.7 million in gross revenue with total profits of \$26.9 million.

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The industry grew 4.4% from 2012 to 2017 and is expected to continuing growing at a rate of 1.7% through 2022.

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As of 2017, there are approximately 1,948 businesses engaged in the industry, which contribute \$210 million in wages and salaries to the nation's economy.

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No companies have been identified as "major players".

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Household consumers comprise the largest market segment for the industry, accounting for 48.1% of the market in 2017, with farms and agriculture representing 37.2% of the market and 14.7% represented by other types including:

retail establishments, equipment wholesalers, repair shops, industrial companies, and government bodies.

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The industry's average profit margin, defined as earnings before interest and taxes, has increased since 2012; profit margins are expected to have expanded from 1.8% of industry revenue in 2012 to 3.9% in 2017.



Product and Service Segmentation:

Of total product sales in 2017, 35.8% of products sold were nutrients, solution chemicals and other treatments, 30.4% were hydroponic systems and equipment, 20% were other accessories, additions, supplies and merchandise, and 13.8% were hardware, tools, plumbing and electrical supplies.

Key Industry Drivers:

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Much of the industry's sudden popularity is the result of heightened consumer interest in locally grown and organic produce; many producers of hydroponic fruits and vegetables strive to use sustainable business practices and natural nutrients and pesticides

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Consumer interest in organic foods and hydroponic growing has also increased as disposable income continues to rise.

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Given the discretionary nature of the industry's products, demand is heavily influenced by fluctuations in the overall level of consumer disposable income and consumer confidence in the economy. Over the five years to 2017, per capita disposable income is anticipated to grow an annualized 1.4%. Rising disposable income increases consumers' willingness to purchase luxuries such as high-priced hydroponic growing equipment and organic foods.

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Impact of the Cannabis Industry

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According to data released by Forbes, the North American legal cannabis market is expected to generate \$9.2 billion in 2017 alone\*. That represents an unprecedented 33% increase over 2016. Given the size of the cannabis market, a rising number of entrepreneurs have invested in hydroponic growing equipment to be part of the medical marijuana gold rush. This investment has been one of the primary drivers of the aggressive growth that this industry has experienced over the past five years.

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In certain states, patients with medical marijuana cards are also allowed to grow limited quantities of marijuana for personal use as well as 7 states and Canada have legalized adult cannabis consumption with lawful home growing. This has encouraged patients and consumers to purchase hydroponic growing equipment and pursue small-scale marijuana cultivation.

Competitive advantages:

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Most hydroponic growing equipment stores are small business operations that serve their immediate geographic areas. GrowLife serves an international customer base with operations throughout the US and Canada.

Growth Outlook:

“The industry is growing faster than overall GDP”







IBIS World expects the Cannabis industry revenue to grow an annualized 1.7% to \$750.2 million over the five years to 2022.

Factors:

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Increasing consumer focus on healthy eating habits will likely spur demand as more consumers seek out organic and pesticide-free produce and opt to grow their own or purchase locally produced organic foods made with hydroponic growing equipment.

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Medical and recreational marijuana is expected to be approved in an increasing number of US states over the next five years, which will lead more patients, consumers and entrepreneurs to buy marijuana and hydroponic growing equipment to fulfill demand for this growing market.

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This industry will also continue to benefit from risk-averse local farmers wishing to break their reliance on weather conditions that may be increasingly volatile.

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IBIS World estimates that per capita disposable income will rise at an annualized rate of 2.7% over the five years to 2022.

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The US Department of Agriculture reported in 2016 that the number of certified organic food operators increased nearly 12.0% from 2015, and this growth is expected to remain high over the next five years.

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IBIS World expects profitability to fall somewhat over the next five years as price-based competition accelerates.

#### Competitive Advantages

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IBIS World anticipates that the number of industry establishments will increase at an annualized rate of 5.1% to 3,123 over the five years to 2022 earning it the rating of “Highly competitive”

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Market share concentration is low with only one company representing over 1% of market share.

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Barriers to Entry in this industry are Low

#### Medical and Recreational Marijuana Growing Industry

##### Industry Definition:

This emerging industry pertains to those engaged in the practice of cultivating and producing legal cannabis plants for the medical and recreational consumer markets.





US Key Industry Statistics:

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60% of the U.S. population (thirty states and the District of Columbia) now lives in states that have legalized some form of cannabis use and sales, illustrating the rising acceptance of cannabis nationwide and highlighting the industry's immense potential for future growth.

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In 2016, the Medical and Recreational Marijuana Growing industry generated \$3.5 billion in gross revenue with total profits of \$233.4 million.

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The industry grew 28.3% from 2011 to 2016 and is expected to continue growing at a rate of 28.21% through 2021.

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As of 2016, there are approximately 148,294 businesses engaged in the industry, which contribute \$957.6 million in wages and salaries to the nation's economy.

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No companies have been identified as "major players".

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Medical Marijuana patients with severe pain comprise the largest market segment for the industry, accounting for 64.6% of the market in 2016, with recreational consumers accounting for 14.1% of the market. The remaining market share is shared by consumers purchasing products for treatment of other various medical conditions.

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The industry's average profit margin, defined as earnings before interest and taxes, varies greatly across the industry because of the myriad of laws governing medical and recreational marijuana from state to state. Industry-wide margins have grown on account of the legalization of recreational marijuana in various states and Canada and are expected to grow as more legalization takes effect.

Key Industry Drivers:

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Medical marijuana growers continue to benefit from the steadily aging population. Chronic illnesses have become more prevalent as the population continues to age, driving demand for medical marijuana. 92% of medical marijuana patients said that medical marijuana alleviated symptoms of their serious medical conditions, including chronic pain, arthritis, migraine, and cancer.

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An estimated 2.6 million people use marijuana for medicinal purposes, and this segment of the US population is anticipated to increase drastically over the next five years.

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More than two-thirds of Americans now live in jurisdictions that have legalized either the medical or adult use of marijuana.

Growth Outlook:

“The industry is growing at a faster rate than the US economy”

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Industry revenue is estimated to increase at an annualized rate of 28.21% to \$15.0 billion over the five years to 2021.

Factors:

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Continued legalization on the state level and Canada has and will continue to increase accessibility to medical and recreational marijuana, increasing nationwide demand.

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Growing acceptance of the marijuana products will increase demand. According to a poll conducted by Gallup, 36.0% of Americans between the ages of 18 to 29 have tried marijuana in 2013, compared with just 8.0% in 1969.

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The level of household income determines consumers' ability to purchase medical marijuana products. While prescription products can be essential for health and therefore less susceptible to changes in consumer expenditure, the unconventional nature of the industry's products make it subject to changes in disposable income. As a result, an increase in disposable income will boost demand for medical marijuana growers.





Floor Covering Industry: Segment Luxury Vinyl Tile (LVT) (US)

Industry Definition:

The Floor Covering industry is segmented by product type including wood, rugs, resilient (which includes the Luxury Vinyl Tile or “LVT” segment), carpet, tile, laminate and rubber subcategories. GrowLife is engaged in luxury vinyl tile manufacturing and is participating in this market by selling through business-to-business and business-to-consumer channels.

2016 Key Industry Statistics:

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In 2016, the U.S. flooring market grew an estimated 5.1%, according to Market Insights, with total revenues of \$21.174 billion.

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North America flooring market will witness gains over 5% up to 2024 according to Global Market Insights.

Luxury Vinyl Tile

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LVT now accounts for 16.5% of the total flooring market in dollars and 18.8% in volume after a 6.5% rise in units to 3.537 billion square feet. In 2015, resilient held a 13.3% market share in terms of dollars, which was up from 12.2% in 2014, 11.9% in 2013 and 11.2% in 2012 respectively.

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Sales have gone from nearly \$750 million in 2012 to \$948 million in 2013, \$1.142 billion in 2014, \$1.651 billion in 2015 and \$2.161 in 2016. That represents respective gains of 26.4%, 20.5%, 27.1% and 30.9% respectively.

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LVT sales have more than doubled in three years.

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LVT increased significantly in both residential and commercial markets—dollars and square feet—in 2016. Residential LVT saw a 68.3% increase in square footage from 760 million in 2015 to 1.04 billion (including WPC), making up 76.1% of the LVT market. This number was 71% a year ago and 55% two years ago.

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The commercial market rose from 297.2 million square feet to 326.3 million square feet, a 9.8% increase. While residential brought in more dollars—\$1.512 billion—last year, commercial LVT still performed well, posting a 12.5% increase, rising from \$576.4 million in 2015 to \$648.6 million in 2016.

