

GROWLIFE, INC.
Form 10-K
March 28, 2018

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, 2017

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 90-0821083
incorporation or organization) (I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

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

Emerging growth company

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

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

As of June 30, 2017 (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 minus stock held by the officers, directors and known holders of 10% or more of the Company's common stock) was \$14,662,328.

The number of shares of common stock, \$.0001 par value, issued and outstanding as of March 28, 2018: 2,913,559,657 shares.

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’s goal is to become the nation’s largest cultivation facility service provider

for the production of organics, herbs and greens and plant-based medicines.

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

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

The GrowLife mission is to measure its success by its customer’s success;

serving cultivators of all sizes as a reliable business partner and its shareholders with value and trust.

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

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

GrowLife’s vision of indoor cultivation is that it is

inevitable; not another gardening alternative.

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

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

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

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

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

GrowLife's five pillars of planned growth are 1) direct commercial sales, 2) products, 3) online markets, 4) consumer GrowLife Cube, and 5) retail --- are organized across four audience-centric divisions. We sell to commercial customers through our GrowLife Commercial division to large-scale customers for both hydroponics and FreeFit, our business materials products.

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

The other GrowLife divisions will continue to distribute and sell over 15,000 products and FreeFit through its e-commerce distribution channel, ShopGrowLife.com. New products will be developed by GrowLife Innovations Inc., the research and development arm of the company, and GrowLife Retail will drive our licensed retail storefronts. GrowLife, Inc. and its divisions are organized and directed to operate strictly in accordance with all applicable state and federal laws.

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

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

Second, selling through multiple channels with readily available products is foundational to GrowLife, however differentiation comes from unique products available only from GrowLife. In October 2017 we formed GrowLife Innovations, Inc., which is where we housed our recently acquired building material assets. FreeFit® is a patented product line of eco-friendly and easy to install vinyl floor tiles with patterns and prints that can provide passive (no resource demands such as power) benefits to our customers. GrowLife is currently testing custom configurations with cultivators to quantify its economic value to customers. Building materials is a starting point for GrowLife Innovations. Other products and services are being developed and tested with plans to bring them to market over the next few months.

Third, GrowLife's customers come in different stages from small caregiver cultivators to large 80,000+ square foot commercial operations. Along with our business-to-business (B2B) focus we have been expanding to the business-to-consumer (B2C) by offering the GrowLife Cube subscription products. We recognize demand is

increasing from small, aspiring cultivation consumers across the country seeking to learn and use a complete indoor growing solution. To address this demand, we packaged GrowLife Cube, an entry-level offering for consumers to get hands-on experience with indoor growing. Although many still buy the components separately, we are working on developing videos and supplier tools to attract them to this one-stop shop program. Many states are giving individuals the legal freedom to cultivate crops in their own home and GrowLife Cube gives them the necessary tools.

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

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

Resumed Trading of our Common Stock

On October 17, 2017, we were informed by Alpine Securities Corporation ("Alpine") that Alpine had demonstrated compliance with the Financial Industry Regulatory Authority ("FINRA") Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. We filed an amended application with the OTC Markets to list the Company's common stock on the OTCQB and begin to trade on this market as of March 28, 2018.

Market Size and Growth

Markets Serviced

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

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

Hydroponic Growing Equipment (US)

Industry Definition:

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

2017 Key Industry Statistics:

—

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

—

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

—

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

—
No companies have been identified as “major players”.

—
Household consumers comprise the largest market segment for the industry, accounting for 48.1% of the market in 2017, with farms and agriculture representing 37.2% of the market and 14.7% represented by other types including: retail establishments, equipment wholesalers, repair shops, industrial companies, and government bodies.

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

Product and Service Segmentation:

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

Key Industry Drivers:

—

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

—

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

—

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

—

Impact of the Cannabis Industry

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According to data released by Forbes, the medical marijuana market is expected to generate \$6.7 billion in 2017 alone. Given the size of the medical marijuana market, a rising number of entrepreneurs have invested in hydroponic growing equipment to be part of the medical marijuana gold rush. This investment has been one of the primary drivers of the aggressive growth that this industry has experienced over the past five years.

o

In certain states, patients with medical marijuana cards are also allowed to grow limited quantities of marijuana for personal use. This has encouraged patients to purchase hydroponic growing equipment and pursue small-scale marijuana cultivation.

Competitive advantages:

—

Most hydroponic growing equipment stores are small business operations that serve their immediate geographic areas. GrowLife serves a nationwide audience with expansion into Canada.

Growth Outlook:

“The industry is growing faster than overall GDP”

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

Factors:

—

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

—

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

—

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

—

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

—

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

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

Competitive Advantages

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

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

—
Barriers to Entry in this industry are Low

Medical and Recreational Marijuana Growing Industry

Industry Definition:

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

US 2016 Key Industry Statistics:

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

—
The industry grew 28.3% from 2011 to 2016 and is expected to continuing growing at a rate of 33.5% through 2021.

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

—
No companies have been identified as “major players”.

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

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

Key Industry Drivers:

—

Medical marijuana growers continue to benefit from the steadily aging population. Chronic illnesses have become more prevalent as the population continues to age, driving demand for medical marijuana.

—

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

—

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

Growth Outlook:

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

—

Industry revenue is estimated to increase at an annualized rate of 33.5% to \$15.0 billion over the five years to 2021.

Factors:

—

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

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

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

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

Industry Definition:

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

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

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

2016 Key Industry Statistics:

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

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

Luxury Vinyl Tile

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

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

—

LVT sales have more than doubled in three years.

—

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

—

The commercial market rose from 297.2 million square feet to 326.3 million square feet, a 9.8% increase. While residential brought in more dollars—\$1.512 billion—last year, commercial LVT still performed well, posting a 12.5% increase, rising from \$576.4 million in 2015 to \$648.6 million in '16.

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

Competitive advantages:

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

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

—
Direct to consumer sales model that major competitors cannot excite on due to resale agreements

Growth Outlook:

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

Key Market Priorities

Our goal of becoming the nation's largest cultivation facility service provider for the production of organics, herbs and greens and plant-based medicines requires GrowLife to: (i) expand our nationwide, multi-channel sales network presence, (ii) offer the best terms for the full range of build-out equipment and consumable supplies, and (iii) deliver superior, innovative products.

First, we provide distribution through retail, e-commerce and direct sales to have national coverage and serve cultivators of all sizes. Each channel offers varying pricing for differing benefits. Retail sells at list price by offering inventory convenience, e-commerce provides lower prices without requiring local inventory, and direct sales delivers the best bid price for high-volume purchasers. Additional points of service may be added through existing distribution locations and services. This may be done in several manners and programs that may incorporate cultivator-centric locations with other retailer store owners.

Second, we serve the needs of all size cultivators and each one's unique formulation, or 'recipe'. We provide thousands of varieties of supplies from dozens of vendors and distributors. More importantly is our experience of knowing which products to recommend under each customer's circumstance.

And third, our experience with extensive customers allows us to determine specific product needs and sources to test new designs. Lights, pesticides, nutrients, building materials and growing systems are some examples of products that GrowLife can provide. Popular name branded products are seeking to be part of the GrowLife Company in many forms. In exchange, we can market their products in a unique manner over generic products.

