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

FORM 10-K

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 2020

☐ TRANSACTION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transaction period from ________ to ________

Commission file number 000-50385

GrowLife, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.0001**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☒

Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

As of June 30, 2020 (the last business day of our most recently completed second fiscal quarter), based upon the last reported trade on that date, the aggregate market value of the voting and non-voting common equity held by non-affiliates (for this purpose, all outstanding and issued common stock $6,459,194.

As of April 15, 2021, there were 69,682,239 shares of the issuer's common stock, $0.0001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion, in addition to the other information contained in this report, should be considered carefully in evaluating us and our prospects. This report (including without limitation the following factors that may affect operating results) contains forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act") regarding us and our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as revenue projections, projected profitability, growth strategies, development of new products, enhancements or technologies, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

Forward-looking statements in this report reflect the good faith judgment of our management and the statements are based on facts and factors as we currently know them. Forward-looking statements are subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, but are not limited to, those discussed below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as those discussed elsewhere in this report. Readers are urged not to place undue reliance on these forward-looking statements which speak only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE COMPANY AND OUR BUSINESS

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

GrowLife persevered through the impact of the COVID-19 pandemic in 2020 as the Cannabis industry was classified an essential business by 36 States where it is medicinally legal and 16 States where it is completely legal. Our GrowLife team worked remotely where it could reach out to customers and channels to facilitate sales. Overall market studies reported 35% industry growth in 2020 in spite of COVID-19. However, our revenue declined 15%; the first declining year since 2016. Our revenue reduction of approximately $1.2 million was the result of a $2.9 million reduction in our hydroponics segments partially offset by a $1.7 million increase at EZ-CLONE Enterprises. Like the prior year's 78% revenue growth, we had expected another revenue growth year in 2020, despite winding down our hydroponics segment. Unfortunately, we experienced continuing supply chain problems with our manufacturing subsidiary wherein they could not keep up with the GrowLife sales orders, resulting in limitation of our fourth quarter EZ-CLONE revenue to $2 million as a result of the backlog. On the positive side, annual gross margins rose from 31.0% to 42.5% year over year and general and administrative expenses were significantly reduced from $7 million to $4.9 million. These aggregated expenses were in spite of our expansion plans and spending into the clone market, which our cloning manufacturer was part of, and we had announced in 2019.

Also previously reported, we did not close the purchase of the remaining 49% of stock of EZ-CLONE that was due on July 15, 2020 and the founders of EZ-CLONE entered into litigation against the Company. Each of our 2020 10-Q filings revealed increasing quarter over quarter backlogs of EZ-CLONE product delivery in response to sales pointing to the manufacturer's inability to keep up with GrowLife's increasing sales and customer demand. In the first quarter it was $400,000 of sales backlog that was deferred into the second quarter;in the second quarter we could not recognize $1 million of GrowLife sales because EZ-CLONE supply chain and backlog issues; and finally in the third quarter, only $1.4 million of revenue was recognized and another $2 million of GrowLife sales was backlogged into the 4th quarter because of supply chain and shipment problems. Based on the backlogged orders, we estimate we were unable to recognize the approximately $2 million in revenue.

As we pointed out in the third quarter 10-Q, we recognized the saturation issue in the Hemp CBD market and postponed our entry into the clone/starter business until 2021 which has not subsided. However, as we look at the Cannabis industry, we can make three observations from early 2021: First, the MORE Act passed the U.S. House of Representatives on December 4, 2020, a landmark step toward the federal legalization of Cannabis that can permit interstate commerce and true US companies to touch the plant and trade on the stock exchange; Second, Senate Majority Leader Schumer announced in early April that he will move the legalization bill forward in the US Senate and seek support with the White House to obtain federal legalization; Finally, GrowLife retains its 51% assets in EZ-CLONE, investors are aligned and financially support GrowLife to settle with EZ-CLONE as well as expand in new markets, and our management depth remains in place to grow as opportunities are identified.

Therefore, we see a growing market, intend to service our customers and will continue to seek opportunities in the legal Cannabis industry. We believe this is a great opportunity for our customers, shareholders and one where GrowLife is uniquely positioned to capitalize on. The Company's goal is to become the nation's largest cultivation facility service provider focused on propagation systems serving more cultivators with products of high quality, exceptional value and competitive price.

FINANCIAL PERFORMANCE

Net revenue for the year ended December 31, 2020 decreased by $1,217,000 to $7,001,000 from $8,218,000 for the year ended December 31, 2019. The decrease resulted from our decision to wind down the hydroponics segment in 2020. The elimination of the hydroponics sales personnel and the impact of the pandemic on the hydroponics segment during the year ended December 31, 2020, resulted in hydroponics revenue declining to $1,568,000 in 2020 as compared to $4,487,000 for the year ended December 31, 2019. The EZ-CLONE revenue from its line of products for the year ended December 31, 2020 was $5,433,00 as compared to $3,731,000 for the year ended December 31, 2019.

Employees

As of December 31, 2020, we had 10 full-time and part-time employees. Marco Hegyi, our Chief Executive Officer, is based in Kirkland, Washington. Mark E. Scott, our former Chief Financial Officer, was based primarily in Seattle, Washington. He resigned effective

December 31, 2020. Michael E. Fasci was appointed Chief financial Officer on January 1, 2021. We have approximately 9 of our full and part time employees located throughout the United States who operate our businesses. In addition, we employ 13 full-time and part-time employees at EZ-CLONE in Sacramento, CA. None of our employees are subject to a collective bargaining agreement or represented by a trade or labor union.

Key Partners

Our key customers have become the cultivation buyers of cloning systems though out various states and these products are sold through direct, retailers and distributors. Therefore, our key suppliers include distributors and manufacturers including EZ-CLONE. All the products purchased and resold are applicable to indoor growing for organics, greens, and plant-based medicines.

Competition

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

Intellectual Property and Proprietary Rights

Our intellectual property consists of brands and their related trademarks and websites, customer lists and affiliations, product know-how and technology, and marketing intangibles. Our other intellectual property is primarily in the form of trademarks and domain names. We also hold rights to several website addresses related to our business including websites that are actively used in our day-to-day business such as www.shopgrowlife.com and www.growlifeinc.com. We have a policy of entering into confidentiality and non-disclosure agreements with our employees, some of our vendors and customers as necessary.

Acquisition of EZ-CLONE

On October 15, 2018, we closed the Purchase and Sale Agreement with EZ-CLONE Enterprises, Inc., a California corporation (the "Agreement"). On November 5, 2019, we amended the Agreement with one 24.5% shareholder of EZ-CLONE Enterprises, Inc. ("EZ-CLONE"), to extend the date to purchase the remaining 49% of stock of EZ-CLONE in exchange for a 20% extension fee (a total of $171,000 for the 49% or $85,500 for each 24.5% shareholder) of the $855,000 cash payable at the earlier of the closing of $2,000,000 in funding or nine months (July 2020). The Company did not close the purchase of the remaining 49% of stock of EZ-CLONE by the extended deadline.

On September 15, 2020, we received notice that William Blackburn and Brad Mickelsen ("Plaintiffs"), minority shareholders of EZ-CLONE Enterprises, Inc., a majority owned subsidiary of the Company, filed a complaint against the Company and its officers Marco Hegyi and Mark Scott ("Officers"), in the Superior Court of California, County of Sacramento ("Complaint") for claims related to breach under the Purchase and Sale Agreement dated October 15, 2018 between the Company and Plaintiffs. The Complaint also alleges that the Company and its Officers made certain false representations and other claims to consummate the Transaction and as a result has failed to complete the second closing as required under Purchase and Sale Agreement. As of December 4, 2020, the Company's officers were dismissed from the case. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief.

On September 15, 2020, we filed a notice of removal with the California Superior Court, County of Sacramento and the United States District Court for the Eastern District of California. The case was removed to Federal District Court for the Eastern District of California and Plaintiffs filed an Ex Parte Application for TRO and an Order for Preliminary Injunction with the Federal Court. The TRO was granted on September 16, 2020 and a preliminary injunction hearing was scheduled for September 29, 2020. After reviewing all pleadings and oral arguments at the hearing, the Court issued a ruling granting Plaintiffs' request for a preliminary injunction. Presently the parties are providing legal briefs to the Federal court to determine if rescission should be granted.

As of December 31, 2020, we have recorded a liability of $2,131,000 for acquisition payable of which a $1,105,000 is payable in stock and $1,026,000 is payable in cash.

Government Regulation

Currently, there are thirty six states plus the District of Columbia that have laws and/or regulation that recognize in one form or another legitimate medical uses for cannabis and consumer use of cannabis in connection with medical treatment. There are currently sixteen states and the District of Columbia that allow recreational use of cannabis. As of December 31, 2020, the policy and regulations of the Federal government and its agencies is that cannabis has no medical benefit and a range of activities including cultivation and use of cannabis for personal use is prohibited on the basis of federal law and may or may not be permitted on the basis of state law. Active enforcement of the current federal regulatory position on cannabis on a regional or national basis may directly and adversely affect the willingness of customers of GrowLife to invest in or buy products from GrowLife. Active enforcement of the current federal regulatory position on cannabis may thus indirectly and adversely affect revenues and profits of the GrowLife companies.

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

OUR COMMON STOCK

As of March 4, 2019, we began to trade on the Pink Sheet stocks system. Our bid price had closed below $0.01 for more than 30 consecutive calendar days. As of March 17, 2020, we commenced trading on the OTCQB Market ("OTCQB") after successfully up-listing from the OTC Pink Market.

PRIMARY RISKS AND UNCERTAINTIES

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

WEBSITE ACCESS TO UNITED STATES SECURITIES AND EXCHANGE COMMISSION REPORTS

We file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements and other information concerning filers. We also maintain a web site at http://www.growlifeinc.com that provides additional information about our Company and links to documents we file with the SEC. The Company's charters for the Audit Committee, the Compensation Committee, and the Nominating Committee; and the Code of Conduct & Ethics are also available on our website. The information on our website is not part of this Form 10-K.

ITEM 1A. RISK FACTORS

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

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

In 2020 we made the decision to no longer invest in our hydroponics business and during the last two quarters of 2020 we had limited revenue and we expect no revenue in 2021. The decision to exit the hydroponics business did not result in any significant expenses or write off of assets.

As of September 30, 2019, we closed retail stores in Portland, Maine, Encino, California and Calgary, Canada. We have recorded restructuring reserves related to the store closures. We cannot determine the outcome of these proceedings but we continue to work through resolving any lease related obligation and we do not believe it will have a material impact on our future operations.

On October 15, 2018, we closed the Purchase and Sale Agreement with EZ-CLONE Enterprises, Inc., a California corporation (the “Agreement”). On November 5, 2019, the Company amended the Agreement with one 24.5% shareholder of EZ-CLONE Enterprises, Inc. (“EZ-CLONE”), to extend the date to purchase the remaining 49% of stock of EZ-CLONE in exchange for a 20% extension fee (a total of $171,000 for the 49% or $85,500 for each 24.5% shareholder) of the $855,000 cash payable at the earlier of the closing of $2,000,000 in funding or nine months (July 2020). We did not close the purchase of the remaining 49% of stock of EZ-CLONE by the extended deadline.

On September 15, 2020, we received notice that William Blackburn and Brad Mickelsen, minority shareholders of EZ-CLONE Enterprises, Inc. ("Plaintiffs"), a majority owned subsidiary of the Company, filed a complaint against the Company and its officers Marco Hegyi and Mark Scott ("Officers"), in the Superior Court of California, County of Sacramento ("Complaint") for claims related to breach under the Purchase and Sale Agreement dated October 15, 2018 between the Company and Plaintiffs. On September 15, 2020, the Company filed a notice of removal with the California Superior Court, County of Sacramento and the United States District Court for the Eastern District of California. The case was removed to Federal District Court for the Eastern District of California and Plaintiffs filed an Ex Parte Application for TRO and an Order for Preliminary Injunction with the Federal Court. The TRO was granted on September 16, 2020 and a preliminary injunction hearing was scheduled for September 29, 2020. After reviewing all pleadings and oral arguments at the hearing, the Court issued a ruling granting Plaintiffs' request for a preliminary injunction. Subsequent to September 29, 2020, the parties are providing legal briefs to the Federal court to determine if rescission should be granted. We cannot determine the outcome of these proceedings.

The Complaint also alleges that the Company and its Officers made certain false representations and other claims to consummate the Transaction and as a result has failed to complete the second closing as required under Purchase and Sale Agreement. As of December 4, 2020, the Company's officers were dismissed from the case. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief.

As of December 31, 2020, we recorded a liability of $2,131,000 for acquisition payable of which a $1,105,000 is payable in stock and $1,026,000 is payable in cash.

Item 1A. Risk Factors.

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

Risks Related to Pandemics

The effects of the recent COVID-19 coronavirus pandemic are not immediately known, but may adversely affect our business, results of operations, financial condition, liquidity, and cash flow.

Presently, the impact of COVID-19 has not shown any imminent adverse effects on our business. This notwithstanding, it is still unknown and difficult to predict what adverse effects, if any, COVID-19 can have on our business, or against the various aspects of same, or how COVID-19 will continue to effect the world as the virus case numbers rise and fall and further as vaccination plans and rules develop.

COVID-19 coronavirus was declared a pandemic by the World Health Organization, and on March 13, 2020 was declared a National Emergency by the United States Government and has resulted in several states being designated disaster zones. On February 24, 2021, President Biden issued a letter on the continuation of the National Emergency. COVID-19 coronavirus caused significant volatility in global markets. The spread of COVID-19 coronavirus has caused public health officials to recommend precautions to mitigate the spread of the virus, especially as to travel and congregating in large numbers. In addition, certain states and municipalities have implemented quarantining and "shelter-in-place" regulations which severely limited the ability of people to move and travel and require non-essential businesses and organizations to close. While some states have lifted their "shelter-in-place" restrictions and travel bans, there is no certainty that an outbreak will not occur and additional restrictions may be imposed again in response.

It is unclear how such restrictions, which will contribute to a general slowdown in the global economy, will affect our business, results of operations, financial condition and our future strategic plans.

Further shelter-in-place and essential-only travel regulations could negatively impact our customers. In addition, while our products are manufactured in the United States, we still could experience significant supply chain disruptions due to interruptions in operations at any or all of our suppliers' facilities or downline suppliers. If we experience significant delays in receiving our products we will experience delays in fulfilling orders and ultimately receiving payment, which could result in loss of sales and a loss of customers, and adversely impact our financial condition and results of operations. The current status of COVID-19 coronavirus closures and restrictions could also negatively impact our ability to receive funding from our existing capital sources as each business is and has been affected uniquely.

If any of our employees, consultant, customers, or visitors were to become infected we could be forced to close our operations temporarily as a preventative measure to prevent the risk of spread which could also negatively impact our ability to receive funding from our existing capital sources as each business is and has been affected uniquely

In addition, our headquarters are located in Seattle, Washington and EZ-Clone is located in Sacramento, California, each of which have experienced restrictions on individuals and business shutdowns as the result of COVID-19. It is unclear at this time how these restrictions will be continued and/or amended as the pandemic evolves. We are hopeful that COVID-19 closures will have only a limited effect on our operations and revenues. We believe that with the introduction in early 2021 of the COVID-19 vaccinations that business restrictions will start to ease.

General securities market uncertainties resulting from the COVID-19 pandemic.

Since the outset of the pandemic the United States and worldwide national securities markets have undergone unprecedented stress due to the uncertainties of the pandemic and the resulting reactions and outcomes of government, business and the general population. These uncertainties have resulted in declines in all market sectors, increases in volumes due to flight to safety and governmental actions to support the markets. As a result, until the pandemic has stabilized, the markets may not be available to the Company for purposes of raising required capital. Should we not be able to obtain financing when required, in the amounts necessary to execute on our plans in full, or on terms which are economically feasible we may be unable to sustain the necessary capital to pursue our strategic plan and may have to reduce the planned future growth and/or scope of our operations.

<u>Risks Related to Our Business</u>

Risks Associated with EZ-CLONE Enterprises, Inc.

On October 15, 2018, we closed the Purchase and Sale Agreement with EZ-CLONE Enterprises, Inc., a California corporation (the “Agreement”). On November 5, 2019, the Company amended the Agreement with one 24.5% shareholder of EZ-CLONE Enterprises, Inc. (“EZ-CLONE”), to extend the date to purchase the remaining 49% of stock of EZ-CLONE in exchange for a 20% extension fee (a total of $171,000 for the 49% or $85,500 for each 24.5% shareholder) of the $855,000 cash payable at the earlier of the closing of $2,000,000 in funding or nine months (July 2020). We did not close the purchase of the remaining 49% of stock of EZ-CLONE by the extended deadline.

On September 15, 2020, we received notice that William Blackburn and Brad Mickelsen (“Plaintiffs”), minority shareholders of EZ-CLONE Enterprises, Inc., a majority owned subsidiary of the Company, filed a complaint against the Company and its officers Marco Hegyi and Mark Scott (“Officers”), in the Superior Court of California, County of Sacramento (“Complaint”) for claims related to breach under the Purchase and Sale Agreement dated October 15, 2018 between the Company and Plaintiffs. The Complaint also alleges that the Company and its Officers made certain false representations and other claims to consummate the Transaction and as a result has failed to complete the second closing as required under Purchase and Sale Agreement. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief.

On September 15, 2020, the Company filed a notice of removal with the California Superior Court, County of Sacramento and the United States District Court for the Eastern District of California. The case was removed to Federal District Court for the Eastern District of California and Plaintiffs filed an Ex Parte Application for TRO and an Order for Preliminary Injunction with the Federal Court. The TRO was granted on September 16, 2020 and a preliminary injunction hearing was scheduled for September 29, 2020. After reviewing all pleadings and oral arguments at the hearing, the Court issued a ruling granting Plaintiffs’ request for a preliminary injunction.

The parties have provided legal briefs to the Federal court to determine if rescission should be granted. On January 22, 2021, the Company filed a motion to amend the preliminary injunction and the motion was taken under submission on February 25, 2021; the Company is waiting on the judge's decision regarding that motion. If we are unsuccessful and the court grants Plaintiffs’ request for rescission the resulting actions are speculative at this time but could include the return of the consideration exchanged as part of the acquisition subject to certain adjustments as the result of several variables which the court will consider. If the court denies Plaintiffs request for rescission the litigation will continue regarding the breach of contract claims and contractual remedies for breach and the Court may or may not dissolve the preliminary injunction as a result.

A decision to grant rescission could materially harm our business as EZ-Clone represents a significant portion of our operations and our only current revenue stream for product sales.

As of December 31, 2020, we have a liability to the two EZ-Clone founders of $2,131,000 for acquisition payable of which a $1,105,000 is payable in stock and $1,026,000 is payable in cash.

Our acquisition of EZ-CLONE thus far has been positive for our overall results of operations. Additionally, we have spent a significant amount of time and effort modifying our business plans and focuses toward the clone industry. If we fail to close on the remaining 49% of EZ-CLONE or settle the above legal action, we may experience direct consequences including, but not limited to, claims for breach of contract for failure to close on a contractual obligation, possible rescission of the EZ-CLONE acquisition, damages, and other equitable relief.

Risks Associated with Securities Purchase Agreements with Chicago Venture Partners, L.P. ("Chicago Venture"), Iliad Research and Trading, L.P. ("Iliad") and Odyssey Research and Trading, LLC, ("Odyssey") and Silverback Capital Corporation.

The Securities Purchase Agreements with Chicago Venture, Iliad and Odyssey will terminate if we file protection from our creditors, a Registration Statement on Form S-1 is not effective, and our market capitalization or the trading volume of our common stock does not reach certain levels. If terminated, we will be unable to draw down all or substantially all of Notes. These agreements have provided the Company substantial sources of capital in the past.

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

On September 1, 2020, Iliad sold $500,000 of their 8/7/18 note with GrowLife to Silverback Capital Corporation. On October 13, 2020, Iliad sold $243,854 of their 10/15/18 note with GrowLife to Silverback Capital Corporation. On November 18, 2020, Iliad sold $250,000 of their 8/7/18 note with GrowLife to Silverback Capital Corporation. Silverback is stepping into the same terms and conditions.

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

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

Our common stock.

As of March 4, 2019, we began to trade on the OTC Pink Sheet stocks system because our bid price had closed below $0.01 for more than 30 consecutive calendar days. As of March 17, 2020, we commenced trading on the OTCQB Market ("OTCQB") after successfully up-listing from the OTC Pink Market.

We have been involved in Legal Proceedings.

We have been involved in certain disputes and legal proceedings as discussed in the section title "Legal Proceedings". Defending such litigation may be lengthy and costly, strain our resources and divert management's attention from their core responsibilities, which would have a negative impact on our business. In addition, as a public company, we are also potentially susceptible to litigation, such as claims asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse on our business, results of operations or financial condition.

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

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

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

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

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

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

As of April 15, 2021, thirty six states and the District of Columbia allow its citizens to use medical cannabis. Additionally, sixteen states and the District of Columbia have legalized cannabis for adult use. The state laws are in conflict with the federal Controlled Substances Act, which makes marijuana use and possession illegal on a national level. The Obama administration previously effectively stated that it is not an efficient use of resources to direct law federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. The Biden Administration position is unknown. However, there is no guarantee that the Biden Administration will not change current policy regarding the low-priority enforcement of federal laws. Additionally, any new administration that follows could change this policy and decide to enforce the federal laws strongly. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us and our shareholders.

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

● Arizona, Montana, South Dakota, New Jersey passed adult use legislation
● Mississippi passed medicinal use legislation set to go into effect in 2021.
● The total count is 36 + DC for Medicinal. 16 + DC for adult use.
● Additionally, Georgia, Virginia, Kentucky, Iowa, Texas, and Indiana allow very low level THC based oil for medicinal purposes, but are generally not included in the count. Language is updated above.

The marijuana industry faces strong opposition.

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

Marijuana remains illegal under Federal law.

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

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

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

If we raise additional capital through borrowing or other debt financing, we may incur substantial interest expense. Sales of additional equity securities will dilute on a pro rata basis the percentage ownership of all holders of common stock. When we raise more equity capital in the future, it will result in substantial dilution to our current stockholders.

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

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

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

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

As of April 15, 2021, thirty six states and the District of Columbia allow its citizens to use medical cannabis. Additionally, sixteen states and the District of Columbia have legalized cannabis for adult use. Many other states are considering legislation to similar effect. As of the date of this writing, the policy and regulations of the Federal government and its agencies is that cannabis has no medical benefit and a range of activities including cultivation and use of cannabis for personal use is prohibited on the basis of federal law and may or may not be permitted on the basis of state law. Active enforcement of the current federal regulatory position on cannabis on a regional or national basis may directly and adversely affect the willingness of customers of GrowLife to invest in or buy products from GrowLife that may be used in connection with cannabis. Active enforcement of the current federal regulatory position on cannabis may thus indirectly and adversely affect revenues and profits of the GrowLife companies.

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

Our history of net losses has raised substantial doubt about our ability to continue as a going concern, and as a result, our independent registered public accounting firm included an explanatory paragraph in its report on our financial statements as of and for the years ended December 31, 2020 and 2019 with respect to this uncertainty. Accordingly, our ability to continue as a going concern will require us to seek alternative financing to fund our operations. This going concern opinion could materially limit our ability to raise additional funds through the issuance of new debt or equity securities or otherwise. Future audit reports on our financial statements may include an explanatory paragraph with respect to our ability to continue as a going concern.

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

We have experienced net losses since inception. As of December 31, 2020, we had an accumulated deficit of $154.8 million. There can be no assurance that we will achieve or maintain profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are dependent on key personnel.

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

We have no insurance.

We currently have no directors' and officers' liability insurance and limited commercial liability insurance policies. Any significant claims would have a material adverse effect on our business, financial condition and results of operations.

Risks Related to our Common Stock

Chicago Venture, Iliad, Odyssey, St. George, and Bucktown could have significant influence over matters submitted to stockholders for approval.

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

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

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

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

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

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

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

The market price of our common stock may be volatile.

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

● Halting of trading by the SEC or FINRA.

● Announcements by us regarding liquidity, legal proceedings, significant acquisitions, equity investments and divestitures, strategic relationships, addition or loss of significant customers and contracts, capital expenditure commitments, loan, note payable and agreement defaults, loss of our subsidiaries and impairment of assets,
● Issuance of convertible or equity securities for general or merger and acquisition purposes,
● Issuance or repayment of debt, accounts payable or convertible debt for general or merger and acquisition purposes,
● Sale of a significant number of shares of our common stock by shareholders,
● General market and economic conditions,
● Quarterly variations in our operating results,
● Investor relation activities,
● Announcements of technological innovations,
● New product introductions by us or our competitors,
● Competitive activities, and
● Additions or departures of key personnel.

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

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

Sales or issuances of a large number of shares of common stock in the public market or the perception that sales may occur could cause the market price of our common stock to decline. As of December 31, 2020, there are also (i) stock option grants outstanding for the purchase of 506,667 common shares at a $1.496 average exercise price; and (ii) warrants for the purchase of 3,451,737 shares of common shares at a $2.464 average exercise price. In addition, we have an unknown number of common shares to be issued under the Crossover, 12% convertible promissory note financing and Labrys agreements in the case of default. In addition, we have an unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing agreements and warrants because the number of shares ultimately issued to Chicago Venture depends on the price at which Chicago Venture converts its debt to shares and exercises its warrants. These debt and warrant agreements include price protection features for the holders and can result in significant dilution to the Company. The lower the conversion or exercise prices, the more shares that will be issued to Chicago Venture upon the conversion of debt to shares. We will not know the exact number of shares of stock issued to Chicago Venture until the debt is actually converted to equity. On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021 with St. George to resolve a matter related to a prior financing transaction whereby we agreed to issue 11,750,000 shares of our common stock to cancel a warrant related to a February 9, 2018 subscription agreement. On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021, with Iliad to resolve a matter related to a prior financing transaction whereby we agreed to issue 2,500,000 shares of our common stock to cancel a warrant related to a October 15, 2018 securities Purchase agreement. We recorded a loss on debt settlement of $2,422,500 as of December 31, 2020.

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

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

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

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

Our Convertible Notes Payable may require an adjustment in the current conversion price of $0.070 per share as calculated pursuant to terms of the notes if we issue common stock, warrants or equity below the price that is reflected in the convertible notes payable. Our warrant with St. George may require an adjustment in the exercise price. As discussed above, On April 5, 2021, we entered into a joint warrant settlement agreement with St. George and Iliad dated March 31, 2021 to resolve a dispute regarding prior financings and agreed to issue 14.25 million shares of stock valued at approximately $2.4 million dollars. The conversion price of the convertible notes and warrants will have an impact on the market price of our common stock. Specifically, if under the terms of the convertible notes the conversion price goes down, then the market price, and ultimately the trading price, of our common stock will go down. If under the terms of the convertible notes the conversion price goes up, then the market price, and ultimately the trading price, of our common stock will likely go up. In other words, as the conversion price goes down, so does the market price of our stock. As the conversion price goes up, so presumably does the market price of our stock. The more the conversion price goes down, the more shares are issued upon conversion of the debt which ultimately means the more stock that might flood into the market, potentially causing a further depression of our stock.

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Operating Leases

The Company is obligated under the following leases for its various facilities.

On May 31, 2020, the Company rented space at 5400 Carillon Point, Kirkland, Washington 98033 for $623 per month for the Company's corporate office and use of space in the Regus network, including California. The Company's agreement expires May 31, 2021 and was extended to May 31, 2022.

On December 14, 2018, GrowLife, Inc. entered into a lease agreement with Pensco Trust Company for a 28,000 square feet industrial space at 10170 Croydon Way, Sacramento, California 95827 used for the assembly and sales of plastic parts by EZ-CLONE. The monthly lease payment is $17,500 and increases approximately 3% per year. The lease expires on December 31, 2023.

ITEM 3. LEGAL PROCEEDINGS

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

As of September 30, 2019, we closed retail stores in Portland, Maine, Encino, California and Calgary, Canada. We have recorded restructuring reserves related to the store closures. We cannot determine the outcome of these proceedings but we do not believe they will have a material impact on our future operations.

On October 15, 2018, we closed the Purchase and Sale Agreement with EZ-CLONE Enterprises, Inc., a California corporation (the "Agreement"). On November 5, 2019, the Company amended the Agreement with one 24.5% shareholder of EZ-CLONE Enterprises, Inc. ("EZ-CLONE"), to extend the date to purchase the remaining 49% of stock of EZ-CLONE in exchange for a 20% extension fee (a total of $171,000 for the 49% or $85,500 for each 24.5% shareholder) of the $855,000 cash payable at the earlier of the closing of $2,000,000 in funding or nine months (July 2020). We did not close the purchase of the remaining 49% of stock of EZ-CLONE by the extended deadline.

On September 15, 2020, we received notice that William Blackburn and Brad Mickelsen, minority shareholders of EZ-CLONE Enterprises, Inc. ("Plaintiffs"), a majority owned subsidiary of the Company, filed a complaint against the Company and its officers Marco Hegyi and Mark Scott ("Officers"), in the Superior Court of California, County of Sacramento ("Complaint") for claims related to breach under the Purchase and Sale Agreement dated October 15, 2018 between the Company and Plaintiffs. On September 15, 2020, the Company filed a notice of removal with the California Superior Court, County of Sacramento and the United States District Court for the Eastern District of California. The case was removed to Federal District Court for the Eastern District of California and Plaintiffs filed an Ex Parte Application for TRO and an Order for Preliminary Injunction with the Federal Court. The TRO was granted on September 16, 2020 and a preliminary injunction hearing was scheduled for September 29, 2020. After reviewing all pleadings and oral arguments at the hearing, the Court issued a ruling granting Plaintiffs' request for a preliminary injunction. Subsequent to September 29, 2020, the parties are providing legal briefs to the Federal court to determine if rescission should be granted. We cannot determine the outcome of these proceedings.

The Complaint also alleges that the Company and its Officers made certain false representations and other claims to consummate the Transaction and as a result has failed to complete the second closing as required under Purchase and Sale Agreement. As of December 4, 2020, our officers were dismissed from the case. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief.

As of December 31, 2020, we recorded a liability of $2,131,000 for acquisition payable of which a $1,105,000 is payable in stock and $1,026,000 is payable in cash.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General

The following description of our capital stock and provisions of our articles of incorporation and bylaws are summaries and are qualified by reference to our articles of incorporation and the bylaws. We have filed copies of these documents with the SEC as exhibits to our Form 10-K.

Authorized Capital Stock

On October 9, 2019, we approved the reduction of authorized capital stock, whereby the total number of our authorized common stock decreased from 6,000,000,000 by a ratio of 1 for 50, to 120,000,000 shares. On November 20, 2019, we filed a Certificate of Amendment of Certificate of Incorporation with the Secretary of State of the State of Delaware. As a result of the reduction, we have an aggregate 130,000,000 authorized shares consisting of: (i) 120,000,000 shares of common stock, par value $0.0001 per share, and (ii) 10,000,000 shares of preferred stock, par value $0.0001 per share.

The 1 for 150 reverse stock split was effective at the open of business on November 27, 2019 whereupon the shares of common stock began trading on a split-adjusted basis under the new CUSIP, 39985X203.

Capital Stock Issued and Outstanding

As of December 31, 2020, we have issued and outstanding securities on a fully diluted basis, consisting of:

● 51,843,221 shares of common stock;
● Stock option grants for the purchase of 506,667 shares of common stock at average exercise price of $1.496 per share; ● Warrants to purchase an aggregate of 3,451,737 shares of common stock with expiration dates between November 2021 and October 2028 at an average exercise price of $2.464 per share; and
● An unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing and warrant agreements. In addition, we have an unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing agreements and warrants because the number of shares ultimately issued to Chicago Venture depends on the price at which Chicago Venture converts its debt to shares and exercises its warrants. The lower the conversion or exercise prices, the more shares that will be issued to Chicago Venture upon the conversion of debt to shares. We will not know the exact number of shares of stock issued to Chicago Venture until the debt is actually converted to equity. On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021, with St. George to resolve a matter related to a prior financing transaction whereby we agreed to issue 11,750,000 shares of our common stock to cancel a warrant related to a February 9, 2018 subscription agreement. On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021, with Iliad to resolve a matter related to a prior financing transaction whereby we agreed to issue 2,500,000 shares of our common stock to cancel a warrant related to a October 15, 2018 securities Purchase agreement.

Voting Common Stock

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. An election of directors by our stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election. On all other matters, the affirmative vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote is required for approval, unless otherwise provided in our articles of incorporation, bylaws or applicable law. Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors, subject to any preferential dividend rights of outstanding preferred stock.

In the event of our liquidation or dissolution, the holders of common stock are entitled to receive proportionately all assets available for distribution to stockholders after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to and may be adversely affected by the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Non-Voting Preferred Stock

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

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

Warrants to Purchase Common Stock

As of December 31, 2020, we had warrants to purchase an aggregate of 3,451,737 shares of common stock with expiration dates between November 2021 and October 2028 at an average exercise price of $2.464 per share, subject to adjustment. In addition, we have an unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing agreements and warrants because the number of shares ultimately issued to Chicago Venture depends on the price at which Chicago Venture converts its debt to shares and exercises its warrants. The lower the conversion or exercise prices, the more shares that will be issued to Chicago Venture upon the conversion of debt to shares. We will not know the exact number of shares of stock issued to Chicago Venture until the debt is actually converted to equity. On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021 with St. George whereby we agreed to issue 11,750,000 shares of our common stock to cancel a warrant related to a February 9, 2018 subscription agreement. On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021 with Iliad whereby we agreed to issue 2,500,000 shares of our common stock to cancel a warrant related to a October 15, 2018 securities Purchase agreement.

Options to Purchase Common Stock

We have 1,333,333 shares available for issuance under the First Amended and Restated 2017 Stock Incentive Plan. We have outstanding unexercised stock option grants totaling 506,667 shares at an average exercise price of $1.496 per share as of December 31, 2020. The Company filed registration statements on Form S-8 to register 1,333,333 shares of our common stock related to the 2017 Stock Incentive Plan and First Amended and Restated 2017 Stock Incentive Plan.

Dividend Policy

We have not previously paid any cash dividends on our common stock and do not anticipate or contemplate paying dividends on our common stock in the foreseeable future. We currently intend to use all of our available funds to develop our business. We can give no assurances that we will ever have excess funds available to pay dividends.

Change in Control Provisions

Our articles of incorporation and by-laws provide for a maximum of nine directors, and the size of the Board cannot be increased by more than three directors in any calendar year. There is no provision for classification or staggered terms for the members of the Board of Directors.

Our articles of incorporation also provide that except to the extent the provisions of Delaware General Corporation Law require a greater voting requirement, any action, including the amendment of the Company's articles or bylaws, the approval of a plan of merger or share exchange, the sale, lease, exchange or other disposition of all or substantially all of the Company's property other than in the usual and regular course of business, shall be authorized if approved by a simple majority of stockholders, and if a separate voting group is required or entitled to vote thereon, by a simple majority of all the votes entitled to be cast by that voting group.

Our bylaws provide that only the Chief Executive Officer or a majority of the Board of Directors may call a special meeting. The bylaws do not permit the stockholders of the Company to call a special meeting of the stockholders for any purpose.

Articles of Incorporation and Bylaws Provisions

Our articles of incorporation, as amended, and bylaws contain provisions that could have the effect of discouraging potential acquisition proposals or tender offers or delaying or preventing a change in control, including changes a stockholder might consider favorable. In particular, our articles of incorporation and bylaws among other things:

- permit our board of directors to alter our bylaws without stockholder approval; and
- provide that vacancies on our board of directors may be filled by a majority of directors in office, although less than a quorum.

Such provisions may have the effect of discouraging a third party from acquiring us, even if doing so would be beneficial to our stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by them, and to discourage some types of transactions that may involve an actual or threatened change in control of our company. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage some tactics that may be used in proxy fights. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of their terms.

However, these provisions could have the effect of discouraging others from making tender offers for our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

Market Price of and Dividends on Common Equity and Related Stockholder Matters

As of March 4, 2019, we began to trade on the OTC Pink Sheet stocks system because our bid price had closed below $0.01 for more than 30 consecutive calendar days. As of March 17, 2020, we commenced trading on the OTCQB Market ("OTCQB") after successfully up-listing from the OTC Pink Market.

The quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. Consequently, the information provided below may not be indicative of our common stock price under different conditions.

Period Ended	High		Low	
Year Ending December 31, 2021				
Through April 13, 2021	$	0.179	$	0.155
March 31, 2021	$	0.570	$	0.106
Year Ending December 31, 2020				
December 31, 2020	$	0.490	$	0.140
September 30, 2020	$	0.269	$	0.107
June 30, 2020	$	0.280	$	0.152
March 31, 2020	$	0.490	$	0.150
Year Ending December 31, 2019				
December 31, 2019	$	1.229	$	0.315
September 30, 2019	$	1.110	$	0.495
June 30, 2019	$	1.260	$	0.825
March 31, 2019	$	1.710	$	1.050

As of April 13, 2021, the closing price of our common stock was $0.158 per share. As of April 13, 2021, there were 67,182,239 shares of common stock issued and outstanding. We have 145 stockholders of record. This number does not include over 101,000 beneficial owners whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

Transfer Agent

The transfer agent for our common stock is Direct Transfer, LLC, One Glenwood Avenue, Suite 1001, Raleigh, NC, 27603. Their telephone number is 919.744.2722.

Recent Sales of Unregistered Securities

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

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

During the three months ended December 31, 2020, we had the following sales of unregistered sales of equity securities.

Lenders converted principal and accrued interest of $851,299 into 11,047,231 shares of our common stock at a per share conversion price of $0.077.

Lenders were issued commitment shares of 1,890,000 related to financing agreements.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2020 related to the equity compensation plan in effect at that time.

	(a)	(b)	(c)
Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))**
Equity compensation plan approved by shareholders	506,667	$ 1.496	745,441
Equity compensation plans not approved by shareholders			
Total	506,667	$ 1.496	745,441

ITEM 6. SELECTED FINANCIAL DATA

In the following table, we provide you with our selected consolidated historical financial and other data. We have prepared the consolidated selected financial information using our consolidated financial statements for the years ended December 31, 2020 and 2019. When you read this selected consolidated historical financial and other data, it is important that you read along with it the historical financial statements and related notes in our consolidated financial statements included in this report, as well as Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Years Ended December 31,				
	2020	2019	2018	2017	2016
STATEMENT OF OPERATIONS DATA:					
Net revenue	$ 7,001	$ 8,218	$ 4,573	$ 2,452	$ 1,231
Cost of goods sold	4,021	5,669	4,105	2,181	1,276
Gross profit	2,980	2,549	468	271	(45)
General and administrative expenses	4,870	7,566	5,017	2,320	2,764
Operating (loss)	(1,890)	(5,017)	(4,549)	(2,049)	(2,809)
Other expense	(4,258)	(2,475)	(6,924)	(3,272)	(4,886)
Net loss before taxes	$ (6,148)	$ (7,492)	$ (11,473)	$ (5,321)	$ (7,695)
Net loss	$ (6,380)	$ (7,374)	$ (11,473)	$ (5,321)	$ (7,695)
Net loss per share	$ (0.18)	$ (0.29)	$ (0.58)	$ (0.39)	$ (0.96)
Weighted average number of shares	35,286,804	25,145,036	19,858,753	13,630,143	7,983,773

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GrowLife persevered through the impact of the COVID-19 pandemic in 2020 as the Cannabis industry was classified an essential business by 36 States where it is medicinally legal and 16 States where it is completely legal. Our GrowLife team worked remotely where it could reach out to customers and channels to facilitate sales. Overall market studies reported 35% industry growth in 2020 in spite of COVID-19. However, our revenue declined 15%; the first declining year since 2016. Our revenue reduction of approximately $1.2 million was the result of a $2.9 million reduction in our hydroponics segments partially offset by a $1.7 million increase at EZ-CLONE Enterprises. Like the prior year’s 78% revenue growth, we had expected another revenue growth year in 2020, despite winding down our hydroponics segment. Unfortunately, we experienced continuing supply chain problems with our manufacturing subsidiary wherein they could not keep up with the GrowLife sales orders, resulting in limitation of our fourth quarter EZ-CLONE revenue to $2 million as a result of the backlog. On the positive side, annual gross margins rose from 31.0% to 42.5% year over year and general and administrative expenses were significantly reduced from $7 million to $4.9 million. These aggregated expenses were in spite of our expansion plans and spending into the clone market, which our cloning manufacturer was part of, and we had announced in 2019.

Also previously reported, we did not close the purchase of the remaining 49% of stock of EZ-CLONE that was due on July 15, 2020 and the founders of EZ-CLONE entered into litigation against the Company. Each of our 2020 10-Q filings revealed increasing quarter over quarter backlogs of EZ-CLONE product delivery in response to sales pointing to the manufacturer’s inability to keep up with GrowLife’s increasing sales and customer demand. In the first quarter it was $400,000 of sales backlog that was deferred into the second quarter; in the second quarter we could not recognize $1 million of GrowLife sales because EZ-CLONE supply chain and backlog issues; and finally in the third quarter, only $1.4 million of revenue was recognized and another $2 million of GrowLife sales was backlogged into the 4th quarter because of supply chain and shipment problems. Based on the backlogged orders, we estimate we were unable to recognize the approximately $2 million in revenue.

As we pointed out in the third quarter 10-Q, we recognized the saturation issue in the Hemp CBD market and postponed our entry into the clone/starter business until 2021 which has not subsided. However, as we look at the Cannabis industry, we can make three observations from early 2021: First, the MORE Act passed the U.S. House of Representatives on December 4, 2020, a landmark step toward the federal legalization of Cannabis that can permit interstate commerce and true US companies to touch the plant and trade on the stock exchange; Second, Senate Majority Leader Schumer announced in early April that he will move the legalization bill forward in the US Senate and seek support with the White House to obtain federal legalization; Finally, GrowLife retains its 51% assets in EZ-CLONE, investors are aligned and financially support GrowLife to settle with EZ-CLONE as well as expand in new markets, and our management depth remains in place to grow as opportunities are identified.

Therefore, we see a growing market, intend to service our customers and will continue to seek opportunities in the legal Cannabis industry. We believe this is a great opportunity for our customers, shareholders and one where GrowLife is uniquely positioned to capitalize on. The Company's goal is to become the nation's largest cultivation facility service provider focused on propagation systems serving more cultivators with products of high quality, exceptional value and competitive price.

RESULTS OF OPERATIONS

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

(dollars in thousands)

	Years Ended December 31,			
	2020	**2019**	**$ Variance**	**% Variance**
Net revenue	$ 7,001	$ 8,218	$ (1,217)	-14.8%
Cost of goods sold	4,021	5,669	1,648	29.1%
Gross profit	2,980	2,549	431	16.9%
General and administrative expenses	4,870	7,010	(2,140)	30.5%
Restructuring expense- flooring division	—	306	(306)	100.0%
Restructuring expense- retail stores and online sales	—	250	(250)	100.0%
Operating loss	(1,890)	(5,017)	3,127	62.3%
Other income (expense):				
Change in fair value of derivative	199	496	(297)	-59.9%
Interest expense, net	(1,090)	(1,204)	114	9.5%
Loss on debt conversions	(984)	(1,767)	783	44.3%
Gain on extinguishment of debt	39	—	39	100.0%
Loss on debt settlement	(2,422)	—	(2,422)	-100.0%
Total other expense, net	(4,258)	(2,475)	(1,783)	-72.0%
Loss before income taxes	(6,148)	(7,492)	1,344	17.9%
Income taxes - current (provision) benefit	(232)	118	(350)	-100.0%
Net loss	$ (6,380)	$ (7,374)	$ 994	13.5%

YEAR ENDED DECEMBER 31, 2020 COMPARED TO THE YEAR ENDED DECEMBER 31, 2019

Net revenue for the year ended December 31, 2020 decreased by $1,217,000 to $7,001,000 from $8,218,000 for the year ended December 31, 2019. The decrease resulted from lower hydroponic sales from the decision during 2020 to exit the hydroponics business and the elimination of the hydroponics sales personnel and the impact of the pandemic on the hydroponics segment during the year ended December 31, 2020. The hydroponics revenue for the year ended December 31, 2020 was $1,568,000 as compared to $4,487,000 for the year ended December 31, 2019. The EZ-CLONE revenue from its line of products for the year ended December 31, 2020 was $5,433,000 as compared to $3,731,000 for the year ended December 31, 2019. The increased performance of EZ-CLONE revenue is a direct result of the substantial money and resources Growlife provides to its EZ-Clone subsidiary.

Cost of Goods Sold

Cost of sales for the year ended December 31, 2020 decreased by $1,648,000 to $4,021,000 from $5,669,000 for the year ended December 31, 2019. The decrease resulted from lower sales in the hydroponics segment, offset by increased EZ-CLONE sales. as discussed above.