<https://www.rocsearch.com/samples/PDFs/Market%20Landscape-Global-Commercial-Vinyl-Flooring-Market-Landscape.pdf>



Competitive advantages:

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GrowLife's LVT product FreeFit® features significant competitive advantages including:

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20k+ HD imaging, "Real Touch" texture technology, fully customizable platform, "Seriously Easy to Install" design, made in the US, waterproof, lifespan 3x longer than traditional vinyl, 4mm thickness and 22mil wear layer and wear and stain resistance.

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Direct to consumer sales model that major competitors cannot execute on due to resale agreements.

Growth Outlook:

The global vinyl flooring market is expected to reach an estimated \$16.2 billion by 2023, and it is forecast to grow at a CAGR of 4.4% from 2018 to 2023.

Key Market Priorities

Our goal of becoming the nation's largest cultivation facility service provider for the production of organics, herbs and greens and plant-based medicines requires GrowLife to deliver the complete solution that offers the lowest production cost in the industry to our customers. As our company delivers newly acquired products such as FreeFit®, EZ Clone and our proprietary Cube line for both Commercial and consumers customers, these new GrowLife-branded offerings are expected to 3-5 fold increase the Company's gross margins. This increase will cover operating costs and fund the Company's growth.

However, to bring all these products to market, GrowLife is engaged in a financing round that is expected to significantly increase both revenue and margins in the near future.

GrowLife can expand with these priorities until it serves more indoor cultivators throughout the country. Once a customer is engaged, we can gradually expand their purchasing market share by providing greater economic benefit to the customers who buy more products from GrowLife than from other suppliers.

Employees

As of September 30, 2018, we had twenty-seven full-time and part-time employees. Marco Hegyi, our Chief Executive Officer, is based in Kirkland, Washington. Mark E. Scott, our Chief Financial Officer, is based primarily in Seattle, Washington. In addition, we have approximately twenty-five full and part-time consultants located throughout the United States and Canada who operate our businesses. None of our employees are subject to a collective bargaining agreement or represented by a trade or labor union. We believe that we have a good relationship with our employees.



## Key Partners

Our key customers vary by state and are expected to be more defined as the company moves from its retail walk-in purchasing sales strategy to serving cultivation facilities directly and under predictable purchasing contracts.

Our key suppliers include distributors such as HydroFarm, Urban Horticultural Supply and Hawthorne to product-specific suppliers. All the products purchased and resold are applicable to indoor growing for organics, greens, and plant-based medicines.

## Competition

Covering two countries across all cultivator segments create competitors that also serve as partners. Large commercial cultivators have found themselves willing to assume their own equipment support by buying large volume purchased directly from certain suppliers and distributors such as Hawthorne and HydroFarm. Other key competitors on the retail side consist of local and regional hydroponic resellers of indoor growing equipment. On the e-commerce business, GrowersHouse.com, Hydrobuilder.com and smaller online resellers using Amazon and eBay e-commerce market systems.

## Intellectual Property and Proprietary Rights

Our intellectual property consists of brands and their related trademarks and websites, customer lists and affiliations, product know-how and technology, and marketing intangibles.

Our other intellectual property is primarily in the form of trademarks and domain names. We also hold rights to several website addresses related to our business including websites that are actively used in our day-to-day business such as [www.shopgrowlife.com](http://www.shopgrowlife.com), [www.freefit.com](http://www.freefit.com), [www.growlifeinc.com](http://www.growlifeinc.com), [www.growlifeeco.com](http://www.growlifeeco.com) and [www.greners.com](http://www.greners.com), [www.shopcustomfloors.com](http://www.shopcustomfloors.com), and [www.ezloner.com](http://www.ezloner.com).

## Other Growth Opportunities

On October 3, 2017, we closed the acquisition of 51% of the Purchased Assets from David Reichwein, a Pennsylvania resident, GIP International Ltd, a Hong Kong corporation and DPR International LLC, a Pennsylvania limited liability corporation. The Purchased Assets include intellectual property, copy rights and trademarks related to reflective tiles and flooring.

On February 16, 2018, we entered into an Addendum (the "First Addendum") to amend the terms between the Company and David Reichwein. Pursuant to the First Addendum, we purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of \$250,000 and the cancellation of Mr. Reichwein's right to receive a 10% commission on certain sales of Free Fit products as was set forth in Mr. Reichwein's employment agreement. In exchange for the cancellation of the commission in the employment agreement, Mr. Reichwein was granted the opportunity to earn up to two \$100,000 cash bonuses and an aggregate common stock bonus of up to 7,500,000 shares if certain revenue and gross margin goals are met in 2018.

We have applied for two patents related to the vertical room product previously discussed.

We have a policy of entering into confidentiality and non-disclosure agreements with our employees, some of our vendors and customers as necessary.

On August 17, 2018, we entered into an Asset Purchase Agreement with Go Green Hydroponics, Inc., a California corporation and TCA – Go Green SPV, LLC, a Florida limited liability pursuant to which the Company acquired the

intellectual property and assumed the lease for the property located at 15721 Ventura Blvd., Encino, CA 91436. We intend to operate a retail store, sale over the internet and sell on a direct basis at this location.

Concurrently, the Company and Seller entered into a Security Agreement for securing our assets as collateral for the obligations of Company as set forth in the Security Agreement. In consideration for the sale and assignment of the Purchased Assets, we agreed to pay the Seller: (i) the proceeds generated from the sale of the closing inventory until all closing inventory has been sold, and (ii) to pay the Seller 5% of all gross revenue of our earned or in any way related to the Purchased Assets generated between October 1, 2018 and December 31, 2019, up to a maximum of \$200,000.



On October 15, 2018, we closed the Purchase and Sale Agreement with EZ Clone Enterprises, Inc., a California corporation. EZ Clone is the manufacturer of multiple award-winning products specifically designed for the commercial cloning and propagation stage of indoor plant cultivation including cannabis, food, and other hydroponic farming. We acquired 51% of EZ Clone for \$2,040,000, payable as follows: (i) a cash payment of \$645,000; and (ii) the issuance of 107,307,692 restricted shares of our common stock at a price of \$0.013 per share or \$1,395,000.

We have the obligation to acquire the remaining 49% of EZ Clone within one year for \$1,960,000, payable as follows: (i) a cash payment of \$855,000; and (ii) the issuance of 85,000,000 shares of the Company's common stock at a price of \$0.013 per share or \$1,105,000.

Mr. William Blackburn will remain as President of EZ Clone.

### Government Regulation

Currently, there are thirty states plus the District of Columbia that have laws and/or regulation that recognize in one form or another legitimate medical uses for cannabis and consumer use of cannabis in connection with medical treatment. There are currently eight states and the District of Columbia that allow recreational use of cannabis. As of March 28, 2018, the policy and regulations of the Federal government and its agencies is that cannabis has no medical benefit and a range of activities including cultivation and use of cannabis for personal use is prohibited on the basis of federal law and may or may not be permitted on the basis of state law. Active enforcement of the current federal regulatory position on cannabis on a regional or national basis may directly and adversely affect the willingness of customers of GrowLife to invest in or buy products from GrowLife. Active enforcement of the current federal regulatory position on cannabis may thus indirectly and adversely affect revenues and profits of the GrowLife companies.

All this being said, many reports show that the majority of the American public is in favor of making medical cannabis available as a controlled substance to those patients who need it. The need and consumption will then require cultivators to continue to provide safe and compliant crops to consumers. The cultivators will then need to build facilities and use consumable products, which GrowLife provides.

### THE COMPANY'S COMMON STOCK

On April 10, 2014, we received notice from the SEC that trading of our common stock on the OTCBB was to be suspended from April 10, 2014 through April 24, 2014. The SEC issued its order pursuant to Section 12(k) of the Securities Exchange Act of 1934. According to the notice received by us from the SEC: "It appears to the Securities and Exchange Commission that the public interest and the protection of investors require a suspension of trading in the securities of GrowLife, Inc. because of concerns regarding the accuracy and adequacy of information in the marketplace and potentially manipulative transactions in GrowLife's common stock." We never received notice from the SEC that and we were formally being investigated.

The suspension of trading eliminated our market makers, resulted in our trading on the grey sheets, resulted in legal proceedings and restricted our access to capital.

On October 17, 2017, we were informed by Alpine Securities Corporation ("Alpine") that Alpine has demonstrated compliance with the Financial Industry Regulatory Authority ("FINRA") Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. We filed an amended application with the OTC Markets to list the Company's common stock on the OTCQB and begin to trade on this market as of March 20, 2018.