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

Employees

As of December 31, 2017, we had thirteen full-time and part-time employees. Marco Hegyi, our Chief Executive Officer, is based in Kirkland, Washington. Mark E. Scott, our Chief Financial Officer, is based primarily in Seattle, Washington. In addition, we have approximately six full and part time consultants located throughout the United

States and Canada who operate our businesses. None of our employees are subject to a collective bargaining agreement or represented by a trade or labor union. We believe that we have a good relationship with our employees.

Key Partners

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

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

Competition

Certain 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 Sunlight Supplies 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, www.freefit.com, www.growlifeinc.com, www.growlifeeco.com and www.greners.com.

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

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

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

Government Regulation

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

companies.

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

THE COMPANY'S COMMON STOCK

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

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

On October 17, 2017, we were informed by Alpine Securities Corporation (“Alpine”) that Alpine has demonstrated compliance with the Financial Industry Regulatory Authority (“FINRA”) Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. We filed an amended application with the OTC Markets to list the Company’s common stock on the OTCQB and begin to trade on this market as of March 28, 2018.

PRIMARY RISKS AND UNCERTAINTIES

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

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

Risks Related to Our Business

Risks Associated with Securities Purchase Agreement with Chicago Venture

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

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

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

amounts available under the Securities Purchase Agreement and/or Chicago Venture Note.

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

Suspension of trading of the Company's securities.

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

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

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

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

We are involved in Legal Proceedings.

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

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

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

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

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

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

The Amended and Restated Joint Venture Agreement with CANX modified the Joint Venture Agreement dated November 19, 2013 to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to nine months,

subject to extension; (ii) up to \$10,000,000 in working capital loans with each loaning requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to adjustment, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to adjustment, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; and (vi) a four year term, subject to adjustment.

We entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding required approval in advance by Logic Works, provides for interest at 6% with a default interest of 24% per annum and required repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.0070 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. As of September 30, 2017, the outstanding balance on the Convertible Note was \$41,225.

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

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

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

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

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

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

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

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

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

The marijuana industry faces strong opposition.

It is believed by many that large, well-funded businesses may have a strong economic opposition to the marijuana industry. We believe that the pharmaceutical industry clearly does not want to cede control of any product that could

generate significant revenue. For example, medical marijuana will likely adversely impact the existing market for the current “marijuana pill” sold by mainstream pharmaceutical companies. Further, the medical marijuana industry could face a material threat from the pharmaceutical industry, should marijuana displace other drugs or encroach upon the pharmaceutical industry’s products. The pharmaceutical industry is well funded with a strong and experienced lobby that eclipses the funding of the medical marijuana movement. Any inroads the pharmaceutical industry could make in halting or impeding the marijuana industry harm our business, prospects, results of operation and financial condition.

Marijuana remains illegal under Federal law.

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

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

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

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

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

Potential Convertible Note Defaults.

Several of the Company's convertible promissory notes remain outstanding beyond their respective maturity dates. This may trigger an event of default under the respective agreements. The Company is working with these noteholders to convert their notes into common stock and intends to resolve these outstanding issues as soon as practicable. Any default could have a significant adverse effect on our cash flows and should we be unsuccessful in negotiating an extension or other modification, we may have to restructure our operations, divest all or a portion of its business, or file for bankruptcy.

Closing of bank 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 accounts since March 2014. We have been able to open other bank accounts. However, we may have other banking accounts closed. These factors impact management and could have a material adverse effect on our business, financial condition and/or results of operations.

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

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

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

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

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

We have experienced net losses since inception. As of December 31, 2017, we had an accumulated deficit of \$129.7 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 management has concluded that we have material weaknesses in our internal controls over financial reporting and that our disclosure controls and procedures are not effective.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. During the review of our internal controls over financial reporting for the year ended December 31, 2017, our management identified material weaknesses in our internal control over financial reporting. If these weaknesses continue, investors could lose confidence in the accuracy and completeness of our financial reports and other disclosures.

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

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

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

As a result of fluctuations in our revenue and operating expenses that may occur, management believes that period-to-period comparisons of our results of operations are unlikely to provide a good indication of our future performance.

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. Litigation, complaints, and enforcement actions involving us and our distributors could consume considerable amounts of financial and other corporate resources, which could have a negative impact on our sales, revenue, profitability and growth prospects. As we are currently in the process of implementing our direct sales distributor program, we have not been, and are not currently, subject to any material litigation, complaint or enforcement action regarding distributor misconduct by any federal, state or foreign regulatory authority.

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

We may depend on contract manufacturers in the future to produce our products. These manufacturers could fail to produce products to our specifications or in a workmanlike manner and may not deliver the units on a timely basis.

Our manufacturers may also have to obtain inventories of the necessary parts and tools for production. Any change in manufacturers to resolve production issues could disrupt our ability to fulfill orders. Any change in manufacturers to resolve production issues could also disrupt our business due to delays in finding new manufacturers, providing specifications and testing initial production. Such disruptions in our business and/or delays in fulfilling orders would harm our reputation and would potentially cause us to lose our market.

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

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

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

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

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

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

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

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

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

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

We have limited insurance.

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

Risks Related to our Common Stock

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

CANX and Logic Works

As of December 31, 2017, CANX holds warrants representing approximately 18.6% of our common stock on a fully-converted basis and could be considered a control group for purposes of SEC rules. However, their agreements

limit their ownership to 4.99% individually and each of the parties disclaims its status as a control group or a beneficial owner due to the fact that their beneficial ownership is limited to 4.99% per their agreements. Beneficial ownership includes shares over which an individual or entity has investment or voting power and includes shares that could be issued upon the exercise of options and warrants within 60 days after the date of determination.

TCA and Chicago Venture

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

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

Trading in our stock is limited by the lack of market makers and the SEC's penny stock regulations.

On April 10, 2014, as a result of the SEC suspension in the trading of our securities, we lost all market makers and traded on the grey market of OTCBB. Until we complied with FINRA Rule 15c2-11, we traded on the grey market, which has limited quotations and marketability of securities. Holders of our common stock found it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock, and the market value of our common stock declined.

On October 17, 2017, we were informed by Alpine Securities Corporation ("Alpine") that Alpine has demonstrated compliance with the Financial Industry Regulatory Authority ("FINRA") Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. As a result, Alpine may initiate an unpriced quotation for our common stock. On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority ("FINRA") on our Form 15c2-11. We filed an amended application with the OTC Markets to list the Company's common stock on the OTCQB and began to trade on this market as of March 20, 2018.

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, 2017, there were approximately 2.37 billion shares of our common stock issued and outstanding. In addition, as of December 31, 2017, there are also (i) stock option grants outstanding for the purchase of 56 million common shares at a \$0.007 average exercise price; (ii) warrants for the purchase of 595 million common shares at a \$0.031 average exercise price; and (iii) 198 million shares related to convertible debt that can be converted at 0.0036 per share. During the year ended December 31, 2017, Chicago Venture converted principal and accrued interest of \$2,688,000 into 554 million shares of our common stock at a per share conversion price of \$0.049; and (iii) Logic Works converted principal and interest of \$291,000 into 82.6 million shares of our common stock at a per share conversion price of \$0.004.

In addition, we have an unknown number of common shares to be issued under the Chicago Venture 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. The lower the conversion price, the more shares that will be issued to Chicago Venture upon the conversion of debt to shares. We won't know the exact number of shares of stock issued to Chicago Venture until the debt is actually converted to equity. If all stock option grant and warrant and contingent shares are issued, approximately 2.682 billion of our currently authorized 6 billion shares of common stock will be issued and outstanding. For purposes of estimating the number of shares issuable upon the exercise/conversion of all stock options, warrants and contingent shares, we assumed the number of shares and average share prices detailed above.

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

Significant shares of common stock are held by our principal shareholders, other Company insiders and other large shareholders. As affiliates as defined under Rule 144 of the Securities Act or Rule 144 of the Company, our principal shareholders, other Company insiders and other large shareholders may only sell their shares of common stock in the

public market pursuant to an effective registration statement or in compliance with Rule 144.

Some of the present shareholders have acquired shares at prices as low as \$0.007 per share, whereas other shareholders have purchased their shares at prices ranging from \$0.0036 to \$0.78 per share.

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

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

Our Convertible Notes Payable and our 6% Convertible Secured Convertible Notes may require an adjustment in the current conversion price of \$0.0036 per share if we issue common stock, warrants or equity below the price that is reflected in the convertible notes payable. The conversion price of the convertible notes 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 beneficial transactions to our common shareholders.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Operating Leases

On October 21, 2013, we entered into a lease agreement for retail space for its hydroponics store in Avon (Vail), Colorado. The lease expires on September 30, 2018. Monthly rent for year one of the lease is \$2,792 and increased 3.5% per year thereafter through the end of the lease. We terminated this lease agreement as of August 31, 2017.

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On December 7, 2016, we entered into entered into a Consent to Judgement and Settlement Agreement related to our retail hydroponics store located in Portland, Maine. This Agreement provides for a monthly lease payment of \$5,373 through May 1, 2020. We also agreed to a repayment schedule for past due rent and owe \$45,175 as of December 31, 2017. We are past due on the repayment schedule by \$45,175 as of December 31, 2017. We do not have an option to extend the lease after May 1, 2020.

On May 31, 2017, we rented space at 5400 Carillon Point, Kirkland, Washington 98033 for \$623 per month for our corporate office and use of space in the Regus network, including California. Our agreement expires May 31, 2018 and is expected to be renewed for another year.

On October 1, 2017, GrowLife Hydroponics, Inc. entered into a lease in Calgary, Canada. The monthly lease is approximately \$1,997. The lease expires September 30, 2022.

On December 19, 2017, GrowLife Innovations, Inc. entered into a lease in Grand Prairie, Texas dated October 9, 2017, for the manufacturing and distribution of its flooring products. The monthly lease is approximately \$15,000. The lease expires December 15, 2018 and can be renewed.

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.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

We have authorized 6,010,000,000 shares of capital stock, of which 6,000,000,000 are shares of voting common stock, par value \$0.0001 per share, and 10,000,000 are shares of preferred stock, par value \$0.0001 per share.

Certificate of Elimination for Series B and C Preferred Stock

On October 24, 2017, the Company filed a Certificate of Elimination with the Secretary of State of the State of Delaware to eliminate the Series B Convertible Preferred Stock and Series C Preferred Stock of the Company. None of the authorized shares of either the Series B or Series C Preferred Stock were outstanding.

The Certificate of Elimination, effective upon filing, had the effect of eliminating from the Company's Certificate of Incorporation, as amended, all matters set forth in the Certificate of Designations of the Series B Convertible Preferred Stock and Series C Preferred Stock with respect to each respective series, which were both previously filed by the Company with the Secretary of State on October 22, 2015. Accordingly, the 150,000 shares of Series B Preferred Stock and 51 shares of Series C Preferred Stock previously reserved for issuance under their respective Certificates of Designation resumed their status as authorized but unissued shares of undesignated preferred stock of the Company upon filing of the Certificate of Elimination.

Capital Stock Issued and Outstanding

As of December 31, 2017, we have issued and outstanding securities on a fully diluted basis, consisting of:

2,367,634,022 shares of common stock;

Stock option grants for the purchase of 56,000,000 shares of common stock at average exercise price of \$0.007;

Warrants to purchase an aggregate of 595,000,000 shares of common stock with expiration dates between November 2018 (subject to extension) and October 2023 at an exercise price of \$0.031 per share;

198,216,194 shares of common stock to be issued for the conversion of Convertible Notes Payables at a conversion price of \$0.0026 per share; and

An unknown number of common shares to be issued under the Chicago Venture Partners, L.P. financing agreements.

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, 2017, we had warrants to purchase 595,000,000 shares of common stock with expiration dates between November 2018 (subject to extension) and October 2023 at an exercise price of \$0.031 per share.

Options to Purchase Common Stock

On October 23, 2017, our shareholders voted to approve the 2017 Stock Incentive Plan., increasing to 100,000,000 the maximum allowable shares of the Company's common stock allocated to the 2017 Stock Incentive Plan. We have 44,000,000 shares available for issuance. We have outstanding unexercised stock option grants totaling 55,000,000 shares at an average exercise price of \$0.007 per share as of December 31, 2017. We filed a registration statement on Form S-8 to register 100,000,000 shares of Company's common stock related to the 2017 Stock Incentive Plan.

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

Our common stock traded on the grey market under the symbol “PHOT” through February 17, 2016. While the company was without a market maker, its stock does trade directly between buyers and sellers on the grey sheets. On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the FINRA on our Form 15c2-11. On April 10, 2014, as a result of the SEC suspension in the trading of our securities, we lost all market makers and traded on the grey market of OTCBB. On October 17, 2017, we were informed by Alpine that they had demonstrated compliance with FINRA Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. We filed an amended application with the OTC Markets to list the Company’s common stock on the OTCQB and begin to trade on this market as of March 20, 2018.

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

Period Ended	High	Low
Year Ending December 31, 2017		
December 31, 2017	\$0.037	\$0.001
September 30, 2017	\$0.012	\$0.002
June 30, 2017	\$0.007	\$0.001
March 31, 2017	\$0.020	\$0.005

Year Ending December 31, 2016

December 31, 2016	\$0.021	\$0.007
September 30, 2016	\$0.020	\$0.006
June 30, 2016	\$0.027	\$0.015
March 31, 2016	\$0.058	\$0.003

As of March 24, 2018, the closing price of the company's common stock was \$0.016 per share. As of March 24, 2018, there were 2,913,559,657 shares of common stock issued and outstanding. We have approximately 120 stockholders of record. This number does not include over 92,000 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 Issuer Direct Corporation located 500 Perimeter Park, Suite D, Morrisville NC 27560, and their telephone number is (919) 481-4000.

Dividends

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.

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, 2017, we had the following sales of unregistered sales of equity securities.

During the three months ended December 31, 2017, we issued 5,000,000 shares to three directors. The shares were valued at the fair market price of \$0.005 per share or \$25,000.

During the three months ended December 31, 2017, we issued 29,889,623 shares to suppliers for services provided. We valued the shares at \$0.01 per share or \$298,655.

During the three months ended December 31, 2017, Chicago Venture converted principal and accrued interest of \$535,000 into 171,381,904 shares of our common stock at a per share conversion price of \$0.0031.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2017 related to the equity compensation plan in effect at that time.

	(a)	(b)	(c)
			Number of securities
			remaining available
	Number of securities	Weighted-average	for future issuance
	to be issued upon	exercise price of	under equity compensation
	exercise of outstanding	outstanding options,	plan (excluding securities
Plan Category	options, warrants and rights	warrants and rights	reflected in column (a))
Equity compensation plan			
approved by shareholders	56,000,000	\$0.007	44,000,000
Equity compensation plans			
not approved by shareholders			
Total	56,000,000	\$0.007	44,000,000

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, 2017 and 2016. 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,

	2017	2016	2015	2014	2013
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
STATEMENT OF OPERATIONS					
DATA:					
Net revenue	\$2,452	\$1,231	\$3,500	\$8,538	\$4,859
Cost of goods sold	2,181	1,276	2,981	7,173	4,006
Gross profit	271	(45)	519	1,365	853
General and administrative expenses	2,320	2,764	2,684	7,851	11,796
Operating (loss)	(2,049)	(2,809)	(2,165)	(6,486)	(10,943)
Other expense	(3,272)	(4,886)	(3,524)	(80,140)	(10,437)
Net (loss)	\$(5,321)	\$(7,695)	\$(5,689)	\$(86,626)	\$(21,380)
Net (loss) per share	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.10)	\$(0.04)
Weighted average number of shares	2,044,521,389	1,197,565,907	884,348,627	834,503,868	593,034,693

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

Our goal of becoming the nation's largest cultivation facility service provider for the production of organics, herbs and greens and plant-based medicines continues to guide our decisions. Our mission is to best serve more cultivators in the design, build-out, expansion and maintenance of their facilities with products of high quality, exceptional value and competitive price. Through knowledgeable representatives, regional centers and its e-commerce website, GrowLife provides essential and hard-to-find goods including growing media, industry-leading hydroponics equipment, organic plant nutrients, and thousands more products to specialty grow operations across the United States.

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

We are focusing on future success. In that regard, we believe that the hydroponics supply industry will experience significant growth and, as a result, operating in this industry has become highly competitive, cash intensive and customer centric. However, we have plans to address these challenges.

First, the opportunity to sell both infrastructure equipment and recurring supplies to the indoor cultivation industry is constantly increasing as demand for indoor cultivation grows across the United States. We believe the demand will continue to grow and more states and municipalities enact rules and regulations allowing for more indoor cultivation activities. We plan to continue with our multi-faceted distribution strategy, which we believe serves customers in the following manner: Direct sales to large commercial customers, retail in some markets for local convenience, and e-commerce via GrowLifeEco.com to fulfill orders across the nation from customers of all sizes.

Second, serving what we see as an increasing number of cultivators has become cash intensive because of the need for large inventory levels at retail, extensive e-commerce online marketing, and supporting payment terms to large accounts. We need to arrange for financing support to be competitive. We have learned that retail success is about having the right products on hand, knowledgeable and experienced talent, accessible advisory services and superior turn-over ratios. Currently, GrowLifeEco.com offers over 15,000 products, far beyond the 3,000 found in Greners.com, its former online store.

Third, our customers come in different stages from caregiver cultivators to 80,000 square foot commercial operations. With the use of e-commerce, we endeavor to reach as many customers as possible in areas where we do not have stores or a direct sales presence. Earlier this year GrowLife built GrowLifeEco.com, our new e-commerce website, that is optimized for mobile devices. Our next step is to put web marketing in place to increase awareness, traffic and conversions.

Also, we recognize demand is increasing from small, aspiring cultivation consumers across the country seeking to learn and use a complete indoor growing solution. To address this demand, we packaged GrowLife Cube, a development-stage annual subscription service, for consumers to get hands-on experience with indoor growing. Although many still buy the components separately, we are working on developing videos and supplier tools to attract them to this one-stop shop subscription program. Given the election results in California the GrowLife Cube subscription service will evolve with greater value and specialty services to be announced in the fourth quarter.

Resumed Trading of our Common Stock

On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on our Form 15c2-11. On October 17, 2017, we were informed by Alpine Securities Corporation (“Alpine”) that Alpine has demonstrated compliance with the Financial Industry Regulatory Authority (“FINRA”) Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. We filed an amended application with the OTC Markets to list the Company’s common stock on the OTCQB and begin to trade on this market as of March 20, 2018.

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)

Year Ended December 31,

2017	2016	\$ Variance	% Variance
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Net revenue	\$2,452	\$1,231	\$1,221	99.2%
Cost of goods sold	2,181	1,276	905	-70.9%
Gross profit	271	(45)	316	702.2%
General and administrative expenses	2,320	2,764	(444)	16.1%
Operating loss	(2,049)	(2,809)	760	27.1%
Other income (expense):				
Change in fair value of derivative	496	(1,324)	1,820	137.5%
Interest expense, net	(1,281)	(817)	(464)	-56.8%
Other income (expense), primarily related to TCA funding	16	145	(129)	-89.0%
Loss on debt conversions	(2,503)	(2,890)	387	13.4%
Total other (expense) income	(3,272)	(4,886)	1,614	33.0%
(Loss) before income taxes	(5,321)	(7,695)	2,374	30.9%
Income taxes - current benefit	-	-	-	0.0%
Net (loss)	\$(5,321)	\$(7,695)	\$2,374	30.9%

YEAR ENDED DECEMBER 31, 2017 COMPARED TO THE YEAR ENDED DECEMBER 31, 2016

Revenue

Net revenue for the year ended December 31, 2017 increased \$1,221,000 to \$2,452,000 as compared to \$1,231,000 for the year ended December 31, 2016. The increase resulted from increased sales personnel and channels of distribution and the development of the reflective tiles and flooring product line.

Cost of Goods Sold

Cost of sales for the year ended December 31, 2017 increased \$905,000 to \$2,181,000 as compared to \$1,276,000 for the year ended December 31, 2016. The increase was due increased sales, offset by lower cost of sales related to favorable product mix and increased supplier discounts.

Gross profit was \$271,000 for the year ended December 31, 2017 as compared to a gross profit loss of (\$45,000) for the year ended December 31, 2016. The gross profit percentage was 11.1% for the year ended December 31, 2017 as compared to (3.7%) for the year ended December 31, 2016. The gross profit increase was due increased sales, offset by lower cost of sales related to favorable product mix and increased supplier discounts.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2017 were \$2,320,000 as compared to \$2,764,000 for the year ended December 31, 2016. The variances were as follows: (i) an increase in insurance of \$73,000 (ii) expense of our annual shareholder meeting of \$125,000; (iii) an increase in payroll of \$131,000; (iv) an increase in public relations of \$106,000; and (v) and an increase in other expenses of \$111,000; offset by (v) a decrease in legal expense of \$68,000; and (vi) a decrease in rent of \$46,000. As part of the general and administrative expenses for the year ended December 31, 2017, we recorded public relation, investor relation or business development expenses of \$106,000, \$0 and \$0 respectively.

Non-cash general and administrative expenses for the year ended December 31, 2017 were \$294,000 including (i) depreciation and amortization of \$2,000; (ii) stock based compensation of \$216,000 related to stock option grants and warrants; and (iii) common stock issued for services of \$76,000.

Non-cash general and administrative expenses for the year ended December 31, 2016 were \$1,422,000 including (i) depreciation and amortization of \$115,000; (ii) stock based compensation of \$146,000 related to stock option grants; (iii) common stock issued for services of \$285,000; and (iv) the impairment of GrowLife Hydro, Inc. long-lived assets of \$876,000.

Other Expense

Other expense for the year ended December 31, 2017 was \$3,272,000 as compared to other expense of \$4,886,000 for the year ended December 31, 2016. The other expense for the year ended December 31, 2017 included (i) change in derivative liability of \$496,000 and (ii) other income of \$16,000; offset by (iii) interest expense of \$1,281,000 and (iv) loss on debt conversions of \$2,503,000. The change in derivative liability is the non-cash change in the fair value and relates to our derivative instruments. The non-cash interest related to the amortization of the debt discount associated with our convertible notes and accrued interest expense related to our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price.

The other expense for the year ended December 31, 2016 included (i) interest expense of \$817,000; (ii) loss on debt conversions of \$2,890,000; (iii) change in derivative liability of \$1,324,000; offset by (iv) and other income of \$145,000. The change in derivative liability is the non-cash change in the fair value and relates to our derivative instruments. The non-cash interest related to the amortization of the debt discount associated with our convertible notes and accrued interest expense related to our notes payable. The loss on debt conversions related to the conversion of our notes payable at prices below the market price.

Net (Loss)

Net loss for the year ended December 31, 2017 was \$5,321,000 as compared to \$7,695,000 for the year ended December 31, 2016 for the reasons discussed above.

Net loss for the year ended December 31, 2017 included non-cash expenses of \$3,462,000, (i) depreciation and amortization of \$2,000; (ii) stock based compensation of \$216,000 related to stock option grants and warrants; (iii) common stock issued for services of \$76,000. (iv) accrued interest and amortization of debt discount on convertible notes payable of \$623,000; (v) write-off of derivative liability to additional paid in capital to of \$538,000; and (vi) loss on debt conversions of 2,503,000, offset by (vii) change in derivative liability of \$496,000.

Net loss for the year ended December 31, 2016 included non-cash expense of \$6,271,000, including (i) depreciation and amortization of \$115,000; (ii) stock based compensation of \$146,000 related to stock option grants; (iii) common stock issued for services of \$285,000; (iv) the impairment of GrowLife Hydro, Inc. long-lived assets of \$876,000; (v) accrued interest and amortization of debt discount on convertible notes payable of \$635,000; (v) loss on debt conversions of \$2,890,000; and (vi) change in derivative liability of \$1,324,000.

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

LIQUIDITY AND CAPITAL RESOURCES

We had cash of \$69,000 and a net working capital deficit of approximately \$3,396,000 (less derivative liability of \$2,660,000) as of December 31, 2017. We expect losses to continue as we grow our business. Our cash used in operations for the years ended December 31, 2017 and 2016 was \$2,082,000 and \$1,212,000, respectively.

Shortly after the SEC suspended trading of our securities on April 10, 2014, some of our primary suppliers rescinded our credit terms and required us to pay cash for our product purchases and pay down our outstanding balance with these suppliers.

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

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

Funding Agreements with Chicago Venture Partners, L.P.

On February 1, 2017, we closed the transactions described below with Chicago Venture Partners, L.P. (“Chicago Venture”).

Securities Purchase Agreement, Secured Promissory Notes, Membership Interest Pledge Agreement and Security Agreement

On January 9, 2017, the Company executed the following agreements with Chicago Venture: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; (iii) Membership Interest Pledge Agreement; and (iv) Security Agreement (collectively the “Chicago Venture Agreements”). The Chicago Venture Agreements are attached hereto, collectively, filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on February 7, 2017, and incorporated herein by reference. The Company entered into the Chicago Venture Agreements with the intent of paying its debt, in full, to TCA Global Credit Master Fund, LP (“TCA”), which included any TCA affiliates.

The total amount of funding under the Chicago Venture Agreements is \$1,105,000 (the “Debt”). Each 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. If not converted sooner, the Debt is due on or before January 9, 2018. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Chicago Venture’s option, into the Company’s common stock at \$0.009 per share subject to adjustment as provided for in the Secured Promissory Notes attached hereto and incorporated herein by this reference. As of the date of this report, Chicago Venture has funded the entire amount of the Debt.

Chicago Venture's obligation to fund the Debt was secured by Chicago Venture's 60% interest in Typenex Medical, LLC, an Illinois corporation, as provided for in the Membership Pledge Agreement attached hereto and incorporated herein by this reference.

Payment of All TCA Obligations

On January 10, 2017, Chicago Venture, at the Company's instruction, remitted funds of \$1,495,901 to TCA in order to satisfy all debts to TCA. On or around January 11, 2017, the Company was notified by TCA that \$13,540 were due to TCA in order for TCA to release its security interest in the Company's assets. On February 1, 2017, TCA notified the Company that all funds were received and TCA would release its security interest in Company's assets. TCA has confirmed that it is paid in full and the Company is not aware of any other obligations that the Company has as to TCA. The funds received under the Chicago Venture Agreements and previous Chicago Venture Agreements were used to pay-off TCA.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement dated August 11, 2017

On August 11, 2017, we executed the following agreements with Chicago Venture: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security Agreement (collectively the "Chicago Venture Agreements"). The Company entered into the Chicago Venture Agreements with the intent to acquire working capital to grow the Company's business.

The total amount of funding under the Chicago Venture Agreements is \$1,105,000.00 (the “Debt”). Each 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. We to reserve 200,000,000 of its shares of common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before August 11, 2018. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Chicago Venture’s option, into our common stock at \$0.009 per share subject to adjustment as provided for in the Secured Promissory Notes attached hereto and incorporated herein by this reference.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement dated December 22, 2017

On December 22, 2017, we executed the following agreements with Chicago Venture: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security Agreement (collectively the “Chicago Venture Agreements”). The Company entered into the Chicago Venture Agreements with the intent to acquire working capital to grow the Company’s businesses.

The total amount of funding under the Chicago Venture Agreements is \$1,105,000. Each 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. We agreed to reserve three times the number of shares based on the redemption value with a minimum of 50 million shares of its common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before December 21, 2018. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Chicago Venture’s option, into the Company’s common stock at \$0.015 per share subject to adjustment as provided for in the Secured Promissory Notes.

Our obligation to pay the Debt, or any portion thereof, is secured by all of our assets.

Operating Activities

Net cash used in operating activities for the year ended December 31, 2017 was \$2,082,000. This amount was primarily related to a net loss of \$5,321,000, (i) a decrease in accounts payable and accrued expenses of \$151,000; and (ii) a reduction in deferred revenue of \$38,000; offset by (iii) a reduction in deposits of \$13,000; (iv) an increase in inventory of \$47,000; and (v) non-cash expenses included non-cash expenses of \$3,462,000, including (vi) depreciation and amortization of \$2,000; (vii) stock based compensation of \$216,000 related to stock option grants and warrants; (viii) common stock issued for services of \$76,000. (ix) accrued interest and amortization of debt discount on convertible notes payable of \$623,000; (x) write-off of derivative liability to additional paid in capital to of \$538,000; and (xi) loss on debt conversions of 2,503,000, offset by (xii) change in derivative liability of \$496,000.

Investment Activities

Net cash used in investing activities for the year ended December 31, 2017 was \$303,000. This amount was primarily related to the payment of expenses related to the acquisition of 51% of the Purchased Assets on October 3, 2017 from David Reichwein, a Pennsylvania resident, GIP International Ltd, a Hong Kong corporation and DPR International LLC, a Pennsylvania limited liability corporation. The Purchased Assets include intellectual property, copy rights and trademarks related to reflective tiles and flooring.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2017 was \$2,351,000. The amount related to funding provided of \$3,860,000 by Chicago Venture to us and \$1,509,000 paid to TCA to in order to satisfy all debts to TCA.

Our contractual cash obligations as of December 31, 2017 are summarized in the table below:

		Less Than		Greater Than	
Contractual Cash Obligations Total		1 Year	1-3 Years	3-5 Years	5 Years
Operating leases	\$556,245	\$319,962	\$174,615	\$61,668	\$-
Convertible notes payable	3,713,568	3,713,568	-	-	-
Capital expenditures	300,000	100,000	100,000	100,000	-
	\$4,569,813	\$4,133,530	\$274,615	\$161,668	\$-

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, 2017), the following policies involve a higher degree of judgment and/or complexity:

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. We have not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit.

Accounts Receivable and Revenue - Revenue is recognized on the sale of a product when the product is shipped, which is when the risk of loss transfers to our customers, the fee is fixed and determinable, and collection of the sale is reasonably assured. A product is not shipped without an order from the customer and the completion of credit acceptance procedures. The majority of our sales are cash or credit card; however, we occasionally extend terms to our customers. Accounts receivable are reviewed periodically for collectability.

Inventories - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. We record a provision for excess and obsolete inventory whenever an impairment has been identified. The reserve for inventory was \$20,000 at December 31, 2017 and 2016, 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).

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

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

Not applicable.

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, 2017 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately below.

Identified Material Weakness

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

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

Audit Committee: While we have an audit committee, we need an additional committee member. During 2018, the Board expects to appoint an additional independent Director to serve on the Audit Committee.

Inventory: The Company needs to strengthen its controls over inventory.

(b) Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 Internal Control-Integrated Framework. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was not effective as of December 31, 2017.

Pursuant to Regulation S-K Item 308(b), this Annual Report on Form 10-K does not include an attestation report of our company's registered public accounting firm regarding internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost.

c) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting in the fiscal year ended December 31, 2017, 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 have materially affected, or are reasonably likely to materially affect, 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 three months ended December 31, 2017 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 December 31, 2017:

Name	Age	Positions and Offices Held	Since
Management Directors			
Marco Hegyi	60	Director	December 9, 2013
		Chairman of the Board	April 1, 2016- October 23, 2017
		Chief Executive Officer	April 1, 2016
		President	December 4, 2013
		Nominations and Governance Committee Chairman	June 3, 2014- October 23, 2017
Mark E. Scott	64	Chief Financial Officer	July 31, 2014
		Secretary	February 14, 2017
		Director	February 14, 2017
Independent Directors			
Michael E. Fasci	59	Chairman of the Board	October 23, 2017
		Director	October 27, 2015
		Audit Committee Chairman and Compensation Committee Chairman	November 11, 2015
Katherine McLain	52	Director	February 14, 2017
		Nominations and Governance Committee Chairman	October 23, 2017
Thom Kozik	57	Director	October 5, 2017
Other Named Executives			
Joseph Barnes	45	President of GrowLife Hydroponics, Inc.	August 16, 2017
		Senior Vice President of Business Development	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 not appointed as Chairman of GrowLife, Chairman of the Nominations and Governance Committee or a member of the Compensation Committee. Mr. Hegyi has served as an independent director of Visualant, Inc. since 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. Previously, Mr. Hegyi was a principal with the Chasm Group from 2006 to January 2014, where he has 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 leading program management for Microsoft Windows and Office beta releases aimed at software developers from 2001 to 2006. 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. 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.

Mark E. Scott – Mr. Mark Scott was re-appointed to the Board of Directors and Secretary of GrowLife, Inc. on February 14, 2017. Mr. Scott was previously a member of the Board of Directors and Secretary of GrowLife, Inc. from May 2014 until his resignation on October 18, 2015. Mr. Scott was appointed our Consulting Chief Financial Officer on July 31, 2014 and Chief Financial Officer on November 1, 2017.

Mr. Scott served as (i) Chief Financial Officer, Secretary and Treasurer of Visualant, Inc., from May 2010 to August 31, 2016. Mr. Scott was Chief Financial Officer of U.S. Rare Earths, Inc., a consulting position he held December 19, 2011 to April 30, 2014 and Chief Financial Officer of Sonora Resources Corporation, a consulting position he held from June 15, 2011 to August 31, 2014. Also, Mr. Scott was Chief Financial Officer, Secretary and Treasurer of WestMountain Gold from February 28, 2011 to December 31, 2013 and was a consultant from December 2010 to February 27, 2011. Mr. Scott previously served as Chief Financial Officer and Secretary of IA Global, Inc. from October 2003 to June 2011. Mr. Scott also provides consulting services to other non-public entities from time to time. Mr. Scott has significant financial, capital market and relations experience in public and private microcap companies. Mr. Scott is a certified public accountant and received a Bachelor of Arts in Accounting from the University of Washington.

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

Katherine McLain- Katherine McLain, Esq. joined GrowLife as a Member of its Board of Directors on February 14, 2017 and was appointed Chairman of the Nominations and Governance Committee and a member of the Compensation Committee on October 23, 2017. Ms. McLain has served as Assistant General Counsel for Intuit, Inc. (known for TurboTax & QuickBooks) since November 2017. Previously, Ms. McLain was legal counsel for Stripe, Inc., a financial payments company from 2015-2017. From 2010 to 2015, Ms. McLain was Senior Counsel of Silicon Valley Bank. Ms. McLain has held legal and compliance roles ranging in both public and private companies including Silicon Valley Bank, Wells Fargo Bank, and Obopay. Ms. McLain has over 30 years of experience as a revenue focused attorney and regulatory professional helping grow new business lines as well as ground up start-up ventures. She is a graduate of the University of California, Berkeley and the Santa Clara University School of Law and lives in Castro Valley, CA.

Ms. McLain was appointed to the Board of Directors based on her legal and regulatory 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. From 2013 through 2014, Mr. Kozik served as Chief Operating Officer 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. In his more than 30 years 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 works from our Avon (Vail), Colorado. Mr. Barnes joined GrowLife in 2010 and is responsible for all GrowLife Hydroponics operations. He led the sales team that recorded sales in 2014 of more than \$8 million, a 100% increase from the previous year.

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.

Barnes was a highly regarded snowboard instructor in Vail, Colorado prior to joining GrowLife. He worked with many top snowboard professionals, and received a Level 1 certification from American Association Snowboard Instructors (AASI). Before his days on the slopes, Barnes was also a recruiting manager focusing on placing senior executives with international pharmaceutical/biotech companies. He also owned and operated Chrome Night Life Arena, a 20,000 square foot indoor/outdoor venue based in Philadelphia with more than 65 employees.

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 two management directors. The table below shows current membership for each of the standing Board committees.

Audit	Compensation	Nominations and Governance
Michael E. Fasci (Chairman)	Michael E. Fasci (Chairman)	Katherine McLain (Chairman)
Thom Kozik	Katherine McLain	Thom Kozik

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 policies 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.

Except as follows, based solely on a review of copies of reports furnished to us, as of December 31, 2017 our executive officers, directors and 10% holders complied with all filing requirements.

Person	Filing Type	Transaction Date	Required File Date	Actual File Date
Michael E. Fasci	4	4/27/17	4/29/17	5/1/17
Michael E. Fasci	4	10/16/17	10/18/17	10/20/17
Thom Kozik	4	10/23/17	10/25/17	12/29/17
Katherine McLain	4	10/23/17	10/25/17	1/17/18

CANX and Logic Works Ownership

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

CANX does not consider itself a beneficial owner due to its position that it has a 4.99% ownership limit. CANX further disclaims it has acted as a control group with Logic Works Therefore, CANX has not made any Section 16(a) filings. Likewise, at this time, we do not consider CANX a control party under SEC Rules.

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 37 under “Remuneration of Executive Officers” (the “Named Executive Officers”) who served during the year ended December 31, 2017. 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 Michael E. Fasci and Katherine McLain. We expect to appoint one independent Directors to serve on the Compensation Committee during 2018.

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 2017 and 2016,

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, 2017

The Compensation Committee did not use a formula for allocating compensation among the elements of total compensation during the year that ended December 31, 2017. 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, 2017, 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. Mr. Hegyi, Mr. Scott and Mr. Barnes 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, 2017 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, 2017 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, 2017, we provided the Named Executive Officers with medical insurance. The Company paid \$10,273 in life insurance for Mr. Hegyi and \$28,047 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, 2017.

THE COMPENSATION COMMITTEE

Michael E. Fasci (Chairman)
Katherine McLain

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, 2017 and 2016:

Summary Compensation Table

Non-Equity

Incentive

Principal Position	Year	Stock Plan Option Other						
		Salary	Bonus	Awards	Compensation	Awards	Compensation	Total
		(\$)	(\$)	(\$) (1)	(\$)	(\$)	(\$)	(\$)
Marco Hegyi, Chief Executive Officer and Director (2)	12/31/17	\$250,000	\$-	\$-	\$-	\$-	\$205,273	\$455,273
Mark E. Scott, Chief Financial Officer and Director (3)	12/31/16	\$250,000	\$-	\$-	\$-	\$-	\$34,231	\$284,231
Joseph Barnes, President of GrowLife Hydroponics, Inc. (4)	12/31/17	\$138,250	\$-	\$-	\$-	\$18,000	\$28,047	\$184,297
	12/31/16	\$156,250	\$-	\$60,000	\$-	\$-	\$9,755	\$226,005
	12/31/17	\$138,670	\$-	\$-	\$-	\$24,000	\$-	\$162,670
	12/31/16	\$120,000	\$-	\$-	\$-	\$-	\$-	\$120,000

(1) For 2013, reflects the aggregate grant date fair value of stock awards granted during the relevant fiscal year calculated in accordance with FASB ASC Topic 718 as reflected in the terms of the August 12, 2012 Compensation Plan. For 2014, 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 \$250,000 during the years ended December 31, 2017 and 2016. We paid life insurance of \$10,273 for Mr. Hegyi during the years ended December 31, 2017 and 2016, respectively. On October 21, 2016, Mr. Hegyi received a Warrant to purchase up to 10,000,000 shares of our common stock at an exercise price of \$0.01 per share. In addition, Mr. Hegyi received Warrants to purchase up to 10,000,000 shares of our common stock at an exercise price of \$0.01 per share which vest on October 21, 2017 and 2018. The Warrants are exercisable for 5 years. The warrants were valued at \$390,000 and we recorded \$190,000 and \$23,958 of compensation expense for the warrants that had vested as of December 31, 2017 and 2016.

(3) Mr. Scott was paid \$138,250 and \$156,250 during the years ended December 31, 2017 and 2016, respectively. Mr. Scott was reimbursed \$28,047 and \$9,755 for insurance expenses during the year ended December 31, 2017 and 2016, respectively. On October 15, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$18,000. On October 21, 2016, an entity controlled by Mr. Scott was granted 6,000,000 shares of our common stock at \$0.01 per share or \$60,000. The price per share was based on the thirty-day trailing average.

(4) Mr. Barnes was paid \$138,670 and \$120,000 during the years ended December 31, 2017 and 2016, respectively. On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$24,000.

Grants of Stock Based Awards during the year ended December 31, 2017

The Compensation Committee approved the following performance-based incentive compensation to the Named Executive Officers for the year ended December 31, 2017:

		Estimated Future Payouts Under Non-Equity Incentive Plan		Estimated Future Payouts Under Equity Incentive Plan		All Other Stock Awards; Number of		All Other Option Awards; Number of Securities		Exercise Grant or Date	
Awards		Awards		Awards		Shares of		Underlying		Base Price of	Fair Value of
Grant	Threshold Target	Maximum	Threshold Target	Maximum	Threshold Target	Stock or Units	Options	Option Awards	Stock and		
Name	Date	(\$)	(\$)	(\$)	(#)	(#)	(#)	(#)	(#)	(\$/Sh) (1)	Option Awards
Marco Hegy	-	\$-	-	\$-	-	-	-	-	-	\$-	\$-
Mark E. Scott (2)	October 15, 2017	\$-	-	\$-	-	-	-	12,000,000	-	\$0.006	\$18,000
Joseph Barnes (3)	October 25, 2017	\$-	-	\$-	-	-	-	10,000,000	-	\$0.007	\$24,000

(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, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$18,000.

(3) On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$24,000.

Outstanding Equity Awards as of December 31, 2017

The Named Executive Officers had the following outstanding equity awards as of December 31, 2017:

Name	Option Awards			Stock Awards					
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Number of Securities Underlying Unexercised Options Unearned (#)	Exercise Price (\$)	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 (\$)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested (\$)
Marco Hegyi (2)	-	-	-	\$-		-	\$-	-	\$-
Mark E. Scott (3)	4,000,000	-	-	\$0.010	7/30/19	-	\$-	-	\$-
	1,666,667	10,333,333	-	\$0.006	10/15/22				
Joseph Barnes (4)	8,000,000	-	-	\$0.001	10/9/19	-	\$-	-	\$-
	1,391,666	8,608,334	-	\$0.007	10/25/22	-	\$-	-	\$-

(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, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$18,000. An entity controlled by Mr. Scott has an additional 4,000,000 share stock option grant that is fully vested.

(3) On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$24,000. Mr. Barnes stock option grant consists of 8,000,000 shares of our common stock that vested quarterly over three years beginning October 1, 2014 and 2,000,000 shares of our common stock that vested October 10, 2014. On October 12, 2016, we amended the exercise price of the stock option grants for Mr. Barnes to \$0.010 per share.

Option Exercises and Stock Vested for the year ended December 31, 2017

Mr. Hegyi, Scott and Barnes did not have any option exercised or stock that vested during the year ended December 31, 2017.

Pension Benefits

We do not provide any pension benefits.

Nonqualified Deferred Compensation

We do not have a nonqualified deferral program.

Employment and Consulting Agreements

Employment Agreement with Marco Hegyi

On October 21, 2016, we entered into Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its Chief Executive Officer through October 20, 2018. Mr. Hegyi's previous Employment Agreement was dated December 4, 2013 and was set to expire on December 4, 2016.

Mr. Hegyi's annual compensation is \$250,000. Mr. Hegyi is also entitled to receive an annual bonus equal to four percent (4%) of the Company's EBITDA for that year. The annual bonus shall be paid no later than 31 days following the end of each calendar year.

Mr. Hegyi received a Warrant to purchase up to 10,000,000 shares of common stock of the Company at an exercise price of \$0.01 per share. In addition, Mr. Hegyi received Warrants to purchase up to 10,000,000 shares of common stock of the Company at an exercise price of \$0.01 per share which vest on October 21, 2017 and 2018. The Warrants are exercisable for 5 years.

Mr. Hegyi 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, 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.

If there has been a "Change in Control" and the Company (or its successor or the surviving entity) terminates Mr. Hegyi's employment without Cause as part of or in connection with such Change in Control (including any such

termination occurring within one (1) month prior to the effective date of such Change in Control), then in addition to the benefits set forth above, Mr. Hegyi will be entitled to (i) an increase of \$300,000 in his annual base salary amount (or an additional \$25,000 per month) through the end of the Term; plus (ii) a gross-up in the annual base salary amount each year to account for and to offset any tax that may be due by Mr. Hegyi on any payments received or to be received by Mr. Hegyi under this Agreement that would result in a “parachute payment” as described in Section 280G of the Internal Revenue Code of 1986, as amended. If we (or its successor or the surviving entity) terminate Mr. Hegyi’s employment without Cause within twelve (12) months after the effective date of any Change in Control, or if Mr. Hegyi terminates his employment for Good Reason within twelve (12) months after the effective date of any Change in Control, then in addition to the benefits set forth above, Mr. Hegyi will be entitled to (i) an increase of \$300,000 in his annual base salary amount (or an additional \$25,000 per month), which increased annual base salary amount shall be paid for the remainder of the Term or for two (2) years following the Change in Control, whichever is longer; (ii) a gross-up in the annual base salary amount each year to account for and to offset any tax that may be due by Mr. Hegyi on any payments received or to be received by Mr. Hegyi under this Letter Agreement that would result in a “parachute payment” as described in Section 280G of the Internal Revenue Code of 1986, as amended; (iii) payment of Mr. Hegyi’s annual bonus amount as set forth above for each year during the remainder of the Term or for two (2) years following the Change in Control, whichever is longer; and (iv) health insurance coverage provided for and paid by the Company for the remainder of the Term or for two (2) years following the Change in Control, whichever is longer.

Chief Financial Officer Agreement with an Entity Controlled by Mark E. Scott

On July 31, 2014, we engaged Mr. Scott as its Consulting CFO from July 1, 2014 through September 30, 2014, and continuing thereafter until either party provides sixty-day notice to terminate the Letter or Mr. Scott enters into a full-time employment agreement.

Per the terms of the Scott Agreement, Mr. Scott's compensation is \$150,000 on an annual basis for the first year of the Scott Agreement. Mr. Scott is also entitled to receive an annual bonus equal to two percent of the Company's EBITDA for that year. Our Board of Directors granted Mr. Scott an option to purchase sixteen million shares of our Common Stock under our 2011 Stock Incentive Plan at an exercise price of \$0.07 per share, the fair market price on July 31, 2014. On December 18, 2015, we reduced the exercise price to \$0.01 per share. The shares vest as follows:

- i Two million shares vest immediately upon securing a market maker with an approved 15c2-11 resulting in our relisting on OTCBB (earned as of February 18, 2016);
- ii Two million shares vest immediately upon the successful approval and effectiveness of our S-1 (not earned as of December 31, 2017);
- iii Two million shares vest immediately upon our resolution of the class action lawsuits (earned as of August 17, 2015); and,
- iv Ten million shares will vest on a monthly basis over a period of three years beginning on the July 1, 2014.

On October 21, 2016, Mr. Scott cancelled stock option grants totaling 12,000,000 shares of our common stock at \$0.01 per share. Mr. Scott has an additional 4,000,000 share stock option grant which are fully vested. On October 15, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The stock option grant vests on a quarterly basis over 3 years.

All options have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as consultant to the Company 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 Stock Incentive Plan except for CANX USA, LLC, 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, we are required to 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 has certain insurance and travel employment benefits.

If, prior to the expiration of the Term, we Mr. Scott's employment for Cause, or if Mr. Scott voluntarily terminates his employment without Good Reason, or if Mr. Scott's employment is terminated by reason of his death, then all of our obligations hereunder shall cease immediately, and Mr. Scott will not be entitled to any further compensation beyond any pro-rated base salary due and bonus amounts earned through the effective date of termination. Mr. Scott will also be reimbursed for any expenses incurred prior to the date of termination for which he was not previously reimbursed. Mr. Scott may receive severance benefits and our obligation under a termination by the Company without Cause or Mr. Scott terminates his employment for Good Reason are discussed above.

Promotion Letter with Joseph Barnes

On October 10, 2014, we entered into a Promotion Letter with Joseph Barnes which was effective October 1, 2014 pursuant to which we engaged Mr. Barnes as its Senior Vice-President of Business Development from October 1, 2014 on an at will basis. This Promotion Letter supersedes and canceled the Manager Services Agreement with Mr. Barnes dated August 1, 2013.

Per the terms of the Barnes Agreement, Mr. Barnes's compensation is \$90,000 on an annual basis. On January 1, 2016, Mr. Barnes salary was increased to \$120,000 per year. Mr. Barnes received a bonus of \$6,500 and is also entitled to receive a quarterly bonus based on growth of our growth margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Barnes was granted an option to purchase eight million shares of our common stock under our 2011 Stock Incentive Plan at \$0.050 per share. The shares vest as follows:

- i Two million shares vested immediately;
- iv Six million shares vest on a monthly basis over a period of three years beginning on the date of grant.

On October 12, 2016, we amended the exercise price of the stock option grants for Mr. Barnes to \$0.010 per share. On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The stock option grant vests on a quarterly over 3 years.

All options have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our 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 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. Finally, