

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024
OR

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

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

Hydrofarm Holdings Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value per share	HYFM	Nasdaq Stock Market LLC

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of July 31, 2024, the registrant had 45,981,105 shares of common stock, \$0.0001 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Hydrofarm Holdings Group, Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(In thousands, except share and per share amounts)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,314	\$ 30,312
Accounts receivable, net	18,565	16,890
Inventories	58,719	75,354
Prepaid expenses and other current assets	3,587	5,510
Assets held for sale	470	—
Total current assets	111,655	128,066
Property, plant and equipment, net	41,111	47,360
Operating lease right-of-use assets	47,472	54,494
Intangible assets, net	261,201	275,881
Other assets	1,919	1,842
Total assets	\$ 463,358	\$ 507,643
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 13,801	\$ 12,613
Accrued expenses and other current liabilities	9,400	9,529
Deferred revenue	2,729	3,231
Current portion of operating lease liabilities	7,538	8,336
Current portion of finance lease liabilities	444	954
Current portion of long-term debt	1,570	2,989
Total current liabilities	35,482	37,652
Long-term operating lease liabilities	42,151	47,506
Long-term finance lease liabilities	8,071	8,734
Long-term debt	114,948	115,412
Deferred tax liabilities	3,232	3,232
Other long-term liabilities	4,465	4,497
Total liabilities	208,349	217,033
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock (\$0.0001 par value; 300,000,000 shares authorized; 45,980,321 and 45,789,890 shares issued and outstanding at June 30, 2024, and December 31, 2023, respectively)	5	5
Additional paid-in capital	789,373	787,846
Accumulated other comprehensive loss	(7,567)	(6,497)
Accumulated deficit	(526,802)	(490,744)
Total stockholders' equity	255,009	290,610
Total liabilities and stockholders' equity	\$ 463,358	\$ 507,643

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

Hydrofarm Holdings Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net sales	\$ 54,793	\$ 63,051	\$ 108,965	\$ 125,229
Cost of goods sold	43,942	48,578	87,189	99,375
Gross profit	10,851	14,473	21,776	25,854
Operating expenses:				
Selling, general and administrative	18,659	23,468	38,280	47,899
Loss on asset disposition	11,520	—	11,520	—
Loss from operations	(19,328)	(8,995)	(28,024)	(22,045)
Interest expense	(3,811)	(3,768)	(7,742)	(7,460)
Other income (expense), net	79	(420)	294	(380)
Loss before tax	(23,060)	(13,183)	(35,472)	(29,885)
Income tax (expense) benefit	(390)	318	(586)	171
Net loss	\$ (23,450)	\$ (12,865)	\$ (36,058)	\$ (29,714)
Net loss per share:				
Basic	\$ (0.51)	\$ (0.28)	\$ (0.79)	\$ (0.66)
Diluted	\$ (0.51)	\$ (0.28)	\$ (0.79)	\$ (0.66)
Weighted-average shares of common stock outstanding:				
Basic	45,978,941	45,412,627	45,896,335	45,338,636
Diluted	45,978,941	45,412,627	45,896,335	45,338,636

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

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Net loss	\$ (23,450)	\$ (12,865)	\$ (36,058)	\$ (29,714)
Other comprehensive loss:				
Foreign currency translation (loss) gain	(341)	1,428	(1,070)	1,540
Total comprehensive loss	\$ (23,791)	\$ (11,437)	\$ (37,128)	\$ (28,174)

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

Hydrofarm Holdings Group, Inc.

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

(In thousands, except for share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, March 31, 2023	45,362,276	\$ 5	\$ 784,101	\$ (7,123)	\$ (442,780)	\$ 334,203
Issuance of common stock for vesting of stock awards	200,994	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(23,053)	—	(25)	—	—	(25)
Stock-based compensation expense	—	—	1,817	—	—	1,817
Net loss	—	—	—	—	(12,865)	(12,865)
Foreign currency translation gain	—	—	—	1,428	—	1,428
Balance, June 30, 2023	45,540,217	\$ 5	\$ 785,893	\$ (5,695)	\$ (455,645)	\$ 324,558
Balance, March 31, 2024	45,977,935	\$ 5	\$ 788,602	\$ (7,226)	\$ (503,352)	\$ 278,029
Issuance of common stock for vesting of stock awards	4,158	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(1,772)	—	(1)	—	—	(1)
Stock-based compensation expense	—	—	772	—	—	772
Net loss	—	—	—	—	(23,450)	(23,450)
Foreign currency translation loss	—	—	—	(341)	—	(341)
Balance, June 30, 2024	45,980,321	\$ 5	\$ 789,373	\$ (7,567)	\$ (526,802)	\$ 255,009

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

Hydrofarm Holdings Group, Inc.

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

(In thousands, except for share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2023	45,197,249	\$ 5	\$ 783,042	\$ (7,235)	\$ (425,931)	\$ 349,881
Issuance of common stock for vesting of stock awards	438,327	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(95,359)	—	(148)	—	—	(148)
Stock-based compensation expense	—	—	2,999	—	—	2,999
Net loss	—	—	—	—	(29,714)	(29,714)
Foreign currency translation gain	—	—	—	1,540	—	1,540
Balance, June 30, 2023	45,540,217	\$ 5	\$ 785,893	\$ (5,695)	\$ (455,645)	\$ 324,558
Balance, January 1, 2024	45,789,890	\$ 5	\$ 787,846	\$ (6,497)	\$ (490,744)	\$ 290,610
Issuance of common stock for vesting of stock awards	297,176	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(106,745)	—	(98)	—	—	(98)
Stock-based compensation expense	—	—	1,625	—	—	1,625
Net loss	—	—	—	—	(36,058)	(36,058)
Foreign currency translation loss	—	—	—	(1,070)	—	(1,070)
Balance, June 30, 2024	45,980,321	\$ 5	\$ 789,373	\$ (7,567)	\$ (526,802)	\$ 255,009

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

Hydrofarm Holdings Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Six months ended June 30,	
	2024	2023
Operating activities		
Net loss	\$ (36,058)	\$ (29,714)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation, depletion and amortization	15,661	16,257
Provision for inventory obsolescence	786	964
Restructuring expenses	314	744
Stock-based compensation expense	1,625	2,999
Non-cash operating lease expense	4,375	5,407
Non-cash loss from asset disposition	11,103	—
Other	323	753
Changes in assets and liabilities:		
Accounts receivable	(1,986)	(897)
Inventories	8,608	15,437
Prepaid expenses and other current assets	1,781	(406)
Other assets	(234)	(188)
Accounts payable	739	(1,209)
Accrued expenses and other current liabilities	263	(3,261)
Deferred revenue	(496)	(1,323)
Lease liabilities	(5,315)	(4,548)
Other long-term liabilities	(2)	(54)
Net cash from operating activities	1,487	961
Investing activities		
Capital expenditures of property, plant and equipment	(1,810)	(3,306)
Cash proceeds from Asset Sale for property, plant and equipment	3,700	—
Other	390	43
Net cash from (used in) investing activities	2,280	(3,263)
Financing activities		
Proceeds from Sale-Leaseback Transaction	—	8,598
Borrowings under foreign revolving credit facilities	251	483
Repayments of foreign revolving credit facilities	(296)	(351)
Repayments of Term Loan	(2,282)	(625)
Payment of withholding tax related to stock awards	(98)	(148)
Finance lease principal payments	(1,151)	(510)
Net cash (used in) from financing activities	(3,576)	7,447
Effect of exchange rate changes on cash and cash equivalents	(189)	246
Net increase in cash and cash equivalents	2	5,391
Cash and cash equivalents at beginning of period	30,312	21,291
Cash and cash equivalents at end of period	\$ 30,314	\$ 26,682
Non-cash investing and financing activities		
Right-of-use assets relinquished under operating lease obligations, net	\$ (1,924)	\$ (748)
Assets acquired under finance lease obligations	—	185
Capital expenditures included in accounts payable and accrued liabilities	719	517
Supplemental information		
Cash paid for interest	8,560	6,884
Cash paid for income taxes	68	659

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

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

1. DESCRIPTION OF THE BUSINESS

Description of the business

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

Use of estimates

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

Segment and entity-wide information

Segment information

The Company's chief operating decision maker is the chief executive officer ("CEO") who reviews financial information for the purposes of making operating decisions, assessing financial performance, and allocating resources. The business is organized as two operating segments, the United States and Canada, which meet the criteria for aggregation, and the Company has elected to present them as one reportable segment, which is the distribution and manufacture of CEA equipment

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

and supplies. Aggregation is based on similarities which include the nature of its products, production or acquisition of inventory, customer base, fulfillment and distribution and economic characteristics.

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

Entity-wide information

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
United States	\$ 44,096	\$ 48,748	\$ 84,551	\$ 96,497
Canada	11,603	14,565	26,028	29,584
Intersegment eliminations	(906)	(262)	(1,614)	(852)
Total consolidated net sales	\$ 54,793	\$ 63,051	\$ 108,965	\$ 125,229

	June 30, 2024	December 31, 2023
United States	\$ 55,980	\$ 68,270
Canada	32,603	33,584
Total property, plant and equipment, net and operating lease right-of-use assets	\$ 88,583	\$ 101,854

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

Fair value measurements

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

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

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

Level 3 — Valuation techniques with significant unobservable market inputs.

The Company measures certain non-financial assets and liabilities, including long-lived assets and intangible assets at fair value on a nonrecurring basis. The fair value of contingent consideration was classified within level 3 of the fair value hierarchy. Refer to Note 15 – *Fair Value Measurements*, for further discussion of the contingent consideration.

Inventories

Inventories consist of finished goods, work-in-process, and raw materials used in manufacturing products. Inventories are stated at the lower of cost or net realizable value, principally determined by the first in, first out method of accounting. The Company maintains an allowance for excess and obsolete inventory. The estimate for excess and obsolete inventory is based upon assumptions about current and anticipated demand, customer preferences, business strategies, and market conditions. Management reviews these assumptions periodically to determine if any adjustments are needed to the allowance for excess and obsolete inventory. The establishment of an allowance for excess and obsolete inventory establishes a new cost basis in the

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

inventory. Such allowance is not reduced until the product is sold or otherwise disposed. If inventory is sold, any related reserves would be reversed in the period of sale. During the year ended December 31, 2023, and the three and six months ended June 30, 2024, the Company estimated inventory markdowns relating to restructuring charges based upon current and anticipated demand, customer preferences, business strategies, and market conditions including management's actions with respect to inventory raw materials and products and brands being removed from the Company's portfolio.

Revenue recognition

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

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

The amount billed to customers for shipping and handling costs included in net sales was \$2,270 and \$5,209 during the three and six months ended June 30, 2024, respectively, and \$2,718 and \$5,286 during the three and six months ended June 30, 2023, respectively. Shipping and handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are accounted for as fulfillment costs included in cost of goods sold. The Company does not receive noncash consideration for the sale of goods. Contract consideration received from a customer prior to revenue recognition is recorded as a contract liability and is recognized as revenue when the Company satisfies the related performance obligation under the terms of the contract. The Company's contract liabilities, which consist primarily of customer deposits reported within deferred revenue in the condensed consolidated balance sheets, totaled \$2,729 and \$3,231 as of June 30, 2024, and December 31, 2023, respectively. There are no significant financing components and the majority of revenue is recognized within one year. Excluded from revenue are any taxes assessed by governmental authorities, including value-added and other sales-related taxes that are imposed on and concurrent with revenue-generating activities.

Income taxes

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

Recent accounting pronouncements

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

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

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

3. RESTRUCTURING AND ASSET DISPOSITIONS

Restructuring

The Company began a restructuring plan (the "Restructuring Plan") in 2022, and undertook significant actions to streamline operations, reduce costs and improve efficiencies. The major initiatives of the first phase of the Restructuring Plan included (i) narrowing the Company's product and brand portfolio and (ii) the relocation and consolidation of certain manufacturing and distribution centers, including headcount reductions and reorganization to drive a solution based approach. During the three and six months ended June 30, 2023, the Company recorded pre-tax expense of \$788 and \$2,199, respectively, relating primarily to the relocation and termination of certain facilities in Canada. The Company incurred \$417 and \$744 of non-cash charges during the three and six months ended June 30, 2023, respectively, relating to asset dispositions and write-downs. The Company recorded \$720 and \$1,957 of restructuring related charges within Cost of goods sold on the consolidated statements of operations for the three and six months ended June 30, 2023, respectively. The Company recorded \$68 and \$242 within Selling, general and administrative ("SG&A") expenses on the consolidated statements of operations for the three and six months ended June 30, 2023, respectively. Total costs incurred relating to this first phase of the Restructuring Plan, from its inception in 2022 to its completion in 2023, were (i) \$6,398 relating primarily to inventory markdowns, and (ii) \$3,373 relating primarily to the relocation and termination of certain facilities in Canada.

As a result of the continued adverse market conditions, the Company implemented a second phase of the Restructuring Plan beginning in the third quarter of 2023, including U.S. manufacturing facility consolidations, in particular with respect to production of certain durable equipment products. During the three and six months ended June 30, 2024, the Company recorded pre-tax restructuring charges of \$927 and \$1,065, respectively, for the second phase, relating primarily to cash charges associated with the consolidation and closure of U.S. manufacturing facilities including termination and disposal costs. The non-cash charges consist of fixed asset and inventory write-downs. Of the \$927 and \$1,065 recorded charges, \$890 and \$981, was recorded within Cost of goods sold on the condensed consolidated statements of operations during the three and six months ended June 30, 2024, respectively. The Company recorded \$37 and \$84 within Selling, general and administrative ("SG&A") expenses on the condensed consolidated statements of operations during the three and six months ended June 30, 2024, respectively. Total costs incurred relating to this second phase of the Restructuring Plan, from its commencement in the third quarter of 2023 through June 30, 2024, are (i) \$9,179 of non-cash charges relating primarily to inventory markdowns of durable equipment products, and (ii) \$1,071 of cash charges relating primarily to the consolidation of U.S. manufacturing facilities including termination and disposal costs.

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

	Three Months Ended June 30, 2024
Restructuring Accruals as of March 31, 2024	\$ 137
Expense	620
Cash Payments	(448)
Restructuring Accruals as of June 30, 2024	\$ 309
	Six Months Ended June 30, 2024
Restructuring Accruals as of December 31, 2023	\$ 187
Expense	750
Cash Payments	(628)
Restructuring Accruals as of June 30, 2024	\$ 309

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

		Three Months Ended June 30, 2023
Restructuring Accruals as of March 31, 2023	\$	624
Expense		371
Cash Payments		(502)
Restructuring Accruals as of June 30, 2023	\$	493
		Six Months Ended June 30, 2023
Restructuring Accruals as of December 31, 2022	\$	696
Expense		1,455
Cash Payments		(1,658)
Restructuring Accruals as of June 30, 2023	\$	493

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

Asset Disposition

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

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

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

The foregoing description of the Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement, which is filed as Exhibit 10.4 to this Quarterly Report on Form 10-Q.

Assets Held for Sale

During the three months ended June 30, 2024, the Company entered into an agreement to sell approximately 20 acres of the 140 acres of excess owned land at the Goshen, New York location. The transaction is expected to close in the second half

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of 2024. The estimated sale price less costs to sell are consistent with the carrying value of the land, and therefore no estimated gain or loss was recorded in the three months ended June 30, 2024. The \$470 carrying value of the land was reclassified from "Property, plant and equipment, net" to "Assets held for sale" on the Company's condensed consolidated balance sheet as of June 30, 2024.

4. INTANGIBLE ASSETS, NET

Intangible assets, net comprised the following:

	June 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Finite-lived intangible assets:						
Computer software	\$ 9,325	\$ (8,518)	\$ 807	\$ 9,325	\$ (8,357)	\$ 968
Customer relationships	99,805	(35,557)	64,248	99,805	(31,883)	67,922
Technology, formulations and recipes	110,381	(28,749)	81,632	114,181	(25,124)	89,057
Trade names and trademarks	131,493	(20,086)	111,407	131,493	(16,740)	114,753
Other	4,769	(4,463)	306	4,802	(4,422)	380
Total finite-lived intangible assets, net	355,773	(97,373)	258,400	359,606	(86,526)	273,080
Indefinite-lived intangible asset:						
Trade name	2,801	—	2,801	2,801	—	2,801
Total Intangible assets, net	\$ 358,574	\$ (97,373)	\$ 261,201	\$ 362,407	\$ (86,526)	\$ 275,881

Amortization expense related to intangible assets was \$6,036 and \$12,120 for the three and six months ended June 30, 2024, respectively. Amortization expense related to intangible assets was \$6,047 and \$12,092 for the three and six months ended June 30, 2023, respectively.