## PRIMARY RISKS AND UNCERTAINTIES

We are exposed to various risks related to legal proceedings, our need for additional financing, the sale of significant numbers of our shares, the potential adjustment in the exercise price of our convertible debentures and a volatile market price for our common stock. These risks and uncertainties are discussed in more detail below in Part II, Item 1A.

## RESULTS OF OPERATIONS

The following table presents certain consolidated statement of operations information and presentation of that data as a percentage of change from period-to-period.

(dollars in thousands)

	Three Months September 30,			
	2018	2017	\$ Variance	% Variance
Net revenue	\$954	\$661	\$293	44.3%
Cost of goods sold	899	476	423	-88.9%
Gross profit	55	185	(130)	-70.3%
General and administrative expenses	1,117	589	528	-89.6%
Operating loss	(1,062)	(404)	(658)	-162.9%
Other income (expense):				
Change in fair value of derivative	(120)	-	(120)	-100.0%
Interest expense, net	(366)	(153)	(213)	-139.2%
Impairment of acquired assets	(60)	-	(60)	-100.0%
Loss on debt conversions	(645)	(199)	(446)	-224.1%
Total other (expense) income	(1,191)	(352)	(839)	-238.4%
(Loss) before income taxes	(2,253)	(756)	(1,497)	-198.0%
Income taxes - current benefit	-	-	-	0.0%
Net (loss)	\$(2,253)	\$(756)	\$(1,497)	-198.0%

## THREE MONTHS ENDED SEPTEMBER 30, 2018 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2017

## Revenue

Net revenue for the three months ended September 30, 2018 increased \$293,000 to \$954,000 as compared to \$661,000 for the three months ended September 30, 2017. The increase resulted from increased sales personnel, increased channels of distribution, opening a store in Canada and the development of the reflective tiles and flooring product line.



### Cost of Goods Sold

Cost of sales for the three months ended September 30, 2018 increased \$423,000 to \$899,000 as compared to \$476,000 for the three months ended September 30, 2017. The increase was due increased sales, offset by higher cost of sales related to product mix and increased customer discounts.

Gross profit was \$55,000 for the three months ended September 30, 2018 as compared to a gross profit of \$185,000 for the three months ended September 30, 2017. The gross profit percentage was 5.8% for the three months ended September 30, 2018 as compared to 27.9% for the three months ended September 30, 2017. The gross profit percentage decrease was due to increased customer discounts.

### General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2018 increased \$528,000 to \$1,117,000 as compared to \$589,000 for the three months ended September 30, 2017. The variances were as follows: (i) an increase in insurance of \$22,000; (ii) an increase in rent of \$46,000; (iii) an increase in payroll of \$271,000; (iv) an increase in sales, marketing and trade show expenses of \$37,000; (v) an increase in depreciation of \$20,000 and (vi) an increase in legal expenses of \$30,000; and (vii) an increase in other expenses of \$102,000. As part of the general and administrative expenses for the three months ended September 30, 2018 and 2017, we recorded public relation, investor relation or business development expenses of \$4,000 and \$0, respectively. The increase resulted from increased sales personnel, increased channels of distribution, opening a store in Canada and the development of the reflective tiles and flooring product line and the development of the vertical grow room.

Non-cash general and administrative expenses for the three months ended September 30, 2018 were \$81,000 including (i) depreciation and amortization of \$19,000; and (ii) stock based compensation of \$62,000 related to stock option grants and warrants.

Non-cash general and administrative expenses for the three months ended September 30, 2017 were \$57,000 related to stock based compensation.

### Other (Expense) Income

Other expense for the three months ended September 30, 2018 was \$1,191,000 as compared to other expense of \$352,000 for the three months ended September 30, 2017. The other expense for the three months ended September 30, 2018 included (i) interest expense of \$366,000; (ii) loss on debt conversions of \$645,000; (iii) change in fair value of derivative of \$120,000; and impairment of acquired assets of \$60,000. The non-cash interest related to the amortization of the debt discount associated with our convertible notes and accrued interest expense related to our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price. The impairment of acquired assets related to the Go Green acquisition.

The other expense for the three months ended September 30, 2017 included (i) interest expense of \$153,000 and (ii) loss on debt conversions of \$199,000. The non-cash interest related to the amortization of the debt discount associated with our convertible notes and accrued interest expense related to our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price.

### Net (Loss)

Net loss for the three months ended September 30, 2018 was \$2,253,000 as compared to \$756,000 for the three months ended September 30, 2017 for the reasons discussed above.

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Net loss for the three months ended September 30, 2018 included non-cash expenses of \$964,000 including (i) depreciation and amortization of \$19,000; (ii) stock based compensation of \$62,000 related to stock option grants and warrants; (iii) accrued interest and amortization of debt discount on convertible notes payable of \$362,000; (iv) loss on debt conversions of \$641,000; and offset by (v) change in derivative liability of \$120,000.

Net loss for the three months ended September 30, 2017 included non-cash expenses of \$407,000 including (i) stock based compensation of \$57,000 related to stock option grants and warrants; (ii) accrued interest and amortization of debt discount on convertible notes payable of \$151,000; (iii) loss on debt conversions of \$199,000; (iv) reclassification of derivative instruments to additional paid in capital to of \$538,000; and offset by (v) change in derivative liability of \$538,000.



(dollars in thousands)

## Nine Months Ended September 30,

	2018	2017	\$ Variance	% Variance
Net revenue	\$2,871	\$1,650	\$1,221	74.0%
Cost of goods sold	2,628	1,353	1,275	-94.2%
Gross profit	243	297	(54)	-18.2%
General and administrative expenses	3,221	1,502	1,719	-114.4%
Operating loss	(2,978)	(1,205)	(1,773)	-147.1%
Other income (expense):				
Change in fair value of derivative	1,535	2,164	(629)	-29.1%
Interest expense, net	(1,075)	(468)	(607)	-129.7%
Impairment of acquired assets	(60)	-	(60)	-100.0%
Loss on debt conversions	(5,999)	(1,669)	(4,330)	-259.4%
Total other (expense) income	(5,599)	27	(5,626)	-20837.0%
(Loss) before income taxes	(8,577)	(1,178)	(7,399)	-628.1%
Income taxes - current benefit	-	-	-	0.0%
Net (loss)	\$(8,577)	\$(1,178)	\$(7,399)	-628.1%

## NINE MONTHS ENDED SEPTEMBER 30, 2018 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2017

## Revenue

Net revenue for the nine months ended September 30, 2018 increased \$1,221,000 to \$2,871,000 as compared to \$1,650,000 for the nine months ended September 30, 2017. The increase resulted from increased sales personnel, increased channels of distribution, opening a store in Canada and the development of the reflective tiles and flooring product line.

## Cost of Goods Sold

Cost of sales for the nine months ended September 30, 2018 increased \$1,275,000 to \$2,628,000 as compared to \$1,353,000 for the nine months ended September 30, 2017. The increase was due increased sales, offset by higher cost of sales related to product mix and increased customer discounts.

Gross profit was \$243,000 for the nine months ended September 30, 2018 as compared to a gross profit of \$297,000 for the nine months ended September 30, 2017. The gross profit percentage was 8.5% for the nine months ended September 30, 2018 as compared to 18.0% for the nine months ended September 30, 2017. The gross profit percentage decrease was due to increased customer discounts.





## General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2018 increased \$1,719,000 to \$3,221,000 as compared to \$1,502,000 for the nine months ended September 30, 2017. The variances were as follows: (i) an increase in insurance of \$99,000; (ii) an increase in rent of \$135,000; (iii) an increase in payroll of \$725,000; (iv) an increase in sales, marketing and trade show expenses of \$97,000; (v) an increase in legal expenses of \$129,000; (vi) an increase in depreciation of \$50,000; (vii) an increase in stock based compensation of \$116,000; and (viii) an increase in other expenses of \$368,000. As part of the general and administrative expenses for the nine months ended September 30, 2018 and 2017, we recorded public relation, investor relation or business development expenses of \$11,000 and \$0, respectively. The increase resulted from increased sales personnel, increased channels of distribution, opening a store in Canada and the development of the reflective tiles and flooring product line and the development of the vertical grow room.

Non-cash general and administrative expenses for the nine months ended September 30, 2018 were \$379,000 including (i) depreciation and amortization of \$50,000; (ii) stock based compensation of \$176,000 related to stock option grants and warrants; (iii) common stock issued for services of \$153,000.

Non-cash general and administrative expenses for the nine months ended September 30, 2017 were \$214,000 including (i) depreciation and amortization of \$2,000; (ii) stock based compensation of \$161,000 related to stock option grants and warrants; and (iii) common stock issued for services of \$51,000.