Gross profit was $2,980,000 for the year ended December 31, 2020 as compared to a gross profit of $2,549,000 for the year ended December 31, 2019. The gross profit percentage was 42.6% for the year ended December 31, 2020 as compared to 31.0% for the year ended December 31, 2019. The increase was due to lower sales in the hydroponics segment, offset by increased EZ-CLONE sales. as discussed above. EZ-CLONE reported a gross profit percentage of 49.1%.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2020 were $4,870,000 as compared to $7,010,000 for the year ended December 31, 2019. The variances were as follows: (i) an increase in EZ-CLONE expenses (primarily payroll and rent) of $120,000; and offset by (ii) a decrease in corporate salaries and payroll taxes of $458,000; (iii) a decrease in sales and marketing expenses of $96,000; (iv) a decrease in rent of $228,000; (v) a decrease in insurance of $181,000; (vi) a decrease in stock based compensation of

$238,000; and (vi) a decrease in non-cash expenses of $1,108,000, offset by an increase in other expenses of $49,000. As part of the general and administrative expenses for the years ended December 31, 2020 and 2019, we recorded public relation, investor relation or business development expenses of $2,000 and $90,000, respectively. he overall decrease in general and administrative expenses resulted from reduced expenses in the hydroponics segment.

Non-cash general and administrative expenses for the year ended December 31, 2020 of $846,000 including (i) depreciation of $37,000; (ii) amortization of intangible assets of $672,000; (iii) stock based compensation of $125,000 related to stock option grants and warrants; and (iv) common stock issued for services of $12,000.

Non-cash general and administrative expenses for the year ended December 31, 2019 of $1,398,000 including (i) depreciation of $89,000; (ii) amortization of intangible assets of $838,000; (iii) stock based compensation of $158,000 related to stock option grants and warrants; and (iv) common stock issued for services of $312,000.

Restructuring Expense

We closed retail stores in Portland, Maine, Encino, California and Calgary, Canada and online sales as of September 30, 2019. Also, we closed the sale of the flooring division located in Grand Prairie, Texas. We reduced our losses and cash costs by up to $100,000 per month starting October 1, 2019. During the year ended December 31, 2019, we recorded restructuring expense of $306,000 for the sale of the flooring division and $250,000 for the closure of the retail stores and online sales. The winding down of our hydroponics business in 2020 resulted in no material expenses or write off of assets.

Other Expense

Other expense for the year ended December 31, 2020 was $4,258,000 as compared to $2,475,000 for the year ended December 31, 2019. The other expense for the year ended December 31, 2020 included (i) benefit from the reduction in derivative liability of $199,000; (ii) gain on extinguishment of debt of $39,000 related to prior shutdown of retail operations; and offset by (iii) interest expense of $1,090,000; (iv) loss on debt conversions of $984,000; and (v) loss on debt settlement of $2,423,000. The change in derivative liability is the non-cash change in the fair value and relates to our derivative instruments. The increase in non-cash interest related to accrued interest expense on our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price.

On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021 with St. George to resolve a dispute from prior financings whereby we agreed to issue 11,750,000 shares of our common stock to cancel a warrant related to a February 9, 2018 subscription agreement. On April 5, 2021, we entered into a Warrant Settlement Agreement dated March 31, 2021 with Iliad to resolve a dispute from prior financings whereby we agreed to issue 2,500,000 shares of our common stock to cancel a warrant related to a October 15, 2018 securities Purchase agreement. We recorded a loss on debt settlement of $2,423,000 as of December 31, 2020.

The other expense for the year ended December 31, 2019 included (i) benefit from the reduction in derivative liability of $496,000; offset by (ii) interest expense of $1,204,000; and (iii) loss on debt conversions of $1,776,000. The change in derivative liability is the non-cash change in the fair value and relates to our derivative instruments. The non-cash interest related to accrued interest expense on our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price.

Net Loss

Net loss for the year ended December 31, 2020 was $6.380.000 as compared to $7,374,000 for the for the year ended December 31, 2019 for the reasons discussed above. The Company's shares of the 2020 and 2019 net loss was $6,380,000 and $7,285,000 after allocating a portion of 2019 loss to non-controlling interest.

Net loss for the year ended December 31, 2020 included non-cash expenses of $5,076,000 including (i) depreciation of $37,000; (ii) amortization of intangible assets of $672,000; (vi) stock based compensation of $125,000 related to stock option grants and warrants; (iii) common stock issued for services of $12,000; (iv) accrued interest and amortization of issuance costs on convertible notes payable of $1,061,000; (v) loss on debt conversions of $945,000; (vi) loss on debt settlement of $2,423,000; and offset by (vii) change in derivative liability of $199,000.

Net loss for the year ended December 31, 2019 included non-cash expenses of $4,160,000 including (iii) depreciation of $89,000; (iv) restructuring reserve- retail stores, on line sales and flooring division of $556,000; (v) amortization of intangible assets of $838,000; (vi) stock based compensation of $158,000 related to stock option grants and warrants; (vii) common stock issued for services of $313,000; (viii) non cash interest and amortization of debt discount of $,933,000; (ix) loss on debt conversions of $1,767,000; and offset by (xi) benefit from the reduction in derivative liability of $(494,000).

We expect losses to continue as we implement our business plan.

LIQUIDITY AND CAPITAL RESOURCES

Financial Accounting Standards Board's ("FASB") Accounting Standard Codification ("ASC") Topic 205-40, Presentation of Financial Statements – Going Concern, requires that management evaluate whether there are relevant conditions and events that, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern and to meet its obligations as they become due within one year after the date that the financial statements are issued.

The accompanying financial statements have been prepared assuming that we will continue as a going concern. However, since inception, we have sustained significant operating losses and such losses are expected to continue for the foreseeable future. As of December 31, 2020, we had an accumulated deficit of $154.8 million, cash and cash equivalents of $383,000 and a working capital deficit of $5.974 million excluding derivative liability, convertible debt, right of use liability and deferred revenue). Additionally, we used cash in operating activities of $1,951,000 and $2,910,000 for the years ended December 31, 2020 and 2019, respectively. We will require additional cash funding to fund operations beyond May 31, 2021. Accordingly, management has concluded that we do not have sufficient funds to support operations within one year after the date the financial statements are issued and, therefore, we concluded there was substantial doubt about the Company's ability to continue as a going concern.

To fund further operations, we will need to raise additional capital. We may obtain additional financing in the future through the issuance of its common stock, or through other equity or debt financings. Our ability to continue as a going concern or meet the minimum liquidity requirements in the future is dependent on its ability to raise significant additional capital, of which there can be no assurance. If the necessary financing is not obtained or achieved, we will likely be required to reduce its planned expenditures, which could have an adverse impact on the results of operations, financial condition and our ability to achieve its strategic objective. There can be no assurance that financing will be available on acceptable terms, or at all. The financial statements contain no adjustments for the outcome of these uncertainties. These factors raise substantial doubt about our ability to continue as a going concern and have a material adverse effect on our future financial results, financial position and cash flows.

Amendment No. 3 Securities Purchase Agreement and Self-Amortization Promissory Note with Labrys Fund, L.P, a Delaware limited partnership ("Labrys")

On December 31, 2020, we entered into Amendment No. 3 to the Self-Amortization Promissory Note ("Amendment No. 3") as originally issued by the Company to Labrys on August 31, 2020 (the "Note"), as described in Form 8-K filed October 15, 2020, and as amended by Amendment No. 2, as described in Form 8-K filed December 8, 2020, incorporated herein by reference. Pursuant to Amendment No. 3 the Company issued 340,000 restricted shares of our common stock (the "Amendment Shares") to the Holder on or before December 31, 2020 and issued a common stock purchase warrant for the purchase of 1,033,057 shares of our common stock (the "Warrant") to the Holder on December 31, 2020. In exchange for the Warrant and Amendment Shares, the outstanding payment of $125,000 owed on or before December 31, 2020 (as described in Amendment No. 2) ("Outstanding Payment"), was amended as follows: In lieu of our payment of the Outstanding Payment to the Holder, the payment schedule in Section 4.17 of the Note shall be amended as follows: (i) all references to "$51,042" in Section 4.17 of the Note shall be replaced with "$61,458" and (ii) the reference to "$51,042" in Section 4.17 of the Note shall be replaced with "$61,458." This loan was paid off in March 2021 from proceeds received from Bucktown Capital LLC as described below.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement with Bucktown Capital, LLC

On February 26, 2021, we executed the following agreements with Bucktown: (i) Securities Purchase Agreement; (ii) Secured Convertible Promissory Note; and (iii) Security Agreement (collectively the "Bucktown Agreements"). We entered into the Bucktown Agreements with the intent to acquire working capital to grow the Company's businesses and to repay all outstanding obligations owed to: (i) Labrys Fund, L.P. ("Labrys") in the amount of $615,333; and (ii) PowerUp Lending Group Ltd. ("PowerUp") in the amount of $128,858.

The total amount of funding under the Bucktown Agreements is $3,088,000 as represented in the Secured Convertible Promissory Note ("Note"). The total purchase price for this Note is $2,850,000; the Note carries an aggregate original issue discount of $228,000 and a transaction expense amount of $10,000. The Note is comprised of two (2) tranches (each, a "Tranche"), consisting of (i) an initial Tranche in an amount equal to $928,000 and any interest, costs, fees or charges accrued thereon or added thereto under the terms of the Note and the Bucktown Agreements (the "Initial Tranche"), and (ii) an additional Tranche, which is exclusively dedicated for the purchase of the remaining equity interest in EZ-CLONE, in the amount of $2,160,000.00, plus any interest, costs, fees or charges accrued thereon or added thereto under the terms of the Note and the Bucktown Agreements (the "Subsequent Tranche"). The Initial Tranche shall correspond to $68,000 of the OID and the Transaction Expense Amount, and may be converted into shares of Common Stock at any time subsequent to the Purchase Price Date. The Subsequent Tranche corresponds to the Investor Note and $160,000 of the aggregate OID.

The Company agreed to reserve three times the number of shares based on the redemption value with a minimum of 23,340,000 shares of its common stock for issuance upon conversion of the Note, if that occurs in the future. If not converted sooner, the Note is due on or before February 26, 2022. The Note has an interest rate of eight percent (8%). The Note is convertible, at Bucktown's option, into the Company's common stock at $0.30 per share ("Lender Conversion Price"), subject to adjustment as provided for in the Note. However, in the event the Market Capitalization (as defined in the Note) falls below the Minimum Market Capitalization the Lender Conversion Price shall equal the lower of the Lender Conversion Price and the Market Price as of any applicable date of Conversion.

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

Securities Purchase Agreement and Self-Amortization Promissory Note with EMA Financial LLC, a Delaware limited liability company ("EMA")

On October 2, 2020, we executed the following agreements with EMA: (i) Securities Purchase Agreement; and (ii) Self-Amortization Promissory Note ("Note"); (collectively the "EMA Agreements"). The Company entered into the EMA Agreements with the intent to acquire working capital to grow the Company's businesses and complete the EZ-CLONE Enterprises, Inc. acquisition.

The total amount of funding under the EMA Agreements is $183,455. The Notes carry an original issue discount of $21,100, a transaction expense amount of $6,500, and a fee to J. H. Darbie & Co. of $21,150, for total debt of $221,000 ("Debt"). The Note has an amortization schedule of $19,550 on January 2, 2021 and monthly from February 2021 through January 2022. We issued commitment shares of 550,000 shares related to the EMA Agreements. We agreed to reserve 1,486,258 shares of its common stock for issuance if any Debt is converted. The Debt is due on or before January 2, 2022. The Debt carries an interest rate of twelve percent (12%). In the case of default, the debt is convertible into our common stock at the closing price the day before the conversion, subject to adjustment as provided for in the Note.

Securities Purchase Agreement and Self-Amortization Promissory Note with FirstFire Global Opportunities Fund, LLC, a Delaware limited liability company ("FF")

On October 2, 2020, we executed the following agreements with FF: (i) Securities Purchase Agreement; and (ii) Self-Amortization Promissory Note ("Note"); (collectively the "FF Agreements"). The Company entered into the FF Agreements with the intent to acquire reduce debt.

The total amount of funding under the FF Agreements is $130,000. The Notes carry an original issue discount of $14,952, a transaction expense amount of $4,600, and a fee to J. H. Darbie & Co. of $7,050, for total debt of $156,602 ("Debt"). The Note has an amortization schedule of $13,853 on January 11, 2021 and monthly from February 2021 through January 2022. We issued commitment shares of 450,000 shares related to the FF Agreements. We agreed to reserve 1,486,258 shares of its common stock for issuance if any Debt is converted. The Debt is due on or before January 12, 2022. The Debt carries an interest rate of twelve percent (12%). In the case of default, the debt is convertible into our common stock at the closing price the day before the conversion, subject to adjustment as provided for in the Note.

Operating Activities

Net cash used in operating activities for the year ended December 31, 2020 was $1,951,000. This amount was primarily related to a (i) net loss of $6,380,000, and (ii) net working capital increase of $647,000; offset by (iii) non-cash expenses of $5,076,000 including (iv) depreciation of $37,000; (v) amortization of intangible assets of $672,000; (vi) stock based compensation of $125,000 related to stock option grants and warrants; (vii) common stock issued for services of $12,000; (viii) accrued interest and amortization of issuance costs on convertible notes payable of $1,061,000; (ix) loss on debt conversions of $945,000; (x) loss on debt settlement of $2,423,000; and offset by (xi) change in derivative liability of $199,000.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2020 was $2,293,000. The amount related to proceeds from note payable of $2,724,000, offset by repayment of convertible notes payable of $431,000.

Our contractual cash obligations as of December 31, 2020 are summarized in the table below:

Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years
Operating lease cash payments	$ 635,244	$ 213,115	$ 422,129	$ —
Convertible notes payable and accrued interest	2,495,153	2,495,153	—	—
Notes payable	924,858	439,179	485,679	—
Acquisition of 49% of EZ-CLONE Enterprises, Inc.	1,026,000	1,026,000	—	—
	$ 5,081,254	$ 4,173,446	$ 907,808	$ —

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The application of GAAP involves the exercise of varying degrees of judgment. On an ongoing basis, we evaluate our estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that of our significant accounting policies (see summary of significant accounting policies more fully described in Note 3 to Form 10-K for the year ended December 31, 2020), the following policies involve a higher degree of judgment and/or complexity:

Accounts Receivable and Revenue – We recognize revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which requires the application of the five-step-principles-based-accounting-model for revenue recognition. These steps include (1) a legally enforceable contract, written or unwritten is identified; (2) performance obligations in the contracts are identified; (3) the transaction price reflecting variable consideration, if any, is identified; (4) the transaction price is allocated to the performance obligations; and (5) revenue is recognized when the control of goods is transferred to the customer at a particular time or over time. Our hydroponic sales were cash or credit card. Our EZ-CLONE sales include credit cash, payments in advance, 3% discount upon receipt and, we extend thirty day terms to select customers. Accounts receivable are reviewed periodically for collectability. As of December 31, 2020 and 2019, the Company has an allowance for doubtful accounts totaling $5,690.

Inventories - Inventories are recorded on a first in first out basis Inventory consists of raw materials, work in process and finished goods and components sold by EZ-CLONE to it distribution customers. Inventory is valued at the lower of cost or market. The reserve for inventory was approximately $51,000 and $0 as of December 31, 2020 and 2019, respectively.

Fair Value Measurements and Financial Instruments – ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than level one inputs that are either directly or indirectly observable; and.

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

The recorded value of other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, and accounts payable and accrued expenses approximate the fair value of the respective assets and liabilities as of December 31, 2020 and 2019 are based upon the short-term nature of the assets and liabilities.

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

Stock Based Compensation – We have share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, as well as options to purchase shares of our common stock at the fair market value at the time of grant. Stock-based compensation cost is measured by us at the grant date, based on the fair value of the award, over the requisite service period using an estimated forfeiture rate. For options issued to employees, we recognize stock compensation costs utilizing the fair value methodology over the related period of benefit. Grants of stock options and stock to non-employees and other parties are accounted for in accordance with the ASC 718.

Convertible Securities – Based upon ASC 815-15, we have adopted a sequencing approach regarding the application of ASC 815-40 to convertible securities issued subsequent to December 31, 2015. We will evaluate our contracts based upon the earliest issuance date.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item. Nevertheless, we have no investments in any market risk sensitive instruments either held for trading purposes or entered into for other than trading purposes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to our consolidated financial statements beginning on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive and principal financial officers concluded as of December 31, 2020, that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately below.

Identified Material Weaknesses

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

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

Audit Committee:

The current Audit Committee has two independent directors, but the Chairman is an interim Named Executive Officer. In early January 2021 and additional independent director resigned from the board and audit committee. We expect to expand this committee during 2021.

Contractual Terms and Obligations

In prior years, the Company entered into various financing agreements involving stock purchase agreements, notes and warrants. The terms of these legal instruments contain complex legal terms, conditions and calculations. The Company recently resolved a dispute over the terms and conditions of two warrant agreements and entered into a settlement agreement resulting in the recording of a material expense. Managements understanding of certain terms and conditions of the warrant agreements was not adequate to insure proper accounting and disclosure of the warrant terms.

b) Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2020, our CFO Mark Scott resigned and Michael Fasci was appointed CFO. Mr. Scott may provide consulting services to the Company to help with the CFO transition. The Company has a small accounting and finance team and the consulting services of Mr. Scott will be an important element of internal control during this transition. There were no other changes which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There were no disclosures of any information required to be filed on Form 8-K during the year ended December 31, 2020 that were not filed.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table sets forth certain information about our current directors and executive officers as of March 31, 2021:

Name	Age	Positions and Offices Held	Since
Management Directors			
Marco Hegyi	63	Director Chairman of the Board Chief Executive Officer President Nominations and Governance Committee Chairman Interim Audit Committee Chairman	December 9, 2013 April 1, 2016- October 23, 2017 and December 6, 2018 April 1, 2016 December 4, 2013 June 3, 2014- October 23, 2017 December 6, 2018
Michael E. Fasci	62	Chief Financial Officer Secretary Director	January 1, 2021 January 12, 2021 January 5, 2021
Independent Directors			
Thom Kozik	60	Director	October 5, 2017
Other Named Executives			
Joseph Barnes	48	Executive Vice President of GrowLife Hydroponics, Inc. Senior Vice President of Business Development	August 16, 2017 October 10, 2014

All directors hold office until their successors are duly appointed or until their earlier resignation or removal.

Business Experience Descriptions

Set forth below is certain biographical information regarding each of our executive officers and directors.

Marco Hegyi – Mr. Hegyi joined GrowLife as its President and a Member of its Board of Directors on December 9, 2013 and was appointed as Chairman of the Nominations and Governance Committee and a member of the Compensation Committee on June 3, 2014. Mr. Hegyi was appointed as CEO and Chairman of GrowLife effective on April 1, 2016. On October 23, 2017, Mr. Hegyi was appointed as Chairman of GrowLife, Chairman of the Nominations and Governance Committee or a member of the Compensation Committee. Effective December 6, 2018, Mr. Hegyi serves as Chairman of the Board, a Member of the Board of Directors, Chief Executive Officer, President, Interim Audit Committee Chairman and as a Member of the Compensation and Nominations and Governance Committees.

Mr. Hegyi served as an independent director of Know Labs, Inc., fka Visualant, Inc. from February 14, 2008 and as Chairman of the Board from May 2011 and served at the Chairman of the Audit and Compensation committees until his departure on February 2015. Mr. Hegyi was a principal with the Chasm Group from 2006 to January 2014, where he provided business consulting services. As a management consultant, Mr. Hegyi applied his extensive technology industry experience to help early-stage companies and has been issued 10 US patents.

Prior to working as a consultant in 2006, Mr. Hegyi served as Senior Director of Global Product Management at Yahoo! Prior to Yahoo!, Mr. Hegyi was at Microsoft from 2001 to 2006 leading program management for Microsoft Windows and Office beta releases aimed at software developers. While at Microsoft, he formed new software-as-a-service concepts and created operating programs to extend the depth and breadth of the company's unparalleled developer eco-system, including managing offshore, outsource teams in China and India, and being the named inventor of a filed Microsoft patent for a business process in service delivery.

During Mr. Hegyi's career, he has served as President and CEO of private and public companies, Chairman and director of boards, finance, compensation and audit committee chair, chief operating officer, vice-president of sales and marketing, senior director of product management, and he began his career as a systems software engineer.

Mr. Hegyi earned a Bachelor of Science degree in Information and Computer Sciences from the University of California, Irvine, and has completed advanced studies in innovation marketing, advanced management, and strategy at Harvard Business School, Stanford University, UCLA Anderson Graduate School of Management, and MIT Sloan School of Management.

Mr. Hegyi's prior experience as Chairman and Chief Executive Officer of public companies, combined with his advanced studies in business management and strategy, were the primary factors in the decision to add Mr. Hegyi to the Company's Board of Directors.

Michael E. Fasci – Mr. Fasci joined GrowLife as a Member of its Board of Directors on October 27, 2015 and was appointed Audit Committee Chairman on November 11, 2015. On April 1, 2016, Mr. Fasci was appointed as the Secretary of the Company, but resigned on February 14, 2017. On October 23, 2017, Mr. Fasci was appointed Chairman of the Board. In December 2018, Mr. Fasci resigned from the Board of Directors. Mr. Fasci was appointed Chief Financial Officer on January 1, 2021. On January 5, 2021 Mr. Fasci was appointed to the Company's Board of Directors as well as to the Company's Compensation Committee. On January 12, 2021 Mr. Fasci was appointed Secretary of the Company.

Mr. Fasci is a 30-year veteran in the finance sector having served as an officer and director of many public and private companies. From 2013 to 2017, Mr. Fasci owns and operated Process Engineering Services, Inc., an engineering consulting company as well as worked as a financial consultant for TCA Global Fund, a Mutual Fund located in Aventura, Florida. Mr. Fasci is a seasoned operator across various industries and has served in both CEO and CFO capacities for both growth and turnaround situations. Mr. Fasci began his career as a field engineer and then manager of various remediation filtration and environmental monitoring projects globally before focusing his efforts on the daily operations, accounting and financial reporting and SEC compliance of the numerous companies he has served. Mr. Fasci resides in East Taunton, Massachusetts and studied Electrical Engineering at Northeastern University.

Mr. Fasci was appointed to the Board of Directors based on his financial, SEC and governance skills.