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

The following are the estimated useful lives and the weighted-average amortization period remaining as of June 30, 2024, for the major classes of finite-lived intangible assets:

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

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

	Estimated Future Amortization Expense
For the period of July 1, 2024 to December 31, 2024	\$ 11,941
Year ending December 31,	
2025	23,859
2026	23,591
2027	23,403
2028	22,710
2029 and thereafter	152,896
Total	\$ 258,400

5. LOSS PER COMMON SHARE

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net loss	\$ (23,450)	\$ (12,865)	\$ (36,058)	\$ (29,714)
Weighted-average shares of common stock outstanding	45,978,941	45,412,627	45,896,335	45,338,636
Dilutive effect of warrants and share based compensation awards using the treasury stock method	—	—	—	—
Diluted weighted-average shares of common stock outstanding	45,978,941	45,412,627	45,896,335	45,338,636
Basic loss per common share	\$ (0.51)	\$ (0.28)	\$ (0.79)	\$ (0.66)
Diluted loss per common share	\$ (0.51)	\$ (0.28)	\$ (0.79)	\$ (0.66)

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Shares subject to warrants outstanding	—	17,669	—	17,669
Shares subject to unvested performance and restricted stock units	3,261,004	2,369,483	3,261,004	2,369,483
Shares subject to stock options outstanding	441,914	648,518	441,914	648,518

6. ACCOUNTS RECEIVABLE, NET, AND INVENTORIES

Accounts receivable, net comprised the following:

	June 30, 2024	December 31, 2023
Trade accounts receivable	\$ 18,390	\$ 16,740
Allowance for doubtful accounts	(763)	(920)
Other receivables	938	1,070
Total accounts receivable, net	\$ 18,565	\$ 16,890

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Beginning balance	\$ (784)	\$ (1,164)	\$ (920)	\$ (1,556)
Changes in estimates	(152)	(996)	(276)	(1,104)
Write-offs	107	42	336	172
Collections/Other	66	458	97	828
Ending balance	\$ (763)	\$ (1,660)	\$ (763)	\$ (1,660)

Inventories comprised the following:

	June 30, 2024	December 31, 2023
Finished goods	\$ 50,904	\$ 58,346
Work-in-process	1,929	3,891
Raw materials	14,281	23,256
Allowance for inventory obsolescence	(8,395)	(10,139)
Total inventories	\$ 58,719	\$ 75,354

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

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

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7. LEASES

The Company leases its distribution centers and manufacturing facilities from third parties under various non-cancelable lease agreements expiring at various dates through 2038. Also, the Company leases some property, plant and equipment under finance leases. Certain leases contain escalation provisions and/or renewal options, giving the Company the right to extend the leases by up to 20 years. However, these options are generally not reflected in the calculation of the right-of-use assets and lease liabilities due to uncertainty surrounding the likelihood of renewal. The Company recognizes operating lease costs over the respective lease periods, including short-term and month-to-month leases. The Company incurred operating lease costs of \$2,611 and \$5,361 during the three and six months ended June 30, 2024, respectively, and \$3,078 and \$6,725 during the three and six months ended June 30, 2023, respectively. These costs are included primarily within SG&A in the condensed consolidated statements of operations and do not include lease termination costs associated with the Asset Sale. Refer to Note 3 – *Restructuring and Asset Dispositions* for further details.

The Company has operating subleases which have been accounted for by reference to the underlying asset subject to the lease, primarily as an offset to rent expense within SG&A. For the three and six months ended June 30, 2024, the Company recorded sublease income of \$785 and \$1,523, respectively. For the three and six months ended June 30, 2023, the Company recorded sublease income of \$586 and \$1,172, respectively.

In January 2023, Gotham Properties LLC, an Oregon limited liability company and a subsidiary of the Company (“Seller”), consummated a Purchase and Sale Agreement with J & D Property, LLC, a Nevada limited liability company (“Purchaser”) pursuant to which certain real property located in the City of Eugene, County of Lane, State of Oregon (the “Eugene Property”) was sold to Purchaser for \$8,598 and then leased back by Seller (the “Sale-Leaseback Transaction”). The new lease has a term of 15 years with annual rent starting at \$731 and fixed increases to the final year when annual rent is \$964. The Company accounted for the transaction as a failed sale-leaseback which requires retaining the asset associated with the property and recognizing a corresponding financial liability for the cash received. The Eugene Property serves as the manufacturing and processing site for certain of the Company’s grow media and nutrient brands. Refer to Note 10 – *Debt* for further discussion.

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

Balance Sheet Classification		June 30, 2024	December 31, 2023
Lease assets			
Operating lease assets	Operating lease right-of-use assets	\$ 47,472	\$ 54,494
Finance lease assets	Property, plant and equipment, net	7,640	9,315
Total lease assets		\$ 55,112	\$ 63,809
Lease liabilities			
Current:			
Operating leases	Current portion of operating lease liabilities	\$ 7,538	\$ 8,336
Finance leases	Current portion of finance lease liabilities	444	954
Noncurrent:			
Operating leases	Long-term operating lease liabilities	42,151	47,506
Finance leases	Long-term finance lease liabilities	8,071	8,734
Total lease liabilities		\$ 58,204	\$ 65,530

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

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

	Operating	Finance
For the period of July 1, 2024 to December 31, 2024	\$ 4,657	\$ 435
Year ending December 31,		
2025	9,514	884
2026	8,819	850
2027	8,913	853
2028	8,360	806
2029 and thereafter	16,715	8,039
Total lease payments	56,978	11,867
Less portion representing interest	(7,289)	(3,352)
Total principal	49,689	8,515
Less current portion	(7,538)	(444)
Long-term portion	\$ 42,151	\$ 8,071

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised the following:

	June 30, 2024	December 31, 2023
Machinery and equipment	\$ 24,193	\$ 27,417
Peat bogs and related development	12,461	12,256
Building and improvements	10,272	10,132
Land	5,639	6,114
Furniture and fixtures	4,331	4,360
Computer equipment	3,275	3,301
Leasehold improvements	3,180	5,169
Gross property, plant and equipment	63,351	68,749
Less: accumulated depreciation	(22,240)	(21,389)
Total property, plant and equipment, net	\$ 41,111	\$ 47,360

Depreciation, depletion and amortization expense related to property, plant and equipment, net was \$1,740 and \$3,541 for the three and six months ended June 30, 2024, respectively. Depreciation, depletion and amortization expense related to property, plant and equipment, net was \$2,203 and \$4,165 for the three and six months ended June 30, 2023, respectively.

As of June 30, 2024, Land, Building and improvements, Computer equipment, and Machinery and equipment contain finance leases assets, recorded at cost of \$10,195, less accumulated depreciation of \$2,555. As of December 31, 2023, Land, Building and improvements, Computer equipment, and Machinery and equipment contain finance leases assets, recorded at cost of \$12,783, less accumulated depreciation of \$3,468.

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

The Company operates peat bogs in Alberta, Canada. Under current provincial laws the Company is subject to certain asset retirement obligations ("AROs") and the remediation of the peat bog sites are under provincial oversight. The Company periodically evaluates expected remediation costs associated with the peat bog sites that it operates. When the Company concludes that it is probable that a liability has been incurred, a provision is made for management's estimate of the liability. As

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of June 30, 2024, and December 31, 2023, the Company had AROs of \$486 and \$759, respectively, recorded in Accrued expenses and other current liabilities on the condensed consolidated balance sheets. As of June 30, 2024, and December 31, 2023, the Company had AROs of \$4,429 and \$4,457, respectively, recorded in Other long-term liabilities on the condensed consolidated balance sheets. The ARO changes related to the various components of accretion, and additional obligations incurred that were not significant.

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities comprised the following:

	June 30, 2024	December 31, 2023
Accrued compensation and benefits	\$ 2,657	\$ 2,096
Interest accrual	169	1,214
Freight, custom and duty accrual	1,234	1,040
Goods in transit accrual	646	360
Income tax accrual	333	—
Other accrued liabilities	4,361	4,819
Total accrued expenses and other current liabilities	\$ 9,400	\$ 9,529

10. DEBT

Debt is comprised of the following:

	June 30, 2024	December 31, 2023
Term Loan - Principal	\$ 120,218	\$ 122,500
Term Loan - Unamortized discount and deferred financing costs	(3,811)	(4,259)
Term Loan - Net of unamortized discount and deferred financing costs	116,407	118,241
Other	111	160
Total debt	\$ 116,518	\$ 118,401
Current portion of long-term debt	\$ 1,570	\$ 2,989
Long-term debt - net of unamortized discount and deferred financing costs of \$3,811 and \$4,259 as of June 30, 2024, and December 31, 2023, respectively	114,948	115,412
Total debt	\$ 116,518	\$ 118,401

Term Loan

On October 25, 2021, the Company and certain of its direct and indirect subsidiaries (the "Obligors") entered into a Credit and Guaranty Agreement with JPMorgan Chase Bank, N.A., as administrative agent for the lenders, pursuant to which the Company borrowed a \$125,000 senior secured term loan ("Term Loan"). The Term Loan was amended by Amendment No. 1 to Credit and Guaranty Agreement ("Amendment No. 1") effective on June 27, 2023, to replace the LIBOR referenced rates with SOFR referenced rates. Pursuant to Amendment No. 1, any Term Loan that constitutes a Eurodollar Rate Loan that is outstanding as of the Amendment No. 1 closing date shall continue until the end of the applicable interest period for such Eurodollar Rate Loan and the provisions of the Term Loan applicable thereto shall continue and remain in effect (notwithstanding the occurrence of the Amendment No. 1 closing date) until the end of the applicable interest period for such Eurodollar Rate Loan, after which such provisions shall have no further force or effect. Such Eurodollar Rate Loan shall subsequently either be an ABR Loan or a Term Benchmark Loan. The ABR Loans shall bear interest at the Alternate Base Rate (with a 2.0% floor) plus 4.50%, and Term Benchmark Loans shall bear interest at the Adjusted Term SOFR Rate (with a 1.0% floor), plus 5.50%. The ABR Loan and Term Benchmark Loan credit spreads of 4.50% and 5.50%, respectively, within the

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Amendment No. 1 have not changed from the credit spreads in the original Term Loan. Legal fees associated with Amendment No. 1 were not material, and were included in Other income (expense), net, on the Condensed Consolidated Statements of Operations during the year ended December 31, 2023. The foregoing description of Amendment No. 1 does not purport to be complete and is qualified in its entirety by reference to the provisions of Amendment No. 1, included as Exhibit 10.8 to the 2023 Annual Report. Capitalized terms referenced above are defined in the Term Loan.

The Term Loan was subject to a call premium of 1% if called prior to October 25, 2023, and 0% thereafter, and matures on October 25, 2028 ("Maturity Date"). Deferred financing costs are being amortized to interest expense over the term of the loan. For the three months ended June 30, 2024, the effective interest rate was 11.78% and interest expense was \$3,530, which includes amortization of deferred financing costs and discount of \$172. For the six months ended June 30, 2024, the effective interest rate was 11.90% and interest expense was \$7,182, which includes amortization of deferred financing costs and discount of \$392.

The principal amounts of the Term Loan are required to be repaid in consecutive quarterly installments in amounts equal to 0.25% of the original principal amount of the Term Loan, reduced pro-rata by any additional payments made, on the last day of each fiscal quarter commencing March 31, 2022, with the balance of the Term Loan payable on the Maturity Date. The Company is also required to make mandatory prepayments in the event of (i) achieving certain excess cash flow criteria, including the achievement and maintenance of a specific leverage ratio, (ii) certain asset sales that are collateral, or (iii) upon the issuance, offering, or placement of new debt obligations. As described in Note 7 – *Leases*, the Company received net cash proceeds in January 2023 from the Sale-Leaseback Transaction and is subject to a provision whereby such net cash proceeds can be reinvested into certain investments, such as capital expenditures. This provision of the Term Loan includes (i) cash investments made within a one-year period from the Sale-Leaseback Transaction, and (ii) investments which are contractually committed within one-year of the Sale-Leaseback Transaction and paid within 180 days after entering into such contractual commitment. The amount of any net cash proceeds which are not reinvested would require the Company to make an offer to prepay the corresponding amount on the Term Loan in 2024. In accordance with this provision, the Company classified \$1,665 as current debt as of December 31, 2023, and prepaid the Term Loan in this amount in the first quarter of 2024. In addition, the Company had \$2,187 of contractual commitments pursuant to this provision as of December 31, 2023. As of June 30, 2024, the Company determined that \$300 of contractual commitments pursuant to this provision were not paid, and made an additional offer to prepay this amount. In accordance with this provision, the Company classified \$300 as current debt as of June 30, 2024, and this balance was paid in the third quarter of 2024. As described in Note 3 – *Restructuring and Asset Dispositions*, the Company sold assets for \$8,660 in May 2024. The net cash proceeds from this transaction are subject to the same Term Loan reinvestment provision described above, including (i) cash investments made within a one-year period, and (ii) investments which are contractually committed within one-year of the Asset Sale and paid within 180 days after entering into such contractual commitment. The foregoing description of the reinvestment provision does not purport to be complete and is qualified in its entirety by reference to the provisions of the Term Loan.

As of June 30, 2024, and December 31, 2023, the outstanding principal balance on the Term Loan was \$120,218 and \$122,500, respectively.

The Term Loan requires the Company to maintain certain reporting requirements, affirmative covenants, and negative covenants, and the Company was in compliance with all requirements as of June 30, 2024. The Term Loan is secured by a first lien on the non-working capital assets of the Company and a second lien on the working capital assets of the Company.

Revolving Credit Facility

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

The Revolving Credit Facility originally had a borrowing limit of \$50,000. On August 31, 2021, the Obligors entered into an amendment (the "First Amendment") to increase their original borrowing limit to \$100,000. In connection with the First Amendment, the Company's previously acquired subsidiaries became party to the Revolving Credit Facility as either borrowers or as guarantors. On October 25, 2021, the Company and its subsidiaries entered into a second amendment (the "Second Amendment"), with JPMorgan Chase Bank, N.A., pursuant to which the parties consented to the Term Loan described above,

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and made certain conforming changes to comport with the Term Loan provisions. The Revolving Credit Facility was further amended by a third amendment and joinder dated August 23, 2022 (the "Third Amendment"), pursuant to which several previously acquired subsidiaries became parties to the Revolving Credit Facility and granted liens on their assets. On December 22, 2022, the Company entered into a fourth amendment (the "Fourth Amendment") pursuant to which a sale-leaseback transaction was permitted, and certain other changes were made, including a reduction of the maximum commitment amount under the Revolving Credit Facility from \$100,000 to \$75,000 and transitioning the LIBOR based rates to SOFR based rates. On March 31, 2023, the Company and certain of its subsidiaries entered into an amendment (the "Fifth Amendment") pursuant to which the maturity date was extended to June 30, 2026, the maximum commitment amount under the Revolving Credit Facility was reduced to \$55,000, and the interest rate on borrowings was revised to various spreads, based on the Company's fixed charge coverage ratio.

The unamortized debt discount and deferred financing costs were \$431 and \$538 as of June 30, 2024, and December 31, 2023, respectively, and are included in other assets in the condensed consolidated balance sheets. Debt discount and deferred financing costs are being amortized to interest expense over the term of the Revolving Credit Facility.

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

The Company is required to maintain certain reporting requirements, affirmative covenants and negative covenants, pursuant to terms outlined in the agreement. Additionally, if the Company's Excess Availability (as defined in the Revolving Credit Facility documents) is less than an amount equal to 10% of the Aggregate Revolving Commitment (currently \$55,000), the Company will be required to maintain a minimum fixed charge coverage ratio of 1.1x on a rolling twelve-month basis until the Excess Availability is more than 10% of the Aggregate Revolving Commitment for thirty consecutive days. In order to consummate permitted acquisitions or to make restricted payments, the Company would be required to comply with a higher fixed charge coverage ratio of 1.15x, but no such acquisitions or payments are currently contemplated. As of June 30, 2024, the Company is in compliance with the covenants contained in the Revolving Credit Facility.

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

As of June 30, 2024, and December 31, 2023, the Company had zero borrowed under the facility. As of June 30, 2024, the Company would be able to borrow approximately \$20 million under the Revolving Credit Facility, before the Company would be required to comply with the minimum fixed charge coverage ratio of 1.1x.

Other Debt

Other debt of \$111 and \$160 as of June 30, 2024, and December 31, 2023, respectively, was primarily comprised of a foreign subsidiary's other debt which constitutes an immaterial revolving line of credit and mortgage.

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Aggregate future principal payments

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

	Debt
For the period of July 1, 2024 to December 31, 2024	\$ 944
Year ending December 31,	
2025	1,252
2026	1,252
2027	1,252
2028	115,629
2029 and thereafter	—
Total	\$ 120,329

11. STOCKHOLDERS' EQUITY**Common stock**

Each holder of common stock is entitled to one vote for each share of common stock. Common stockholders have no pre-emptive rights to acquire additional shares of common stock or other securities. The common stock is not subject to redemption rights and carries no subscription or conversion rights. In the event of liquidation, the stockholders are entitled to share in corporate assets on a pro rata basis after the Company satisfies all liabilities and after provision is made for any class of capital stock having preference over the common stock. Subject to corporate regulations and preferences to preferred stock, if any, dividends are at the discretion of the Board of Directors. As of June 30, 2024, there were 45,980,321 shares outstanding and 300,000,000 shares authorized.