## Other (Expense) Income

Other expense for the nine months ended September 30, 2018 was \$5,599,000 as compared to other income of \$27,000 for the nine months ended September 30, 2017. The other expense for the nine months ended September 30, 2018 included (i) interest expense of \$1,075,000; (ii) loss on debt conversions of \$5,999,000; (iii) impairment of acquired assets of \$60,000; and offset by (iv) change in fair value of derivative of \$1,535,000. The non-cash interest related to the amortization of the debt discount associated with our convertible notes and accrued interest expense related to our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price. The impairment of acquired assets related to the Go Green acquisition.

The other income for the nine months ended September 30, 2017 included (i) change in derivative liability of \$2,164,000; offset by (ii) interest expense of \$468,000; and (iii) loss on debt conversions of \$1,669,000. The change in derivative liability is the non-cash change in the fair value and relates to our derivative instruments. The non-cash interest related to the amortization of the debt discount associated with our convertible notes and accrued interest expense related to our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price.

## Net (Loss)

Net loss for the nine months ended September 30, 2018 was \$8,577,000 as compared to \$1,178,000 for the nine months ended September 30, 2017 for the reasons discussed above.

Net loss for the nine months ended September 30, 2018 included non-cash expenses of \$5,970,000 including (i) depreciation and amortization of \$50,000; (ii) stock based compensation of \$176,000 related to stock option grants and warrants; (iii) common stock issued for services of \$153,000; (iv) accrued interest and amortization of debt discount on convertible notes payable of \$963,000; and (v) loss on debt conversions of \$6,170,000; offset by (vi) change in derivative liability of \$1,542,000.

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Net loss for the nine months ended September 30, 2017 included non-cash expenses of \$158,000 including (i) depreciation and amortization of \$2,000; (ii) stock based compensation of \$162,000 related to stock option grants and warrants; (iii) common stock issued for services of \$51,000; (iv) accrued interest and amortization of debt discount on convertible notes payable of \$439,000; (v) write-off of additional paid in capital to of \$538,000; and (vi) loss on debt conversions of \$1,668,000, offset by (vii) change in derivative liability of \$2,702,000.



We expect losses to continue in 2018 as we implement our business plan and grow sales, margins and ultimately profits. We have increased sales personnel, channels of distribution, opened a store in Canada and are developing the reflective tiles and flooring product line.

#### LIQUIDITY AND CAPITAL RESOURCES

We had cash of \$197,000 and a net working deficit of approximately \$447,000 (net of derivative liability, convertible notes payable and deferred revenue) as of September 30, 2018. We expect losses to continue as we grow our business. Our cash used in operations for the nine months ended September 30, 2018 and the years ended December 31, 2017 and 2016 was \$2,357,000, \$2,082,000 and \$1,212,000, respectively.

We will need to obtain additional financing in the future. There can be no assurance that we will be able to secure funding, or that if such funding is available, the terms or conditions would be acceptable to us. If we are unable to obtain additional financing, we may need to restructure our operations, divest all or a portion of our business or file for bankruptcy.

We have financed our operations through the issuance of convertible debentures and the sale of common stock.

#### Rights Offering to Shareholders

On September 18, 2018, we filed our proposed Rights Offering on Amendment 1 to Form S-1 that would allow our shareholders to acquire additional shares of common stock (the "Offering"). The Offering is designed to give record shareholders the opportunity to invest directly into the Company at a set price with additional warrants to support the Company's capital raise to be used for continued expansion.

Each shareholder will receive one non-transferable right (the "Right") for each share of common stock held on the record date (October 12, 2018). Each Right will include one share of Common Stock and two one-half warrants. The purchase price will be payable in cash to the Company.

The warrants included in each Right will be exercisable for one-half of the number of rights for one share of our Common Stock at an exercise price of \$0.018 per share and one-half warrant exercisable for one share of our Common Stock at an exercise price of \$0.024. For example: if you subscribe for 100 Units you will receive 100 common stock shares and 100 warrants divided into 50 warrants exercisable at \$0.018 and 50 warrants exercisable at \$0.024).

The Record date shareholders who fully exercise their Subscription Rights will be eligible for an over-subscription privilege entitling these shareholders to subscribe, subject to certain limitations and a pro-rata allotment, for any additional shares of common stock not purchased pursuant to the Subscription.

The Offering expired at 6:00 PM Eastern Time on November 12, 2018, unless extended.

The SEC declared Amendment 1 to Form S-1 effective on October 15, 2018.

On November 8, 2018, we filed our prospectus supplement and announced the extension of its Rights Offering as previously announced (the "Rights Offering"). We have chosen to extend the offering period of the Rights Offering to November 20, 2018 to give stockholders, particularly those holding shares in street name who may have only recently received applicable materials, additional time to participate in the Rights Offering should they desire to do so and due to the original expiration date falling on a holiday.

The Offering expires at 6:00 PM Eastern Time on November 20, 2018, unless extended.





#### Funding Agreements with Chicago Venture Partners, L.P. (“Chicago Venture”)

We have closed several financing transactions with Chicago Venture since 2016. We have \$1,055,000 available under this debt financing.

#### Securities Purchase Agreements with St. George Investments, LLC

On February 9, 2018, we executed the following agreements with St. George Investments LLC, a Utah limited liability company: (i) Securities Purchase Agreement; and (ii) Warrant to Purchase Shares of Common Stock. The Company entered into the St. George Agreements with the intent to acquire working capital to grow the Company’s businesses.

Pursuant to the St. George Agreements, we issued to St. George for an aggregate purchase price of \$1,000,000: (a) 48,687,862 Shares of newly issued restricted Common Stock of the Company; and (b) the Warrant. St. George has paid the entire Purchase Price for the Securities.

The Warrant is exercisable for a period of five (5) years from the Closing, for the purchase of up to 48,687,862 shares of our Common Stock at an exercise price of \$0.05 per share of Common Stock. The Warrant is subject to a cashless exercise option at the election of St. George and other adjustments as detailed in the Warrant.

On March 20, 2018, we entered into and closed on a Common Stock Purchase Agreement with St. George Investments, LLC, a Utah limited liability company. We issued 6,410,256 shares of our newly issued restricted Common Stock to St. George at a purchase price of \$0.0156 per share or \$100,000.

On April 26, 2018, we entered into and closed on a Common Stock Purchase Agreement with St. George Investments, LLC, Pursuant to the St. George Agreements, we sold and agreed to issue to St. George 4,950,495 shares of our newly issued restricted Common Stock at a purchase price of \$0.0202 per share or \$100,000.

On May 25, 2018, we entered into and closed on a Common Stock Purchase Agreement with St. George Investments, LLC, Pursuant to the St. George Agreements, the Company sold and agreed to issue to St. George 5,128,205 shares of our newly issued restricted Common Stock at a purchase price of \$0.0195 per share or \$100,000.

#### Securities Purchase Agreement, Secured Promissory Notes and Security Agreement with Iliad Research and Trading, L.P. (“Iliad”)

On August 10, 2018, we closed the transactions described below with Iliad.

On August 7, 2018, we executed the following agreements with Iliad: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security Agreement (collectively the “Iliad Agreements”). The Company entered into the Iliad Agreements with the intent to acquire working capital to grow our businesses.

The total amount of funding under the Iliad Agreements is \$1,500,000. The Convertible Promissory Note carries an original issue discount of \$150,000 and a transaction expense amount of \$5,000, for total debt of \$1,655,000. We agreed to reserve three times the number of shares based on the redemption value with a minimum of 150 million shares of its common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before August 7, 2019. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Iliad’s option, into our common stock at \$0.015 per share subject to adjustment as provided for in the Secured Promissory Notes. We obligation to pay the Debt, or any portion thereof, is secured by all of our assets.

#### Operating Activities



Net cash used in operating activities for the nine months ended September 30, 2018 was \$2,357,000. This amount was primarily related to a net loss of \$8,577,000, offset by non-cash expenses of \$5,970,000 including (i) depreciation and amortization of \$50,000; (ii) stock based compensation of \$176,000 related to stock option grants and warrants; (iii) common stock issued for services of \$153,000; (iv) accrued interest and amortization of debt discount on convertible notes payable of \$963,000; and (v) loss on debt conversions of \$6,170,000; offset by (vi) change in derivative liability of \$1,542,000 and (vii) an increase in working capital of \$250,000.



Investment Activities

Net cash used in investing activities for the nine months ended September 30, 2018 was \$250,000. On February 16, 2018, we purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of \$250,000.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2018 was \$1,435,000. The amount related to funding provided of \$1,435,000 by Chicago Venture and Iliad and \$1,300,000 by St. George to us.

Our contractual cash obligations as of September 30, 2018 are summarized in the table below:

Contractual Cash Obligations Total	Less Than			Greater Than	
	1 Year	1-3 Years	3-5 Years	5 Years	
Operating leases	\$819,648	\$249,281	\$486,419	\$83,948	\$-
Convertible notes payable	2,357,762	2,357,762	-	-	-
Capital expenditures	300,000	100,000	100,000	100,000	-
	\$3,477,410	\$2,707,043	\$586,419	\$183,948	\$-

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item is not applicable.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive and principal financial officers concluded as of September 30, 2018, that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately below.





## Identified Material Weakness

A material weakness in our internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Management identified the following material weakness during its assessment of internal controls over financial reporting:

### Audit Committee:

On June 3, 2014, we formed an Audit Committee and appointed an audit committee financial expert as defined by SEC and as adopted under the Sarbanes-Oxley Act of 2002. Prior to this, we did not have an Audit Committee to oversee financial reporting and used external service providers to ensure compliance with the SEC requirements. The current Audit Committee has two independent directors. We expect to expand this committee during 2018.

### b) Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2018, there were no changes in our internal controls over financial reporting during this fiscal quarter, which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we may become subject to various legal proceedings that are incidental to the ordinary conduct of its business. Although we cannot accurately predict the amount of any liability that may ultimately arise with respect to any of these matters, it makes provision for potential liabilities when it deems them probable and reasonably estimable. These provisions are based on current information and may be adjusted from time to time according to developments.

Other than those certain legal proceedings as reported in our annual report on Form 10-K filed with the SEC on March 28, 2018, we know of no material, existing or pending legal proceedings against our Company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any director, officer or any affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

### Item 1A. Risk Factors.

There are certain inherent risks which will have an effect on the Company's development in the future and the most significant risks and uncertainties known and identified by our management are described below.

#### Risks Related to Our Business

There are certain inherent risks which will have an effect on the Company's development in the future and the most significant risks and uncertainties known and identified by our management are described below.

#### Risks Associated with Securities Purchase Agreement with Chicago Venture

The Securities Purchase Agreement with Chicago Venture will terminate if we file protection from its creditors, a Registration Statement on Form S-1 is not effective, and our market capitalization or the trading volume of our common stock does not reach certain levels. If terminated, we will be unable to draw down all or substantially all of our Chicago Venture Notes.





Our ability to require Chicago Venture to fund the Chicago Venture Note is at our discretion, subject to certain limitations. Chicago Venture is obligated to fund if each of the following conditions are met; (i) the average and median daily dollar volumes of our common stock for the twenty (20) and sixty (60) trading days immediately preceding the funding date are greater than \$100,000; (ii) our market capitalization on the funding date is greater than \$17,000,000; (iii) we are not in default with respect to share delivery obligations under the note as of the funding date; and (iv) we are current in our reporting obligations.

There is no guarantee that we will be able to meet the foregoing conditions or any other conditions under the Securities Purchase Agreement and/or Chicago Venture Note or that we will be able to draw down any portion of the amounts available under the Securities Purchase Agreement and/or Chicago Venture Note.

If we not able to draw down all due under the Securities Purchase Agreement or if the Securities Purchase Agreement is terminated, we may be forced to curtail the scope of our operations or alter our business plan if other financing is not available to us.

Suspension of trading of the Company's securities.

On April 10, 2014, we received notice from the SEC that trading of our common stock on the OTCBB was to be suspended from April 10, 2014 through April 24, 2014 pursuant to Section 12(k) of the Securities Exchange Act of 1934. According to the notice from the SEC the suspension of trading was. due to concerns regarding the accuracy and adequacy of information in the marketplace and potentially manipulative transactions in our common stock." We never received notice from the SEC that we were formally being investigated.

The suspension of trading eliminated our market makers, resulted in our trading on the grey sheets, resulted in legal proceedings and restricted our access to capital.

On October 17, 2017, we were informed by Alpine Securities Corporation ("Alpine") that Alpine has demonstrated compliance with the Financial Industry Regulatory Authority ("FINRA") Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. We filed an amended application with the OTC Markets to list the Company's common stock on the OTCQB and begin to trade on this market as of March 20, 2018.

This action had a material adverse effect on our business, financial condition and results of operations. If we are unable to obtain additional financing when it is needed, we will need to restructure our operations, and divest all or a portion of our business.

We are involved in Legal Proceedings.

We are involved in the disputes and legal proceedings as discussed in the section title "Legal Proceedings" within our Form 10-K for year ended December 31, 2017. In addition, as a public company, we are also potentially susceptible to litigation, such as claims asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse on our business, results of operations or financial condition.

Our Joint Venture Agreement with CANX USA, LLC and Logic Works may be important to our operations.

On November 19, 2013, we entered into a Joint Venture Agreement with CANX, a Nevada limited liability company. Under the terms of the Joint Venture Agreement, the Company and CANX formed Organic Growth International, LLC ("OGI"), a Nevada limited liability company, for the purpose of expanding our operations in its current retail hydroponic businesses and in other synergistic business verticals and facilitating additional funding for

commercially financeable transactions of up to \$40,000,000.



We initially owned a non-dilutive 45% share of OGI and the Company could acquire a controlling share of OGI as provided in the Joint Venture Agreement. In accordance with the Joint Venture Agreement, the Company and CANX entered into a Warrant Agreement whereby we delivered to CANX a warrant to purchase 140,000,000 shares of our common stock that is convertible at \$0.033 per share, subject to adjustment as provided in the warrant. The five-year warrant expires November 18, 2018. Also in accordance with the Joint Venture Agreement, on February 7, 2014, the Company issued an additional warrant to purchase 100,000,000 shares of our common stock that is convertible at \$0.033 per share, subject to adjustment as provided in the warrant. The five-year warrant expires February 6, 2019.

GrowLife received the \$1 million as a convertible note in December 2013, received the \$1.3 million commitment but not executed and by January 2014 OGI had Letters of Intent with four investment and acquisition transactions valued at \$96 million. Before the deals could close, the SEC put a trading halt on our stock on April 10, 2014, which resulted in the withdrawal of all transactions. The business disruption from the trading halt and the resulting class action and derivative lawsuits ceased further investments with the OGI joint venture. The Convertible Note was converted into our common stock as of the year ended December 31, 2016.

On July 10, 2014, we closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX and Logic Works LLC, a former lender and current shareholder of the Company.

The Amended and Restated Joint Venture Agreement with CANX modified the Joint Venture Agreement dated November 19, 2013 to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to nine months, subject to extension; (ii) up to \$10,000,000 in working capital loans with each loaning requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to adjustment, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to adjustment, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; and (vi) a four year term, subject to adjustment.

Failure to operate in accordance with the Agreements with CANX could result in the cancellation of these agreements, result in foreclosure on our assets in event of default and would have a material adverse effect on our business, results of operations or financial condition.

We may engage in acquisitions, mergers, strategic alliances, joint ventures and divestitures that could result in final results that are different than expected.

In the normal course of business, we engage in discussions relating to possible acquisitions, equity investments, mergers, strategic alliances, joint ventures and divestitures. Such transactions are accompanied by a number of risks, including the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt on potentially unfavorable terms as well as impairment expenses related to goodwill and amortization expenses related to other intangible assets, the possibility that we may pay too much cash or issue too many of our shares as the purchase price for an acquisition relative to the economic benefits that we ultimately derive from such acquisition, and various potential difficulties involved in integrating acquired businesses into our operations.

From time to time, we have also engaged in discussions with candidates regarding the potential acquisitions of our product lines, technologies and businesses. If a divestiture such as this does occur, we cannot be certain that our business, operating results and financial condition will not be materially and adversely affected. A successful divestiture depends on various factors, including our ability to effectively transfer liabilities, contracts, facilities and employees to any purchaser; identify and separate the intellectual property to be divested from the intellectual property that we wish to retain; reduce fixed costs previously associated with the divested assets or business; and

collect the proceeds from any divestitures.

If we do not realize the expected benefits of any acquisition or divestiture transaction, our financial position, results of operations, cash flows and stock price could be negatively impacted.



Our proposed business is dependent on laws pertaining to the marijuana industry.

Continued development of the marijuana industry is dependent upon continued legislative authorization of the use and cultivation of marijuana at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of marijuana, which would negatively impact our proposed business.

Currently, thirty states and the District of Columbia allow its citizens to use medical cannabis. Additionally, eight states and the District of Columbia have legalized cannabis for adult use. The state laws are in conflict with the federal Controlled Substances Act, which makes marijuana use and possession illegal on a national level. The Obama administration previously effectively stated that it is not an efficient use of resources to direct law federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. The Trump administration position is unknown. However, there is no guarantee that the Trump administration will not change current policy regarding the low-priority enforcement of federal laws. Additionally, any new administration that follows could change this policy and decide to enforce the federal laws strongly. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us and its shareholders.