Thom Kozik- Thom Kozik joined GrowLife as a Member of its Board of Directors on October 5, 2017 and was appointed a member of the Audit Committee on October 23, 2017. Mr. Kozik was appointed to the Nominations & Governance and Compensation Committees and serves on the Audit Committee as of December 6, 2018. From 2013 through 2014, Mr. Kozik served as Chief Operating Office of Omnia Media in Los Angeles, a leading YouTube Multichannel Network delivering over 1 billion monthly video views, and almost 70 million global Millennial subscribers. Thom assisted the company's CEO/founder in building the team, refining product strategy, and securing additional funding. In December 2014, Mr. Kozik took on the role of VP, Global Marketing/Loyalty for Marriott International, having been recruited to fundamentally transform the hospitality industry's longest-running loyalty program. Thom also led the merging of two of the industry's most powerful programs with Marriott's acquisition of Starwood Hotels & Resorts in 2016. From March 1, 2018 to January 2020, Mr. Kozik served as Chief Commercial Officer of Loyyal Corporation, a technology firm providing services to enterprise clients in the Travel & Hospitality sector. In his decades of experience with corporations such as Marriott International, Microsoft, Yahoo, and Atari, along with several startups, he has held executive roles in marketing, business development, and product development. Over the past decade Kozik's core focus has been the behavioral economics of online consumers and communities, and methods to maximize their lifetime value, and leveraging technology to reduce acquisition costs while increasing retention.

Mr. Kozik was appointed to the Board of Directors based on his marketing and product brand skills.

Joseph Barnes- Mr. Barnes was appointed President of GrowLife Hydroponics, Inc. on August 16, 2017 and was appointed Senior Vice President of Business Development for GrowLife, Inc. on October 10, 2014. Mr. Barnes joined GrowLife in 2010 and is responsible for all GrowLife Hydroponics operations.

Mr. Barnes made the progressive and entrepreneurial decision to work with GrowLife after seeing the agricultural benefits of indoor growing. He is deeply passionate about clean and sustainable grows and has deep relationships with many trusted cultivators. He holds extensive knowledge of indoor growing methods with concentrating on maximizing the yields for clean and healthy crops.

Certain Significant Employees

There are no significant employees required to be disclosed under Item 401(c) of Regulation S-K.

Family Relationships

There are no family relationships among our directors and executive officers.

Involvement in Certain Legal Proceedings

None of our current directors or executive officers has, to the best of our knowledge, during the past ten years:

● Had any petition under the federal bankruptcy laws or any state insolvency law filed by or against, or had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time hereof, or any corporation or business association of which he was an executive officer at or within two years before the time hereof;

● Been convicted in a criminal proceeding or a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

● Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:

● Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;

● Engaging in any type of business practice; or

● Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;

● Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any federal or state authority barring, suspending, or otherwise limiting for more than 60 days the right of such person to engage in any activity described in (i) above, or to be associated with persons engaged in any such activity;

● Been found by a court of competent jurisdiction in a civil action or by the SEC to have violated any federal or state securities law, where the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated; or

● Been found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, where the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended, or vacated.

Committees of the Board of Directors

The Board has three standing committees to facilitate and assist the Board in the execution of its responsibilities. The committees are currently the Audit Committee, the Nominations and Governance Committee, and the Compensation Committee. The Committees were formed on June 3, 2014 by the current board of directors. The Audit Committee, Compensation and Nominations and Governance Committees each have one management directors and two independent directors. The table below shows current membership for each of the standing Board committees.

Audit	Compensation	Nominations and Governance
Marco Hegyi (Interim Chairman)	Thom Kozik (Chairman)	Marco Hegyi (Chairman)
Thom Kozik	Marco Hegyi	Thom Kozik
	Michael E. Fasci	

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our board of directors or our compensation committee.

Code of Conduct and Ethics

We have adopted conduct and ethics standards titled the code of ethics, which is available at www.growlifeinc.com. These standards were adopted by our board of directors to promote transparency and integrity. The standards apply to our board of directors, executives and employees. Waivers of the requirements of our code of ethics or associated polices with respect to members of our board of directors or executive officers are subject to approval of the full board.

Section 16(a) Beneficial Ownership Reporting Compliance

Our executive officers, directors and 10% stockholders are required under Section 16(a) of the Exchange Act to file reports of ownership and changes in ownership with the SEC. Copies of these reports must also be furnished to us.

Based solely on a review of copies of reports furnished to us, as of December 31, 2020 our executive officers, directors and 10% holders complied with all filing requirements except for the following:

Person	Filing Type	Transaction Date	Required File Date	Actual File Date
Thom Kozik	Form 4	8/26/2020	8/28/2020	3/24/2021

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

This Compensation Discussion and Analysis describes the material elements of compensation awarded to, earned by or paid to each of our executive officers named in the Compensation Table on page __ under "Remuneration of Executive Officers" (the "Named Executive Officers") who served during the year ended December 31, 2020. This compensation discussion primarily focuses on the information contained in the following tables and related footnotes and narrative for the last completed fiscal year. We also describe compensation actions taken after the last completed fiscal year to the extent that it enhances the understanding of our executive compensation disclosure. The principles and guidelines discussed herein would also apply to any additional executive officers that the Company may hire in the future.

The Compensation Committee of the Board has responsibility for overseeing, reviewing and approving executive compensation and benefit programs in accordance with the Compensation Committee's charter. The members of the Compensation Committee are Marco Hegyi and Thom Kozik.. We expect to appoint one independent Directors to serve on the Compensation Committee during 2021.

Compensation Philosophy and Objectives

The major compensation objectives for the Company's executive officers are as follows:

● to attract and retain highly qualified individuals capable of making significant contributions to our long-term success;

● to motivate and reward named executive officers whose knowledge, skills, and performance are critical to our success;

● to closely align the interests of our named executive officers and other key employees with those of its shareholders; and

● to utilize incentive-based compensation to reinforce performance objectives and reward superior performance.

Role of Chief Executive Officer in Compensation Decisions

The Board approves all compensation for the chief executive officer. The Compensation Committee makes recommendations on the compensation for the chief executive officer and approves all compensation decisions, including equity awards, for our executive officers. Our chief executive officer makes recommendations regarding the base salary and non-equity compensation of other executive officers that are approved by the Compensation Committee in its discretion.

Setting Executive Compensation

The Compensation Committee believes that compensation for the Company's executive officers must be managed to what we can afford and in a way that allows for us to meet our goals for overall performance. During 2020 and 2019, the Compensation Committee and the Board compensated its Chief Executive Officers, President and Chief Financial Officer at the salaries indicated in the compensation table. This compensation reflected our financial condition. The Compensation Committee does not use a peer group of publicly traded and privately held companies in structuring the compensation packages.

Executive Compensation Components for the Year Ended December 31, 2020

The Compensation Committee did not use a formula for allocating compensation among the elements of total compensation during the year that ended December 31, 2020. The Compensation Committee believes that in order to attract and retain highly effective people it must maintain a flexible compensation structure. For the year that ended December 31, 2020, the principal components of compensation for named executive officers were base salary.

Base Salary

Base salary is intended to ensure that our employees are fairly and equitably compensated. Generally, base salary is used to appropriately recognize and reward the experience and skills that employees bring to the Company and provides motivation for career development and enhancement. Base salary ensures that all employees continue to receive a basic level of compensation that reflects any acquired skills which are competently demonstrated and are consistently used at work.

Base salaries for the Company's named executive officers are initially established based on their prior experience, the scope of their responsibilities and the applicable competitive market compensation paid by other companies for similar positions. Our officers were compensated as described above based on the financial condition of the Company.

Performance-Based Incentive Compensation

The Compensation Committee believes incentive compensation reinforces performance objectives, rewards superior performance and is consistent with the enhancement of stockholder value. All of the Company's Named Executive Officers are eligible to receive performance-based incentive compensation. The Compensation Committee did not recommend or approve payment of any performance-based incentive compensation to the Named Executive Officers during the year ended December 31, 2020 based on our financial condition.

Ownership Guidelines

The Compensation Committee does not require our executive officers to hold a minimum number of our shares. However, to directly align the interests of executive officers with the interests of the stockholders, the Compensation Committee encourages each executive officer to maintain an ownership interest in the Company.

Stock Option Program

Stock options are an integral part of our executive compensation program. They are intended to encourage ownership and retention of the Company's common stock by named executive officers and employees, as well as non-employee members of the Board. Through stock options, the objective of aligning employees' long-term interest with those of stockholders may be met by providing employees with the opportunity to build a meaningful stake in the Company.

The Stock Option Program assists us by:

- enhancing the link between the creation of stockholder value and long-term executive incentive compensation;
- providing an opportunity for increased equity ownership by executive officers; and
- maintaining competitive levels of total compensation.

Stock option award levels are determined by the Compensation Committee and vary among participants' positions within the Company. Newly hired executive officers or promoted executive officers are generally awarded stock options, at the discretion of the Compensation Committee, at the next regularly scheduled Compensation Committee meeting on or following their hire or promotion date. In addition, such executives are eligible to receive additional stock options on a discretionary basis after performance criteria are achieved.

Options are awarded at the closing price of our common stock on the date of the grant or last trading day prior to the date of the grant. The Compensation Committee's policy is not to grant options with an exercise price that is less than the closing price of our common stock on the grant date.

Generally, the majority of the options granted by the Compensation Committee vest quarterly over two to three years of the 5-10-year option term. Vesting and exercise rights cease upon termination of employment and/or service, except in the case of death (subject to a one-year limitation), disability or retirement. Stock options vest immediately upon termination of employment without cause or an involuntary termination following a change of control. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents.

The Named Executive Officers received stock option grants and warrants during the year ended December 31, 2020 as outlined below.

Retirement and Other Benefits

We have no other retirement, savings, long-term stock award or other type of plans for the Named Executive Officers.

Perquisites and Other Personal Benefits

During the year ended December 31, 2020, we provided the Named Executive Officers with medical insurance and nominal health club benefits. The Company paid $10,273 in life insurance for Mr. Hegyi and $27,688 in insurance for Mr. Scott. No other perquisites or other personal benefits were provided to Named Executive Officers. The committee expects to review the levels of perquisites and other personal benefits provided to Named Executive Officers annually.

Employment and consulting agreements are discussed below.

Tax and Accounting Implications

Deductibility of Executive Compensation

Subject to certain exceptions, Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") generally denies a deduction to any publicly held corporation for compensation paid to its chief executive officer and its three other highest paid executive officers (other than the principal financial officer) to the extent that any such individual's compensation exceeds $1 million. "Performance-based compensation" (as defined for purposes of Section 162(m)) is not taken into account for purposes of calculating the $1 million compensation limit, provided certain disclosure, shareholder approval and other requirements are met. We periodically review the potential consequences of Section 162(m) and may structure the performance-based portion of our executive compensation to comply with certain exceptions to Section 162(m). However, we may authorize compensation payments that do not comply with the exceptions to Section 162(m) when we believe that such payments are appropriate and in the best interests of the stockholders, after taking into consideration changing business conditions or the officer's performance.

Accounting for Stock-Based Compensation

We account for stock-based payments including its Stock Option Program in accordance with the requirements of ASC 718, "Compensation-Stock Compensation."

COMPENSATION COMMITTEE REPORT

The Compensation Committee, sets and administers policies that govern the Company's executive compensation programs, and incentive and stock programs. The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K for year ended December 31, 2020.

THE COMPENSATION COMMITTEE

Thom Kozik (Chairman)
Marco Hegyi

EXECUTIVE COMPENSATION

REMUNERATION OF EXECUTIVE OFFICERS

The following table provides information concerning remuneration of the chief executive officer, the chief financial officer and another named executive officer for the years ended December 31, 2020 and 2019:

Summary Compensation Table

Principal Position		Salary ($)	Bonus ($)	Stock Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)	Option Awards ($)	Other Compensation ($)	Total ($)
Marco Hegyi, Chief Excutive Officer,	12/31/2020	$275,000	$ —	$ —	$ —	$ —	$ 88,273	$363,273
Chairman of the Board and Director (2)	12/31/2019	$275,000	$ 20,227	$ —	$ —	$ —	$ 106,273	$401,500
Mark E. Scott, Chief Financial Officer	12/31/2020	$165,000	$ —	$ —	$ —	$ —	$ 27,668	$192,668
and Director (3)	12/31/2019	$165,000	$ 20,227	$ —	$ —	$ —	$ 27,357	$212,584
Joseph Barnes,	12/31/2020	$165,000	$ —	$ —	$ —	$ —	$ —	$165,000
President of GrowLife Hydroponics, Inc. (4)	12/31/2019	$165,000	$ 20,227	$ —	$ —	$ —	$ —	$185,227

(1) These amounts reflect the grant date market value as required by Regulation S-K Item 402(n)(2), computed in accordance with FASB ASC Topic 718.

(2) Mr. Hegyi was paid a salary of $275,000 during the years ended December 31, 2020 and 2019, respectively. Mr. Hegyi received a discretionary bonus of $20,227 during the year ended December 31, 2019. We paid life insurance of $10,273 for Mr. Hegyi during the years ended December 31, 2020 and 2019, respectively. On October 15, 2018, Mr. Hegyi received Warrants to purchase up to 320,000 shares of our common stock at an exercise price of $1.80 per share and which vest on October 15, 2018, 2019 and 2020. The Warrants are exercisable for 5 years. The warrants were valued at $192,000. The Company recorded compensation expense of $78,000 and $96,000 for the years ended December 31, 2020 and 2019, respectively.

(3) Mr. Scott resigned from the Board of Directors effective December 15, 2020 and as Chief Financial Officer as of December 31, 2020. Mr. Scott was paid a salary of $165,000 during the years ended December 31, 2020 and 2019, respectively. Mr. Scott received a discretionary bonus of $20,227 during the year ended December 31, 2019. Mr. Scott was reimbursed $27,668 and $27,357 for insurance expenses during the years ended December 31, 2020 and 2019, respectively.

(4) Mr. Barnes was paid a salary of $165,000 during the years ended December 31, 2020 and 2019, respectively. Mr. Barnes received a discretionary bonus of $20,227 during the year ended December 31, 2019.

Grants of Stock Based Awards during the year ended December 31, 2020

The Compensation Committee did not grant any stock-based awards or performance-based incentive compensation to the Named Executive Officers for the year ended December 31, 2020.

Outstanding Equity Awards as of December 31, 2020

The Named Executive Officers had the following outstanding equity awards as of December 31, 2020:

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexerciseable (#)	Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($) (1)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Marco Hegyi	—	—	—	$ —		—	$ —	—	$ —
Mark E. Scott (2)	26,667	—	—	$ 1.500	7/1/2022	—	$ —	—	$ —
	80,000	—	—	$ 0.900	10/15/2022	—	$ —	—	$ —
	88,889	44,444	—	$ 1.800	10/23/2023	—	$ —	—	$ —
Joseph Barnes (3)	53,333	—	—	$ 1.500	10/10/2022	—	$ —	—	$ —
	66,667	—	—	$ 1.050	10/25/2022	—	$ —	—	$ —
	80,000	40,000	—	$ 1.800	10/23/2023	—	$ —	—	$ —

(1) These amounts reflect the grant date market value as required by Regulation S-K Item 402(n)(2), computed in accordance with FASB ASC Topic 718.

(2) On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 133,333 shares of common stock at an exercise price of $1.80 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grants were valued at $40,000.

(3) On October 15, 2018, Mr. Barnes was granted an option to purchase 120,000 shares of common stock at an exercise price of $1.80 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at $36,000.

Option Exercises for the year ended December 31, 2020

Mr. Hegyi, Scott and Barnes did not have any option exercised during the year ended December 31, 2020.

Pension Benefits

We do not provide any pension benefits.

Nonqualified Deferred Compensation

We do not have a nonqualified deferral program.

Employment Agreements

Employment Agreement with Marco Hegyi

On October 15, 2018, the Board of Directors approved an Employment Agreement with Marco Hegyi pursuant to which we engaged Mr. Hegyi as its Chief Executive Officer through October 15, 2021.

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

Mr. Hegyi received 320,000 warrants in October 2018 as follows: (i) Warrant to purchase up to 106,667 shares of our common stock at an exercise price of $1.80 per share which vested immediately: and (ii) two Warrants to purchase up to 106,667 shares of our common stock at an exercise price of $1.80 per share. One warrant for 106,667 shares of our common stock vested on October 15, 2019. Additional warrants for 106,667 shares of our common stock vest on October 15, 2020 and 2021, respectively. The Warrants are exercisable for 5 years.

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

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

Employment Agreement with Mark E. Scott

On October 15, 2018, the Compensation Committee approved an Employment Agreement with Mark E. Scott pursuant to which we engaged Mr. Scott as its Chief Financial Officer through October 15, 2021. Mr. Scott's previous Agreement was cancelled.

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

On October 15, 2018, our Board of Directors granted Mr. Scott an option to purchase 133,333 shares of our Common Stock under our 2017 Amended and Restated Stock Incentive Plan at an exercise price of $1.80 per share. The Shares vest quarterly over three years. All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our Amended and Restated Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as employee to us is terminated by us without Cause or Mr. Scott terminates his employment with us for Good Reason as defined in the Scott Agreement, in either case upon or within twelve months after a Change in Control as defined in our amended and Restated Stock Incentive Plan, then 100% of the total number of Shares shall immediately become vested.

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

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

Mr. Scott resigned from the Board of Directors effective December 15, 2020 and as Chief Financial Officer as of December 31, 2020.

Employment Agreement with Joseph Barnes

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

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

The Board of Directors granted Mr. Barnes an option to purchase 120,000 shares of our Common Stock under the Company's 2017 Amended and Restated Stock Incentive Plan at an exercise price of $1.80 per share. The Shares vest quarterly over three years. All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our Amended and Restated Stock Incentive Plan, including vesting requirements. In the event that Mr. Barnes's continuous status as employee to us is terminated by us without Cause or Mr. Barnes terminates his employment with us for Good Reason as defined in the

Barnes Agreement, in either case upon or within twelve months after a Change in Control as defined in our Amended and Restated Stock Incentive, then 100% of the total number of Shares shall immediately become vested.

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

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

Potential Payments upon Termination or Change in Control

The Company's Employment Agreement with Marco Hegyi has provisions providing for severance payments as detailed below.

Executive Payments Upon Separation	For Cause Termination	Early or Normal Retirement	Not For Good Cause Termination 12/31/2020	Change in Control Termination	Disability or Death
Compensation:					
Base salary (1)	$ —	$ —	$ 455,208	$ 455,208	$ —
Performance-based incentive compensation	$ —	$ —	$ —	$ —	$ —
Stock options	$ —	$ —	$ —	$ —	$ —
Benefits and Perquisites:					
Health and welfare benefits	$ —	$ —	$ —	$ —	$ —
Accrued vacation pay	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ 455,208	$ 455,208	$ —

(1) Reflects amounts to be paid upon termination without cause and upon termination in a change of control, less any months worked. All outstanding warrants fully vest under certain conditions.

The Company's Employment Agreement with Mark E. Scott has provisions providing for severance payments as detailed below.

Executive Payments Upon Separation	For Cause Termination	Early or Normal Retirement	Not For Good Cause Termination 12/31/2020	Change in Control Termination	Disability or Death
Compensation:					
Base salary (1)	$ —	$ —	$ 41,250	$ 41,250	$ —
Performance-based incentive compensation	$ —	$ —	$ —	$ —	$ —
Stock options	$ —	$ —	$ —	$ —	$ —
Benefits and Perquisites:					
Health and welfare benefits	$ —	$ —	$ —	$ —	$ —
Accrued vacation pay	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ 41,250	$ 41,250	$ —

(1) Reflects amounts to be paid upon termination without cause and upon termination in a change of control. All outstanding stock options vests fully vest under certain conditions. Mr. Scott resigned from the Board of Directors effective December 15, 2020 and as Chief Financial Officer as of December 31, 2020.

The Company's Employment Agreement with Joe Barnes has provisions providing for severance payments as detailed below.

Executive Payments Upon Separation	For Cause Termination	Early or Normal Retirement	Not For Good Cause Termination	Change in Control Termination	Disability or Death
			12/31/2020		
Compensation:					
Base salary (1)	$ —	$ —	$ 41,250	$ 41,250	$ —
Performance-based incentive compensation	$ —	$ —	$ —	$ —	$ —
Stock options	$ —	$ —	$ —	$ —	$ —
Benefits and Perquisites:					
Health and welfare benefits	$ —	$ —	$ —	$ —	$ —
Accrued vacation pay	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ 41,250	$ 41,250	$ —

(1) Reflects amounts to be paid upon termination without cause and upon termination in a change of control. There outstanding stock options vests fully vest under certain conditions.

DIRECTOR COMPENSATION

We primarily use stock grants to incentive compensation to attract and retain qualified candidates to serve on the Board. This compensation reflected the financial condition of the Company. In setting director compensation, we consider the significant amount of time that Directors expend in fulfilling their duties to the Company as well as the skill-level required by our members of the Board. On February 1, 2018, a director compensation program was implemented. The directors are compensated at up to $60,000 annually and the annual share award is based on the close price on January 31 of that year.

During year ended December 31, 2020, Marco Hegyi and Mr. Scott did not receive any compensation for their service as directors. The compensation disclosed in the Summary Compensation Table on page 37 represents the total compensation.

Director Summary Compensation

Name	Fees Earned or Paid in Cash $	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings $	Other Compensation ($)	Total
Katherine McLean (2)	—	$ 5,900	—	—	—	—	$ 5,900
Thom Kozik (3)	—	5,900	—	—	—	—	5,900
	$ —	$11,800	$ —	$ —	$ —	$ —	$11,800

(1) These amounts reflect the grant date market value as required by Regulation S-K Item 402(n)(2), computed in accordance with FASB ASC Topic 718.

(2) Ms. McLain resigned from the Board of Directors on January 5, 2021. On April 16, 2020, we issued 20,000 shares of our common stock to Katherine McLain that was valued at $0.295 per share or $5,900.

(3) On April 16, 2020, we issued 20,000 shares of our common stock to Thom Kozik that was valued at $0.295 per share or $5,900.

Compensation Paid to Board Members

Our independent non-employee directors are not compensated in cash. The only compensation has been in the form of stock awards. There is a stock compensation plan for independent non-employee directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the ownership of our common stock as of March 31, 2021 by:

● each director and nominee for director;

● each person known by us to own beneficially 5% or more of our common stock;

● each officer named in the summary compensation table elsewhere in this report; and

● all directors and executive officers as a group.

The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Under these rules more than one person may be deemed a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest.

Unless otherwise indicated below, each beneficial owner named in the table has sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. The address of each beneficial owner is 5400 Carillon Point, Kirkland, WA 98033 and the address of more than 5% of common stock is detailed below.

	Shares Beneficially Owned	
Name of Beneficial Owner	**Number**	**Percentage (1)**
Directors and Named Executive Officers-		
Marco Hegyi (2)	520,000	0.8%
Michael E. Fasci (3)	365,260	*
Thom Kozik (4)	20,000	*
Joseph Barnes (5)	212,000	*
Total Directors and Officers (4 in total)	1,117,260	1.7%

* Less than 1%.

(1) Based on 67,182,327 shares of common stock outstanding as of March 31, 2021.

(2) Reflects the shares beneficially owned by Marco Hegyi, including warrants to purchase 503,333 shares of our common stock.