Warrants

On July 19, 2021, the Company completed the redemption ("Redemption") of certain of its outstanding warrants (the "Investor Warrants") that were issued in connection with a private placement of units (the "private placement"), each consisting of a share of common stock and a warrant to purchase an additional one-half (1/2) shares of common stock. In connection with the private placement, the Company agreed to engage the placement agent (the "Placement Agent") as the Company's warrant solicitation agent in the event the Investor Warrants were called for Redemption. The Company agreed to pay a warrant solicitation fee to the Placement Agent equal to five percent of the amount of net cash proceeds solicited by the Placement Agent upon the exercise of certain Investor Warrants following such call for Redemption. As of June 30, 2024, and December 31, 2023, respectively, there were no Investor Warrants outstanding. In connection with the private placement, the Placement Agent was issued warrants (the "placement agent warrants") which expired on December 14, 2023. As of June 30, 2024, and December 31, 2023, there were no outstanding placement agent warrants.

12. STOCK-BASED COMPENSATION**Stock-based compensation plan overview**

The Company maintains three equity incentive plans: the 2018 Equity Incentive Plan ("2018 Plan"), the 2019 Employee, Director and Consultant Equity Incentive Plan ("2019 Plan") and the 2020 Employee, Director, and Consultant Equity Incentive Plan ("2020 Plan" and collectively, "Incentive Plans"). The 2020 Plan serves as the successor to the 2019 Plan and 2018 Plan and provides for the issuance of incentive stock options ("ISOs"), stock grants and stock-based awards to employees, directors, and consultants of the Company. No further awards will be issued under the 2018 Plan and 2019 Plan. As of June 30, 2024, a total of 1,931,739 shares were available for grant under the 2020 Plan.

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

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

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

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

Restricted Stock Unit ("RSU") Activity

RSUs granted to certain executives, employees and members of the Board of Directors expire 10 years after the grant date. The awards generally have a time-based vesting requirement (based on continuous employment). Upon vesting, the RSUs convert into shares of the Company's common stock. The stock-based compensation expense related to service-based awards is recorded over the requisite service period. During the three months ended June 30, 2024, the Company granted RSU awards to members of the Board of Directors that are expected to vest on the one-year anniversary of the grant date.

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

	Number of RSUs	Weighted average grant date fair value
Balance, December 31, 2023	1,242,210	\$ 3.06
Granted	802,315	\$ 0.78
Vested	(735,693)	\$ 3.08
Forfeited	(902)	\$ 24.50
Balance, June 30, 2024	1,307,930	\$ 1.63

As of June 30, 2024, total unamortized stock-based compensation cost related to unvested RSUs was \$1,447 and the weighted-average period over which the compensation is expected to be recognized is less than one-year. For the three and six months ended June 30, 2024, the Company recognized \$428 and \$1,180, respectively, of total stock-based compensation expense for RSUs. During the six months ended June 30, 2024, 618,815 RSUs that vested were not issued due to the recipients'

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elections to defer the conversion into common stock. As of June 30, 2024, there were 625,172 RSUs which had vested, but were not yet issued due to the recipients' elections.

Performance Stock Unit ("PSU") Activity

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

	Number of PSUs	Weighted average grant date fair value
Balance, December 31, 2023	921,182	\$ 1.77
Granted	1,372,188	\$ 0.99
Vested	(180,298)	\$ 1.77
Forfeited	(778,813)	\$ 1.73
Balance, June 30, 2024	<u>1,334,259</u>	<u>\$ 0.99</u>

During the six months ended June 30, 2024, the PSU forfeitures were due to employee terminations and performance conditions that were not satisfied, while PSU vests were from awards granted in the prior year. The majority of the PSUs outstanding as of December 31, 2023 were forfeited during the first quarter of 2024, as a result of not meeting certain performance conditions. As of June 30, 2024, total unamortized stock-based compensation cost related to unvested PSUs was \$1,006 and the weighted-average period over which the compensation is expected to be recognized is less than one-year. For the three and six months ended June 30, 2024, the Company recognized \$313 and \$385, respectively, of total stock-based compensation expense for PSUs. The Company granted 1,372,188 additional PSUs in April 2024, which are scheduled to vest in April 2025, assuming certain performance metrics are achieved and subject to continued employment of the participant.

Stock Options

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

There were no stock options granted or exercised during the six months ended June 30, 2024. The following table summarizes the stock option activity for the six months ended June 30, 2024:

	Number	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)
Outstanding as of December 31, 2023	571,359	\$ 9.47	\$ 2.01	3.69
Cancelled	(128,886)	\$ 8.46	\$ 1.00	
Forfeited	(559)	\$ 11.06	\$ 9.89	
Outstanding as of June 30, 2024	<u>441,914</u>	\$ 9.76	\$ 2.30	3.98
Options exercisable as of June 30, 2024	<u>430,061</u>	\$ 9.72	\$ 2.09	3.91
Vested and expected to vest as of June 30, 2024	<u>441,914</u>	\$ 9.76	\$ 2.30	3.98

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

	Number	Weighted average grant date fair value
Unvested as of December 31, 2023	16,674	\$ 12.15
Vested	(4,262)	\$ 19.06
Forfeited	(559)	\$ 9.89
Unvested as of June 30, 2024	11,853	\$ 9.78

As of June 30, 2024, total compensation cost related to unvested options not yet recognized was \$49 and the weighted-average period over which the compensation is expected to be recognized is less than one-year. For the three and six months ended June 30, 2024, the Company recognized \$31 and \$60, respectively, of total stock-based compensation expense for stock options.

13. INCOME TAXES

The Company recorded income tax expense of \$390 and \$586 for the three and six months ended June 30, 2024, respectively, representing an effective tax rate of (1.7)% and (1.7)%, respectively. The Company's effective tax rate for the six months ended June 30, 2024, differs from the federal statutory rate of 21% primarily due to US and foreign jurisdictions in full valuation allowance. The income tax expense for the three and six months ended June 30, 2024, was primarily due to foreign taxes in certain jurisdictions and U.S. state taxes.

The Company recorded an income tax benefit of \$318 and \$171 for the three and six months ended June 30, 2023, respectively, representing an effective tax rate of 2.4% and 0.6%, respectively. The Company's effective tax rate for the six months ended June 30, 2023, differs from the federal statutory rate of 21% primarily due to the Company maintaining a full valuation allowance against its net deferred tax assets in the U.S. and most foreign jurisdictions. The tax benefit for the three and six months ended June 30, 2023, was primarily due to a net foreign tax benefit in certain jurisdictions.

14. COMMITMENTS AND CONTINGENCIES

Purchase commitments

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

Contingencies

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

15. FAIR VALUE MEASUREMENTS

Recurring and Nonrecurring

As described in Note 3 – *Restructuring and asset dispositions*, during the three months ended June 30, 2024, the Company entered into an agreement to sell approximately 20 acres of the 140 acres of owned land at its Goshen, New York

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location. The Company measured the held-for-sale land asset at estimated fair value based on the agreement, which was considered a Level 2 fair value measurement. The land had a carrying value of \$470, which was consistent with the estimated sale price less costs to sell, and therefore no estimated gain or loss was recorded in the three months ended June 30, 2024. The \$470 carrying value of the land was reclassified from "Property, plant and equipment, net", to "Assets held for sale" on the Company's condensed consolidated balance sheet as of June 30, 2024.

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

Other Fair Value Measurements

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

	Fair Value Hierarchy Level	June 30, 2024		December 31, 2023	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets					
Cash and cash equivalents	Level 1	30,314	30,314	30,312	30,312
Liabilities					
Finance leases	Level 3	8,515	8,086	9,688	9,688
Term Loan	Level 2	120,218	96,776	122,500	98,000

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

The estimated fair value of finance leases, which were considered Level 3 fair value measurements, were calculated as the present value of the required future cash outflows discounted at an estimated borrowing rate. Finance leases primarily relate to the Sale-Leaseback transaction that was entered into in the first quarter of 2023. The fair value of the Term Loan was estimated based on Level 2 fair value measurements and was based on bank quotes. The carrying amount of the Term Loan reported above excludes unamortized debt discount and deferred financing costs. Refer to Note 7 – *Leases* and Note 10 – *Debt*, for further discussion of the Company's finance leases and Term Loan, respectively.

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

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

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

Company Overview

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

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

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

Market Conditions

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

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

As a result of the continued adverse market conditions, in the third quarter of 2023 we began a second phase of the Restructuring Plan which included U.S. manufacturing facility consolidations, in particular with respect to our production of certain durable equipment products. In 2023, we recorded \$9.2 million of restructuring charges for the second phase. These charges primarily related to estimated non-cash raw material inventory write-downs as we reduced our capacity and facility

space, given the change in customer demand for these products. These restructuring charges were primarily recorded within Cost of goods sold on the condensed consolidated statements of operations.

In 2024, we evaluated alternatives to maximize the recovery value of our assets and the cost structure associated with manufacturing our IGE branded durable equipment products. As previously disclosed as a subsequent event to our first quarter Form 10-Q, we entered into the Purchase Agreement with the Buyer to sell the inventories, and property, plant and equipment associated with our IGE branded products for approximately \$8.7 million, while retaining our proprietary brand and customer relationships. In connection with the Asset Sale, we entered into an exclusive supply agreement with the Buyer, pursuant to which the Buyer provides contract manufacturing and we continue to sell our proprietary branded durable products, which include horticulture benches, racking and LED lighting systems. As a result of the Asset Sale and new contract manufacturing arrangement, we expect improved profitability on future IGE branded product sales from an anticipated decrease in fixed costs. The Asset Sale closed on May 31, 2024 and we sold or disposed of approximately \$11.6 million of inventories, \$3.7 million of property, plant and equipment, and technology intangible assets of \$2.6 million. In connection with the Asset Sale, we terminated and paid-off the facility operating lease for \$1.3 million and certain equipment finance leases for \$0.7 million. Consistent with the subsequent event disclosure from our first quarter Form 10-Q, we recorded a loss on asset disposition of approximately \$11.5 million on the condensed consolidated statements of operations for the three and six months ended June 30, 2024.

During the three and six months ended June 30, 2024, we also executed the consolidation of other U.S. manufacturing facilities as previously planned, and recorded restructuring charges of \$0.9 million and \$1.1 million, respectively. After completion of the Asset Sale and the aforementioned restructuring actions, we have now consolidated our manufacturing operations into two U.S. locations and our peat moss harvesting operation in Canada. We are evaluating other opportunities to sell excess owned land to supplement our cash position, and potential contract manufacturing or outsourcing arrangements to reduce costs and further consolidate our facility footprint, including certain distribution center locations. We estimate additional charges associated with the second phase of our Restructuring Plan or other alternative actions in the second half of 2024 may exceed \$2.0 million and include estimated cash and non-cash impacts for these facility consolidations. We anticipate the second phase of our Restructuring Plan and related actions may result in annual cost savings of over \$2.0 million. The amounts we will ultimately realize or disburse in connection with the Restructuring Plan could differ materially from our estimates, depending on our ability to execute various alternatives, and we may not be able to realize the full extent of our anticipated cost savings.

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

Results of Operations—Comparison of three and six months ended June 30, 2024 and 2023

The following table sets forth our unaudited interim condensed consolidated statements of operations for the three and six months ended June 30, 2024, and 2023, including amounts and percentages of net sales for each period and the period-to-period change in dollars and percent (amounts in thousands):

	Three months ended June 30,				Period change	
	2024		2023			
Net sales	\$ 54,793	100.0 %	\$ 63,051	100.0 %	\$ (8,258)	-13.1 %
Cost of goods sold	43,942	80.2 %	48,578	77.0 %	(4,636)	-9.5 %
Gross profit	10,851	19.8 %	14,473	23.0 %	(3,622)	-25.0 %
Operating expenses:						
Selling, general and administrative	18,659	34.1 %	23,468	37.2 %	(4,809)	-20.5 %
Loss on asset disposition	11,520	21.0 %	—	0.0 %	11,520	N/A
Loss from operations	(19,328)	-35.3 %	(8,995)	-14.3 %	(10,333)	-114.9 %
Interest expense	(3,811)	-7.0 %	(3,768)	-6.0 %	43	1.1 %
Other income (expense), net	79	0.1 %	(420)	-0.7 %	499	118.8 %
Loss before tax	(23,060)	-42.1 %	(13,183)	-20.9 %	(9,877)	-74.9 %
Income tax (expense) benefit	(390)	-0.7 %	318	0.5 %	708	222.6 %
Net loss	\$ (23,450)	-42.8 %	\$ (12,865)	-20.4 %	\$ (10,585)	-82.3 %

	Six Months Ended June 30,				Period change	
	2024		2023			
Net sales	\$ 108,965	100.0 %	\$ 125,229	100.0 %	\$ (16,264)	-13.0 %
Cost of goods sold	87,189	80.0 %	99,375	79.4 %	(12,186)	-12.3 %
Gross profit	21,776	20.0 %	25,854	20.6 %	(4,078)	-15.8 %
Operating expenses:						
Selling, general and administrative	38,280	35.1 %	47,899	38.2 %	(9,619)	-20.1 %
Loss on asset disposition	11,520	10.6 %	—	0.0 %	11,520	N/A
Loss from operations	(28,024)	-25.7 %	(22,045)	-17.6 %	(5,979)	-27.1 %
Interest expense	(7,742)	-7.1 %	(7,460)	-6.0 %	282	3.8 %
Other income (expense), net	294	0.3 %	(380)	-0.3 %	674	177.4 %
Loss before tax	(35,472)	-32.6 %	(29,885)	-23.9 %	(5,587)	-18.7 %
Income tax (expense) benefit	(586)	-0.5 %	171	0.1 %	757	442.7 %
Net loss	\$ (36,058)	-33.1 %	\$ (29,714)	-23.7 %	\$ (6,344)	-21.4 %

Net sales

Net sales for the three months ended June 30, 2024, were \$54.8 million, a decrease of \$8.3 million, or 13.1% compared to the same period in 2023. Net sales for the six months ended June 30, 2024, were \$109.0 million, a decrease of \$16.3 million, or 13.0% compared to the same period in 2023.

The 13.1% decrease in net sales for the three months ended June 30, 2024, as compared to the same period in 2023, was primarily due to a 10.3% decline in volume/mix of products sold and a 2.6% decrease in price. The decrease in volume/mix of products sold was primarily related to the aforementioned oversupply in the cannabis industry. The 13.0% decrease in net sales for the six months ended June 30, 2024, as compared to the same period in 2023, was due to a 11.1% decline in volume/mix of products sold and a 1.9% decrease in price. The decrease in volume/mix of products sold was primarily related to the aforementioned oversupply in the cannabis industry.

Gross profit

Gross profit for the three months ended June 30, 2024, was \$10.9 million, a decrease of \$3.6 million, or 25.0%, compared to the same period in 2023. Gross profit for the six months ended June 30, 2024, was \$21.8 million, a decrease of \$4.1 million, or 15.8%, compared to the same period in 2023.

Our gross profit margin percentage decreased to 19.8% for the three months ended June 30, 2024, from 23.0% in the same period in 2023 primarily due to lower productivity in select manufacturing facilities. Our gross profit margin percentage decreased to 20.0% for the six months ended June 30, 2024, from 20.6% in the same period in 2023. The decrease was primarily due to lower productivity in select manufacturing facilities in the second quarter of 2024 as compared to the same period in 2023 which more than offset our restructuring and related cost savings initiatives and manufacturing productivity in the first quarter of 2024.

Selling, general and administrative expenses

SG&A expenses for the three months ended June 30, 2024, were \$18.7 million, a decrease of \$4.8 million, or 20.5% compared to the same period in 2023. SG&A expenses for the six months ended June 30, 2024, were \$38.3 million, a decrease of \$9.6 million, or 20.1% compared to the same period in 2023.

SG&A expenses decreased \$4.8 million for the three months ended June 30, 2024, as compared to the same period in 2023. The decrease was due to lower expenses in several areas, including as a result of our cost saving and restructuring initiatives: (i) \$1.4 million decrease in salaries and benefits, (ii) \$1.3 million decrease in facility costs, and (iii) \$1.0 million decrease in stock-based compensation, along with other expense reductions in multiple areas including professional fees and outside services and insurance costs.

The \$9.6 million decrease in SG&A expenses for the six months ended June 30, 2024, as compared to the same period in 2023, was primarily due to lower expenses in several areas, including as a result of our cost saving and restructuring initiatives: (i) \$2.7 million decrease in facility costs, (ii) \$2.2 million decrease in salaries and benefits, (iii) \$1.4 million decrease in professional fees and outside services, (iv) \$1.4 million decrease in stock-based compensation, and (v) \$1.1 million decrease in insurance costs, along with other expense reductions in multiple areas.

Loss on asset disposition

As previously described in the subsequent event disclosure from our first quarter Form 10-Q, we entered into a Purchase Agreement with CM Fabrication, LLC to sell assets relating to the production of durable equipment products for \$8.7 million. The Asset Sale closed during the three months ended June 30, 2024 and we sold or disposed of inventories and other assets. We recorded a Loss on asset disposition of \$11.5 million during the three and six months ended June 30, 2024. Refer to Note 3 – *Restructuring and asset dispositions* for a further description of the Asset Sale.

Interest expense

Interest expense for the three months ended June 30, 2024, was \$3.8 million, which is consistent with the same period in the prior year. Interest expense for the six months ended June 30, 2024, was \$7.7 million, an increase of \$0.3 million compared to the same period in the prior year. The increase was primarily due to higher variable interest rates on our Term Loan, partially offset by lower debt outstanding due to principal repayments.

Other income (expense), net

Other income, net for the three months ended June 30, 2024, was \$0.1 million, an increase of \$0.5 million compared to Other expense, net of \$0.4 million during the same period in the prior year. Other income, net for the six months ended June 30, 2024, was \$0.3 million, an increase of \$0.7 million compared to Other expense, net of \$0.4 million during the same period in the prior year. Other income, net for the three and six months ended June 30, 2024, was primarily driven by interest income and foreign currency exchange gains.

Income taxes

We recorded income tax expense of \$0.4 million and \$0.6 million for the three and six months ended June 30, 2024, respectively, representing an effective tax rate of (1.7)% in both periods. Our effective tax rate for the six months ended June 30, 2024, differs from the federal statutory rate of 21% primarily due to US and foreign jurisdictions in full valuation allowance. The income tax expense for the three and six months ended June 30, 2024, was primarily due to foreign taxes in certain jurisdictions and U.S. state taxes.

We recorded an income tax benefit of \$0.3 million and \$0.2 million for the three and six months ended June 30, 2023, representing an effective income tax rate of 2.4% and 0.6%, respectively. Our effective tax rate for the six months ended June 30, 2023, differs from the federal statutory rate of 21% primarily due to the Company maintaining a full valuation allowance against its net deferred tax assets in the U.S. and most foreign jurisdictions. The tax benefit for the three and six months ended June 30, 2023, was primarily due to a net foreign tax benefit in certain jurisdictions.

Liquidity and Capital Resources**Cash Flow from Operating, Investing, and Financing Activities****Comparison of the six months ended June 30, 2024, and June 30, 2023**

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

	Six months ended June 30,	
	2024	2023
Net cash from operating activities	\$ 1,487	\$ 961
Net cash from (used in) investing activities	2,280	(3,263)
Net cash (used in) from financing activities	(3,576)	7,447
Effect of exchange rate changes on cash and cash equivalents	(189)	246
Net increase in cash and cash equivalents	2	5,391
Cash and cash equivalents at beginning of period	30,312	21,291
Cash and cash equivalents at end of period	\$ 30,314	\$ 26,682

Operating Activities

Net cash from operating activities was \$1.5 million for the six months ended June 30, 2024. The net cash from operating activities was primarily due to a \$3.4 million net cash inflow from a reduction in working capital, partially offset by a net loss of \$36.1 million, less net non-cash items of \$34.2 million. The \$3.4 million net reduction in working capital was primarily comprised of a \$8.6 million decrease of inventories and a \$1.8 million decrease of prepaid expenses and other current assets, partially offset by a \$5.3 million decrease of lease liabilities and a \$2.0 million increase of accounts receivable. As described in Note 3 – *Restructuring and asset dispositions*, in connection with the Asset Sale, we estimated the amount of cash proceeds associated with the sale of inventories as \$5.0 million and classified the amount within net cash from operating activities. In addition, the Company paid cash of \$1.3 million to terminate the facility operating lease in connection with the Asset Sale.

Net cash from operating activities was \$1.0 million for the six months ended June 30, 2023, driven by positive cash from operating activities in the second quarter. The net cash from operating activities was primarily due to a \$3.6 million net cash inflow from a reduction in working capital, partially offset by a net loss of \$29.7 million less net non-cash items of \$27.1 million. The net reduction in working capital was primarily driven by a decrease of \$15.4 million in inventories, partially offset by decreases of \$4.5 million of lease liabilities, \$3.3 million of accrued expenses and other current liabilities, \$1.3 million in deferred revenue, and \$1.2 million of accounts payable.

Investing Activities

Net cash from investing activities was \$2.3 million for the six months ended June 30, 2024, and net cash used in investing activities was \$3.3 million for the six months ended June 30, 2023. We received cash proceeds from the Asset Sale associated with the sale of property, plant and equipment of \$3.7 million during the six months ended June 30, 2024, along with other cash from investing activities of \$0.4 million. These cash proceeds were partially offset by \$1.8 million of capital expenditures of property, plant and equipment. The net cash used in investing activities for the six months ended June 30, 2023 was primarily due to capital expenditures of property, plant and equipment.

Financing Activities

Net cash used in financing activities was \$3.6 million for the six months ended June 30, 2024, primarily driven by (i) \$2.3 million of Term Loan repayments relating to required quarterly payments of principal and prepayments made in conjunction with the Sale-Leaseback Transaction, and (ii) finance lease principal payments of \$1.2 million which included approximately \$0.7 million relating to equipment finance lease payments made in connection with the Asset Sale.

Net cash from financing activities was \$7.4 million for the six months ended June 30, 2023, primarily driven by \$8.6 million of proceeds from the Sale-Leaseback Transaction. In addition, we paid \$0.6 million on the Term Loan relating to required quarterly payments of principal.

Availability and Use of Cash

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

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

If necessary, we believe that we could supplement our cash position through additional sale-leasebacks, asset sales and equity financing. During the three months ended June 30, 2024, we entered into an agreement to sell a portion of the excess owned land at our Goshen, New York location, and are evaluating other opportunities to sell excess owned land to supplement our cash position. We believe it is prudent to be prepared if required and, accordingly, continue to be engaged in the process of evaluating and preparing to implement one or more of the aforementioned activities. Any potential such event may be subject to provisions referenced in our Term Loan and Revolving Credit Facility, such as subjecting the Company to make mandatory prepayments.

Term Loan

On October 25, 2021, we and certain of our direct and indirect subsidiaries entered into the Term Loan with JPMorgan Chase Bank, N.A., as administrative agent for the lenders, pursuant to which we borrowed a \$125 million senior secured term loan (the "Term Loan"). The Term Loan was amended by Amendment No. 1 effective as of June 27, 2023, to replace the LIBOR referenced rates with SOFR referenced rates. Pursuant to Amendment No. 1, any Term Loan that constitutes a Eurodollar Rate Loan that is outstanding as of the Amendment No. 1 closing date shall continue until the end of the applicable interest period for such Eurodollar Rate Loan and the provisions of the Term Loan applicable thereto shall continue and remain in effect (notwithstanding the occurrence of the Amendment No. 1 closing date) until the end of the applicable interest period for such Eurodollar Rate Loan, after which such provisions shall have had no further force or effect. Such Eurodollar Rate Loan shall subsequently either be an ABR Loan or a Term Benchmark Loan. The ABR Loans shall bear interest at the Alternate Base Rate (with a 2.0% floor) plus 4.50%, and Term Benchmark Loans shall bear interest at the Adjusted Term SOFR Rate (with a 1.0% floor) plus 5.50%. As of the date of filing this Quarterly Report on Form 10-Q, the ABR Loan and Term Benchmark Loan credit spreads of 4.50% and 5.50%, respectively, within the Amendment No. 1 have not changed from the credit spreads in the original Term Loan. The Term Loan matures on October 25, 2028.

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

We are also required to make mandatory prepayments in the event of (i) achieving certain excess cash flow criteria, including the achievement and maintenance of a specific leverage ratio, (ii) certain asset sales that are collateral, or (iii) upon the issuance, offering, or placement of new debt obligations. As described in Note 7 – *Leases*, we received net cash proceeds in January 2023 from the Sale-Leaseback Transaction and are subject to a provision whereby such net cash proceeds can be reinvested into certain investments, such as capital expenditures. This provision of the Term Loan includes (i) cash investments made within a one-year period from the Sale-Leaseback Transaction, and (ii) investments which are contractually committed within one-year of the Sale-Leaseback Transaction, and paid within 180 days after entering into such contractual commitment. The amount of any net cash proceeds which are not reinvested would require us to make an offer to prepay the corresponding amount on the Term Loan in 2024. In accordance with this provision, we classified \$1.7 million as current debt on our consolidated balance sheet as of December 31, 2023, and prepaid the Term Loan in this amount during the three months ended March 31, 2024. As of June 30, 2024, the Company determined that \$0.3 million of contractual commitments pursuant to this provision were not paid, and made an additional offer to prepay this amount. In accordance with this provision, the Company classified \$0.3 million as current debt as of June 30, 2024, which was paid in the third quarter of 2024. The foregoing

description of the reinvestment provision does not purport to be complete and is qualified in its entirety by reference to the provisions of the Term Loan.

As of June 30, 2024, and December 31, 2023, the outstanding principal balance on the Term Loan was \$120.2 million and \$122.5 million, respectively.

The Term Loan requires us to maintain certain reporting requirements, affirmative covenants, and negative covenants. We were in compliance with all debt covenants as of June 30, 2024. The Term Loan is secured by a first lien on our non-working capital assets and a second lien on our working capital assets.

Revolving Credit Facility

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

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

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

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

We were in compliance with all debt covenants as of June 30, 2024. As of June 30, 2024, approximately \$20 million was available to borrow under the Revolving Credit Facility, before we would be required to comply with the minimum fixed charge coverage ratio of 1.1x. The reduction in borrowing availability during the second quarter of 2024 was primarily due to the sale of inventory as part of the Asset Sale.

As of June 30, 2024, and December 31, 2023, we had zero borrowed under the Revolving Credit Facility.

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

Cash and Cash Equivalents

The cash and cash equivalents balances of \$30.3 million and \$30.3 million at June 30, 2024, and December 31, 2023, respectively, included \$11.0 million and \$8.5 million, respectively, held by foreign subsidiaries.

Material Cash Requirements

Our material cash requirements include (i) principal repayments and anticipated interest payments on our long-term debt, (ii) finance lease payments, (iii) operating lease payments, and (iv) balances subject to the Term Loan reinvestment provision, as well as other purchase obligations to support our operations. Variable rates on our Term Loan are subject to change as further described in *Item 3. Quantitative and Qualitative Disclosures About Market Risk*. Refer to *Item 1. Financial Statements*, Note 10 – *Debt*, Note 7 – *Leases*, and Note 14 – *Commitments and Contingencies* for details relating to our material cash requirements for debt, our leasing arrangements, including future maturities of our operating lease liabilities, and purchase obligations, respectively. From time to time in the normal course of business, we will enter into agreements with suppliers which provide favorable pricing in return for a commitment to purchase minimum amounts of inventory over a defined time period.

Critical Accounting Policies and Estimates

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

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We are exposed to interest rate risk through our variable rate debt. As of June 30, 2024, we had \$120.2 million of Term Loan debt that is subject to variable interest rates that are based on Secured Overnight Financing Rate (“SOFR”) or an alternate base rate. Refer to *Item 1. Financial Statements*, Note 10 – *Debt* for details relating to the debt. If the rates were to increase by 100 basis points from the rates in effect as of June 30, 2024, our interest expense on the variable-rate debt would increase by an average of \$1.1 million annually. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumptions that interest rate changes would be instantaneous, while SOFR changes regularly. We do not currently hedge our interest rate risks, but may determine to do so in the future.

Foreign Currency Risk

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

Impact of Inflation

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit	Description
10.1	Form of Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan Stock Option Grant Notice.
10.2	Form of Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan Restricted Stock Unit Grant Notice.
10.3	Form of Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan Performance Stock Unit Grant Notice.
10.4*+	Purchase Agreement, dated May 10, 2024, by and between Hydrofarm Holdings Group, Inc. and CM Fabrication, LLC.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1#	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2#	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document.
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Filed herewith.

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

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

SIGNATURES

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

Hydrofarm Holdings Group, Inc.

Date: August 8, 2024

/s/ William Toler

William Toler
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2024

/s/ B. John Lindeman

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

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY [*], HAS BEEN OMITTED BECAUSE THE INFORMATION (I) IS NOT MATERIAL AND (II) WOULD LIKELY CAUSE COMPETITIVE HARM IF PUBLICLY DISCLOSED.**

ASSET PURCHASE AGREEMENT

by and

among

CM FABRICATION, LLC,

CHRIS MAYER,

INNOVATIVE GROWERS EQUIPMENT, INC.

and

MANUFACTURING & SUPPLY CHAIN SERVICES, INC.

dated as of

May 10, 2024

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this “**Agreement**”), dated as of May 10, 2024, is entered into by and among CM Fabrication, LLC, a Delaware limited liability company (“**Buyer**”), Chris Mayer (“**Mayer**”), Innovative Growers Equipment, Inc., an Illinois corporation (“**IGE**”) and Manufacturing & Supply Chain Services, Inc., a Delaware corporation (“**MSCSI**”, and together with **IGE**, each, a “**Seller**” and collectively, the “**Sellers**”).

RECITALS

WHEREAS, Sellers are engaged in the business of manufacturing and distributing equipment used in horticulture, agriculture and controlled environment agriculture end markets (the “**Business**”); and

WHEREAS, Sellers wish to sell and assign to Buyer, and Buyer wishes to purchase and assume from Sellers, the Purchased Assets, subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS

The following terms have the meanings specified or referred to in this ARTICLE I:

“**[***]**” has the meaning set forth in Schedule 2.3(iv).

“**Accounting Firm**” has the meaning set forth in Section 2.6.

“**Action**” means any claim, action, cause of action, demand, lawsuit, arbitration, inquiry, audit, notice of violation, proceeding, litigation, citation, summons, subpoena or investigation, whether civil, criminal, administrative or regulatory, whether at law or in equity.

“**Affiliate**” of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of share capital, voting securities or ownership interests, by contract or otherwise.

“**Aggregate Purchase Price**” has the meaning set forth in Section 2.5.

“**Agreement**” has the meaning set forth in the preamble.

“**Allocation Dispute Notice**” has the meaning set forth in Section 2.6.

“**Allocation Schedule**” has the meaning set forth in Section 2.6.

“**Asset Taxes**” has the meaning set forth in Section 6.7(ii).

“**Assigned Contract**” has the meaning set forth in Schedule 2.1.

“**Assignment and Assumption Agreement**” has the meaning set forth in Section 3.2(i)(b).

“**Assumed Liabilities**” has the meaning set forth in Section 2.3.

“**Bankruptcy and Equity Exceptions**” has the meaning set forth in Section 4.2.

“**Bill of Sale**” has the meaning set forth in Section 3.2(i)(a).

“**Books and Records**” means, with respect to any Person, the books and records of such Person, including, but not limited to, books of account, ledgers and general, financial and accounting records, machinery and equipment maintenance files, customer lists and customer purchasing histories, price lists, distribution lists, supplier lists, production data, quality control records and procedures, customer complaints and inquiry files, research and development files, records and data (including all correspondence with any Governmental Authority and including laboratory records, protocols and procedures), sales material and records (including pricing history, total sales, terms and conditions of sale, sales and pricing policies and practices), strategic plans, internal financial statements, marketing and promotional surveys, material and research and files of such Person.

“**Business**” has the meaning set forth in the recitals.

“**Business Day**” means any day except Saturday, Sunday or any other day on which commercial banks located in New York are authorized or required by Law to be closed for business.

“**Buyer**” has the meaning set forth in the preamble.

“**Closing**” has the meaning set forth in Section 3.1.

“**Closing Date**” has the meaning set forth in Section 3.1.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Consulting Agreement**” has the meaning set forth in Section 3.2(i)(d).

“**Contracts**” means all written contracts, leases, deeds, mortgages, licenses, instruments, notes, indentures and all other legally binding agreements, commitments, arrangements and undertakings.

“**Direct Claim**” has the meaning set forth in Section 8.5(iii).

“**Disclosure Schedules**” means the Disclosure Schedules delivered by Sellers and Buyer concurrently with the execution and delivery of this Agreement.

“**Dollars or \$**” means the lawful currency of the United States.

“**Drop Dead Date**” has the meaning set forth in Section 9.1(ii)(a).

“**Encumbrance**” means any charge, claim, community property interest, pledge, condition, equitable interest, lien (statutory or other), option, security interest, mortgage, easement, encroachment, right of way or right of first refusal.

“**Exercise Period**” has the meaning set forth in Section 6.10(iii).

“**Excluded Assets**” has the meaning set forth in Section 2.2.

“**Excluded Liabilities**” has the meaning set forth in Section 2.4.

“**GAAP**” means United States generally accepted accounting principles in effect from time to time.

“**Governmental Authority**” means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

“**Governmental Order**” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“**Hydrofarm**” means Hydrofarm Holdings Group, Inc.

“**Intellectual Property**” means all intellectual property and industrial property rights and assets, and all rights, interests and protections that are associated with, similar to, or required for the exercise of, any of the foregoing, however arising, pursuant to the Laws of any jurisdiction throughout the world, whether registered or unregistered, including any and all: (a) trademarks, service marks, trade names, brand names, logos, trade dress, design rights and other similar designations of source, sponsorship, association or origin, together with the goodwill connected with the use of and symbolized by, and all registrations, applications and renewals for, any of the foregoing; (b) internet domain names, whether or not trademarks, registered in any top-level domain by any authorized private registrar or Governmental Authority, web addresses, web pages, websites and related content, accounts with Twitter, Facebook and other social media companies and the content found thereon and related thereto, and URLs; (c) works of authorship, expressions, designs and design registrations, whether or not copyrightable, including copyrights, author, performer, moral and neighboring rights, and all registrations, applications for registration and renewals of such copyrights; (d) inventions, discoveries, trade secrets, business and technical information and know-how, databases, data collections and other confidential and

proprietary information and all rights therein; (e) patents (including all reissues, divisionals, provisionals, continuations and continuations-in-part, re-examinations, renewals, substitutions and extensions thereof), patent applications, and other patent rights and any other Governmental Authority-issued indicia of invention ownership (including inventor's certificates, petty patents and patent utility models); (f) software and firmware, including data files, source code, object code, application programming interfaces, architecture, files, records, schematics, computerized databases and other related specifications and documentation; (g) royalties, fees, income, payments and other proceeds now or hereafter due or payable with respect to any and all of the foregoing; and (h) all rights to any Actions of any nature available to or being pursued by Sellers to the extent related to the foregoing, whether accruing before, on or after the date hereof, including all rights to and claims for damages, restitution and injunctive relief for infringement, dilution, misappropriation, violation, misuse, breach or default, with the right but no obligation to sue for such legal and equitable relief, and to collect, or otherwise recover, any such damages.

“Intellectual Property Assignments” has the meaning set forth in Section 3.2(f).

“IRS” means the Internal Revenue Service.

“Knowledge of Sellers or Sellers’ Knowledge” or any other similar knowledge qualification, means the actual knowledge of Bill Toler, John Lindeman and Kevin O’Brien.

“Law” means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, other requirement or rule of law of any Governmental Authority.

“Lease Termination Agreement” has the meaning set forth in Section 3.2(i)(e).

“Lease Termination Payoff Amount” has the meaning set forth in Section 2.5.

“Liabilities” means liabilities, obligations or commitments of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured or otherwise.

“Losses” means Liabilities, losses, damages, claims (including third party claims), charges, interest, penalties, Taxes, Actions, lawsuits, amounts paid in settlement, judgments, awards, fines, deficiencies, demands and expenses, including, but only to the extent awarded to a third party in connection with a third party claim for which Buyer is indemnified, any special, consequential, punitive or exemplary damages or losses, diminution in value, costs and expenses (including legal, consultant, accounting and other professional fees).

“Manufacturing Process Knowledge” has the meaning set forth in Schedule 2.1.

“Material Adverse Effect” means any event, occurrence, condition or change that is materially adverse to (i) the business, results of operations, financial condition or assets of the Business, taken as a whole, (ii) the value of the Purchased Assets, or (iii) the ability of Sellers to consummate the transactions contemplated hereby on a timely basis, in each case except for any event, occurrence, condition or change related to or resulting from (a) general business,

operating, regulatory, economic or other conditions affecting the Business's industry, (b) national or international political or social conditions or political or social unrest, including the engagement by the United States in hostilities or the escalation thereof, whether or not pursuant to the declaration of a national emergency or war, or the occurrence or the escalation of any military or terrorist attack upon the United States, or any of its territories, possessions or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, (c) financial, banking or securities market conditions (including any decline in the price of any security or market index), (d) any changes in accounting standards, including GAAP, or any enforcement, implementation or interpretation thereof, (e) any changes in Laws or other binding directives issued by any Governmental Authority, (f) the taking of any action contemplated by or required by this Agreement or any other Transaction Documents or the transactions contemplated hereby or thereby or the announcement of this Agreement or other disclosure of either party's plans or intentions with respect to the conduct of the Business or the Purchased Assets (or any portion thereof) after the Closing, including the impact thereof on revenue, profitability and/or cash flows, (g) any matters set forth in the Disclosure Schedules, (h) any failure by Sellers or Hydrofarm to meet any internal published or analysts' estimates, projections, budgets, forecasts or revenue or earnings or other financial performance predictions or results of operations for any period, or (i) any change in the stock price or trading volume of Hydrofarm's common stock.

“**Material Terms**” has the meaning set forth in Section 6.10(ii).

“**Offer Notice**” has the meaning set forth in Section 6.10(ii).

“**Permits**” means all permits, licenses, franchises, approvals, authorizations, registrations or certificates issued by any Governmental Authorities.

“**Permitted Encumbrances**” means (i) statutory Encumbrances for Taxes or other governmental charges not yet due and payable or the amount or validity of which is being contested in good faith by appropriate proceeding by Sellers; (ii) mechanics', carriers', workmen's, repairmen's or other like Encumbrances arising or incurred in the ordinary course of business consistent with past practice or amounts that are not delinquent and which are not, individually or in the aggregate, material to the Purchased Assets; and (iii) liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business consistent with past practice which are not, individually or in the aggregate, material to the Purchased Assets.

“**Person**” means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“**[***]**” has the meaning set forth in Schedule 2.3(iv).

“**Post-Closing Tax Period**” means any taxable period beginning after the Closing Date and, with respect to any Straddle Period, the portion of such taxable period beginning after the Closing Date.

“**Pre-Closing Tax Period**” means any taxable period ending on or before the Closing Date and, with respect to any Straddle Period, the portion of such taxable period ending on and including the Closing Date.

“**Purchased Assets**” has the meaning set forth in Section 2.1.

“**Purchased Business Information**” has the meaning set forth in Section 6.1(i).

“**ROFR Offer**” has the meaning set forth in Section 6.10(ii).

“**ROFR Period**” has the meaning set forth in Section 6.10(i).

“**Representative**” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

“**Restricted Period**” means [***]. Notwithstanding the foregoing, if (a) Hydrofarm’s purchases or orders from Buyer pursuant to the Supply Agreement at any point are equal to or exceed [***] in the aggregate, or (b) [***], then in each case, the Restricted Period shall be equal to [***].

“**Retained Business Information**” has the meaning set forth in Section 6.1(ii).

“**SEC**” means the U.S. Securities and Exchange Commission.

“**Schedule Supplement**” has the meaning set forth in Section 6.14.

“**Seller**” or “**Sellers**” has the meaning set forth in the preamble.

“**Straddle Period**” means any taxable period beginning on or before and ending after the Closing Date.

“**Supply Agreement**” has the meaning set forth in Section 3.2(i)(c).

“**Taxes**” means all federal, state, local, foreign and other income, gross receipts, sales, use, production, ad valorem, transfer, documentary, franchise, registration, profits, license, lease, service, service use, withholding, payroll, employment, unemployment, estimated, excise, severance, environmental, stamp, occupation, premium, property (real or personal), real property gains, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind in the nature of Taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties.

“**Tax Return**” means any return, declaration, report, claim for refund, information return or statement or other document relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“**Territory**” means [***].

“**Third-Party Claim**” has the meaning set forth in Section 8.5(ii).

“**Third-Party Offer**” has the meaning set forth in Section 6.10(ii).

“**Third-Party Transaction**” has the meaning set forth in Section 6.10(i).

“**Transfer Taxes**” has the meaning set forth in Section 6.7(i).

“**Transaction Documents**” means this Agreement, the Bill of Sale, the Assignment and Assumption Agreement, the Intellectual Property Assignments, the Supply Agreement, the Consulting Agreement and the Lease Termination Agreement.

“**Transferred Books and Records**” means the Books and Records of Sellers to the extent related exclusively to the Purchased Assets or Assumed Liabilities.

2. PURCHASE AND SALE

2.1. Purchase and Sale of Assets. Subject to the terms and conditions set forth herein, at the Closing, Sellers shall sell, assign, transfer, convey and deliver to Buyer, and Buyer shall purchase from Sellers, all of Sellers’ right, title and interest in and to, and only to, the assets, properties and rights set forth on Schedule 2.1 of this Agreement (collectively, the “**Purchased Assets**”):

2.2. Excluded Assets. Notwithstanding the foregoing, nothing herein shall be deemed to sell, assign, transfer or convey any of Sellers’ rights, titles or interests in and to any asset, property or right that is not a Purchased Asset (collectively, the “**Excluded Assets**”). The Excluded Assets shall include the following:

2.2.1. all Contracts that are not listed on Schedule 2.1 of this Agreement;

2.2.2. the corporate seals, organizational documents, minute books, stock books, books of account or other records having to do with the corporate organization of Sellers;

2.2.3. all employees (except those employees listed on Schedule 6.2(i)), employee benefit plans and assets attributable thereto;

2.2.4. the rights which accrue or will accrue to Sellers under the Transaction Documents;

2.2.5. all cash, cash equivalents, securities and negotiable instruments, bank deposits or similar cash items of Sellers;

2.2.6. any accounts receivable of Sellers and the other rights to receive payment related to the Business on or prior to the Closing Date;

2.2.7. all Intellectual Property of Sellers that is not Manufacturing Process Knowledge, including, without limitation, all rights to the Innovative Growers Equipment, IGE and other product brand names;

2.2.8. all insurance policies and benefits, including rights and proceeds, arising from or relating to the Business and the Purchased Assets;

2.2.9. all Tax Returns and financial statements of Sellers and all Books and Records (including working papers) related thereto or otherwise of Sellers that are not Transferred Books and Records;

2.2.10. all refunds for Taxes, Tax credits, Tax records (including Tax Returns and supporting workpapers), or other Tax assets of or relating to (a) the Purchased Assets or Business attributable to the Pre-Closing Tax Period, (b) any Excluded Assets and (c) any loss, Liability, payment, obligation or Tax for which Sellers or their Affiliates are responsible under this Agreement, except for the refund for Taxes set forth on Schedule 2.2(x) to the extent such refund is received by Sellers within five (5) years of the Closing Date;

2.2.11. all of Sellers' causes of action, claims, credits, demands and rights of set-off against third parties, to the extent related to any Excluded Asset;

2.2.12. all tangible assets and personal properties that are not set forth on Schedule 2.1;

2.2.13. all customer lists and relationships associated with the Business;

2.2.14. the Tank-Mart logo and the stylization or design elements therein; and

2.2.15. any other asset, property or right not included in the definition of Purchased Assets.

2.3. Assumed Liabilities. Subject to the terms and conditions set forth herein, effective at the Closing, Buyer shall assume and agree to pay, perform and discharge the following Liabilities of Sellers (collectively, the "**Assumed Liabilities**"): (i) all Liabilities in respect of the Assigned Contracts pursuant to Schedule 2.1 of this Agreement, but only to the extent that such Liabilities thereunder are required to be performed after the Closing Date and do not relate to any breach, default or violation by Sellers of any provision of any such contract occurring on or prior to the Closing; (ii) any and all Liabilities arising out of events occurring after the Closing Date and relating to the Purchased Assets and the Business, including to any Governmental Authority and fees arising from or related to the Manufacturing Process Knowledge; (iii) all Liabilities for Taxes imposed on Sellers for a Post-Closing Tax Period with respect to the Purchased Assets or Business and any Liabilities for Taxes for which Buyer is responsible pursuant to Section 6.7(i); (iv) any and all Liabilities from an Action related to or in connection with [***], (v) any and all [***], (vi) any and all [***] related to or in connection

with [***], and (vii) any and all other Liabilities and obligations arising out of or relating to Buyer's ownership or operation of the Business and the Purchased Assets after the Closing Date.

2.4. Excluded Liabilities. Notwithstanding the provisions of Section 2.3 or any other provision in this Agreement to the contrary, Buyer shall not assume and shall not be responsible to pay, perform or discharge any Liabilities of Sellers or any of their respective Affiliates of any kind or nature whatsoever other than the Assumed Liabilities (collectively, the "**Excluded Liabilities**"). Without limiting the generality of the foregoing, the Excluded Liabilities shall include, but not be limited to, the following:

2.4.1. any Liabilities of Sellers arising or incurred in connection with the negotiation, preparation, investigation and performance of this Agreement, the other Transaction Documents and the transactions contemplated hereby and thereby, including, without limitation, fees and expenses of counsel, accountants, consultants, advisers and others;

2.4.2. any Liability for (i) Taxes of Sellers (or any stockholder or Affiliate of Sellers) or relating to the Business, the Purchased Assets or the Assumed Liabilities for any Pre-Closing Tax Period; or (ii) Taxes that are the responsibility of Sellers pursuant to Section 6.7;

2.4.3. any Liabilities relating to or arising out of the Excluded Assets;

2.4.4. any Liabilities in respect of any pending or threatened Action arising out of, relating to or otherwise in respect of the operation of the Business or use of the Purchased Assets, or a product produced by the Business or by using the Purchased Assets, to the extent such Action (and the Liability thereof) relates to such operation, product or use on or prior to the Closing Date, including any Liabilities arising from any Actions involving [***] except as set forth in Section 2.3(iv);

2.4.5. any Liabilities associated with debt, loans or credit facilities of Sellers and/or the Business owing to financial institutions; and

2.4.6. any Liabilities arising out of, in respect of or in connection with the failure by Sellers or any of their respective Affiliates to comply with any Law or Governmental Order.

2.5. Purchase Price.

2.5.1. The base purchase price for the Purchased Assets shall be \$8,660,000 (the "**Aggregate Purchase Price**"). At Closing, Buyer shall pay to Sellers the Aggregate Purchase Price by wire transfer of immediately available funds, to an account designated in writing by Sellers to Buyer no later than two (2) Business Days prior to the Closing Date.

2.5.2. At Closing, Sellers shall pay to BCM Industrial Park, LLC ("**Landlord**"), the cost of termination for that certain facility lease of \$1,275,000 (the "**Lease**

Termination Payoff Amount”) by wire transfer of immediately available funds, to an account designated in writing by Landlord to Sellers no later than two (2) Business Days prior to the Closing Date.

2.6. Allocation of Aggregate Purchase Price.

2.6.1. Not later than sixty (60) days following the Closing, Sellers shall deliver to Buyer a schedule allocating the Aggregate Purchase Price (as finally determined and excluding any amounts that constitute imputed interest under the Code, if any), the Assumed Liabilities that are treated as being assumed for U.S. federal income Tax purposes and other relevant items properly treated as consideration for Tax purposes among the Purchased Assets in accordance with Section 1060 of the Code and the Treasury regulations issued thereunder and in a manner consistent with the principles and methodology set forth in Schedule 2.6(i) of this Agreement (the “**Allocation Schedule**”). If Buyer disagrees with any aspect of the Allocation Schedule by Sellers, Buyer may, within thirty (30) days after delivery of the Allocation Schedule, deliver notice (an “**Allocation Dispute Notice**”) to Sellers to such effect, specifying those items to which Buyer disagrees. If an Allocation Dispute Notice is duly and timely delivered, Sellers and Buyer shall, during the thirty (30) days following such delivery, use commercially reasonable efforts to reach agreement on the disputed items or amounts to determine the final Allocation Schedule. If Allocation Dispute Notice is not timely delivered, then the Allocation Schedule shall become final and binding as prepared by Sellers. Any disputed items that cannot be resolved through negotiations between Sellers and Buyer shall be submitted for final and binding resolution to a mutually agreeable regional accounting firm (the “**Accounting Firm**”) who shall be bound by the principles and methodology set forth in Schedule 2.6 of this Agreement. The fees and expenses of the Accounting Firm shall be borne fifty percent (50%) by Sellers and fifty percent (50%) by Buyer. The Allocation Schedule shall be adjusted in accordance with the procedure set forth in this Agreement to account for any adjustment to the Aggregate Purchase Price or other amounts constituting consideration for Tax purposes. Sellers and Buyer shall prepare (and shall cause their respective Affiliates to prepare) their Tax Returns (and amendments thereof), including IRS Form 8594, consistent with the Allocation Schedule. Neither Sellers nor Buyer shall (and they shall cause their respective Affiliates not to) take any position inconsistent with the Allocation Schedule (whether in audits, Tax Returns or otherwise), unless required to do so by final determination within the meaning of Section 1313(a) of the Code. If a Governmental Authority challenges any aspect of the Allocation Schedule, the party receiving such notice shall promptly notify the other party of such notice.

2.6.2. Attached on Schedule 2.6(i) is a draft Allocation Schedule, which is being provided for the convenience of the parties to this Agreement and is in no way binding or determinative.

2.7. Withholding Tax. Buyer shall be entitled to deduct and withhold from any consideration payable to Sellers hereunder all Taxes that Buyer may be required to deduct and withhold under any provision of Tax Law; provided, however, that, in the event Buyer or other withholding agent intends to make any withholding Buyer shall provide five (5) days’ prior

written notice to Sellers of its intent to withhold; provided, further, that if Sellers provide a IRS Form W-9 to Buyer, then Buyer or other withholding agent shall not be entitled to deduct and withhold pursuant to this Section 2.7 with respect to any payments made pursuant to this Agreement (excluding, for avoidance of doubt, any amounts constituting imputed interest under Section 483 or 1274 of the Code). Buyer shall reasonably cooperate with Sellers (or any stockholder thereof) to reduce or eliminate any such withholding obligation. To the extent that amounts are so withheld and timely paid over to the appropriate Governmental Authority, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Person otherwise entitled to receive such payments pursuant to this Agreement and the applicable withholding agent shall provide Sellers (or such stockholder thereof) on which withholding is imposed such documentation as may reasonably be required to support Sellers (or such stockholder's) claim of having paid the withheld amounts to the applicable Governmental Authorities.

3. CLOSING

3.1. Closing. Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the "**Closing**") shall take place remotely on the second Business Day after all of the conditions to Closing set forth in ARTICLE VII are either satisfied or waived (other than conditions which, by their nature, are to be satisfied on the Closing Date), or at such other time, date or place as Sellers and Buyer may mutually agree upon in writing. The date on which the Closing is to occur is herein referred to as the "**Closing Date**".

3.2. Closing Deliverables.

3.2.1. At the Closing, Sellers shall deliver to Buyer the following:

3.2.1.1.a bill of sale (the "**Bill of Sale**"), duly executed by Sellers, transferring the tangible personal property included in the Purchased Assets to Buyer, in substantially the form set forth on Exhibit A, duly executed by Sellers;

3.2.1.2.an assignment and assumption agreement (the "**Assignment and Assumption Agreement**"), in substantially the form set forth on Exhibit B, duly executed by Sellers, effecting the assignment to and assumption by Buyer of the Purchased Assets and the Assumed Liabilities;

3.2.1.3.that certain Supply Agreement by and between Buyer and Hydrofarm, LLC, dated as of the date hereof (the "**Supply Agreement**"), in substantially the form set forth on Exhibit C, duly executed by Hydrofarm, LLC;

3.2.1.4.that certain Consulting Agreement by and between Mayer and Hydrofarm, dated as of the date hereof (the "**Consulting Agreement**"), in substantially the form set forth on Exhibit D, duly executed by Hydrofarm;

3.2.1.5.that certain Lease Termination Agreement by and between BCM Industrial Park, LLC and Innovative Growers Equipment, Inc., dated as of the date hereof (the “**Lease Termination Agreement**”), in substantially the form set forth on Exhibit E; and

3.2.1.6.assignments (the “**Intellectual Property Assignments**”), in substantially the form set forth on Exhibit F, duly executed by IGE, transferring all of IGE’s right, title and interest in and to certain Intellectual Property Assets to Buyer.

3.2.2. At the Closing, Buyer shall deliver to Sellers (unless instructed otherwise per the below) the following:

3.2.2.1.the Aggregate Purchase Price;

3.2.2.2.the Bill of Sale, duly executed by Buyer;

3.2.2.3.the Assignment and Assumption Agreement, duly executed by Buyer;

3.2.2.4.the Supply Agreement, duly executed by Buyer;

3.2.2.5.the Consulting Agreement, duly executed by Mayer, in his individual capacity; and

3.2.2.6.the Intellectual Property Assignments, duly executed by Buyer.

3.2.3. At the Closing, Sellers shall deliver to the Landlord the Lease Termination Payoff Amount.

4.

REPRESENTATIONS AND WARRANTIES OF SELLERS

Except as set forth in the correspondingly numbered Section of the Disclosure Schedules, each Seller represents and warrants to Buyer that the statements contained in this ARTICLE IV are true and correct as of the date hereof.

4.1. Organization and Qualification of Sellers. Each Seller is a corporation duly organized, validly existing and in good standing under the Laws of the state of its incorporation and has full corporate power and authority to own, operate or lease the Purchased Assets. Section 4.1 of the Disclosure Schedules sets forth each jurisdiction in which each Seller is licensed or qualified to do business, and each Seller is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the ownership of the Purchased Assets makes such licensing or qualification necessary, except for where failure to be so licensed or qualified or in good standing (to the extent applicable) would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

4.2. Authority of Sellers. Each Seller has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which such Seller is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Sellers of this Agreement and any other Transaction Document to which Sellers are parties, the performance by Sellers of their respective obligations hereunder and thereunder and the consummation by Sellers of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Sellers. This Agreement has been duly executed and delivered by Sellers, and (assuming due authorization, execution and delivery by Buyer) this Agreement constitutes a legal, valid and binding obligation of Sellers enforceable against Sellers in accordance with its terms, subject to (i) laws of general application relating to bankruptcy, insolvency, fraudulent transfer, receivership, moratorium and other similar legal requirements relating to or affecting the rights and relief of creditors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies (collectively, the “**Bankruptcy and Equity Exceptions**”). When each other Transaction Document to which Sellers are or will be parties has been duly executed and delivered by Sellers (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Sellers enforceable against them in accordance with its terms, subject to the Bankruptcy and Equity Exceptions.

4.3. No Conflicts; Consents. Except as set forth in Section 4.3 of the Disclosure Schedules, the execution, delivery and performance by Sellers of this Agreement and the other Transaction Documents to which they are parties, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) result in a violation or breach of, or default under, any provision of the certificate of incorporation, by-laws or other organizational documents of Sellers; (b) result in a violation or breach of any provision of any Law or Governmental Order applicable to Sellers or the Purchased Assets; (c) require the consent of or notice to any Person under, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel the Assigned Contract; or (d) result in the creation or imposition of any Encumbrance other than Permitted Encumbrances on the Purchased Assets. No consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or on behalf of Sellers in connection with the execution and delivery of this Agreement or any of the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby.

4.4. Legal Proceedings; Governmental Orders.

4.4.1. There are no Actions pending or, to Sellers’ Knowledge, threatened against or by Sellers (a) relating to or affecting the Purchased Assets or the Assumed Liabilities; or (b) that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement.

4.4.2. There are no outstanding Governmental Orders and no unsatisfied judgments, penalties or awards against, relating to or affecting the Purchased Assets.

4.5. Taxes.

4.5.1. Except as set forth in Section 4.5(i) of the Disclosure Schedules, all income Tax Returns and other material Tax Returns with respect to the Purchased Assets required to be filed by Sellers have been filed. Such Tax Returns are, true, complete and correct in all material respects. All material Taxes due and owing by Sellers with respect to the Purchased Assets (whether or not shown on any Tax Return) have been paid.

4.5.2. Each Seller has withheld and paid each material Tax required to have been withheld and paid with respect to the Purchased Assets in connection with amounts paid or owing to any employee, independent contractor, creditor, customer, shareholder or other party, and complied, in all material respects, with all information reporting and backup withholding provisions of applicable Law with respect to the Purchased Assets.

4.5.3. No extensions or waivers of statutes of limitations have been given or requested with respect to any Taxes of Sellers in connection with the Purchased Assets, which extensions or waivers are still in effect.

4.5.4. All deficiencies asserted, or assessments made, against Sellers with respect to the Purchased Assets as a result of any examinations by any taxing authority have been fully paid.

4.5.5. No Seller is a party to any Action in connection with the Purchased Assets by any taxing authority. There is no pending or, to the Knowledge of Sellers, threatened Actions in connection with the Purchased Assets by any taxing authority.

4.5.6. There are no Encumbrances for Taxes upon any of the Purchased Assets (other than for current Taxes not yet due and payable).

4.5.7. No Seller is a “foreign person” as that term is used in Treasury Regulations Section 1.1445-2.

4.5.8. Notwithstanding any other provisions of this Agreement to the contrary, the tax representations in this Section 4.5 are the sole and exclusive representations and warranties of Sellers with respect to Taxes attributable to the Pre-Closing Tax Period. No representation or warranty in this Section 4.5 shall apply directly or indirectly with respect to any taxable period (or portion thereof) beginning after the Closing Date.

4.6. Title to Tangible Personal Property. Each Seller has good and valid title to, or a valid leasehold interest in, all tangible personal property included in the Purchased Assets, free and clear of Encumbrances except for Permitted Encumbrances.

4.7. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder’s or other fee or commission in connection with the transactions contemplated by this

Agreement or any other Transaction Document based upon arrangements made by or on behalf of Sellers.

4.8. No Other Representations and Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE IV (AS MODIFIED BY THE DISCLOSURE SCHEDULES), NEITHER SELLERS NOR ANY OTHER PERSON HAS MADE OR MAKES ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY, EITHER WRITTEN OR ORAL, AT LAW OR IN EQUITY, IN RESPECT OF EACH SELLER OR ANY OF ITS BUSINESSES, ASSETS, PROPERTIES OR LIABILITIES (INCLUDING THE BUSINESS, THE PURCHASED ASSETS AND THE ASSUMED LIABILITIES), THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT OR ANY OTHER RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR THEREUNDER OR PURSUANT HERETO OR THERETO, EACH SELLER'S OR ANY OF ITS BUSINESSES', ASSETS', PROPERTIES' OR LIABILITIES', INCLUDING THE BUSINESS, THE PURCHASED ASSETS' AND THE ASSUMED LIABILITIES', CONDITION (FINANCIAL OR OTHERWISE), FUTURE OPERATIONS OR FINANCIAL RESULTS, ESTIMATES, PROJECTIONS, FORECASTS, PROBABILITY OF SUCCESS, PROFITABILITY, PLANS OR PROSPECTS (INCLUDING WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR THE REASONABLENESS OF THE ASSUMPTIONS UNDERLYING SUCH ESTIMATES, PROJECTIONS, FORECASTS, PROBABILITY OF SUCCESS, PROFITABILITY, PLANS OR PROSPECTS) OR THE ACCURACY, COMPLETENESS, ABSENCE OR OMISSION OF ANY INFORMATION REGARDING EACH SELLER, THE BUSINESS, THE PURCHASED ASSETS OR THE ASSUMED LIABILITIES (INCLUDING THE HISTORICAL OR FUTURE FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROJECTED OPERATIONS THEREOF) PROVIDED OR MADE AVAILABLE TO BUYER OR ANY OF ITS AFFILIATES OR THEIR RESPECTIVE REPRESENTATIVES AND ANY SUCH OTHER REPRESENTATIONS OR WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED.

5. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers that the statements contained in this ARTICLE V are true and correct as of the date hereof.

5.1. Organization of Buyer. Buyer is a corporation duly organized, validly existing and in good standing under the Laws of the state of Buyer's incorporation.

5.2. Authority of Buyer. Buyer has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Buyer is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and any other Transaction Document to which Buyer is a party, the performance by Buyer of its obligations hereunder and thereunder and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Buyer. This Agreement

has been duly executed and delivered by Buyer, and (assuming due authorization, execution and delivery by Sellers) this Agreement constitutes a legal, valid and binding obligation of Buyer enforceable against Buyer in accordance with its terms, subject to the Bankruptcy and Equity Exceptions. When each other Transaction Document to which Buyer is or will be a party has been duly executed and delivered by Buyer (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Buyer enforceable against it in accordance with its terms, subject to the Bankruptcy and Equity Exceptions.

5.3. No Conflicts; Consents. The execution, delivery and performance by Buyer of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) result in a violation or breach of, or default under, any provision of the certificate of incorporation, by-laws or other organizational documents of Buyer; (b) result in a violation or breach of any provision of any Law or Governmental Order applicable to Buyer; or (c) require the consent of, or notice to, any Person under any Contract to which Buyer is a party. No consent, approval, Permit, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Buyer in connection with the execution and delivery of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, except for such consents, approvals, Permits, Governmental Orders, declarations, filings or notices which, in the aggregate, would not have a Material Adverse Effect.

5.4. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Document based upon arrangements made by or on behalf of Buyer or any of its Affiliates.

5.5. Sufficiency of Funds. Buyer has sufficient cash on hand or other sources of immediately available funds to enable it to make payment of the Aggregate Purchase Price when payable and consummate the transactions contemplated by this Agreement.

5.6. Legal Proceedings. There are no Actions pending or, to Buyer's knowledge, threatened against or by Buyer or any Affiliate of Buyer that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement or any other Transaction Documents. No event has occurred or circumstances exist that may give rise or serve as a basis for any such Action. Except for such Actions listed on Schedule 5.6 of this Agreement, Mayer is not aware of any pending or threatened Action arising out of, relating to or otherwise in respect of any product produced by the Business or by using the Purchased Assets.

5.7. Compliance. As of the date of Closing, Mayer is not aware of any sales made relating to products sold pre-Closing that were manufactured using the Purchased Assets that were not made or sold in compliance with Hydrofarm's policies with respect to such sales.

5.8. No Other Representations. BUYER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES

CONTAINED IN ARTICLE IV (AS MODIFIED BY THE DISCLOSURE SCHEDULES), NEITHER SELLERS NOR ANY OTHER PERSON HAS MADE OR MAKES ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY, EITHER WRITTEN OR ORAL, AT LAW OR IN EQUITY, IN RESPECT OF EACH SELLER OR ANY OF ITS BUSINESSES, ASSETS, PROPERTIES OR LIABILITIES (INCLUDING THE BUSINESS, THE PURCHASED ASSETS AND THE ASSUMED LIABILITIES), THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT OR ANY OTHER RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR THEREUNDER OR PURSUANT HERETO OR THERETO, EACH SELLER'S OR ANY OF ITS BUSINESSES', ASSETS', PROPERTIES' OR LIABILITIES', INCLUDING THE BUSINESS, THE PURCHASED ASSETS' AND THE ASSUMED LIABILITIES', CONDITION (FINANCIAL OR OTHERWISE), FUTURE OPERATIONS OR FINANCIAL RESULTS, ESTIMATES, PROJECTIONS, FORECASTS, PROBABILITY OF SUCCESS, PROFITABILITY, PLANS OR PROSPECTS (INCLUDING WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR THE REASONABLENESS OF THE ASSUMPTIONS UNDERLYING SUCH ESTIMATES, PROJECTIONS, FORECASTS, PROBABILITY OF SUCCESS, PROFITABILITY, PLANS OR PROSPECTS) OR THE ACCURACY, COMPLETENESS, ABSENCE OR OMISSION OF ANY INFORMATION REGARDING EACH SELLER, THE BUSINESS, THE PURCHASED ASSETS OR THE ASSUMED LIABILITIES (INCLUDING THE HISTORICAL OR FUTURE FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROJECTED OPERATIONS THEREOF) PROVIDED OR MADE AVAILABLE TO BUYER OR ANY OF ITS AFFILIATES OR THEIR RESPECTIVE REPRESENTATIVES; AND, IN ENTERING INTO THIS AGREEMENT, BUYER HEREBY ACKNOWLEDGES THAT IT HAS NOT RELIED ON AND IS NOT RELYING ON ANY REPRESENTATION, WARRANTY OR OTHER STATEMENT (WHETHER WRITTEN OR ORAL) MADE BY, OR ON BEHALF OF EACH SELLER OR RELATING TO SUCH SELLER, THE BUSINESS, THE PURCHASED ASSETS OR THE ASSUMED LIABILITIES, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE IV.

6. COVENANTS

6.1. Confidentiality.

6.1.1. From the date hereof and for a period of five (5) years commencing on the Closing Date, Sellers shall hold in confidence any and all confidential or proprietary information, whether written or oral, exclusively concerning the Purchased Assets or the Assumed Liabilities (such information, the "**Purchased Business Information**"), except as otherwise agreed in writing by Buyer or any of its Affiliates, on the one hand, and Sellers, on the other hand, or to the extent that Sellers can show that such information: (a) is generally available to and known by the public without breach of this Section 6.1(i); (b) is required or compelled to be disclosed by Law (including applicable securities Law or any judicial, administrative or regulatory process (including by interrogatories, subpoena, civil investigative demand, formal or informal investigative demand or similar process); or (c) is disclosed in a proceeding brought by

a party in pursuit of its right or in the exercise of its remedies hereby. If any Purchased Business Information is disclosed pursuant to the aforementioned clauses (a) or (b), Sellers shall, to the extent permitted by Law, notify Buyer in writing as soon as reasonably practicable, and Buyer may then, at Buyer's own cost, attempt to obtain an appropriate protective order or other reasonable assurance that confidential treatment will be accorded to such information.

6.1.2. For a period of five (5) years commencing on the Closing Date, Buyer shall, and shall direct its Affiliates to, hold in confidence any and all confidential or proprietary information, whether written or oral, concerning Sellers or any of their Affiliates or their respective businesses' assets and liabilities, including the Excluded Assets and the Excluded Liabilities (such information, the "**Retained Business Information**"), except as otherwise agreed in writing by Sellers, on the one hand, and Buyer or any of its Affiliates, on the other hand, or to the extent that Buyer can show that such information: (a) is generally available to and known by the public without breach of this Section 6.1(ii); (b) is required or compelled to be disclosed by Law (including applicable securities Law, or any judicial, administrative or regulatory process (including by interrogatories, subpoena, civil investigative demand, formal or informal investigative demand or similar process); or (c) is disclosed in a proceeding brought by a party in pursuit of its right or in the exercise of its remedies hereby. If any Retained Business Information is disclosed pursuant to the aforementioned clauses (a) or (b), Buyer or any of its Affiliates shall, to the extent permitted by Law, notify Sellers in writing as soon as reasonably practicable, and Sellers may then, at Sellers' own cost, attempt to obtain an appropriate protective order or other reasonable assurance that confidential treatment will be accorded to such information.