Further, while we do not harvest, distribute or sell marijuana, by supplying products to growers of marijuana, we could be deemed to be participating in marijuana cultivation, which remains illegal under federal law, and exposes us to potential criminal liability, with the additional risk that our business could be subject to civil forfeiture proceedings.

The marijuana industry faces strong opposition.

It is believed by many that large, well-funded businesses may have a strong economic opposition to the marijuana industry. We believe that the pharmaceutical industry clearly does not want to cede control of any product that could generate significant revenue. For example, medical marijuana will likely adversely impact the existing market for the current "marijuana pill" sold by mainstream pharmaceutical companies. Further, the medical marijuana industry could face a material threat from the pharmaceutical industry, should marijuana displace other drugs or encroach upon the pharmaceutical industry's products. The pharmaceutical industry is well funded with a strong and experienced lobby that eclipses the funding of the medical marijuana movement. Any inroads the pharmaceutical industry could make in halting or impeding the marijuana industry harm our business, prospects, results of operation and financial condition.

Marijuana remains illegal under Federal law.

Marijuana is a Schedule-I controlled substance and is illegal under federal law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of federal law. Since federal law criminalizing the use of marijuana preempts state laws that legalize its use, strict enforcement of federal law regarding marijuana would harm our business, prospects, results of operation and financial condition.

Raising additional capital to implement our business plan and pay our debts will cause dilution to our existing stockholders, require us to restructure our operations, and divest all or a portion of our business.

We need additional financing to implement our business plan and to service our ongoing operations and pay our current debts. There can be no assurance that we will be able to secure any needed funding, or that if such funding is available, the terms or conditions would be acceptable to us.

If we raise additional capital through borrowing or other debt financing, we may incur substantial interest expense. Sales of additional equity securities will dilute on a pro rata basis the percentage ownership of all holders of common

stock. When we raise more equity capital in the future, it will result in substantial dilution to our current stockholders.

If we are unable to obtain additional financing when it is needed, we will need to restructure our operations, and divest all or a portion of our business.





Closing of bank and merchant processing accounts could have a material adverse effect on our business, financial condition and/or results of operations.

As a result of the regulatory environment, we have experienced the closing of several of our bank and merchant processing accounts since March 2014. We have been able to open other bank accounts. However, we may have other banking accounts closed. These factors impact management and could have a material adverse effect on our business, financial condition and/or results of operations.

Federal regulation and enforcement may adversely affect the implementation of medical marijuana laws and regulations may negatively impact our revenues and profits.

Currently, there are thirty states plus the District of Columbia that have laws and/or regulation that recognize in one form or another legitimate medical uses for cannabis and consumer use of cannabis in connection with medical treatment. Many other states are considering legislation to similar effect. As of the date of this writing, the policy and regulations of the Federal government and its agencies is that cannabis has no medical benefit and a range of activities including cultivation and use of cannabis for personal use is prohibited on the basis of federal law and may or may not be permitted on the basis of state law. Active enforcement of the current federal regulatory position on cannabis on a regional or national basis may directly and adversely affect the willingness of customers of GrowLife to invest in or buy products from GrowLife that may be used in connection with cannabis. Active enforcement of the current federal regulatory position on cannabis may thus indirectly and adversely affect revenues and profits of the GrowLife companies.

Our history of net losses has raised substantial doubt regarding our ability to continue as a going concern. If we do not continue as a going concern, investors could lose their entire investment.

Our history of net losses has raised substantial doubt about our ability to continue as a going concern, and as a result, our independent registered public accounting firm included an explanatory paragraph in its report on our financial statements as of and for the year ended December 31, 2017 and 2016 with respect to this uncertainty. Accordingly, our ability to continue as a going concern will require us to seek alternative financing to fund our operations. This going concern opinion could materially limit our ability to raise additional funds through the issuance of new debt or equity securities or otherwise. Future reports on our financial statements may include an explanatory paragraph with respect to our ability to continue as a going concern.

We have a history of operating losses and there can be no assurance that we can again achieve or maintain profitability.

We have experienced net losses since inception. As of September 30, 2018, we had an accumulated deficit of \$138.3 million. There can be no assurance that we will achieve or maintain profitability.

We are subject to corporate governance and internal control reporting requirements, and our costs related to compliance with, or our failure to comply with existing and future requirements, could adversely affect our business.

We must comply with corporate governance requirements under the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as additional rules and regulations currently in place and that may be subsequently adopted by the SEC and the Public Company Accounting Oversight Board. These laws, rules, and regulations continue to evolve and may become increasingly stringent in the future. We are required to include management's report on internal controls as part of our annual report pursuant to Section 404 of the Sarbanes-Oxley Act. We strive to continuously evaluate and improve our control structure to help ensure that we comply with Section 404 of the Sarbanes-Oxley Act. The financial cost of compliance with these laws, rules, and

regulations is expected to remain substantial.

We cannot assure you that we will be able to fully comply with these laws, rules, and regulations that address corporate governance, internal control reporting, and similar matters. Failure to comply with these laws, rules and regulations could materially adversely affect our reputation, financial condition, and the value of our securities.



Our inability or failure to effectively manage our growth could harm our business and materially and adversely affect our operating results and financial condition.

Our strategy envisions growing our business. We plan to expand our product, sales, administrative and marketing organizations. Any growth in or expansion of our business is likely to continue to place a strain on our management and administrative resources, infrastructure and systems. As with other growing businesses, we expect that we will need to further refine and expand our business development capabilities, our systems and processes and our access to financing sources. We also will need to hire, train, supervise and manage new and retain contributing employees. These processes are time consuming and expensive, will increase management responsibilities and will divert management attention. We cannot assure you that we will be able to:

- expand our products effectively or efficiently or in a timely manner;
- allocate our human resources optimally;
- meet our capital needs;
- identify and hire qualified employees or retain valued employees; or
- incorporate effectively the components of any business or product line that we may acquire in our effort to achieve growth.

Our operating results may fluctuate significantly based on customer acceptance of our products. As a result, period-to-period comparisons of our results of operations are unlikely to provide a good indication of our future performance. Management expects that we will experience substantial variations in our net sales and operating results from quarter to quarter due to customer acceptance of our products. If customers don't accept our products, our sales and revenues will decline, resulting in a reduction in our operating income.

Customer interest for our products could also be impacted by the timing of our introduction of new products. If our competitors introduce new products around the same time that we issue new products, and if such competing products are superior to our own, customers' desire for our products could decrease, resulting in a decrease in our sales and revenues. To the extent that we introduce new products and customers decide not to migrate to our new products from our older products, our revenues could be negatively impacted due to the loss of revenue from those customers. In the event that our newer products do not sell as well as our older products, we could also experience a reduction in our revenues and operating income.

If we do not successfully generate additional products and services, or if such products and services are developed but not successfully commercialized, we could lose revenue opportunities.

Our future success depends, in part, on our ability to expand our product and service offerings. To that end we have engaged in the process of identifying new product opportunities to provide additional products and related services to our customers. The process of identifying and commercializing new products is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends our business could be harmed. We may have to commit significant resources to commercializing new products before knowing whether our investments will result in products the market will accept. Furthermore, we may not execute successfully on commercializing those products because of errors in product planning or timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors providing those solutions before we do and a reduction in net sales and earnings.

The success of new products depends on several factors, including proper new product definition, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or

noncompetitive.

Our future success depends on our ability to grow and expand our customer base. Our failure to achieve such growth or expansion could materially harm our business.

To date, our revenue growth has been derived primarily from the sale of our products and through the purchase of existing businesses. Our success and the planned growth and expansion of our business depend on us achieving greater and broader acceptance of our products and expanding our customer base. There can be no assurance that customers will purchase our products or that we will continue to expand our customer base. If we are unable to effectively market or expand our product offerings, we will be unable to grow and expand our business or implement our business strategy. This could materially impair our ability to increase sales and revenue and materially and adversely affect our margins, which could harm our business and cause our stock price to decline.



If we incur substantial liability from litigation, complaints, or enforcement actions resulting from misconduct by our distributors, our financial condition could suffer. We will require that our distributors comply with applicable law and with our policies and procedures. Although we will use various means to address misconduct by our distributors, including maintaining these policies and procedures to govern the conduct of our distributors and conducting training seminars, it will still be difficult to detect and correct all instances of misconduct. Violations of applicable law or our policies and procedures by our distributors could lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or foreign regulatory authorities against us and/or our distributors. and could consume considerable amounts of financial and other corporate resources, which could have a negative impact on our sales, revenue, profitability and growth prospects. As we are currently in the process of implementing our direct sales distributor program, we have not been, and are not currently, subject to any material litigation, complaint or enforcement action regarding distributor misconduct by any federal, state or foreign regulatory authority.

Our future manufacturers could fail to fulfill our orders for products, which would disrupt our business, increase our costs, harm our reputation and potentially cause us to lose our market.

We may depend on contract manufacturers in the future to produce our products. These manufacturers could fail to produce products to our specifications or in a workmanlike manner and may not deliver the units on a timely basis. Our manufacturers may also have to obtain inventories of the necessary parts and tools for production. Any change in manufacturers to resolve production issues could disrupt our ability to fulfill orders. Any change in manufacturers to resolve production issues could also disrupt our business due to delays in finding new manufacturers, providing specifications and testing initial production. Such disruptions in our business and/or delays in fulfilling orders would harm our reputation and would potentially cause us to lose our market.

Our inability to effectively protect our intellectual property would adversely affect our ability to compete effectively, our revenue, our financial condition and our results of operations.

We may be unable to obtain intellectual property rights to effectively protect our business. Our ability to compete effectively may be affected by the nature and breadth of our intellectual property rights. While we intend to defend against any threats to our intellectual property rights, there can be no assurance that any such actions will adequately protect our interests. If we are unable to secure intellectual property rights to effectively protect our technology, our revenue and earnings, financial condition, and/or results of operations would be adversely affected.

We may also rely on nondisclosure and non-competition agreements to protect portions of our technology. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that third parties will not otherwise gain access to our trade secrets or proprietary knowledge, or that third parties will not independently develop the technology.

We do not warrant any opinion as to non-infringement of any patent, trademark, or copyright by us or any of our affiliates, providers, or distributors. Nor do we warrant any opinion as to invalidity of any third-party patent or unpatentability of any third-party pending patent application.

Our industry is highly competitive and we have less capital and resources than many of our competitors, which may give them an advantage in developing and marketing products similar to ours or make our products obsolete.

We are involved in a highly competitive industry where we may compete with numerous other companies who offer alternative methods or approaches, may have far greater resources, more experience, and personnel perhaps more qualified than we do. Such resources may give our competitors an advantage in developing and marketing products similar to ours or products that make our products obsolete. There can be no assurance that we will be able to successfully compete against these other entities.



Transfers of our securities may be restricted by virtue of state securities "blue sky" laws, which prohibit trading absent compliance with individual state laws. These restrictions may make it difficult or impossible to sell shares in those states.

Transfers of our common stock may be restricted under the securities or securities regulations laws promulgated by various states and foreign jurisdictions, commonly referred to as "blue sky" laws. Absent compliance with such individual state laws, our common stock may not be traded in such jurisdictions. Because the securities held by many of our stockholders have not been registered for resale under the blue sky laws of any state, the holders of such shares and persons who desire to purchase them should be aware that there may be significant state blue sky law restrictions upon the ability of investors to sell the securities and of purchasers to purchase the securities. These restrictions may prohibit the secondary trading of our common stock. Investors should consider the secondary market for our securities to be a limited one.

We are dependent on key personnel and we are default under Employment and Consulting Agreements

Our success depends to a significant degree upon the continued contributions of key management and other personnel, some of whom could be difficult to replace. We do not maintain key man life insurance covering our officers. Our success will depend on the performance of our officers and key management and other personnel, our ability to retain and motivate our officers, our ability to integrate new officers and key management and other personnel into our operations, and the ability of all personnel to work together effectively as a team. Our failure to retain and recruit officers and other key personnel could have a material adverse effect on our business, financial condition and results of operations.

We have limited insurance.

We have limited directors' and officers' liability insurance and limited commercial liability insurance policies. Any significant claims would have a material adverse effect on our business, financial condition and results of operations.



## Risks Related to our Common Stock

CANX and Chicago Venture could have significant influence over matters submitted to stockholders for approval.

### CANX and Logic Works

As of September 30, 2018, CANX holds warrants representing approximately 15.5% of our common stock on a fully-converted basis and could be considered a control group for purposes of SEC rules. However, their agreements limit their ownership to 4.99% individually and each of the parties disclaims its status as a control group or a beneficial owner due to the fact that their beneficial ownership is limited to 4.99% per their agreements. Beneficial ownership includes shares over which an individual or entity has investment or voting power and includes shares that could be issued upon the exercise of options and warrants within 60 days after the date of determination.

### Chicago Venture, Iliad and St. George

As a result of funding from Chicago Venture, Iliad and St. George as previously detailed, they exercise significant control over us.

If these persons were to choose to act together, they would be able to significantly influence all matters submitted to our stockholders for approval, as well as our officers, directors, management and affairs. For example, these persons, if they choose to act together, could significantly influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of us on terms that other stockholders may desire.

Trading in our stock is limited by the SEC's penny stock regulations.

Our stock is categorized as a penny stock. The SEC has adopted Rule 15c-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than US\$ 5.00 per share or an exercise price of less than US \$5.00 per share, subject to certain exclusions (e.g., net tangible assets in excess of \$2,000,000 or average revenue of at least \$6,000,000 for the last three years). The penny stock rules impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. Finally, broker-dealers may not handle penny stocks under \$0.10 per share.

These disclosure requirements reduce the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules would affect the ability of broker-dealers to trade our securities if we become subject to them in the future. The penny stock rules also could discourage investor interest in and limit the marketability of our common stock to future investors, resulting in limited ability for investors to sell their shares.

FINRA sales practice requirements may also limit a shareholder's ability to buy and sell our stock.

In addition to the “penny stock” rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.



The market price of our common stock may be volatile.

The market price of our common stock has been and is likely in the future to be volatile. Our common stock price may fluctuate in response to factors such as:

Halting of trading by the SEC or FINRA.

Announcements by us regarding liquidity, legal proceedings, significant acquisitions, equity investments and divestitures, strategic relationships, addition or loss of significant customers and contracts, capital expenditure commitments, loan, note payable and agreement defaults, loss of our subsidiaries and impairment of assets,

Issuance of convertible or equity securities for general or merger and acquisition purposes,

Issuance or repayment of debt, accounts payable or convertible debt for general or merger and acquisition purposes,

Sale of a significant number of shares of our common stock by shareholders,

General market and economic conditions,

Quarterly variations in our operating results,

Investor relation activities,

Announcements of technological innovations,

New product introductions by us or our competitors,

Competitive activities, and

Additions or departures of key personnel.

These broad market and industry factors may have a material adverse effect on the market price of our common stock, regardless of our actual operating performance. These factors could have a material adverse effect on our business, financial condition, and/or results of operations.

The sale of a significant number of our shares of common stock could depress the price of our common stock.

Sales or issuances of a large number of shares of common stock in the public market or the perception that sales may occur could cause the market price of our common stock to decline. As of September 30, 2018, there were approximately 3.054 billion shares of our common stock issued and outstanding. In addition, as of September 30, 2018, there are also (i) stock option grants outstanding for the purchase of 63 million common shares at a \$0.009 average exercise price; (ii) warrants for the purchase of 644 million common shares at a \$0.033 average exercise price; and (iii) 111.0 million shares related to convertible debt that can be converted at 0.002535 per share.

In addition, we have an unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing agreements because the number of shares ultimately issued to Chicago Venture depends on the price at which Chicago Venture converts its debt to shares and exercises its warrants. The lower the conversion or exercise prices, the more shares that will be issued to Chicago Venture upon the conversion of debt to shares. We won't know the exact number of shares of stock issued to Chicago Venture until the debt is actually converted to equity. If all stock option grant and warrant and contingent shares are issued, approximately 3.874.4 billion of our currently

authorized 6 billion shares of common stock will be issued and outstanding. For purposes of estimating the number of shares issuable upon the exercise/conversion of all stock options, warrants and contingent shares, we assumed the number of shares and average share prices detailed above.

These stock option grant, warrant and contingent shares could result in further dilution to common stock holders and may affect the market price of the common stock.

Significant shares of common stock are held by our principal shareholders, other Company insiders and other large shareholders. As affiliates as defined under Rule 144 of the Securities Act or Rule 144 of the Company, our principal shareholders, other Company insiders and other large shareholders may only sell their shares of common stock in the public market pursuant to an effective registration statement or in compliance with Rule 144.

These stock option grant, warrant and contingent shares could result in further dilution to common stock holders and may affect the market price of the common stock.





Some of our convertible debentures and warrants may require adjustment in the conversion price.

Our Convertible Notes Payable may require an adjustment in the current conversion price of \$0.002535 per share if we issue common stock, warrants or equity below the price that is reflected in the convertible notes payable. Our warrant with St. George may require an adjustment in the exercise price. The conversion price of the convertible notes and warrants will have an impact on the market price of our common stock. Specifically, if under the terms of the convertible notes the conversion price goes down, then the market price, and ultimately the trading price, of our common stock will go down. If under the terms of the convertible notes the conversion price goes up, then the market price, and ultimately the trading price, of our common stock will likely go up. In other words, as the conversion price goes down, so does the market price of our stock. As the conversion price goes up, so presumably does the market price of our stock. The more the conversion price goes down, the more shares are issued upon conversion of the debt which ultimately means the more stock that might flood into the market, potentially causing a further depression of our stock.

We do not anticipate paying any cash dividends on our capital stock in the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business, and we do not anticipate paying any cash dividends on our capital stock in the foreseeable future. In addition, the terms of any future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

Anti-takeover provisions may limit the ability of another party to acquire our company, which could cause our stock price to decline.

Our certificate of incorporation, as amended, our bylaws and Delaware law contain provisions that could discourage, delay or prevent a third party from acquiring our company, even if doing so may be beneficial to our stockholders. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our common stock.

We may issue preferred stock that could have rights that are preferential to the rights of common stock that could discourage potentially beneficially transactions to our common shareholders.

An issuance of additional shares of preferred stock could result in a class of outstanding securities that would have preferences with respect to voting rights and dividends and in liquidation over our common stock and could, upon conversion or otherwise, have all of the rights of our common stock. Our Board of Directors' authority to issue preferred stock could discourage potential takeover attempts or could delay or prevent a change in control through merger, tender offer, proxy contest or otherwise by making these attempts more difficult or costly to achieve. The issuance of preferred stock could impair the voting, dividend and liquidation rights of common stockholders without their approval.

If the company were to dissolve or wind-up, holders of our common stock may not receive a liquidation preference.

If we were to wind-up or dissolve the Company and liquidate and distribute our assets, our shareholders would share ratably in our assets only after we satisfy any amounts we owe to our creditors. If our liquidation or dissolution were attributable to our inability to profitably operate our business, then it is likely that we would have material liabilities at the time of liquidation or dissolution. Accordingly, we cannot give you any assurance that sufficient assets will remain available after the payment of our creditors to enable you to receive any liquidation distribution with respect to any shares you may hold.

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

Unless otherwise indicated, all of the following sales or issuances of Company securities were conducted under the exemption from registration as provided under Section 4(2) of the Securities Act of 1933 (and also qualified for exemption under 4(5), formerly 4(6) of the Securities Act of 1933, except as noted below). All of the shares issued were issued in transactions not involving a public offering, are considered to be restricted stock as defined in Rule 144 promulgated under the Securities Act of 1933 and stock certificates issued with respect thereto bear legends to that effect.

We have compensated consultants and service providers with restricted common stock during the development of our business and when our capital resources were not adequate to provide payment in cash.



During the three months ended September 30, 2018, Chicago Venture converted principal and interest of \$655,000 into 99,453,385 shares of our common stock at a per share conversion price of \$0.0056 with a fair value of \$1,295,703.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There have been no events which are required to be reported under this item.

ITEM 4. MINE SAFETY DISCLOSURES

N/A.

ITEM 5. OTHER INFORMATION

This item is not applicable.



## ITEM 6. EXHIBITS

The exhibits required to be filed herewith by Item 601 of Regulation S-K, as described in the following index of exhibits, are attached hereto unless otherwise indicated as being incorporated by reference, as follows:

Exhibit No.	Description
<u>3.1</u>	Certificate of Incorporation. Filed as an exhibit to the Company's Form 10-SB General Form for Registration of Securities of Small Business Issuers filed with the SEC on December 7, 2007, and hereby incorporated by reference.
<u>3.2</u>	Second Amended and Restated Bylaws of GrowLife, Inc. dated October 16, 2015. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.
<u>3.3</u>	Certificate of Amendment of Certificate of Incorporation of GrowLife, Inc. dated October 23, 2017 to increase the authorized shares of Common Stock from 3,000,000,000 to 6,000,000,000 shares. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 24, 2017, and hereby incorporated by reference.
<u>4.1</u>	GrowLife, Inc. 2017 Stock Incentive Plan filed as an Annex 1 to the Company's Preliminary Schedule 14A filed with the SEC on June 30, 2017, and hereby incorporated by reference.
<u>10.4</u>	Letter by and between GrowLife, Inc. and Mark Scott Consulting Letter dated July 31, 2014. Filed as an exhibit to the Company's Form 8-K filed with the SEC on August 6, 2014, and hereby incorporated by reference.
<u>10.5</u>	Joseph Barnes Promotion Letter dated October 10, 2014. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 14, 2014, and hereby incorporated by reference.
<u>10.6</u>	Marco Hegyi Employment Agreement and Warrants dated October 21, 2016. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 27, 2016, and hereby incorporated by reference.
<u>10.7</u>	Asset Purchase Agreement dated as of October 2, 2017 amongst GrowLife, Inc. and David Reichwein, GIP International Ltd and DPR International LLC.
<u>10.8</u>	Texas commercial Lease Agreement dated October 9, 2017 by and between GrowLife Innovations, Inc. and All Commercial Flooring Inc.
<u>10.9</u>	Compilation of Securities Purchase Agreement and Warrant to Purchase Common Stock dated February 9, 2018, entered into by and between GrowLife, Inc. and St. George Investments LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on February 15, 2018, and hereby incorporated by reference.
<u>10.10</u>	First Addendum to Asset Purchase Agreement and Employment Agreement dated February 18, 2018 amongst Growlife, Inc. and David Reichwein, GIP International Ltd and DPR International LLC. (filed herewith).
<u>10.11</u>	Second Amendment to Forglen LLC 7% Convertible Promissory Note. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 16, 2018, and hereby incorporated by reference.
<u>10.12</u>	Common Stock Purchase Agreement dated March 20, 2018 entered into by and between GrowLife, Inc. and St. George Investments LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 23, 2018, and hereby incorporated by reference.
<u>10.13</u>	Compilation of Securities Purchase Agreement, Secured Promissory Notes, and Security Agreement. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 16, 2018, and hereby incorporated by reference.
<u>10.14</u>	Asset Purchase Agreement dated August 17, 2018 entered into by and between GrowLife, Inc. and Go Green Hydroponics, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 23, 2018, and hereby incorporated by reference.
<u>10.15</u>	

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Security Agreement dated August 17, 2018 by and between GrowLife, Inc. and Go Green Hydroponics, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 23, 2018, and hereby incorporated by reference.

10.16 Rights Offering to Shareholders filed in Amendment No.1 of Form S-1. Filed with the SEC on September 18, 2018, and hereby incorporated by reference. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on September 21, 2018, and hereby incorporated by reference.

10.17 Four Amendment to Lease Agreement dated August 31, 2018 entered into by and between GrowLife, Inc., The GST Non-Exempt Marital Trust under the Samuel and Elaine Rosenthal Revocable Trust and Ackerman-Rosenthal Property, LLC. Filed herewith.

10.18 Assignment and Assumption of Lease dated August 31, 2018 entered into by and between GrowLife, Inc., Go Green Hydroponics, Inc., GST Non-Exempt Marital Trust Under the Samuel and Elaine Rosenthal Revocable Trust and Ackerman-Rosenthal Property, LLC. Filed herewith.

10.19 Lease Agreement dated July 2, 2018 entered into by and between GrowLife Hydroponics, Inc. Inc. and Brixmor SPE 4 LP. Filed herewith.

14.1 Code of Conduct and Ethics dated May 15, 2014. Attached as an exhibit to the Company's Form 8-K filed and with the SEC on June 9, 2014, and hereby incorporated by reference.

31.01 Certification of Principal Executive Officer Pursuant to Rule 13a-14 Filed herewith.

31.02 Certification of Principal Financial Officer Pursuant to Rule 13a-14 Filed herewith.

32.01 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Filed herewith.

32.02 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Filed herewith.

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB\* XBRL Taxonomy Extension Labels Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

\*Filed Herewith. Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.





SIGNATURES

In accordance with Section 13 or 15(d) requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GROWLIFE, INC.

(Registrant)

Date: November 14, 2018 By: /s/ Marco Hegyi  
Marco Hegyi  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: November 14, 2018 By: /s/ Mark Scott  
Mark Scott  
Chief Financial Officer  
(Principal Financial and Accounting Officer)