(3) Reflects the shares beneficially owned by Michael E. Fasci.

(4) Reflects the shares beneficially owned by Thom Kozik.

(5) Reflects the shares beneficially owned by Joseph Barnes, including stock option grants totaling 210,000 shares that Mr. Barnes has the right to acquire.

There were no persons known by us who owns beneficially 5% or more of our common stock as of March 31, 2021.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Review and Approval of Related Person Transactions

We have operated under a Code of Conduct for many years. Our Code of Conduct requires all employees, officers and directors, without exception, to avoid the engagement in activities or relationships that conflict, or would be perceived to conflict, with the Company's interests or adversely affect its reputation. It is understood, however, that certain relationships or transactions may arise that would be deemed acceptable and appropriate upon full disclosure of the transaction, following review and approval to ensure there is a legitimate business reason for the transaction and that the terms of the transaction are no less favorable to the Company than could be obtained from an unrelated person.

The Audit Committee is responsible for reviewing and approving all transactions with related persons. The Company reviews all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed.

Since January 1, 2019, the Company engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

Certain Relationships

Please see the transactions with Chicago Venture Partner, Iliad, Odyssey, St. George, and Bucktown discussed in Notes 11, 13 and 14.

Related Party Transactions

Transactions with Marco Hegyi

On October 21, 2018, a 5-year Warrant for Mr. Hegyi to purchase up to 66,666 shares of our common stock at an exercise price of $1.50 per share vested. The warrant was valued at $390,000 and we recorded $178,750 as compensation expense for the year ended December 31, 2018. On October 15, 2018, Mr. Hegyi received Warrants to purchase up to 320,000 shares of our common stock at an exercise price of $1.80 per share and which vest on October 15, 2018, 2019 and 2020. The Warrants are exercisable for 5 years. The warrants that vested on October 15, 2019 and 2018 were valued at $192,000 and we recorded compensation expense of $78,000 and $96,000 for the years ended December 31, 2020 and 2019.

On October 15, 2018, the Board of Directors approved an Employment Agreement with Marco Hegyi pursuant to which we engaged Mr. Hegyi as its Chief Executive Officer through October 15, 2021. See Note 16 for additional details.

Transactions with an Entity Controlled by Mark E. Scott

On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 133,333 shares of common stock at an exercise price of $1.80 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at $40,000. We recorded $13,333 as a compensation expense for the years ended December 31, 2020 and 2019.

Transaction with Joseph Barnes

On October 15, 2018, Mr. Barnes was granted an option to purchase 120,000 shares of common stock at an exercise price of $1.80 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. We recorded $12,000 as a compensation expense for the years ended December 31, 2020 and 2019.

Transactions with Katherine McLain

Ms. Katherine McLain was appointed as a director on February 14, 2017. Ms. McLain resigned from the Board of Directors on January 5, 2021. On February 22, 2019, we issued 54,054 shares of our common stock to Katherine McLain valued at $1.11 per share or $60,000. On April 16, 2020, we issued 20,000 shares of our common stock to Katherine McLain valued at $0.295 per share or $5,900. This issuance was an award for independent director services.

Transaction with Thom Kozik

Mr. Kozik was appointed as a director on October 5, 2017. On February 22, 2019, we issued 54,054 shares of our common stock to Mr. Kozik valued at $1.11 per share or $60,000. On April 16, 2020, we issued 20,000 shares of our common stock to Mr. Kozik valued at $0.295 per share or $5,900. This issuance was an award for independent director services.

Notes Payable to Related Parties

EZ-CLONE has $49,144 and $104,144 due to relatives of the EZ lone founders and shareholders as of December 31, 2020 and 2019, respectively.

Director Independence

The Board has affirmatively determined that Katherine McLain, and Thom Kozik are independent as of December 31, 2020. Ms. McLain resigned from the Board of Directors on January 5, 2021. For purposes of making that determination, the Board used NASDAQ's Listing Rules even though the Company is not currently listed on NASDAQ. Katherine McLain resigned from the board on January 8, 2021.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Committee Pre-Approval Policy

The Audit Committee has established a pre-approval policy and procedures for audit, audit-related and tax services that can be performed by the independent auditors without specific authorization from the Audit Committee subject to certain restrictions. The policy sets out the specific services pre-approved by the Audit Committee and the applicable limitations, while ensuring the independence of the independent auditors to audit the Company's financial statements is not impaired. The pre-approval policy does not include a delegation to management of the Audit Committee's responsibilities under the Exchange Act. During the year ended December 31, 2020, the Audit Committee pre-approved all audit and permissible non-audit services provided by our independent auditors.

Service Fees Paid to the Independent Registered Public Accounting Firm

The Audit Committee engaged BPM LLP to perform an annual audit of the Company's financial statements for the fiscal years ended December 31, 2020 and 2019, respectively. BPM also performed a review of the Company's financial statements for the three months ended September 30, 2019. BPM did not perform any services prior to September 30, 2019. Previously the Audit Committee engaged SD Mayer and Associates, LLP to perform a review of the Company's financial statements for the three months ended June 30, 2019 and March 31, 2019. The following is the breakdown of aggregate fees billed for and during the last two fiscal years. The following is the breakdown of aggregate fees paid for the last two fiscal years:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Audit fees	$ 87,626	$ 87,450
Audit related fees	49,220	39,795
Tax fees	18,890	13,150
All other fees	—	35,971
	$ 155,736	$ 176,366

- "Audit Fees" are fees paid for professional services for the audit of our financial statements.
- "Audit-Related fees" are fees paid for professional services not included in the first two categories, specifically, PCAOB interim reviews for quarterly filings, and accounting consultations on matters addressed during the audit.
- "Tax Fees" are fees primarily for tax compliance paid to S.D. Mayer in connection with filing US income tax returns.
- "All other fees" related to the reviews of Registration Statements on Form S-1.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) FINANCIAL STATEMENTS:

The Company's financial statements, as indicated by the Index to Consolidated Financial Statements set forth below, begin on page F-1 of this Form 10-K, and are hereby incorporated by reference. Financial statement schedules have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(b) Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation. Filed as an exhibit to the Company's Form 10-SB General Form for Registration of Securities of Small Business Issuers filed with the SEC on December 7, 2007, and hereby incorporated by reference.
3.2	Second Amended and Restated Bylaws of GrowLife, Inc. dated October 16, 2015. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.
3.3	Certificate of Amendment of Certificate of Incorporation of GrowLife, Inc. dated October 23, 2017 to increase the authorized shares of Common Stock from 3,000,000,000 to 6,000,000,000 shares. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 24, 2017, and hereby incorporated by reference.
3.4	Amendment to Articles of Incorporation dated November 20, 2019. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 26, 2019, and hereby incorporated by reference.
4.1	GrowLife, Inc. 2017 Stock Incentive Plan filed as an Annex 1 to the Company's Preliminary Schedule 14A filed with the SEC on June 30, 2017, and hereby incorporated by reference.
4.2	Form of Warrants. Filed as exhibits to the Company's Form 8-K and filed with the SEC on February 28, 2020, and hereby incorporated by reference.
10. 1	Compilation of Securities Purchase Agreement and Warrant to Purchase Common Stock dated February 9, 2018 entered into by and between GrowLife, Inc. and St. George Investments LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on February 15, 2018, and hereby incorporated by reference.
10.2	Compilation of Securities Purchase Agreement, Secured Promissory Notes, and Security Agreement by and between GrowLife, Inc. and Iliad Research and Trading, L.P. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 16, 2018, and hereby incorporated by reference.

10.3	Rights Offering to Shareholders filed in Amendment No.1 of Form S-1. Filed with the SEC on September 18, 2018, and hereby incorporated by reference. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on September 21, 2018, and hereby incorporated by reference.
10.4	Rights Offering to Shareholders filed in Amendment No.1 of Form S-1. Filed with the SEC on September 18, 2018, and hereby incorporated by reference. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on September 21, 2018, and hereby incorporated by reference.
10.5	Purchase and Sale agreement dated October 10, 2018 by and between GrowLife, Inc. and EZ-CLONE Enterprises LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 18, 2018, and hereby incorporated by reference.
10.6	Compilation of Securities Purchase Agreement, Warrant, Secured Promissory Notes, and Security Agreement by and between GrowLife, Inc. and Iliad Research and Trading, L.P. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.
10.7	Marco Hegyi Employment Agreement dated October 15, 2018. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.
10.8	Mark E. Scott Employment Agreement dated October 15, 2018. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.
10.9	Joseph Barnes Employment Agreement dated October 15, 2018. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.
10.10	Prospectus Supplement dated November 8, 2018 to Rights Offering to Shareholders filed in 424(b)(4) Prospectus filed with the SEC on October 18, 2018, and hereby incorporated by reference. Filed as an exhibit to the Companys Form 8-K and filed with the SEC on November 16, 2018, and hereby incorporated by reference.
10.11	Prospectus Supplement dated November 16, 2018 to Rights Offering to Shareholders filed in 424(b)(4) Prospectus filed with the SEC on October 18, 2018, and hereby incorporated by reference. Filed as an exhibit to the Companys Form 8-K and filed with the SEC on November 16, 2018, and hereby incorporated by reference.
10.12	Standard and Industrial Multi-Tenant Lease dated December 18, 2018 by and between Pensco Trust Company and GrowLife, Inc. Filed as an exhibit to the Company's Form 10-K and filed with the SEC on March 8, 2019, and hereby incorporated by reference.
10.13	Termination of Existing Agreements and Release Agreement accepted February 15, 2019 entered into by and between GrowLife, Inc. and CANX USA LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on February 20, 2019, and hereby incorporated by reference.
10.14	Compilation of Securities Purchase Agreement, Secured Promissory Notes, and Security Agreement by and between GrowLife, Inc. and Odyssey Research and Trading, LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 30, 2019, and hereby incorporated by reference.
10.15	Amendment No. 1 to Purchase and Sale Agreement dated October 23, 2019, entered into by between GrowLife, Inc. and William Blackburn. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 12, 2019, and hereby incorporated by reference.
10.16	Settlement and Release Agreement dated October 22, 2019 and which closed November 14, 2019 by and Between GrowLife Innovations, Inc. and All Commercial Floors, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 20, 2019, and hereby incorporated by reference.
10.17	Intellectual Property Assignment Agreement dated October 22, 2019 and which closed November 14, 2019 by and Between GrowLife Innovations, Inc. and All Commercial Floors, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 20, 2019, and hereby incorporated by reference.

10.18	Compilation of Securities Purchase Agreement, Secured Promissory Notes, and Security Agreement by and between GrowLife, inc. and Chicago Venture Partners, L.P. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on February 5, 2020, and hereby incorporated by reference.
10.19	Compilation of Labrys Securities Purchase Agreement, Self-Amortization Promissory Note and Other Agreements. Filed as an exhibit to the Companys Form 8-K and filed with the SEC on October 15, 2020, and hereby incorporated by reference.
10.20	Compilation of EMA Securities Purchase Agreement, Self-Amortization Promissory Note and Other Agreements. Filed as an exhibit to the Companys Form 8-K and filed with the SEC on October 15, 2020, and hereby incorporated by reference.
10.21	Compilation of FF Securities Purchase Agreement, Self-Amortization Promissory Note and Other Agreements. Filed as an exhibit to the Companys Form 8-K and filed with the SEC on October 15, 2020, and hereby incorporated by reference.
10.22	Amendment 2 to Compilation of Labrys Securities Purchase Agreement, Self-Amortization Promissory Note and Other Agreements. Filed as an exhibit to the Companys Form 8-K and filed with the SEC on December 7, 2020, and hereby incorporated by reference.
14.1	Code of Conduct and Ethics dated May 15, 2014. Attached as an exhibit to the Company's Form 8-K filed and with the SEC on June 9, 2014, and hereby incorporated by reference.
21.1	Subsidiaries of the Registrant, Filed herewith.
31.01	Certification of Principal Executive Officer Pursuant to Rule 13a-14. Filed herewith.
31.02	Certification of Principal Financial Officer Pursuant to Rule 13a-14 Filed herewith.
32.01	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Filed herewith.
32.02	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Filed herewith.
99.1	Amended and Restated Audit Committee Charter, dated October 16, 2015. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.
99.2	Compensation Committee Charter dated May 15, 2014. Attached as an exhibit to the Company's Form 8-K dated June 3, 2014 and filed with the SEC on June 9, 2014, and hereby incorporated by reference.
99.3	Amended and Restated Nominations and Governance Charter, dated October 16, 2015.Attached as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.
99.4	Amended and Restated Insider Trading Policy, dated October 16, 2015. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
GrowLife, Inc. and Subsidiaries

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of GrowLife, Inc. and Subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 2020 and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has sustained recurring losses from operations and has an accumulated deficit since inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Emphasis of a Matter-Uncertainty of Litigation

As described in notes 1 and 17 to the consolidated financial statements, the Company is in litigation with the Founders of its EZ-CLONE Enterprises subsidiary for the Company's failure to pay the remaining 49% of the balance owed under the Purchase and Sale agreement with EZ-CLONE Enterprises. The Founders are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief. Our audit opinion is not modified for this matter.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Warrant Settlement

As described in Notes, 10, 14 and 19 to the consolidated financial statements, on March 31, 2021, the Company entered into a joint Warrant Settlement Agreement with St. George and Iliad to settle a dispute regarding prior financings. The Company agreed to issue St. George 11,750,000 shares of the Company's common stock to cancel a warrant related to a February 9, 2018 subscription agreement. The Company agreed to issue Iliad 2,500,000 shares of the Company's common stock to cancel a warrant related to an October 15, 2018 securities Purchase agreement. The Company recorded a loss on debt settlement of $2,423,000 for the year ended December 31, 2020.

We identified management conclusion that the Company's warrant settlement was an expense in 2020 as a critical audit matter because of management judgment necessary to determine whether the Warrant Settlement represents a charge to the statement of operations including what is the proper period such settlement expense should be recorded. Due to the complexity and nature of financing transactions, auditing the Company's conclusion that warrant settlement was an expense in 2020 required a high degree of auditor judgment.

The primary audit procedures related to the determination of whether the joint Warrant Settlement represented a charge to the statement of operations and 2020 was the correct period of expense, included among others:

- We read and analyzed the original warrant agreements and warrant settlement agreement to evaluate the accounting treatment for the settlement.
- We discussed with management and reviewed correspondence indicating there was a dispute with certain elements of the 2018 financings and concluded that the settlement entered into after December 31, 2020 provided evidence of the liability that existed at December 31, 2020.
- We performed technical research and relied on authoritative accounting guidance to evaluate the treatment for the warrant settlement and management's conclusion.
- We recalculated the settlement expense based upon the shares to be issued multiplied by the fair value of the Company's stock on March 31, 2021.

/s/ BPM LLP

BPM LLP
Walnut Creek, California
April 15, 2021
We have served as the Company's auditor since October 2019

GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 383,144	$ 40,834
Accounts receivable - trade, net of allowance for doubtful accounts of $5,690 as of 12/31/2020 and 12/31/2019	960,522	101,806
Inventory, net	570,524	600,674
Deposits	18,995	18,995
Total current assets	1,933,185	762,309
PROPERTY AND EQUIPMENT, NET	129,330	166,482
INTANGIBLE ASSETS, NET	1,130,718	1,802,434
GOODWILL	781,749	781,749
OPERATING LEASE RIGHT OF USE ASSET	380,247	537,522
TOTAL ASSETS	$ 4,355,229	$ 4,050,496
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 1,146,195	$ 1,157,090
Accrued expenses	2,592,251	259,093
Accrued expenses - related parties	37,394	31,485
Notes payable- PPP/EIDL loans, current	390,035	—
Derivative liability	1,101,436	1,300,915
Convertible notes payable	2,495,153	2,884,279
Notes payable- related party	49,144	104,144
Acquisition of EZ-CLONE Enterprises, Inc. payable in cash	1,026,000	1,026,000
Acquisition of EZ-CLONE Enterprises, Inc. payable in common stock	1,105,000	—
Current portion of operating lease right of use liability	140,772	140,772
Federal and state income taxes payable	343,125	—
Total current liabilities	10,426,505	6,903,778
LONG TERM LIABILITIES:		
Deferred tax liability	352,649	470,200
Notes payable- PPP/EIDL, less current portion	485,679	—
Long term acquisition of EZ-CLONE Enterprises, Inc. payable in common stock	—	900,000
Non-current portion of operating lease right of use liability	264,868	410,734
Total long term liabilities	1,103,196	1,780,934
COMMITMENTS AND CONTINGENCIES (Note 15)	—	—
STOCKHOLDERS' DEFICIT		
Preferred stock - $0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding at 12/31/2020 and 12/31/2019, respectively	—	—
Common stock - $0.0001 par value, 120,000,000 shares authorized, 51,843,221 and 28,677,147 shares issued and outstanding at 12/31/2020 and 12/31/2019, respectively	388,587	386,269
Additional paid in capital	147,278,311	143,441,047
Accumulated deficit	(154,841,370)	(148,461,532)
Total stockholders' deficit	(7,174,472)	(4,634,216)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 4,355,229	$ 4,050,496

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

GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended, December 31, 2020	Years Ended, December 31, 2019
NET REVENUE	$ 7,000,812	$ 8,217,562
COST OF GOODS SOLD	4,020,570	5,668,435
GROSS PROFIT	2,980,242	2,549,127
GENERAL AND ADMINISTRATIVE EXPENSES	4,870,204	7,010,059
RESTRUCTURING EXPENSE- FLOORING DIVISION	—	305,895
RESTRUCTURING EXPENSE- RETAIL STORES AND ONLINE SALES	—	250,000
OPERATING LOSS	(1,889,962)	(5,016,827)
OTHER INCOME (EXPENSE):		
Change in fair value of derivative	199,479	496,338
Interest expense, net	(1,089,734)	(1,204,119)
Loss on debt conversions	(945,169)	(1,767,325)
Loss on debt settlement	(2,422,500)	—
Total other expense, net	(4,257,924)	(2,475,106)
LOSS BEFORE INCOME TAXES	(6,147,886)	(7,491,933)
Income taxes - current (expense) benefit	(231,952)	117,550
NET LOSS	(6,379,838)	(7,374,383)
Net loss attrituable to noncontrolling interest in EZ-CLONE Enterprises, Inc.	—	88,938
NET LOSS ATTRIBUTABLE TO GROWLIFE, INC. AND SUBSIDIARIES	$ (6,379,838)	$ (7,285,445)
COMMON SHAREHOLDERS		
Basic and diluted loss per share	$ (0.18)	$ (0.29)
Weighted average shares of common stock outstanding- basic and diluted	35,286,804	25,145,036

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

GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' (Deficit)
	Shares	Amount			
Balance as of December 31, 2018	22,917,327	343,749	139,331,067	(141,176,087)	(1,501,271)
Stock based compensation for stock options	—	$ —	$ 62,042	$ —	62,042
Stock based compensation for warrants	—	—	96,000	—	96,000
Shares issued for services rendered	147,890	2,219	172,216	—	174,435
Shares issued for convertible note and interest conversion	4,495,806	26,721	2,655,302	—	2,682,023
Shares issued for settlement of warrant	833,333	12,500	987,500	—	1,000,000
Shares issued for convertible note commitment fee	33,333	500	24,500	—	25,000
Warrant exercise-cashless	26,111	392	(392)	—	—
Share issuance for correction related to funding services	188,335	188	112,812	—	113,000
Fractional shares issued related to reverse stock split	35,011	—	—	—	—
Net Loss attributable to noncontrolling interest in EZ-Clone	—	—	—	88,938	88,938
Net loss for the year ended December 31, 2019	—	—	—	(7,374,383)	(7,374,383)
Balance as of December 31, 2019	28,677,147	386,269	143,441,047	(148,461,532)	(4,634,216)
Stock based compensation for stock options	—	—	47,169	—	47,169
Stock based compensation for warrants	—	—	78,000	—	78,000
Shares issued for services rendered	40,000	4	11,796	—	11,800
Shares issued for convertible note and interest conversion	19,573,920	1,959	3,113,249	—	3,115,208
Shares issued for convertible note commitment fee	3,552,000	355	586,565	—	586,920
Warrant exercise	154	—	485	—	485
Net loss for the year ended December 31, 2020	—	—	—	(6,379,838)	(6,379,838)
Balance as of December 31, 2020	51,843,221	388,586	147,278,311	(154,841,370)	(7,174,472)

For the year ended December 31, 2020 and 2019, the Company’s share of the net loss totaled $6.379,838 and $7,285,445.

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

GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended, December 31, 2020	Years Ended, December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,379,838)	$ (7,285,445)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation	37,152	89,322
Restructuring Expense - stores & flooring	—	555,895
Amortization of intangible assets	671,716	838,262
Stock based compensation	125,169	158,042
Common stock issued for services	11,800	312,435
Non cash interest and amortization of debt discount	1,061,852	933,265
Change in fair value of derivative liability	(199,479)	(494,558)
Loss on debt conversions	945,169	1,767,325
Loss on debt settlement	2,422,500	—
Changes in operating assets and liabilities:		
Accounts receivable	(858,716)	(59,552)
Inventory	30,150	191,990
Prepaids costs	—	3,418
Deposits	—	32,921
Right of use, net	11,409	13,984
Accounts payable	28,105	371,270
Accrued expenses	(83,433)	(131,331)
Deferred revenue	—	(89,504)
Change in deferred taxes	(117,551)	(117,550)
Change in federal and state taxes payable	343,125	—
CASH (USED IN) OPERATING ACTIVITIES	(1,950,870)	(2,909,811)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in purchased assets	—	(12,463)
NET CASH (USED IN) INVESTING ACTIVITIES:	—	(12,463)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of convertible notes payable	(431,151)	(778,872)
Proceeds from notes payable	2,723,846	1,416,137
Repayment on capital lease	—	(8,534)
Proceeds from the issuance of common stock	485	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,293,180	628,731
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	342,310	(2,293,543)
CASH AND CASH EQUIVALENTS, beginning of period	40,834	2,334,377
CASH AND CASH EQUIVALENTS, end of period	$ 383,144	$ 40,834
Supplemental disclosures of cash flow information:		
Non-cash investing and financing activities:		
Shares issued for convertible note and interest conversion	$ 1,947,819	$ 1,834,246
Issuance of stock for debt issuance costs	$ 586,565	$ —
Loss of debt conversions- issuance of stock	$ 984,169	$ 2,035,876
Gain on debt conversions- reduction of accounts payable	$ 39,000	$ 268,551
Conversion of Noncontrolling interest to acquisition payable	$ —	$ 1,343,895

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

NOTE 1 – DESCRIPTION OF BUSINESS AND ORGANIZATION

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

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

The Company primarily sells its products through its wholly owned subsidiary, GrowLife Hydroponics, Inc. GrowLife companies distribute and sell over products through its e-commerce distribution channels, www.shopgrowlife.com, www.growlifeinc.com, and www.greners.com, and through its direct sales force. GrowLife and its business units are organized and directed to operate strictly in accordance with all applicable state and federal laws.

On October 15, 2018, the Company closed the Purchase and Sale Agreement with EZ-CLONE Enterprises, Inc., a California corporation (the "Agreement"). On November 5, 2019, the Company amended the Agreement with one 24.5% shareholder of EZ-CLONE Enterprises, Inc. ("EZ-CLONE"), to extend the date to purchase the remaining 49% of stock of EZ-CLONE in exchange for a 20% extension fee (a total of $171,000 for the 49% or $85,500 for each 24.5% shareholder) of the $855,000 cash payable at the earlier of the closing of $2,000,000 in funding or nine months (July 2020). The Company did not close the purchase of the remaining 49% of stock of EZ-CLONE by the extended deadline.

On September 15, 2020, the Company received notice that William Blackburn and Brad Mickelsen ("Plaintiffs"), minority shareholders of EZ-CLONE Enterprises, Inc., a majority owned subsidiary of the Company, filed a complaint against the Company and its officers Marco Hegyi and Mark Scott ("Officers"), in the Superior Court of California, County of Sacramento ("Complaint") for claims related to breach under the Purchase and Sale Agreement dated October 15, 2018 between the Company and Plaintiffs. The Complaint also alleges that the Company and its Officers made certain false representations and other claims to consummate the Transaction and as a result has failed to complete the second closing as required under Purchase and Sale Agreement. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief. As of December 4, 2020, the Company's officers were dismissed from the case. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief. See Note 17 for description of Legal Proceedings.

On September 15, 2020, the Company filed a notice of removal with the California Superior Court, County of Sacramento and the United States District Court for the Eastern District of California. The case was removed to Federal District Court for the Eastern District of California and Plaintiffs filed an Ex Parte Application for TRO and an Order for Preliminary Injunction with the Federal Court. The TRO was granted on September 16, 2020 and a preliminary injunction hearing was scheduled for September 29, 2020. After reviewing all pleadings and oral arguments at the hearing, the Court issued a ruling granting Plaintiffs' request for a preliminary injunction.

Presently the parties are providing legal briefs to the Federal court to determine if rescission should be granted. If we are unsuccessful and the court grants Plaintiffs' request for rescission the resulting actions are speculative at this time but could include the return of the consideration exchanged as part of the acquisition subject to certain adjustments as the result of several variables which the court will consider. If the court denies Plaintiffs request for rescission the litigation will continue regarding the breach of contract claims and contractual remedies for breach and the Court may or may not dissolve the preliminary injunction as a result.

A decision to grant rescission could materially harm our business as EZ-Clone represents a significant portion of our operations.

As of December 31, 2020, the Company recorded a liability of $2,131,000 for acquisition payable of which a $1,105,000 is payable in stock and $1,026,000 is payable in cash.

As of March 4, 2019, the Company began to trade on the Pink Sheet stocks system. Our bid price had closed below $0.01 for more than 30 consecutive calendar days. As of March 17, 2020, the Company commenced trading on the OTCQB Market ("OTCQB") after successfully up-listing from the OTC Pink Market.

On October 9, 2019, the Company approved the reduction of authorized capital stock, whereby the total number of the Company's authorized common stock decreased from 6,000,000,000 by a ratio of 1 for 50, to 120,000,000 shares. On November 20, 2019, the Company filed a Certificate of Amendment of Certificate of Incorporation with the Secretary of State of the State of Delaware. As a result of the reduction, the Company an aggregate 130,000,000 authorized shares consisting of: (i) 120,000,000 shares of common stock, par value $0.0001 per share, and (ii) 10,000,000 shares of preferred stock, par value $0.0001 per share.

The reverse stock split of 1 for 150 was effective at the open of business on November 27, 2019 whereupon the shares of common stock began trading on a split-adjusted basis. The Company's CUSIP number for the Company's common stock changed to 39985X203. All warrant, option, share and per share information in this Form 10-Q gives retroactive effect to the 1-for-150 reverse split with all numbers rounded up to the nearest whole share.

NOTE 2 – GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of $6,379,838 and $7,374,383 for the years ended December 31, 2020 and 2019, respectively. Net cash used in operating activities was $1,950,870 and $2,909,811 for the years ended December 31, 2020 and 2019, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of December 31, 2020, the Company's accumulated deficit was $154,841,370. The Company has limited capital resources, and operations to date have been funded with the proceeds from private equity and debt financings. These conditions raise substantial doubt about our ability to continue as a going concern.

The Company believes that its cash on hand will be sufficient to fund our operations only until May 31, 2021. The Company needs additional financing to implement our business plan and to service our ongoing operations and pay our current debts. There can be no assurance that we will be able to secure any needed funding, or that if such funding is available, the terms or conditions would be acceptable to us. If we are unable to obtain additional financing when it is needed, we will need to restructure our operations, and divest all or a portion of our business. We may seek additional capital through a combination of private and public equity offerings, debt financings and strategic collaborations. Debt financing, if obtained, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, and could increase our expenses and require that our assets secure such debt. Equity financing, if obtained, could result in dilution to the Company's then-existing stockholders and/or require such stockholders to waive certain rights and preferences. If such financing is not available on satisfactory terms, or is not available at all, the Company may be required to delay, scale back, eliminate the development of business opportunities and our operations and financial condition may be materially adversely affected.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

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

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. Inter-Company items and transactions have been eliminated in consolidation. Non-controlling interest represents the portion of ownership which the Company does not own.

Cash and Cash Equivalents - We classify highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. The Company maintains cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to $250,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit. At December 31, 2020, the Company had uninsured deposits in the amount of $133,144.

Accounts Receivable and Revenue – The company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which requires the application of the five-step-principles-based-accounting-model for revenue recognition. These steps include (1) a legally enforceable contract, written or unwritten is identified; (2) performance obligations in the contracts are identified; (3) the transaction price reflecting variable consideration, if any, is identified; (4) the transaction price is allocated to the performance obligations; and (5) revenue is recognized when the control of goods is transferred to the customer at a particular time or over time. Our hydroponic sales are cash or credit card. Our EZ-CLONE sales include credit cash, payments in advance, 3% discount upon receipt and, we extend thirty day terms to select customers. We have not incurred any costs to acquire contracts that would require capitalization as of December 31, 2020 and 2019. Accounts receivable are reviewed periodically for collectability. As of December 31, 2020 and December 31, 2019, the Company has an allowance for doubtful accounts totaling $5,690.

Sales Returns - We allow customers to return defective products when they meet certain established criteria as outlined in our sales terms and conditions. It is our practice to regularly review and revise, when deemed necessary, our estimates of sales returns, which are based primarily on actual historical return rates. We record estimated sales returns as reductions to sales, cost of goods sold, and accounts receivable and an increase to inventory. Returned products which are recorded as inventory are valued based upon the amount we expect to realize upon its subsequent disposition. As of December 31, 2020 and 2019, there was a reserve for sales returns of $20,000, respectively, which is minimal based upon our historical experience.

Concentration of Credit and Sales Risk -

The Company had the following concentrations of credit and sales risk-

Customers with over 10% of sales- the Company had two customers of EZ-CLONE that represented approximately 36% and 13% of consolidated revenue for the year ended December 31, 2020.

Customers with over 10% of outstanding accounts receivable- one customer totaling 88.8% and 77.7% as of December 31, 2020 and 2019, respectively.

Inventories - Inventories are recorded on a first in first out basis Inventory consists of raw materials, work in process and finished goods and components sold by EZ-CLONE to it distribution customers. The Company reviews its inventory on a periodic basis to identify products that are slow moving and/or obsolete, and if such products are identified, the Company records the appropriate inventory impairment charge at such time.

Property and Equipment – Equipment consists of machinery, equipment, tooling, computer equipment and leasehold improvements, which are stated at cost less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives or lease period of the relevant asset, generally 3-10 years, except for leasehold improvements which are depreciated over the lesser of the life of the lease or 10 years.

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

Intangible Assets – Intangible assets are capitalized and amortized on a straight-line basis over their estimated useful life, if the life is determinable. If the life is not determinable, amortization is not recorded. We regularly perform reviews to determine if facts and circumstances exist which indicate that the useful lives of our intangible assets are shorter than originally estimated or the carrying amount of these assets may not be recoverable. When an indication exists that the carrying amount of intangible assets may not be recoverable, we assess the recoverability of our assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Such impairment test is based on the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Impairment, if any, is based on the excess of the carrying amount over the estimated fair value of those assets.

Goodwill-The Company reviews its acquired goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. In reviewing its goodwill, the Company performs a qualitative analysis to determine if it is more-likely-than-not that the goodwill is impaired. If the qualitative analysis indicates that goodwill is likely impaired, the Company calculates the fair value of its goodwill by allocating the fair value of the business unit containing the goodwill to all its tangible and intangible assets and liabilities, with the residual fair value allocated to goodwill. The excess, if any, of the goodwill carrying value in excess of its fair value would be recognized as an impairment loss. Management has concluded that, based on a qualitative analysis, it is more-likely-than-not that goodwill has not been impaired as of December 31, 2020 and 2019.

Fair Value Measurements and Financial Instruments – ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than level one inputs that are either directly or indirectly observable; and.

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

The recorded value of other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, and accounts payable and accrued expenses approximate the fair value of the respective assets and liabilities as of December 31, 2020 and 2019 are based upon the short-term nature of the assets and liabilities. The Company's derivative financial instruments are considered Level 3 instruments. See Note 12.

Derivative Financial Instruments –Pursuant to ASC 815 "Derivatives and Hedging", the Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. The Company then determines if embedded derivative must bifurcated and separately accounted for. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the balance sheet date.

Stock Based Compensation – We have share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, as well as options to purchase shares of our common stock at the fair market value at the time of grant. Stock-based compensation cost is measured by us at the grant date, based on the fair value of the award, over the requisite service period using an estimated forfeiture rate. For options issued to employees, we recognize stock compensation costs utilizing the fair value methodology over the related period of benefit. Grants of stock options and stock to non-employees and other parties are accounted for in accordance with the ASC 718.

Convertible Securities – Based upon ASC 815-15, we have adopted a sequencing approach regarding the application of ASC 815-40 to convertible securities issued subsequent to September 30, 2015. We will evaluate our contracts based upon the earliest issuance date.

Net Loss Per Share - Under the provisions of ASC Topic 260, "Earnings per Share," basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive.

As of December 31, 2020, there are also (i) stock option grants outstanding for the purchase of 506,667 common shares at a $1.496 average exercise price; and (ii) warrants for the purchase of 3,451,737 shares of common shares at a $2.428 average exercise price. In addition, we have an unknown number of common shares to be issued under the Crossover, 12% convertible promissory note financing and Labrys agreements in the case of default. In addition, the Company has an unknown number of common shares to be issued under the convertible notes with Chicago Venture, Iliad and St. George, and Silverback Capital financing agreements and warrants because the number of shares ultimately issued depends on the price at which the holder converts its debt to shares and exercises its warrants. The lower the conversion or exercise prices, the more shares that will be issued to the holder upon the conversion of debt to shares. The Company will not know the exact number of shares of stock issued to the holder until the debt is actually converted to equity.

As of December 31, 2019, there are also (i) stock option grants outstanding for the purchase of 550,000 common shares at an $1.491 average exercise price; and (ii) warrants for the purchase of 2,418,834 shares of common shares at a $3.465 average exercise price. In addition, the Company had have an unknown number of common shares to be issued under the Crossover financing agreements in the case of default. In addition, the Company had an unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing agreements because the number of shares ultimately issued to Chicago Venture depends on the price at which Chicago Venture converts its debt to shares and exercises its warrants. The lower the conversion or exercise prices, the more shares that will be issued to Chicago Venture upon the conversion of debt to shares. The company will not know the exact number of shares of stock issued to Chicago Venture until the debt is actually converted to Equity.

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

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

Advertising – Advertising costs are charged to selling, general and administrative expenses as incurred. Advertising and marketing costs for the years ended December 31, 2020 and 2019 were $144,964 and $309,541, respectively.

Comprehensive loss – Comprehensive loss is defined as the change in equity of a business during a period from non-owner sources. There were no differences between net loss for the years ended December 31, 2020 and 2019 and comprehensive loss for those periods.

Research and Development Expenses – There are no research and development expenses for the years ended December 31, 2020 and 2019, respectively.

Recent Accounting Pronouncements

Right of Use Assets and Liabilities- ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The standard establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are now classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of operations.

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40).* The amendment is meant to simplify the accounting for convertible instruments by removing certain separation models in subtopic 470-20 for convertible instruments. The amendment also changed the method used to calculate dilutes EPS for convertible instruments and for instruments that may be settled in cash. The amendment is effective for years beginning after December 15, 2021, with early adoption for years beginning after December 15, 2020 including interim periods for those fiscal years. We are currently evaluating the impact of adoption this standard on the Company's consolidated financial statements and related disclosures.

Based on the Company's review of accounting standard updates issued , there have been no other newly issued or newly applicable accounting pronouncements that have had, or are expected to have, a significant impact on the Company's consolidated financial statements.

NOTE 4 –BUSINESS COMBINATIONS, ACQUISITION PAYABLE AND OTHER TRANSACTION

Acquisition of EZ-CLONE Enterprises, Inc.

On October 15, 2018, the Company closed the Purchase and Sale Agreement with EZ-CLONE Enterprises, Inc. ("EZ-CLONE"), a California corporation (the "Agreement"). The total purchase price was $4 million of which $1,500,000 is payable in cash and $2.5 million payable in stock. At closing, we paid 51% of this amount totaling $2,040,000 via a (i) a cash payment of $645,000; and (ii) the issuance of 715,385 restricted shares of our common stock valued $1,395,000. The Agreement called for the Company, upon delivery of the remaining 49% of EZ-Clone stock, to acquire such stock within one year for $1,960,000, payable as follows: (i) a cash payment of $855,000; and (ii) the issuance of Company's common stock at a value of $1,105,000.

On November 5, 2019, the Company amended the Agreement with one 24.5% shareholder of EZ-CLONE to extend the date to purchase the remaining 49% of stock of EZ-CLONE in exchange for a 20% extension fee (a total of $171,000 for the 49% or $85,500 for each 24.5% shareholder) of the $855,000 cash payable at the earlier of the closing of $2,000,000 in funding or nine months (July 2020). The Company did not close the purchase of the remaining 49% of stock of EZ-CLONE by the extended deadline.

On September 15, 2020, the Company received notice that William Blackburn and Brad Mickelsen ("Plaintiffs"), minority shareholders of EZ-CLONE Enterprises, Inc., a majority owned subsidiary of the Company, filed a complaint against the Company and its officers Marco Hegyi and Mark Scott ("Officers"), in the Superior Court of California, County of Sacramento ("Complaint") for claims related to breach under the Purchase and Sale Agreement dated October 15, 2018 between the Company and Plaintiffs. As of December 4, 2020, the Company's officers were dismissed from the case. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief. See Note 17 for description of Legal Proceedings.

As of December 31, 2020 and 2019, the Company has recorded a liability of $2,131,000 for acquisition payable of which a $1,105,000 is payable in stock and $1,026,000 is payable in cash.

This acquisition accelerated the Company's revenue growth, increased the Company gross margins and added additional personnel.

The Company accounted for the acquisition in accordance with ASC 805, "Business Combinations". ASC 805 defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. ASC 805 requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date.

For accounting purposes, from the October 15, 2018 acquisition date and through November 4, 2019, the Company consolidated EZ-Clone given their control and treated its ability to acquire the remaining 49% interest in EZ-Clone as a de facto option to buy and has thus categorized it as a non-controlling interest until November 5, 2019 when the amended purchase agreement obligates the Company to purchase the remaining 49%. Effective in the quarter beginning October 1, 2019, the Company for accounting purposes, considers EZ-Clone to be 100% owned and thus eliminated the non-controlling interest and recorded an acquisition payable related to the balance owed. As of December 31, 2019, the Company has an acquisition payable totaling $1,926,000, of which $1,026,000 is currently due in cash and $900,000 is due in stock. The total liability consists of the discounted value of the future payments of $1,960,000 and the $171,000 extension fee payable. The Company accreted the difference between the carrying value of the acquisition payable and the contractual obligations as interest expense through July 2020 when payment was due. The Company recorded the $171,000 as a financing fee and expensed it as interest expense in 2019. During the fourth quarter of 2019, the Company recorded a noncash financing charge as interest expense totaling approximately $410,000 to recognize the acquisition payable and to eliminate the non-controlling interest. During the year ended December 31, 2020 the Company recognized an additional $205,000 of interest expense to accrete the acquisition payable in stock to $1,105,000.

As of the acquisition date in October 2018, the Company recognized approximately $3.4 million of intangible assets and began amortizing them over 3 years. In the fourth quarter of 2019, the Company completed its evaluation of assets acquired and finalized its asset valuation. The finalized valuation resulted in lower intangible assets from the original assessment, allocating some of the intangible to Goodwill and determined that the life of definite life intangibles to be 3.5 years (See Note 7). The Company adjusted the cost basis and accumulated amortization, reducing both, but did not change 2019 amortization expense that had been recorded through September 30, 2019 which was in excess of $800,000. The change in the purchase accounting also resulted in the recording of a deferred tax liability and the lowering of non-controlling interest by $587,750 and such reclassification was made to the December 31, 2018 balance sheet..

The summary of assets acquired and liabilities assumed is based upon the Company final evaluation done in the fourth quarter of 2019 and is detailed below.

Intangible assets	$	2,351,000
Goodwill		781,749
Net working capital		551,000
Property and equipment		318,000
Deferred tax liability		(587,750)
	$	3,413,999

The fair value of the intangible assets associated with the assets acquired was $2,351,000 estimated by using a discounted cash flow approach based on future economic benefits. In summary, the estimate was based on a projected income approach and related discounted cash flows over five years, with applicable risk factors assigned to assumptions in the forecasted results.

NOTE 5 – INVENTORY

Inventory as of December 31, 2020 and 2019 consisted of the following:

		December 31, 2020		December 31, 2019
Raw materials	$	456,723	$	329,482
Work in process		83,792		49,253
Finished goods		26,557		92,703
Inventory deposits		3,452		129,236
Total	$	570,524	$	600,674

Raw materials consist of supplies for product lines at EZ-CLONE.

Finished goods inventory relates to product lines EZ- CLONE.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2020 and 2018 consists of the following:

	December 31, 2020	December 31, 2019
Machinery, equipment and tooling	$ 356,867	$ 356,867
Computer equipment	16,675	16,675
Leasehold improvements	14,702	14,702
Total property and equipment	388,244	388,244
Less accumulated depreciation and amortization	(258,914)	(221,763)
Net property and equipment	$ 129,330	$ 166,482

Total depreciation expense was $37,152 and $89,232 for the years ended December 31, 2020 and 2019, respectively. All equipment is used for manufacturing, selling, general and administrative purposes and accordingly all depreciation is classified in cost of goods sold, selling, general and administrative expenses.

NOTE 7 – INTANGIBLE ASSETS

Intangible assets as of December 31, 2020 and 2019 consisted of the following:

	Estimated Useful Lives	December 31, 2020	December 31, 2019
Customer Lists	5 Years	$ 1,297,000	$ 1,297,000
Intellectual Property	5 Years	1,054,000	1,054,000
less accumulated amortization		(1,220,282)	(548,566)
Net Intangible assets-definitive life		1,130,718	1,802,434
Goodwill-indefinite life	N/A	781,749	781,749
Total intangible assets and goodwill		$ 1,912,467	$ 2,584,183

As of the EZ-CLONE acquisition date in October 2018, the Company originally recognized approximately $3.4 million of intangible assets and began amortizing them over 3 years. In the fourth quarter of 2019, the Company completed its evaluation of assets acquired and finalized its asset valuation. The finalized valuation resulted in lower intangible assets from the original assessment, allocated some of the intangible to Goodwill and determined that the life of definite life intangibles to be 3.5 years. In the 4th quarter of 2019, The Company adjusted the cost basis and accumulated amortization, reducing both, but did not change 2019 amortization expense that had been recorded through September 30, 2019 which was in excess of $800,000.

Total amortization expense was $671,716 and $838,262 for the years ended December 31, 2020 and 2019, respectively.

NOTE 8- LEASES

The Company previously entered into operating leases for retail and corporate facilities. These leases have terms which range from two to five years, and often include options to renew. These operating leases are listed as separate line items on the Company's December 31, 2018 Consolidated Balance Sheet and represent the Company’s right to use the underlying asset for the lease term. The Company’s obligation to make lease payments are also listed as separate line items on the Company's December 31, 2018 Consolidated Balance Sheet. Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, the Company recognized right-of-use assets and lease liabilities for operating leases of approximately $1,378,000 on January 1, 2019. Operating lease right-of-use assets and liabilities commencing after January 1, 2019 are recognized at commencement date based on the present value of lease payments over the lease term. During the three months ended September 30, 2019 the Company cancelled all but one lease and has recognized the rent and termination fees related to the cancelled leases as an expense in the quarter ended September 30, 2019. As of December 31, 2020, total right-of-use assets and operating lease liabilities for remaining long-term lease was $380,247 and $537,522, respectively. During the years ended December 31, 2020 and 2019, the Company recognized approximately $222,984 in total lease costs for the lease.

Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

Information related to the Company's operating right-of-use assets and related lease liabilities as of and for the year ended December 31, 2020 were as follows:

Cash paid for ROU operating lease liability $211,575
Weighted-average remaining lease term 3 years
Weighted-average discount rate 10%

Minimum future lease payments as of December 31, 2020

Year Ended December 31, 2020		$
2021	$	216,300
2022		222,792
2023		62,238
		501,330
Imputed interest		(95,690)
Total lease liability	$	405,640

NOTE 9- ACCOUNTS PAYABLE

Accounts payable were $1,146,195 and $1,157,090 as of December 31,2020 and 2019, respectively. Such liabilities consisted of amounts due to vendors for inventory purchases, audit, legal and other expenses incurred by the Company.

NOTE 10- ACCRUED EXPENSES

Accrued expenses were $2,592,251 and $259,093 as of December 31, 2020 and 2019, respectively. Such liabilities consisted of amounts due to sales tax, payroll and restructuring expense liabilities. On April 5, 2021, the Company entered into a Warrant Settlement Agreement dated March 31, 2021 with St. George and Iliad to resolve a dispute regarding prior financings. The Company agreed to issue St. George 11,750,000 shares of our common stock to cancel a warrant related to a February 9, 2018 subscription agreement. The Company agreed to issue Iliad 2,500,000 shares of our common stock to cancel a warrant related to a October 15, 2018 securities Purchase agreement. The Company record a loss on debt settlement of $2,422,500 and accrued a settlement liability for its obligation to issue future shares of common stock as of December 31, 2020. As of September 30, 2019, the Company closed retail stores in Portland, Maine, Encino, California and Calgary, Canada. The Company has restructuring reserves to settle primarily real estate lease issues and such reserves totaled $209,577 as of December 31, 2020 and December 31, 2019, respectively.

NOTE 11 – CONVERTIBLE NOTES PAYABLE, NET

Convertible notes payable as of December 31, 2020 consisted of the following:

	Principal	Accrued Interest	Debt Discount	Balance As of December 31, 2020
10% OID Convertible Promissory Notes	$ 1,453,163	$ 432,144	$ —	$ 1,885,307
12% Convertible Promissory Notes	253,000	5,888	(13,912)	244,976
12% Self-Amortizing Promissory Notes	969,746	10,981	(615,857)	364,870
	$ 2,675,909	$ 449,013	$ (629,769)	$ 2,495,153

Convertible notes payable as of December 31, 2019 consisted of the following:

	Principal	Accrued Interest	Debt Discount	Balance As of December 31, 2019
10% OID Convertible Promissory Notes	$ 2,195,007	$ 220,980	$ —	$ 2,415,987
Secured Advance Note	205,228	—	—	205,228
12% Convertible Promissory Notes	281,600	3,055	(21,591)	263,064
	$ 2,681,835	$ 224,035	$ (21,591)	$ 2,884,279

10% OID Convertible Promissory Notes at December 31, 2020

10% OID Convertible Promissory Notes-	Principal	Accrued Interest	Debt Discount	Balance As of December 31, 2020
Illiad 8-7-18	$ 250,637	$ 319,982	$ —	$ 570,620
Odyssey 7-22-19	390,000	59,595	—	449,595
CVP 1-29-20	555,000	50,088	—	605,088
Silverback 9-1-20 (1) - From Illiad 8-7-18	140,146	585		140,731
Silverback 11-18-20 (3) - From Illiad 8-7-18	117,380	1,894		119,274
	$ 1,453,163	$ 432,144	$ —	$ 1,885,307

Funding from Chicago Venture Partners, L.P. ("Chicago Venture" or "CVP"), Iliad Research and Trading, L.P. ("Iliad") and Odyssey Research and Trading, LLC, ("Odyssey"). The Company typically issues original issuance discount notes with these parties that has a stated interest rate of typically 10%. Accrued interest represents the interest to be accreted over the remaining term of the notes. These notes contain terms and conditions that are deemed beneficial conversion features and the Company recognizes a derivative liability related to these terms until the notes are converted. Upon the conversion of these notes, the Company records a loss on debt conversion and reduces their derivative liability. The notes may be converted to common stock after six months until they are converted.

As of December 31, 2020, the outstanding principal balance due to Chicago Venture, Iliad and Odyssey was $1,195,637 and accrued interest was $429,665 which results in a total amount of $1,625,302.

During the year ended December 31, 2020, Chicago Venture and Iliad converted principal and accrued interest of $600,000 into 4,882,919 shares of our common stock at a per share conversion price of $0.123 with a fair value of $1,006,518. The Company recognized $287,466 loss on debt conversions during the year ended December 31, 2020.

As of December 31, 2019, the outstanding principal balance due to Chicago Venture, Iliad and Odyssey, entities controlled by the same person, was $2,195,007 and accrued interest was $220,980, which results in a total amount of $2,415,987.

Silverback Capital Corporation

During 2020 Silverback Capital Corporation purchased from Iliad Research and Trading L.P. $993,855 of Iliad's outstanding note balance with the Company. During the year ended December 31, 2020, Silverback Capital Corporation converted principal and accrued interest of $746,632 into 9,510,000 shares of our common stock at an average per share conversion price of $0.0757 with a fair value of $1,084,870. The Company recognized $447,324 loss on Silverback debt conversions during the year ended December 31, 2020. As of December 31, 2020 the principal balance owed Silverback totals $247,740.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement Odyssey Research and Trading, LLC, ("Odyssey")

On July 23, 2019, the Company executed the following agreements with Odyssey: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security Agreement (collectively the "Odyssey Agreements"). The Company entered into the Odyssey Agreements with the intent to acquire working capital to grow the Company's businesses.

The total amount of funding under the Odyssey Agreements is $1,105,000. The Convertible Promissory Note carries an original issue discount of $100,000 and a transaction expense amount of $5,000, for total debt of $1,105,000. As of December 31, 2020 the principal balance owed Odyssey is $390,000. The Company agreed to reserve three times the number of shares based on the redemption value with a minimum of 3,333,334 shares of its common stock for issuance upon conversion of the Debt, if that occurs in the future. The

Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Odyssey's option, into the Company's common stock at $1.50 per share subject to adjustment as provided for in the Secured Promissory Notes.

The Company's obligation to pay the Debt, or any portion thereof, is secured by all of the Company's assets.

The Company has approximately $645,000 available under the Notes as of December 31, 2020. As of April 15, 2021, the Company has borrowed the remaining balance of $645,000 and the outstanding balance is convertible into our common stock.

The 10% Notes are convertible at the holder's option into the Company's common stock at 65% of the lower of $1.35 or the current fair market value of the stock. Based upon the closing price of the stock at December 31, 2020, the notes would convert to approximately 17,139,155 shares.

12% Convertible Promissory Notes at December 31, 2020

	Principal	Accrued Interest	Debt Discount	Balance As of December 31, 2020
12% Convertible Promissory Notes				
Power Up Lending Group Ltd 7/13/20 Convertible Promissory Note	$ 80,300	$ 4,435	$ (475)	$ 84,260
Power Up Lending Group Ltd 11/30/20 Convertible Promissory Note	113,850	1,124	(8,587)	106,387
Power Up Lending Group Ltd 12/8/20 Convertible Promissory Note	58,850	329	(4,850)	54,329
	$ 253,000	$ 5,888	$ (13,912)	$ 244,976

As of the beginning of 2020, the Company owed Power Up Lending Group Ltd (Power Up) $281,600. During 2020 the Company entered an additional $199,100 of convertible notes which were settled by year end. These $480,700 of notes were settled when $395,700 of notes were converted to common stock and a cash payment of $85,000 was made. As of December 31, 2020 the following Power Up convertible notes that the Company also entered into with Power Up Lon July 13, 2020, November 30, 2020, and December 8, 2020 for $253,000 to fund short-term working capital were still outstanding The Notes accrues interest at a rate of 12% per annum and became due in one year and are convertible into common stock at 75% of market value after six months. On December 31, 2020, the notes are convertible into X shares of common stock. The Company received cash of $220,000 under these three notes after deducting original issue discount and fees.

12% Self-Amortizing Promissory Notes at December 31, 2020

	Principal	**Accrued Interest**	**Debt Discount**	**Balance As of December 31, 2020**
12% Self-Amortizing Promissory Notes				
Labrys 8-31-20	$592,144	$986	$(454,431)	$138,700
EMA 10-2-20	221,000	6,031	(87,535)	139,496
FirstFire 10-12-20	156,602	3,964	(73,891)	86,675
	$969,746	$10,981	$(615,857)	$364,870

<u>Labrys Fund L.P.</u>

On August 31, 2020, the Company executed the following agreements with Labrys: (i) Securities Purchase Agreement; and (ii) Self-Amortization Promissory Note for $750,000 ("Note"); (collectively the "Labrys Agreements"). The Company entered into the Labrys Agreements with the intent to acquire working capital to grow the Company's businesses and complete the EZ-CLONE Enterprises, Inc. acquisition.

The total amount of funding received under the Labrys Agreements, after deducting the $75,000 original issue discount and $42,250 of fees was $632,750. The Note requires a payment of $250,000 on November 30, 2020 and $51,042 at each month end from December 2020 through November 30, 2021. The Company issued commitment shares of 1,662,000 shares related to the Labrys Agreement and the value of such shares are being treated as a discount and being amortized over the term of the note. The Debt is due on or before November 30, 2021. The Debt carries an interest rate of twelve percent (12%). Upon an event of default as defined in the agreement, the Debt is convertible into the Company's common stock at the closing price the day before the conversion, subject to adjustment as provided for in the Note. The Company agreed to reserve 5,043,859 shares of its common stock for issuance if any Debt is converted.

Labrys Fund Amendment #2

On November 30, 2020, GrowLife, Inc. ("the Company") entered into Amendment No. 2 of the Self-Amortization Promissory Note ("Amendment No. 2") amendment that certain Self-Amortization Promissory Note originally issued by the Company to Labrys on August 31, 2020 (the "Note"). Amendment No. 2 included the following amendments to the Note:

1. The Company issued 550,000 restricted shares of the Company's common stock (the "Amendment Shares") to the Holder on or before December 2, 2020 and the value of such shares are being amortized as a debt discount through the remaining term of the note.
2. The first Amortization Payment (as defined in the Note) of $250,000 originally due on November 30, 2020, shall instead be due as follows: $125,000 was paid by December 3, 2020 and $125,000 is due on or before December 31, 2020.
3. The Company shall no longer have the right to exercise the extension options as defined in the agreement.

Labrys Fund Amendment #3

On December 31, 2020, GrowLife, Inc. ("the Company") entered into Amendment No. 3. Pursuant to Amendment No. 3 the Company issued 340,000 restricted shares of the Company's common stock (the "Amendment Shares") and issued a common stock purchase warrant for the purchase of 1,033,057 shares of the Company's common stock (the "Warrant"). The value of the Amendment shares, and the Warrant are being amortized as a debt discount through the remaining term of the note. In exchange for the Warrant and Amendment Shares, the outstanding payment of $125,000 owed on or before December 31, 2020 (as described in Amendment No. 2) ("Outstanding Payment"), was amended so that no payment was required and that the future monthly payments beginning in January 2021 through November 30, 2022 have been increased to $61,458 from $51,042.

EMA Financial LLC

On October 2, 2020, the Company executed the following agreements with EMA: (i) Securities Purchase Agreement; and (ii) Self-Amortization Promissory Note for $221,000 ("Note"); (collectively the "EMA Agreements"). The Company entered into the EMA Agreements with the intent to acquire working capital to grow the Company's businesses and complete the EZ-CLONE Enterprises, Inc. acquisition.

FirstFire Global Opportunities Fund, LLC

On October 2, 2020, the Company executed the following agreements with FF: (i) Securities Purchase Agreement; and (ii) Self-Amortization Promissory Note ("Note"); (collectively the "FF Agreements"). The Company entered into the FF Agreements with the intent to acquire reduce debt.

Notes Payable

	Principal	Accrued Interest	Debt Discount	Balance As of December 31, 2020
1% Note Payble under Paycheck Protection Program (GLI) 4-14-20	$ 362,500	$ 2,638	$ —	$ 365,138
1% Note Payble under Paycheck Protection Program (EZ) 5-3-20	203,329	1,371	—	204,700
3.75% Economic Injury Disaster Loan (GLI) 6-19-20	149,900	3,001	—	152,901
3.75% Economic Injury Disaster Loan (EZ) 6-19-20	149,900	3,075	—	152,975
Parties related to shareholders of EZ-CLONE Enterprises, Inc.	49,144	—	—	49,144
Total notes payable	914,773	10,085	—	924,857
Less long term notes payable	(485,679)	—	—	(485,679)
Short term notes payable	$ 429,094	$ 10,085	$ —	$ 439,179

On April 17, 2020, the Company received $362,500 under the Paycheck Protection Program of the U.S. Small Business Administration's (SBA) 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). At December 31, 2020, the Company recorded interest expense of $2,638 at 1%. The loan is due April 2022 and requires 12 monthly equal principal payments beginning May 2021 unless forgiven. The Company is utilizing the funds in accordance with the legal requirements and expects this loan to be forgiven during 2021.

On May 7, 2020, EZ-CLONE received $203,329 under the Paycheck Protection Program of the U.S. Small Business Administration's 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). At December 31, 2020, the Company recorded interest expense of $1,371 at 1%. The loan is due April 2022 and requires 12 monthly equal principal payments beginning May 2021 unless forgiven. The Company is utilizing the funds in accordance with the legal requirements and expects this loan to be forgiven during 2021.

On June 19, 2020, the Company, including its EZ-CLONE subsidiary, received two loans totaling $299,800 under the Economic Injury Disaster Loan Program of the U.S. Small Business Administration's 7(a) Loan Program pursuant to the Coronavirus, Aid, Relief and Economic Security Act (CARES Act), Pub. Law 116-136, 134 Stat. 281 (2020). Repayment terms on the loans are monthly principal and interest totaling approximately $1,392 over a 30-year term at 3.75%. In addition, the loan contains a 12-month payment deferral beginning on the loan date. There is no prepayment penalty on the EIDL loan. For the year ended December 31, 2020 the company recorded interest expense of $6,152.

On December 31, 2020, our EZ-CLONE subsidiary had a $49,144 balance of "founder's loans" with no interest rate of payment terms defined. During 2020, $55,000 of these loans were repaid.

Secured Advance Note with Crossover Capital Fund I LLC ("Crossover")

On September 20, 2019, the Company closed a Secured Advance Note with Crossover Capital Fund I LLC (the "Crossover Note"). The total amount of funding under the Crossover Note is $250,000. The Crossover Note was due in nine months and is repayable weekly at $9,205. The Crossover Note was convertible into the Company's common stock at the market value share price subject to adjustment as provided for in the Crossover Note in the case of default. As of December 31, 2020, the outstanding principal balance due Crossover was $0. During the year ended December 31, 2020, Crossover converted principal and accrued interest of $171,234 into 1,121,560 shares of our common stock

The following is a schedule of notes payable maturities as of December 31, 2020:

2021	$	439,179
2022		194,226
2023		5,813
2024		6,035
2025		6,265
thereafter		273,340
	$	924,858

NOTE 12 – DERIVATIVE LIABILITY

The Convertible Notes payable include a conversion feature that pursuant ASC 815 "Derivatives and Hedging", has been identified as an embedded derivative financial instrument and which the Company accounts for under the fair value method of accounting.

If the conversion features of conventional convertible debt provide for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (BCF). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20. Debt with Conversion and Other Options. In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense over the life of the debt using the effective interest method. The debt is convertible at the lesser of 65% of the fair value of the Company's common stock or $1.35 requiring the conversion feature to be bifurcated from the host debt contract and accounting for separately as a derivative, resulting in periodic revaluations. The notes underlying the derivatives are short term in nature and generally converted to stock in less than one year. The derivative is valued at period end with the key inputs being current stock price and the conversion feature.

There was a derivative liability of $1,101,436 and $1,300,915 as of December 31, 2020 and December 31, 2019, respectively. For the twelve months ended December 31, 2020 and 2019, the Company recorded non-cash expense $28,173 and non-cash income of $361,179 related to the "change in fair value of derivative" expense related to the Chicago Venture, Iliad, and PowerUp financing. These were the only changes in level 3 fair value instruments during such periods.

Derivative liability as of December 31, 2020 was as follows:

	Fair Value Measurements Using Inputs			Carrying Amount at
Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**December 31, 2020**
Liabilities:				
Derivative Instruments	$ —	$ —	$ 1,101,436	$ 1,101,436
Total	$ —	$ —	$ 1,101,436	$ 1,101,436

There were no transfers among Level 1, Level 2, or Level 3 categories in the periods presented.

Derivative liability as of December 31, 2019 was as follows:

	Fair Value Measurements Using Inputs			Carrying Amount at
Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**December 31, 2019**
Liabilities:				
Derivative Instruments	$ —	$ —	$ 1,300,915	$ 1,300,915
Total	$ —	$ —	$ 1,300,915	$ 1,300,915

The change in the value of the derivative during 2020 and 2019 resulted in a benefit totaling $199,479 and $496,338 and these were the only changes in level 3 fair value instruments during such years. There were no transfers among Level 1, Level 2, or Level 3 categories in the periods presented.

NOTE 13 – RELATED PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS

Since January 1, 2019, the Company engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

Certain Relationships

Please see the transactions with Chicago Venture Partners, L.P. discussed in Notes 11, 13 and 14.

Transactions with Marco Hegyi

On October 21, 2018, a 5-year Warrant for Mr. Hegyi to purchase up to 66,666 shares of our common stock at an exercise price of $1.50 per share vested. The warrant was valued at $390,000 and we recorded $178,750 as compensation expense for the year ended December 31, 2018. On October 15, 2018, Mr. Hegyi received Warrants to purchase up to 320,000 shares of the Company's common stock at an exercise price of $1.80 per share and which vest on October 15, 2018, 2019 and 2020. The Warrants are exercisable for 5 years. The warrants that vested on October 15, 2019 and 2018 were valued at $192,000 and the Company recorded compensation expense of $78,000 and $96,000 for the years ended December 31, 2020 and 2019.

On October 15, 2018, the Board of Directors approved an Employment Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its Chief Executive Officer through October 15, 2021. See Note 16 for additional details.

Transactions with an Entity Controlled by Mark E. Scott

On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 133,333 shares of common stock at an exercise price of $1.80 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at $40,000. The Company recorded $13,333 as a compensation expense for the years ended December 31, 2020 and 2019.

Transaction with Joseph Barnes

On October 15, 2018, Mr. Barnes was granted an option to purchase 120,000 shares of common stock at an exercise price of $1.80 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The Company recorded $12,000 as a compensation expense for the years ended December 31, 2020 and 2019.

Transactions with Katherine McLain

Ms. Katherine McLain was appointed as a director on February 14, 2017. Ms. McLain resigned from the Board of Directors on January 5, 2021. On February 22, 2019, the Company issued 54,054 shares of the Company's common stock to Katherine McLain valued at $1.11 per share or $60,000. On April 16, 2020, the Company issued 20,000 shares of the Company's common stock to Katherine McLain valued at $0.295 per share or $5,900. This issuance was an award for independent director services.

Transaction with Thom Kozik

Mr. Kozik was appointed as a director on October 5, 2017. On February 22, 2019, the Company issued 54,054 shares of the Company's common stock to Mr. Kozik valued at $1.11 per share or $60,000. On April 16, 2020, the Company issued 20,000 shares of the Company's common stock to Mr. Kozik valued at $0.295 per share or $5,900. This issuance was an award for independent director services.

Notes Payable to Related Parties

EZ-CLONE has $49,144 and $104,144 due to relatives of the shareholders as of December 31, 2020 and 2019, respectively.

NOTE 14 – EQUITY

Authorized Capital Stock

On October 9, 2019, the Company approved the reduction of authorized capital stock, whereby the total number of the Company's authorized common stock decreased from 6,000,000,000 by a ratio of 1 for 50, to 120,000,000 shares. On November 20, 2019, the Company filed a Certificate of Amendment of Certificate of Incorporation with the Secretary of State of the State of Delaware. As a result of the reduction, we have an aggregate 130,000,000 authorized shares consisting of: (i) 120,000,000 shares of common stock, par value $0.0001 per share, and (ii) 10,000,000 shares of preferred stock, par value $0.0001 per share.

The reverse stock split of 1 for 150 was effective at the open of business on November 27, 2019 whereupon the shares of the Company's common stock began trading on a split-adjusted basis. Our CUSIP number will change to 39985X203.

Non-Voting Preferred Stock

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

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

Capital Stock Issued and Outstanding

As of December 31, 2020, the Company had issued and outstanding securities of 51,843,221 shares of common stock.

Voting Common Stock

Holders of the Company's common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. An election of directors by our stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election. On all other matters, the affirmative vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote is required for approval, unless otherwise provided in our articles of incorporation, bylaws or applicable law. Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors, subject to any preferential dividend rights of outstanding preferred stock.

In the event of our liquidation or dissolution, the holders of common stock are entitled to receive proportionately all assets available for distribution to stockholders after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to and may be adversely affected by the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

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

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

During the year ended December 31, 2020, the Company had the following issuances of unregistered equity securities to accredited investors unless otherwise indicated:

Debt and accrued interest of $1,947,819 was converted into 19,573,905 shares of our common stock at an average per share conversion price of $0.099.

The Company issued 15 shares related to a previous reverse stock split.

The Company issued 154 shares of common stock related to the exercise of warrants for $485, or $3.151 per share.

On April 16, 2020, the Company issued 20,000 shares of the Company's common stock each to Katherine McLain and Thom Kozik, directors valued at $0.295 per share or $5,900. This issuance was an annual award for independent director services.

On August 31, 2020, the Company issued commitment shares of 3,552,000 shares related to financing agreements at $0.165 or $586,920.

During the year ended December 31, 2019, the Company had the following issuances of unregistered equity securities to accredited investors unless otherwise indicated:

During the year ended December 31, 2019, the Company issued 147,890 shares to suppliers for services provided. The Company valued the shares at $174,435 per share or $1.179.

During the year ended December 31, 2019, Chicago Venture and Iliad converted principal and accrued interest of $1,357,872 into 3,120,521 shares of our common stock at a per share conversion price of $0.766 with a fair value of $2,284,081. The Company recognized $926,208 loss on debt conversions during the year ended December 31, 2019.

On February 15, 2019, the Company entered into a Termination of Existing Agreements and Release with CANX USA, LLC, a Nevada limited liability company. In exchange for the Agreement and cancellation of the CANX Agreements and Warrants, the Company agreed to issue $1,000,000 of restricted common stock priced at the February 7, 2019 closing price of $1.20, or 833,333 restricted common stock shares. The Company recorded a loss on debt conversion of $1,000,000 during the year ended December 31. 2019. Pursuant to the Agreement, the Parties agreed to terminate, release and discharge all existing and further rights and obligations between the Parties under, arising out of, or in any way related to that certain Waiver and Modification Agreement and Amended and Restated Joint Venture Agreement made as of July 10, 2014, and any ancillary agreements or instruments thereto, including, but not limited to, the Warrants issued to CANX entitling CANX to purchase 3,600,000 shares of the Company's common stock at an exercise price of $4.95.

On May 2, 2019, the Company issued 26,111 shares valued at $1.90 to a former employee related to a cashless stock option exercise.

On September 21, 2019, The Company issued 33,333 shares of common stock to Crossover as a commitment fee that was valued at fair market value at $25,000 or $0.75 per share and was expensed during the year ended December 31, 2019.

On November 27, 2019, the Company issued 35,011 fractional shares as a result of the reverse stock split that was effective at the open of business on November 27, 2019.

The Company issued 188,335 shares in conjunction with resolving a business matter. The Company valued the shares at $0.60 per share of $113,000 and this amount was recorded as a loss on debt conversions during the twelve months ended December 31, 2019.

On December 17, 2019, Forglen LLC converted principal and accrued interest of $305,075 into 1,375,285 shares of the Company's common stock at a per share conversion price of $0.222.

Warrants

The Company had the following warrant activity during the year ended December 31, 2020:

On December 31, 2020, the Company entered into Amendment No. 3 to the Self-Amortization Promissory Note ("Amendment No. 3") as originally issued by the Company to Labrys on August 31, 2020 (the "Note"), Pursuant to Amendment No. 3 the Company issued a common stock purchase warrant for the purchase of 1,033,057 shares of the Company's common stock (the "Warrant") to the Holder on December 31, 2020. The exercise price is $$0.121 or $125,000. The three year warrant expires on December 31, 2023.

The Company issued 154 shares of common stock related to the exercise of warrants for $485, or $3.151 per share.

On April 5, 2021, the Company entered into a joint Warrant Settlement Agreement dated March 31, 2021 with St. George and Iliad to settle a dispute regarding prior financings. The Company agreed to issue St. George 11,750,000 shares of the Company's common stock to cancel a warrant related to a February 9, 2018 subscription agreement. The Company agreed to issue Iliad 2,500,000 shares of the Company's common stock to cancel a warrant related to a October 15, 2018 securities Purchase agreement. We recorded a loss on debt settlement of $2,423,000 for the year ended December 31, 2020 and accrued the liability as of December 31, 2020.

The Company had the following warrant activity during the year ended December 31, 2019:

On February 15, 2019, the Company entered into a Termination of Existing Agreements and Release with CANX USA, LLC, a Nevada limited liability company. In exchange for the Agreement and cancellation of the CANX Agreements and Warrants, the Company agreed to issue $1,000,000 of restricted common stock priced at the February 7, 2019 closing price of $1.20, or 833,333 restricted common stock shares. The Company recorded a loss on debt conversion of $1,000,000 during the year ended December 31, 2019. Pursuant to the Agreement, the Parties agreed to terminate, release and discharge all existing and further rights and obligations between the Parties under, arising out of, or in any way related to that certain Waiver and Modification Agreement and Amended and Restated Joint Venture Agreement made as of July 10, 2014, and any ancillary agreements or instruments thereto, including, but not limited to, the Warrants issued to CANX entitling CANX to purchase 3,600,000 shares of the Company's common stock at an exercise price of $4.95.

A summary of the warrants issued as of December 31, 2020 is as follows:

	December 31, 2020	
	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2020	2,418,834	$ 3.465
Issued	1,033,057	0.121
Exercised	(154)	(3.151)
Forfeited	—	—
Expired	—	—
Outstanding at December 31, 2020	3,451,737	$ 2.464
Exercisable at December 31, 2020	3,451,737	

A summary of the status of the warrants outstanding as of December 31, 2020 is presented below:

	December 31, 2020					
Number of Warrants	Weighted Average Remaining Life		Weighted Average Exercise Price	Shares Exercisable		Weighted Average Exercise Price
1,033,057	3.00	$	0.121	1,033,057	$	0.121
366,667	5.66		1.500	366,667		1.500
320,000	3.88		1.800	320,000		1.800
1,407,428	0.83		3.150	1,407,428		3.150
324,586	2.00		7.500	324,586		7.500
3,451,737	1.898	$	2.464	3,451,737	$	2.464

Warrants had no intrinsic value as of December 31, 2020.

The warrants were valued using the following assumptions:

Dividend yield	0%
Expected life	1-5 Years
Expected volatility	70-200%
Risk free interest rate	0.78-2.6%

NOTE 15– STOCK OPTIONS

Description of Stock Option Plan

The Company has 1,333,333 shares available for issuance under the First Amended and Restated 2017 Stock Incentive Plan. The Company has outstanding unexercised stock option grants totaling 506.667 shares at an average exercise price of $1.496 per share as of December 31, 2020. The Company filed registration statements on Form S-8 to register 1,333,333 shares of our common stock related to the 2017 Stock Incentive Plan and First Amended and Restated 2017 Stock Incentive Plan.

Determining Fair Value under ASC 718

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

Stock Option Activity

During the year ended December 31, 2020, the Company had the following stock option activity:

Stock option grants for 43,333 shares of common stock at an exercise price of $1.431 per share expired.

As of December 31, 2020, there are 506,667 options to purchase common stock at an average exercise price of $1.496 per share outstanding under the 2017 Amended and Restated Stock Incentive Plan. The Company recorded $47,170 and $62,132 of compensation expense, net of related tax effects, relative to stock options for the year ended December 31, 2020 and 2019 in accordance with ASC Topic 718. As of December 31, 2020, there is $21,468 of total unrecognized costs related to employee granted stock options that are not vested. These costs are expected to be recognized over a period of approximately 2.73 years.

Stock option activity for the years ended December 31, 2020 and 19 are as follows:

	Options Shares	Weighted Average Exercise Price	Option $
Outstanding as of January 1, 2019	666,667	$ 1.410	$ 940,000
Granted	23,333	1.457	34,000
Exercised	(26,111)	(0.900)	(23,500)
Forfeitures	(113,889)	(1.146)	(130,500)
Outstanding as of December 31, 2019	550,000	1.491	820,000
Granted	—	—	—
Exercised	—	—	—
Forfeitures	(43,333)	(1.431)	(62,000)
Outstanding as of December 31, 2020	506,667	$ 1.496	$ 758,000

The following table summarizes information about stock options outstanding and exercisable at December 31, 2020:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price Exercisable
$ 0.90	80,000	2.25	$ 0.90	80,000	$ 0.90
1.05	66,667	2.25	1.05	66,667	1.05
1.50	106,665	2.16	1.50	103,110	1.50
1.80	253,335	3.25	1.80	168,889	1.80
	506,667	2.73	$ 1.496	418,667	$ 1.43

Stock option grants totaling 506,667 shares of common stock no intrinsic value as of December 31, 2020.

The stock option grants were valued using the following assumptions:

Dividend yield	0%
Expected life	1-5 Years
Expected volatility	70-200%
Risk free interest rate	0.78-2.6%

NOTE 16 - SEGMENT REPORTING

The management of the Company considers the business to have two operating segments (i) the distribution of GrowLife products and GrowLife, Inc. and (ii) EZ-CLONE, a manufacturer of cloning products. EZ-CLONE has provided the majority of the Company's gross margins during 2020 and 2019. The financial results from GrowLife products has been diminishing with the Company's focus on EZ-CLONE.

The reporting for the year ended December 31, 2020 and 2019 was as follows (in thousands):

Segment	Revenue	Gross Margin	Segment Operating Profit (Loss)	Segment Assets
Year Ended December 31, 2020				
GrowLife distribution products and GrowLife, Inc.	$ 1,568	$ 314	$ (2,465)	$ 108
EZ-CLONE cloning manufacturing (1)	5,433	2,666	575	4,247
Total segments	$ 7,001	$ 2,980	$ (1,890)	$ 4,355
Year Ended December 31, 2019				
GrowLife distribution products and GrowLife, Inc.	$ 4,487	$ 663	$ (4,857)	$ (228)
EZ-CLONE cloning manufacturing (2)	3,731	1,886	(160)	4,278
Total segments	$ 8,218	$ 2,549	$ (5,017)	$ 4,050

(1) Includes $240,000 per quarter for EZ-CLONE expenses recorded at GrowLife for 2020. This also includes all acquisition balances discussed in Note 4.

(2) Includes $300,000 for EZ-CLONE expenses recorded at GrowLife for 2019. This also includes all acquisition balances discussed in Note 4.

NOTE 17 – COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Legal Proceedings

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

As of September 30, 2019, the Company closed retail stores in Portland, Maine, Encino, California and Calgary, Canada. The Company has recorded restructuring reserves related to the store closures. The Company cannot determine the outcome of these proceedings.

On October 15, 2018, the Company closed the Purchase and Sale Agreement with EZ-CLONE Enterprises, Inc., a California corporation (the "Agreement"). On November 5, 2019, the Company amended the Agreement with one 24.5% shareholder of EZ-CLONE Enterprises, Inc. ("EZ-CLONE"), to extend the date to purchase the remaining 49% of stock of EZ-CLONE in exchange for a 20% extension fee (a total of $171,000 for the 49% or $85,500 for each 24.5% shareholder) of the $855,000 cash payable at the earlier of the closing of $2,000,000 in funding or nine months (July 2020). The Company did not close the purchase of the remaining 49% of stock of EZ-CLONE by the extended deadline.

On September 15, 2020, the Company received notice that William Blackburn and Brad Mickelsen, minority shareholders of EZ-CLONE Enterprises, Inc. ("Plaintiffs"), a majority owned subsidiary of the Company, filed a complaint against the Company and its officers Marco Hegyi and Mark Scott ("Officers"), in the Superior Court of California, County of Sacramento ("Complaint") for claims related to breach under the Purchase and Sale Agreement dated October 15, 2018 between the Company and Plaintiffs. On September 15, 2020, the Company filed a notice of removal with the California Superior Court, County of Sacramento and the United States District Court for the Eastern District of California. The case was removed to Federal District Court for the Eastern District of California and Plaintiffs filed an Ex Parte Application for TRO and an Order for Preliminary Injunction with the Federal Court. The TRO was granted on September 16, 2020 and a preliminary injunction hearing was scheduled for September 29, 2020. After reviewing all pleadings and oral arguments at the hearing, the Court issued a ruling granting Plaintiffs' request for a preliminary injunction. Subsequent to September 29, 2020, the parties are providing legal briefs to the Federal court to determine if rescission should be granted. We cannot determine the outcome of these proceedings.

The Complaint also alleges that the Company and its Officers made certain false representations and other claims to consummate the Transaction and as a result has failed to complete the second closing as required under Purchase and Sale Agreement. As of December 4, 2020, the company's officers were dismissed from the case. The Plaintiffs are seeking rescission of the Purchase and Sale Agreement, unspecified damages in excess of ten thousand dollars, and other equitable relief.

As of December 31, 2020, the Company recorded a liability of $2,131,000 for acquisition payable of which a $1,105,000 is payable in stock and $1,026,000 is payable in cash.

Operating Leases

The Company is obligated under the following leases for its various facilities.

On May 31, 2020, the Company rented space at 5400 Carillon Point, Kirkland, Washington 98033 for $623 per month for the Company's corporate office and use of space in the Regus network, including California. The Company's agreement expires May 31, 2021 and was extended to May 31, 2022.

On December 14, 2018, GrowLife, Inc. entered into a lease agreement with Pensco Trust Company for a 28,000 square feet industrial space at 10170 Croydon Way, Sacramento, California 95827 used for the assembly and sales of plastic parts by EZ-CLONE. The monthly lease payment is $17,500 and increases approximately 3% per year. The lease expires on December 31, 2023.

Employment Agreements

Employment Agreement with Marco Hegyi

On October 15, 2018, the Board of Directors approved an Employment Agreement with Marco Hegyi pursuant to which we engaged Mr. Hegyi as its Chief Executive Officer through October 15, 2021.

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

Mr. Hegyi received 320,000 warrants in October 2018 as follows: (i) Warrant to purchase up to 106,667 shares of our common stock at an exercise price of $1.80 per share which vested immediately; and (ii) two Warrants to purchase up to 106,667 shares of common stock of the Company at an exercise price of $1.80 per share. One warrant for 106,667 shares of our common stock vested on October 15, 2019. Additional warrants for 106,667 shares of the Company's common stock vest on October 15, 2020 and 2021, respectively. The Warrants are exercisable for 5 years.

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

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

Employment Agreement with Mark E. Scott

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

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

Our Board of Directors granted Mr. Scott an option to purchase 133,333 shares of the Company's Common Stock under our 2017 Amended and Restated Stock Incentive Plan at an exercise price of $1.80 per share. The Shares vest quarterly over three years. All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our Amended and Restated Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as employee to us is terminated by us without Cause or Mr. Scott terminates his employment with us for Good Reason as defined in the Scott

Agreement, in either case upon or within twelve months after a Change in Control as defined in our amended and Restated Stock Incentive Plan, then 100% of the total number of Shares shall immediately become vested.

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

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

Mr. Scott resigned from the Board of Directors effective December 15, 2020 and as Chief Financial Officer as of December 31, 2020.

Employment Agreement with Joseph Barnes

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

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

The Board of Directors granted Mr. Barnes an option to purchase 120,000 shares of the Company's Common Stock under the Company's 2017 Amended and Restated Stock Incentive Plan at an exercise price of $1.80 per share. The Shares vest quarterly over three years. All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our Amended and Restated Stock Incentive Plan, including vesting requirements. In the event that Mr. Barnes's continuous status as employee to us is terminated by us without Cause or Mr. Barnes terminates his employment with us for Good Reason as defined in the Barnes Agreement, in either case upon or within twelve months after a Change in Control as defined in our Amended and Restated Stock Incentive, then 100% of the total number of Shares shall immediately become vested.

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

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

NOTE 18 – INCOME TAXES

The Company has incurred losses since inception, which have generated net operating loss carryforwards. The net operating loss carryforwards arise solely from United States sources. EZ-CLONE currently files its own separate tax return as it does not meet the qualifications for being included in the Company's consolidated tax returns. Taxable losses and the future benefit of EZ-CLONE losses since our transaction with them in October 2018 have not been material through 2019. During 2020 EZ-CLONE generated taxable income and our 2020 current tax expense below relates to estimated taxes owed by EZ-CLONE.

The Company has net operating loss carryforwards of approximately $24.9 million which expire in 2022-2038. Because it is not more likely than not that sufficient tax earnings will be generated to utilize the net operating loss carryforwards, the deferred tax asset related to the net operating loss carryforwards has a corresponding 100% valuation allowance. Additionally, under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses may be limited in certain circumstances, including a change in control.

Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that the Company will be able to utilize any net operating loss carryforwards in the future. The Company is subject to possible tax examination for the years 2014 through 2020.

For the year ended December 31, 2020 the Company's effective tax rate was 4% which is higher than expected because the Company's subsidiary EZ-CLONE files its own tax return and generated taxable income for the year. For the year ended December 31, 2019, the Company's effective tax rate was a benefit of 2%, this was solely the result of the reduction of the deferred tax liability originally recorded in 2018 in connection with the acquisition of EZ-CLONE. In accordance with the ASC 740, "Accounting for income taxes", and in connection with the acquisition of EZ-CLONE the Company recorded a deferred tax liability of $587,750 related to the inside basis difference between book and tax basis of intangible assets acquired. Beginning in 2019, the deferred tax liability is reduced annually by $117,550 as the difference in book and tax basis becomes less. The reduction of the deferred tax liability resulted in a tax benefit of $117,550 in 2020 and 2019. As of December 31, 2020 and 2020 the deferred tax liability totals $352,649 and $472,200.

For the years ended December 31, 2020 and 2019, income tax (expense) benefit consisted of the following:

	2020	2019
Current tax (expense) :		
Federal	$ (263,983)	$ —
State	(85,520)	—
Total current tax (expense)	(349,503)	—
Deferred tax benefit:		
Federal	117,550	117,750
State	—	—
Total deferred benefit	117,550	117,750
Total income tax (expense) benefit, net	$ (231,953)	$ 117,750

The principal components of the Company's deferred tax assets and liabilities at December 31, 2020 and 2019 are as follows:

	2020	2019
Net operating loss carryforwards	$ 5,232,524	$ 4,685,324
Less valuation allowance	(5,232,524)	(4,685,324)
Net deferred tax assets	—	—
Deferred tax liability-intangible basis difference	(352,649)	(470,200)
Net deferred tax liability	$ (352,649)	$ (470,200)

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Federal statutory rate	-21.0%	-21.0%
State statutory rate	-6.0%	-6.0%
Change in valuation allowance	27.0%	27.0%
Separate tax for subsidiary	-6.0%	0.0%
Reduction in deferred tax liability	2%	2%
Effective tax (expense) benefit rate	-4%	2%

NOTE 19– SUBSEQUENT EVENTS

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

These were the material events subsequent to December 31, 2020:

On February 26, 2021, GrowLife, Inc., a Delaware corporation (the "Company"), closed the transactions described below with Bucktown Capital, LLC, a Utah limited liability company ("Bucktown").

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement

On February 26, 2021, the Company executed the following agreements with Bucktown: (i) Securities Purchase Agreement; (ii) Secured Convertible Promissory Note; and (iii) Security Agreement (collectively the "Bucktown Agreements"). The Company entered into the Bucktown Agreements with the intent to acquire working capital to grow the Company's businesses and to repay all outstanding obligations owed to: (i) Labrys Fund, L.P. ("Labrys") in the amount of $615,333.34; and (ii) PowerUp Lending Group Ltd. ("PowerUp") in the amount of $128,858.24.

The total amount of funding under the Bucktown Agreements is $3,088,000 as represented in the Secured Convertible Promissory Note ("Note"). The total purchase price for this Note is $2,850,000; the Note carries an aggregate original issue discount of $228,000 and a transaction expense amount of $10,000. The Note is comprised of two (2) tranches (each, a "Tranche"), consisting of (i) an initial Tranche in an amount equal to $928,000 and any interest, costs, fees or charges accrued thereon or added thereto under the terms of the Note and the Bucktown Agreements (the "Initial Tranche"), and (ii) an additional Tranche, which is exclusively dedicated for the purchase of the remaining equity interest in EZ-CLONE, in the amount of $2,160,000.00, plus any interest, costs, fees or charges accrued thereon or added thereto under the terms of the Note and the Bucktown Agreements (the "Subsequent Tranche"). The Initial Tranche shall correspond to $68,000 of the OID and the Transaction Expense Amount and may be converted into shares of Common Stock at any time subsequent to the Purchase Price Date. The Subsequent Tranche corresponds to the Investor Note and $160,000 of the aggregate OID.

The Company agreed to reserve three times the number of shares based on the redemption value with a minimum of 23,340,000 shares of its common stock for issuance upon conversion of the Note, if that occurs in the future. If not converted sooner, the Note is due on or before February 26, 2022. The Note has an interest rate of eight percent (8%). The Note is convertible, at Bucktown's option, into the Company's common stock at $0.30 per share ("Lender Conversion Price"), subject to adjustment as provided for in the Note. However, in the event the Market Capitalization (as defined in the Note) falls below the Minimum Market Capitalization the Lender Conversion Price shall equal the lower of the Lender Conversion Price and the Market Price as of any applicable date of Conversion.

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

Employment Agreement with Michael E. Fasci

On January 1, 2021, the Compensation Committee of the Company entered into an Employment Agreement with Michael E. Fasci to serve as the Company's Chief Financial Officer through December 31, 2023. Mr. Fasci formerly served as Chairman of the Board.

Mr. Fasci's shall receive an annual salary of $165,000 and may earn an annual bonus equal to two percent (2%) of the Company's EBITDA for that year. Mr. Fasci was also granted an option to purchase 500,000 shares of the Company's Common Stock under the Company's 2018 Stock Incentive Plan at an exercise price of $0.12 per share ("Option"). The Option vests quarterly over three years, has a five-year life and allows for a cashless exercise. The stock option grant is subject to the terms and conditions of the Company's Stock Incentive Plan, including vesting requirements.

In the event that Mr. Fasci's continuous status as employee to the Company is terminated by the Company without Cause or Mr. Fasci terminates his employment with the Company for Good Reason as defined in the Fasci Agreement, in either case upon or within twelve months after a Change in Control as defined in the Company's Stock Incentive Plan, then 100% of the total number of Shares shall immediately become vested.

Mr. Fasci is entitled to participate in all group employment benefits that are offered by the Company to the Company's senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements.

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

On January 5, 2021 Mr. Fasci was appointed to the Company's Board of Directors as well as to the Company's Compensation Committee. On January 12, 2021 Mr. Fasci was appointed Secretary of the Company.

Resignation of Ms. Katherine McLain

On January 5, 2021, Katherine McLain resigned as a Director of GrowLife, Inc. ("the Company"). The resignation was not the result of any disagreement with the Company on any matter relating to the Company's operations, policies, or practices.

As the result of Ms. McLain's resignation, Mr. Thom Kozik, current board member and member of the Compensation Committee was appointed to serve as Chairman of the Compensation Committee.

Warrant Settlement Agreement with St. George and Iliad

On April 5, 2021, GrowLife, Inc., a Delaware corporation (the "Company"), entered into a joint Warrant Settlement Agreement (the "Agreement") dated March 31, 2021, with St. George and Iliad to resolve a dispute related to prior financings. The Company agreed to issue to St. George 11,750,000 shares of the Company's common stock to cancel a warrant related to a February 9, 2018 subscription agreement. The Company agreed to issue Iliad 2,500,000 shares of the Company's common stock to cancel a warrant related to a October 15, 2018 Securities Purchase Agreement. We recorded a loss on debt settlement of $2,423,000 for the year ended December 31, 2020. On April 5, 2021, the Company issued Iliad 2,500,000 shares to settle its obligation.

Debt Conversions

On January 8, 2021, Silverback Capital Corporation converted principal and accrued interest of $115,220 into 1,600,000 shares of the Company's common stock at a per share conversion price of $0.1108.

On January 19, 2021, PowerUp Funding converted principal and accrued interest of $50,000 into 613,497 shares of the Company's common stock at a per share conversion price of $0.0815.

On January 20, 2021, PowerUp Funding converted principal and accrued interest of $34,680 into 425,521 shares of the Company's common stock at a per share conversion price of $0.0815.

On January 25, 2021, Silverback Capital Corporation converted principal and accrued interest of $187,200 into 2,600,000 shares of the Company's common stock at a per share conversion price of $0.0720.

On February 8, 2021, Silverback Capital Corporation converted principal and accrued interest of $230,720 into 2,800,000 shares of the Company's common stock at a per share conversion price of $0.0824.

On February 17, 2021, Silverback Capital Corporation converted principal and accrued interest of $192,280 into 1,900,000 shares of the Company's common stock at a per share conversion price of $0.1012.

On March 4, 2021, Silverback Capital Corporation converted principal and accrued interest of $294,750 into 2,500,000 shares of the Company's common stock at a per share conversion price of $0.1179.

On March 19, 2021, Silverback Capital Corporation converted principal and accrued interest of $202,177 into 2,900,000 shares of the Company's common stock at a per share conversion price of $0.1117.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, GrowLife, Inc. (the "Registrant") has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GROWLIFE, INC.

Date: April 15, 2021

By: /s/ Marco Hegyi
Marco Hegyi
Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Michael E. Fasci
Michael E. Fasci
Chief Financial Officer, Director and Secretary
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURES	TITLE	DATE
/s/ Marco Hegyi Marco Hegyi	Chief Executive Officer and Director (Principal Executive Officer)	April 15, 2021
/s/ Michael E. Fasci Michael E. Fasci	Chief Financial Officer, Director and Secretary (Principal Financial/Accounting Officer)	April 15, 2021
/s/ Thom Kozik Thom Kozik	Director	April 15, 2021