6.2. Non-competition; Non-solicitation; Non-disparagement.

6.2.1. During the Restricted Period, each of Mayer and Buyer shall not, directly or indirectly, (A) render services or assistance to, manage, operate or control any Person, or create or own any business, that directly competes with the Business in the Territory; (B) have a financial interest in any Person that directly competes with the Business in the Territory in any capacity, including as a partner, shareholder, member, employee, principal, agent, trustee or consultant; or (C) cause, induce or encourage any customer of the Business to terminate or adversely modify its relationship with Sellers or their respective Affiliates with respect to the Business.

6.2.2. Except for such Persons listed on Schedule 6.2(i) or with the consent of Sellers with respect to any other Person, during the Restricted Period, each of Mayer and Buyer covenants and agrees, that they will not, directly or indirectly solicit for employment or engagement, hire, employ, engage or offer employment or engagement to, or seek to induce or influence to leave employment or engagement with Sellers or any of their Affiliates, any employee, contractor, or service provider of Sellers or their Affiliates that is employed or engaged by an entity organized in the United States; provided, that the foregoing shall not be deemed to prohibit Mayer or Buyer from (x) engaging in general media advertising or general employment solicitation that is not targeted towards such individuals or (y) engaging contractors

or service providers in the ordinary course in a manner that does not divert or otherwise reduce their business or services with Sellers or their respective Affiliates.

6.2.3. During the Restricted Period, each of Mayer and Buyer covenants and agrees, that they will not individually or jointly, directly or indirectly: (i) solicit or entice, or attempt to solicit or entice, any current, former, or prospective customers, clients, suppliers, vendors, or other business relationships of the Sellers or any Affiliate for purposes of diverting or otherwise reducing their business or services with the Company or its Affiliates.

6.2.4. During the Restricted Period, each of Mayer and Buyer shall not make, and shall cause their Affiliates not to make, either directly or indirectly, except if done in good faith in any Action against the applicable Person, (a) any written negative comment, statement or communication regarding Sellers, any of their respective Affiliates or any of its directors, officers or employees, in each case in relation to the Business, or (b) any written derogatory or disparaging comment, statement or communication regarding Sellers, any of their respective Affiliates or any of its directors, officers or employees, in each case in relation to the Business. Notwithstanding the foregoing, nothing in this Section 6.2(iv) shall limit Mayer or Buyer's or their Affiliates' ability to make true and accurate comments, statements or communications.

6.2.5. During the Restricted Period, Sellers shall not make, and shall cause their respective Affiliates not to make, either directly or indirectly, except if done in good faith in any Action against the applicable Person, (a) any written negative comment, statement or communication regarding each of Buyer or Mayer, any of their respective Affiliates or any of its directors, officers or employees, in each case in relation to the Business, or (b) any written derogatory or disparaging comment, statement or communication regarding each of Buyer or Mayer, any of their respective Affiliates or any of its directors, officers or employees, in each case in relation to the Business. Notwithstanding the foregoing, nothing in this Section 6.2(v) shall limit Sellers' or their respective Affiliates' ability to make true and accurate comments, statements or communications.

6.2.6. Each party to this Agreement acknowledges that a breach or threatened breach of this Section 6.2 would give rise to irreparable harm to the aggrieved party, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a breach or a threatened breach by a party of any such obligations, the aggrieved party shall, in addition to any and all other rights and remedies that may be available to it in respect of such breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

6.2.7. Each party to this Agreement acknowledges that the restrictions contained in this Section 6.2 are reasonable and necessary to protect the legitimate interests of the parties and constitute a material inducement to the parties to enter into this Agreement and consummate the transactions contemplated by this Agreement. In the event that any covenant contained in this Section 6.2 should ever be adjudicated to exceed the time, geographic, product or service or other limitations permitted by applicable Law in any jurisdiction, then any court is

expressly empowered to reform such covenant, and such covenant shall be deemed reformed, in such jurisdiction to the maximum time, geographic, product or service or other limitations permitted by applicable Law. The covenants contained in this Section 6.2 and each provision hereof are severable and distinct covenants and provisions. The invalidity or unenforceability of any such covenant or provision as written shall not invalidate or render unenforceable the remaining covenants or provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such covenant or provision in any other jurisdiction.

6.3. Books and Records.

6.3.1. Following the Closing, Sellers shall be entitled to retain a copy of the Transferred Books and Records.

6.3.2. Upon reasonable notice, Buyer shall, and shall cause its Affiliates and Representatives to, afford Sellers and their respective Representatives reasonable access (including the right to make, at Sellers' expense, photocopies), during normal business hours, to (a) the Transferred Books and Records, (b) the books and records of Sellers which relate to the Business, the Purchased Assets and the transactions contemplated hereby and relating to periods after the Closing and (c) personnel of Buyer and its Affiliates, in each case as may be reasonably requested by Sellers in connection with any Tax or financial reporting purpose.

6.3.3. Sellers shall not be obligated to provide Buyer with access to any books or records (including personnel files) pursuant to this Section 6.3 where such access would violate any Law or privilege; provided, that such obligated party shall use reasonable best efforts to disclose such information in a way that would avoid such violation of Law or privilege.

6.4. Public Announcements. None of Buyer or any of its Affiliates or agents (including accountants, lenders, counsel or investment bankers), shall, without the prior written consent of Sellers, issue any press release announcing the execution of this Agreement or the transactions contemplated hereby, or the Closing hereunder, or otherwise make any public statements regarding the transactions contemplated hereby or otherwise publicly disclose any of the contents of this Agreement. Buyer acknowledges that Sellers and their respective Affiliates are permitted to make any disclosure they deem necessary or desirable in connection with this Agreement or the transactions contemplated hereby.

6.5. Bulk Sales Laws. The parties hereby waive compliance with the provisions of any bulk sales, bulk transfer or similar Laws of any jurisdiction that may otherwise be applicable with respect to the sale of any or all of the Purchased Assets to Buyer; it being understood that any Liabilities arising out of the failure of Sellers to comply with the requirements and provisions of any bulk sales, bulk transfer or similar Laws of any jurisdiction which would not otherwise constitute Assumed Liabilities shall be treated as Excluded Liabilities.

6.6. Receivables. From and after the Closing, if Sellers or any of their Affiliates receive or collect any funds relating to any Purchased Asset (to the extent resulting from the use, ownership or possession of the Purchased Asset by Buyer from and after the Closing Date),

Sellers or their respective Affiliates shall remit such funds to Buyer within five (5) Business Days after its receipt thereof. From and after the Closing, if Buyer or its Affiliate receives or collects any funds relating to any Excluded Asset or Purchased Asset (to the extent resulting from the use, ownership or possession of the Purchased Asset by Sellers prior to or on the Closing Date), Buyer or its Affiliate shall remit any such funds to Sellers within five (5) Business Days after its receipt thereof.

6.7. Certain Taxes.

6.7.1. All transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement and the other Transaction Documents (including any real property transfer Tax and any other similar Tax) (“**Transfer Taxes**”) shall be borne and paid 50% by Sellers and 50% by Buyer when due. The Person required by Law to file any Tax Return or other document with respect to such Transfer Taxes or fees shall timely file any Tax Return or other document with respect to such Transfer Taxes or fees in a manner prescribed by Law. Buyer and Sellers shall, and shall cause their respective Affiliates to, reasonably cooperate with each other to timely prepare and file any Tax Return or other filings relating to such Transfer Taxes and to reduce or eliminate any Transfer Taxes to the extent permitted by applicable Law.

6.7.2. Sellers shall prepare, and with Buyer’s cooperation, timely file all Tax Returns (relating to real and personal property Taxes and other similar Taxes which are not based on income, profit, gains, sales or withholding) with respect to the Business or the Purchased Assets (collectively, “**Asset Taxes**”), except (for the avoidance of doubt, for Transfer Taxes, which shall be governed by Section 6.7(i)), for all taxable periods ending on or prior to the Closing Date which Tax Returns were not yet due and have not been filed as of the Closing Date. Such Tax Returns shall be prepared in a manner consistent with past practice, unless a contrary treatment is required by an intervening change in the applicable Law. Sellers shall pay and discharge all Asset Taxes shown to be due on such Tax Returns before the same shall become delinquent and before penalties accrue thereon (except to the extent (if applicable) such Asset Taxes were taken into account in determining the Aggregate Purchase Price). Buyer shall prepare and timely file all Tax Returns with respect to the Asset Taxes for any Straddle Period and shall pay and discharge all Asset Taxes shown to be due on such Tax Returns. Buyer, on the one hand, and Sellers, on the other hand, shall each cause a copy of any Tax Return that is required to be filed by it under this Section 6.7(ii), together with all relevant workpapers and other information (to the extent such Tax Return, workpapers, and other information relate solely to Asset Taxes), to be made available to the other for review, comment, and approval no later than twenty (20) days prior to the due date for the filing of such Tax Return (taking into account proper extensions), such approval not to be unreasonably withheld, delayed or conditioned. An exact copy of any such Tax Return relating solely to Asset Taxes filed by Buyer, on the one hand, or Sellers, on the other hand, together with evidence of payment of such Taxes, shall be provided to the other no later than ten (10) days after such Tax Return is filed.

6.7.3. For purposes of this Agreement, the amount of Taxes for the Straddle Period shall be determined based upon a hypothetical closing of the taxable year on

such Closing Date, with the Closing Date being included in the pre-Closing portion of such Straddle Period, provided that Asset Taxes shall be determined by reference to the relative number of days in the pre-Closing and post-Closing portions of such Straddle Period.

6.7.4. Following the Closing, Buyer, on the one hand, and Sellers, on the other hand, shall cooperate with each other in good faith, and shall cause their respective Affiliates and their respective officers, employees, agents, auditors and representatives to cooperate with each other, and perform all duties reasonably required and requested by the other, to facilitate the orderly and smooth transition of the Business to Buyer. Sellers and Buyer shall cooperate with each other as reasonably requested in connection with any Tax Return preparation, claims for refunds and Tax audits, in each case related to the Purchased Assets or Business for a Pre-Closing Tax Period, including for avoidance of doubt, any Straddle Period. In particular, Paul Biegel, Jon Himelfarb and Tammy Wells (if they become employees of Buyer), shall be made available to Sellers and their respective Affiliates as reasonably needed to assist in the preparation of SEC reports, audits and Tax filings.

6.8. Further Assurances. Following the Closing, each of the parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions, including cooperating to transfer any Purchased Assets held by the Sellers following the Closing, as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement and the other Transaction Documents. For the avoidance of doubt, it is the parties' intention that, except for assets identified in Section 2.2(i) through (xi), Section 2.2(xiii) and Section 2.2(xiv), all assets related to the manufacturing function of the Business located at 421 N. California Street, Sycamore, IL 60178 shall be considered "Purchased Assets" for purposes of this Agreement.

6.9. Buyer Release. Notwithstanding anything to the contrary contained in this Agreement, in further consideration of the transactions contemplated hereby, effective as of the Closing, Buyer, on behalf of itself, himself or herself and its Affiliates' respective predecessors, beneficiaries, officers, directors, managers, family members, principals, shareholders, members, partners, direct and indirect equity holders, employees, advisors, agents, representatives, successors, heirs and assigns ("**Buyer Releasors**") hereby irrevocably and unconditionally releases, waives and holds harmless Sellers, their respective Affiliates and their respective Affiliates', officers, directors, managers, family, principals, shareholders, members, partners, direct and indirect equityholders, employees, advisors, predecessors, successors and assigns (the "**Seller Releasees**"), from and against any and all claims of any nature, fixed or contingent, direct or indirect ("**Claims**") arising on or prior to the Closing that the Buyer Releasors had, may now have or may have against the Seller Releasees. It is further agreed and understood that, except as otherwise provided in this Section 6.9, the release contained in this Section 6.9 is a full and final release of all Claims released herein, whether known or unknown, fixed or contingent, manifested or unmanifested. The Buyer Releasors hereby waive the protection of any provision of any law that would operate to preserve Claims released herein that are unknown as of the Closing Date or at any other time.

6.10. Right of First Refusal.

6.10.1. For a period of the later of (a) the term of the Supply Agreement (including extensions) or (b) [***] commencing on the Closing Date (the “**ROFR Period**”), Buyer shall not, directly or indirectly through an Affiliate or otherwise, enter into any agreement or consummate any transaction relating to the sale of all or substantially all of Buyer’s assets to any Person (other than to (x) Sellers, (y) a Person that, in the aggregate, directly or indirectly beneficially owns at least a majority of the outstanding voting equity or ownership interest of Buyer prior to such transaction or (z) a Person that is controlled by Mayer in which [***], or any other transaction whether by sale of interests, sale of assets, merger, recapitalization, reorganization or otherwise, pursuant to which one or more Persons (other than to Sellers or a Person that, in the aggregate, directly or indirectly beneficially owns at least a majority of the outstanding voting equity or ownership interest of Buyer prior to such transaction), shall directly or indirectly own in excess of [***] of the voting equity or ownership interest in Buyer on a fully diluted basis, in each case in a single transaction or series of related transactions (a “**Third-Party Transaction**”) except in compliance with the terms and conditions of this Section 6.10.

6.10.2. If, at any time during the ROFR Period, Buyer receives a bona fide written offer for a Third-Party Transaction that Buyer desires to accept (each, a “**Third-Party Offer**”), Buyer shall immediately notify IGE in writing (the “**Offer Notice**”) of the identity and all proposed parties to such Third-Party Transaction and the material financial and other terms and conditions of such Third-Party Offer (the “**Material Terms**”), including, without limitation, purchase price (including any adjustments thereto and a description of any non-cash consideration in sufficient detail to permit the valuation thereof), earn-outs, employment arrangements, conditions to closing, the proposed date, time and location of the closing, expenses and expense reimbursement, and any other key obligations of either party. Each Offer Notice constitutes an offer made by Buyer to enter into an agreement with IGE on the same Material Terms of such Third-Party Offer (the “**ROFR Offer**”).

6.10.3. At any time prior to the expiration of [***] (the “**Exercise Period**”), IGE may accept the ROFR Offer by delivery to Buyer of a written notice of acceptance containing the Material Terms and any standard and customary conditions applicable to a transaction of this nature, including without limitation, the satisfactory completion of due diligence by IGE, executed by IGE; provided, however, that IGE is not required to accept any non-financial terms or conditions contained in any Material Terms that cannot be fulfilled by IGE as readily as by any other Person (e.g., an agreement conditioned upon the services of a particular individual or the supply of a product exclusively under the control of such third-party offeror).

6.10.4. If, by the expiration of the Exercise Period, IGE has not accepted the ROFR Offer, and provided that Buyer has complied with all of the provisions of this Section 6.10, at any time during the [***] period following the expiration of the Exercise Period, Buyer may consummate the Third-Party Transaction with the counterparty identified in the applicable Offer Notice, on Material Terms that are the same or more favorable to Buyer as the Material Terms set forth in the Offer Notice. If such Third-Party Transaction is not consummated within

the [***], the terms and conditions of this Section 6.10 will again apply and Buyer shall not enter into any Third-Party Transaction during the ROFR Period without affording IGE the right of first refusal on the terms and conditions of this Section 6.10.

6.10.5. For the avoidance of doubt, the terms and conditions of this Section 6.10 apply to each Third-Party Offer received by Buyer during the ROFR Period.

6.11. Conduct of Business Prior to the Closing. From the date hereof until the Closing, except as otherwise provided in this Agreement or consented to in writing by Buyer (which consent shall not be unreasonably withheld, conditioned or delayed), Sellers shall conduct the Business in the ordinary course of business in all material respects.

6.12. Closing Conditions. From the date hereof until the Closing, each party hereto shall use commercially reasonable efforts to take such actions as are necessary to expeditiously satisfy the closing conditions set forth in ARTICLE VII hereof.

6.13. Accounts Receivable. From and after the Closing, Buyer shall, and shall cause its respective officers, employees, and agents to, provide to Sellers assistance and cooperation to collect any accounts receivable related to the sale of products prior to Closing. To the extent Buyer receives payment on any such accounts receivable, it shall promptly remit the full amount collected to Sellers in form received with any necessary endorsement.

6.14. Supplement to Disclosure Schedules. From time to time prior to the Closing, Sellers shall have the right (but not the obligation) to supplement or amend the Disclosure Schedules hereto with respect to any matter hereafter arising or of which it becomes aware after the date hereof (each a "**Schedule Supplement**"). Any disclosure in any such Schedule Supplement shall not be deemed to have cured any inaccuracy in or breach of any representation or warranty contained in this Agreement, including for purposes of the indemnification or termination rights contained in this Agreement or of determining whether or not the conditions set forth in Section 7.1(i) have been satisfied.

6.15. Employee Severance. From and after the Closing, the parties agree to the division and allocation of all costs and expenses associated with the transition and termination of the employees set forth in Schedule 6.15 (the "**Employee Termination Costs**"), in accordance with the terms and conditions set forth in Schedule 6.15. For the avoidance of doubt, "Employee Termination Costs" shall include, without limitation, any compensation, benefits, severance, termination pay, notice pay, garden leave, final wages, costs associated with continued healthcare and other benefits, accrued liabilities and benefits, reasonable and documented attorneys' fees, employer portions of any taxes, social contributions, or similar employer-responsibilities, and any administrative cost and fees associated therewith.

7.
CONDITIONS TO CLOSING

7.1. Conditions to Obligations of Buyer. The obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Buyer's waiver, at or prior to the Closing, of each of the following conditions:

7.1.1. The representations and warranties of Sellers contained in ARTICLE IV shall be true and correct in all respects as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date), except where the failure of such representations and warranties to be true and correct would not have a Material Adverse Effect.

7.1.2. Sellers shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by each of them, respectively, prior to or on the Closing Date.

7.1.3. Sellers shall have delivered to Buyer duly executed counterparts to the Transaction Documents.

7.1.4. Sellers shall have delivered to Landlord the Lease Termination Payoff Amount.

7.1.5. Buyer shall have received a certificate, dated the Closing Date and signed by duly authorized officers of Sellers, that each of the conditions set forth in Section 7.1 (i) and (ii) have been satisfied.

7.1.6. Buyer shall have received a certificate signed by duly authorized officers of Sellers certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Sellers authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.

7.1.7. There shall not be in effect any Governmental Order by a Governmental Authority of competent jurisdiction restraining, enjoining, declaring unlawful or otherwise prohibiting the consummation of the transactions contemplated hereby.

7.2. Conditions to Obligations of Sellers. The obligations of Sellers to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Sellers' waiver, at or prior to the Closing, of each of the following conditions:

7.2.1. The representations and warranties of Buyer and Mayer, as applicable, contained in ARTICLE V shall be true and correct in all respects as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date), except where the failure of such representations and warranties to be true and correct would not have a material adverse effect on Buyer's ability to consummate the transactions contemplated hereby.

7.2.2. Buyer shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

7.2.3. Buyer shall have delivered to Sellers the Aggregate Purchase Price and duly executed counterparts to the Transaction Documents.

7.2.4. Sellers shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Buyer, that each of the conditions set forth in Section 7.2(i) and (ii) have been satisfied.

7.2.5. Sellers shall have received a certificate signed by a duly authorized officer of Buyer certifying that attached thereto are true and complete copies of all resolutions adopted by the manager of Buyer authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.

7.2.6. There shall not be in effect any Governmental Order by a Governmental Authority of competent jurisdiction restraining, enjoining, declaring unlawful or otherwise prohibiting the consummation of the transactions contemplated hereby.

8. INDEMNITY

8.1. Survival of Representations, Warranties, Covenants and Agreements. The representations and warranties set forth in this Agreement and the Transaction Documents shall survive the Closing and shall remain in full force and effect until the date that is eighteen (18) months after the Closing Date. None of the covenants or other agreements contained in this Agreement or the Transaction Documents shall survive the Closing Date other than those which by their terms contemplate performance after the Closing Date, and each such surviving covenant and agreement shall survive the Closing for the period contemplated by its terms. Notwithstanding the foregoing, any claims asserted in good faith with reasonable specificity (to the extent known at such time) and in writing by notice from the non-breaching party to the breaching party prior to the expiration date of the applicable survival period shall not thereafter be barred by the expiration of such survival period and such claims shall survive until finally resolved.

8.2. Indemnification by Buyer. Subject to the terms and conditions of this Article VIII, Buyer, or as the case may be, Mayer, shall indemnify Sellers against, and shall hold Sellers harmless from and against, any and all Losses incurred or sustained by, or imposed upon, Sellers based upon, arising out of, with respect to or by reason of:

8.2.1. any inaccuracy in or breach of any of the representations or warranties of Buyer, or, as applicable, of Mayer, contained in this Agreement or any of the other Transaction Documents;

8.2.2. any breach or non-fulfillment of any covenant, agreement or obligation of Buyer, or, as applicable, of Mayer, pursuant to this Agreement or any Transaction Document; or

8.2.3. any Assumed Liability asserted against Sellers at any time.

8.3. Indemnification by Sellers. Subject to the terms and conditions of this Article VIII, Sellers shall indemnify Buyer against, and shall hold Buyer harmless from and against, any and all Losses incurred or sustained by, or imposed upon, Buyer based upon, arising out of, with respect to or by reason of:

8.3.1. any inaccuracy in or breach of any of the representations or warranties of Sellers contained in this Agreement or any of the other Transaction Documents;

8.3.2. any breach or non-fulfillment of any covenant, agreement or obligation of Sellers pursuant to this Agreement or any Transaction Document; or

8.3.3. any retained Liability asserted against Buyer at any time.

8.4. Certain Limitations. The party making a claim under this Article VIII is referred to as the “**Indemnified Party**”, and the party against whom such claims are asserted under this Article VIII is referred to as the “**Indemnifying Party**”. The indemnification provided for in Section 8.2 and Section 8.3 shall be subject to the following limitations:

8.4.1. The aggregate amount of Losses for which Sellers shall be liable pursuant to Section 8.3 shall not exceed the amount of the Aggregate Purchase Price.

8.4.2. In no event shall any Indemnifying Party be liable to any Indemnified Party for any punitive, incidental, consequential, special, or indirect damages, including loss of future revenue or income, loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement, or diminution of value or any damages based on any type of multiple (other than indemnification for amounts paid or payable to third parties in respect of any third-party claim for which indemnification hereunder is otherwise required).

8.4.3. Notwithstanding the foregoing, the limitation set forth in Section 8.4(i) shall not apply to Losses based upon, arising out of, with respect to or by reason of any fraud or intentional misrepresentation.

8.5. Indemnification Procedures.

8.5.1. If any Indemnified Party receives notice of the assertion or commencement of any Action made or brought by any Person who is not a party to this Agreement or an Affiliate of a party to this Agreement or a Representative of the foregoing (a “**Third-Party Claim**”) against such Indemnified Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnified Party shall give the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than thirty (30) calendar days after receipt of such notice of such Third Party Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Third-Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third-Party Claim at the Indemnifying Party’s expense and by counsel selected by the Indemnifying Party that is reasonably acceptable to the Indemnified Party, and the Indemnified Party shall cooperate in good faith in such defense. In the event that the Indemnifying Party assumes the defense of any Third-Party Claim, subject to Section 8.5(ii), it shall have the right to take such action as it deems necessary to avoid, dispute, defend, appeal or make counterclaims pertaining to any such Third-Party Claim in the name and on behalf of the Indemnified Party. The Indemnified Party shall have the right to participate in the defense of any Third-Party Claim with counsel selected by it subject to the Indemnifying Party’s right to control the defense thereof. The fees and disbursements of such counsel shall be at the expense of the Indemnified Party, provided, that if in the reasonable opinion of counsel to the Indemnified Party, (A) there are legal defenses available to an Indemnified Party that are different from or additional to those available to the Indemnifying Party; or (B) there exists a conflict of interest between the Indemnifying Party and the Indemnified Party that cannot be waived, the Indemnifying Party shall be liable for the reasonable fees and expenses of counsel to the Indemnified Party in each jurisdiction for which the Indemnified Party determines counsel is required. If the Indemnifying Party elects not to compromise or defend such Third-Party Claim, fails to promptly notify the Indemnified Party in writing of its election to defend as provided in this Agreement, or fails to diligently prosecute the defense of such Third Party Claim, the Indemnified Party may, subject to Section 8.5(ii), pay, compromise and defend such Third-Party Claim and seek indemnification for any and all Losses based upon, arising from or relating to such Third-Party Claim. Sellers and Buyer shall cooperate with each other in all reasonable respects in connection with the defense of any Third-Party Claim, including making available (subject to the provisions of Section 6.1) records relating to such Third-Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending party, management employees of the non-defending party as may be reasonably necessary for the preparation of the defense of such Third-Party Claim.

8.5.2. Notwithstanding any other provision of this Agreement, the Indemnifying Party shall not enter into settlement of any Third-Party Claim without the prior

written consent of the Indemnified Party (which consent shall not be unreasonably withheld, conditioned or delayed), except as provided in this Section 8.5(ii). If a firm offer is made to settle a Third-Party Claim without leading to Liability or the creation of a financial or other obligation on the part of the Indemnified Party and provides, in customary form, for the unconditional release of each Indemnified Party from all Liabilities and obligations in connection with such Third-Party Claim and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to that effect to the Indemnified Party. If the Indemnified Party fails to consent to such firm offer within thirty days after its receipt of such notice, the Indemnified Party may continue to contest or defend such Third-Party Claim and in such event, the maximum liability of the Indemnifying Party as to such Third-Party Claim shall not exceed the amount of such settlement offer. If the Indemnified Party fails to consent to such firm offer and also fails to assume defense of such Third-Party Claim, the Indemnifying Party may settle the Third-Party Claim upon the terms set forth in such firm offer to settle such Third-Party Claim. If the Indemnified Party has assumed the defense pursuant to Section 8.5(i), it shall not agree to any settlement without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld, conditioned or delayed).

8.5.3. Any claim by an Indemnified Party on account of a Loss which does not result from a Third-Party Claim (a “**Direct Claim**”) shall be asserted by the Indemnified Party giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than thirty (30) days after the Indemnified Party becomes aware of such Direct Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have 30 days after its receipt of such notice to respond in writing to such Direct Claim. During such 30-day period, the Indemnified Party shall allow the Indemnifying Party and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim and the Indemnified Party shall assist the Indemnifying Party’s investigation by giving such information and assistance (including access to the Indemnified Party’s premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party or any of its professional advisors may reasonably request. If the Indemnifying Party does not so respond within such 30-day period, the Indemnifying Party shall be deemed to have rejected such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

8.6. Payments. Once a Loss is agreed to by the Indemnifying Party or finally adjudicated to be payable pursuant to this Article VIII, the Indemnifying Party shall satisfy its obligations within 15 Business Days of such final, non-appealable adjudication by wire transfer of immediately available funds. The parties hereto agree that should an Indemnifying Party not make full payment of any such obligations within such fifteen (15) Business Day period, any amount payable shall accrue interest from and including the date of agreement of the

Indemnifying Party or final, non-appealable adjudication to and including the date such payment has been made at a rate per annum equal to eight percent (8%). Such interest shall be calculated daily on the basis of a 365 day year and the actual number of days elapsed, without compounding.

8.7. Tax Treatment of Indemnification Payments. All indemnification payments made under this Agreement shall be treated by the parties as an adjustment to the Aggregate Purchase Price for Tax purposes, unless otherwise required by Law

8.8. Exclusive Remedies. Subject to and except for Section 10.11, the parties acknowledge and agree that from and after Closing their sole and exclusive remedy with respect to any and all claims (other than claims arising from fraud or willful misconduct on the part of a party hereto in connection with the transactions contemplated by this Agreement) for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement, shall be pursuant to the indemnification provisions set forth in this Article VIII. In furtherance of the foregoing, except with respect to Section 8.11, each party hereby waives, from and after Closing, to the fullest extent permitted under Law, any and all rights, claims and causes of action for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement it may have against the other parties hereto and their Affiliates and each of their respective Representatives arising under or based upon any Law, except pursuant to the indemnification provisions set forth in this Article VIII. Nothing in this Section 8.8 shall limit any Person's right to seek and obtain any equitable relief to which any Person shall be entitled or to seek any remedy on account of any party's fraudulent or intentional misconduct.

9. TERMINATION

9.1. Termination. This Agreement may be terminated at any time prior to the Closing:

9.1.1. by the mutual written consent of Sellers and Buyer;

9.1.2. by Buyer by written notice to Sellers if:

9.1.2.1. Buyer is not then in material breach of any provision of this Agreement and there has been a material breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Sellers pursuant to this Agreement that would give rise to the failure of any of the conditions specified in ARTICLE VII and such breach, inaccuracy or failure cannot be cured by Sellers by December 31, 2024 (the "**Drop Dead Date**"); or

9.1.2.2. any of the conditions set forth in Section 7.1 shall not have been fulfilled by the Drop Dead Date, unless such failure shall be due to the failure of Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing;

9.1.3. by Sellers by written notice to Buyer if:

9.1.3.1. Sellers is not then in material breach of any provision of this Agreement and there has been a material breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Buyer pursuant to this Agreement that would give rise to the failure of any of the conditions specified in ARTICLE VII and such breach, inaccuracy or failure cannot be cured by Buyer by the Drop Dead Date; or

9.1.3.2. any of the conditions set forth in Section 7.2 shall not have been fulfilled by the Drop Dead Date, unless such failure shall be due to the failure of Sellers to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing; or

9.1.4. by Buyer or Sellers in the event that:

9.1.4.1. there shall be any Law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited; or

9.1.4.2. any Governmental Authority shall have issued a Governmental Order restraining or enjoining the transactions contemplated by this Agreement, and such Governmental Order shall have become final and non-appealable.

9.2. Effect of Termination. In the event of the termination of this Agreement in accordance with this Article, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto except:

9.2.1. that the obligations set forth in this ARTICLE IX, Section 6.1 and ARTICLE X hereof shall survive termination; and

9.2.2. that nothing herein shall relieve any party hereto from liability for any intentional breach of any provision hereof.

10. MISCELLANEOUS

10.1. Expenses. Except as otherwise expressly provided herein, all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

10.2. Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a PDF document if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient or (d) on the third day after the

date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 10.2):

If to Sellers: Innovative Growers Equipment, Inc.
421 N. California Street
Sycamore, IL 60178
E-mail: jlindeman@hydrofarm.com
Attention: B. John Lindeman

with a copy to: Hydrofarm Holdings Group, Inc.
1510 Main Street
Shoemakersville, PA 19555
E-mail: jlindeman@hydrofarm.com
Attention: B. John Lindeman

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
E-mail: krkoch@mintz.com; dabagliebter@mintz.com
Attention: Kenneth Koch; Daniel Bagliebter

If to Buyer: CM Fabrication, LLC
421 N. California Street
Sycamore, IL 60178
E-mail: chris@cm-metals.com
Attention: Chris Mayer

with a copy to: Saul Ewing LLP
161 North Clark Street
Suite 4200
Chicago, IL 60601
E-mail: casey.grabenstein@saul.com
Attention: Casey Grabenstein

10.3. Interpretation. For purposes of this Agreement, (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive; (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole; and (d) all references herein to “\$”, dollars or other monetary amounts shall refer to United States dollars unless otherwise specified herein. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Disclosure Schedules and Exhibits mean the Articles and Sections of, and Disclosure Schedules and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any

presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Disclosure Schedules and Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

10.4. Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

10.5. Severability. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Except as provided in Section 6.2(vii), upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

10.6. Entire Agreement. This Agreement and the other Transaction Documents constitute the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. In the event of any inconsistency between the statements in the body of this Agreement and those in the other Transaction Documents and Disclosure Schedules (other than an exception expressly set forth as such in the Disclosure Schedules), the statements in the body of this Agreement will control.

10.7. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither party may assign its rights or obligations hereunder without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed; *provided, however*, that Sellers may, without the prior consent of Buyer, assign all or any portion of their rights and delegate their duties under this Agreement to a single representative of the stockholders or former stockholders of Sellers or other successor or designee in connection with any winding-up or dissolution of Sellers after the Closing. No assignment shall relieve the assigning party of any of its obligations hereunder.

10.8. No Third-party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement; *provided, however*, the stockholders or former stockholders of Sellers shall be entitled to enforce the provisions of this Agreement on behalf of Sellers, including following any winding-up or dissolution of Sellers.

10.9. Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each party hereto. No

waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. Except as otherwise expressly set forth herein, no failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

10.10. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.

10.10.1. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction).

10.10.2. ANY LEGAL SUIT, ACTION OR PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY MAY BE INSTITUTED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF DELAWARE IN EACH CASE LOCATED IN NEW CASTLE COUNTY, DELAWARE, AND EACH PARTY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING. SERVICE OF PROCESS, SUMMONS, NOTICE OR OTHER DOCUMENT BY MAIL TO SUCH PARTY'S ADDRESS SET FORTH HEREIN SHALL BE EFFECTIVE SERVICE OF PROCESS FOR ANY SUIT, ACTION OR OTHER PROCEEDING BROUGHT IN ANY SUCH COURT. THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR ANY PROCEEDING IN SUCH COURTS AND IRREVOCABLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

10.10.3. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT OR THE OTHER TRANSACTION DOCUMENTS IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION, (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF

THIS WAIVER, (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.10.

10.11. Specific Performance. The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity.

10.12. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

CM Fabrication, LLC

By: /s/ Chris Mayer
Name: Chris Mayer
Title: Authorized Signatory

Innovative Growers Equipment, Inc.

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

Manufacturing & Supply Chain Services, Inc.

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

/s/ Chris Mayer
Chris Mayer

[Signature Page to Asset Purchase Agreement]

CERTIFICATIONS UNDER SECTION 906

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

The Quarterly Report for the quarter ended June 30, 2024 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2024

/s/ William Toler

William Toler

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 906

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

The Quarterly Report for the quarter ended June 30, 2024 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2024

/s/ B. John Lindeman

B. John Lindeman

Executive Vice President & Chief Financial Officer

(Principal Financial Officer)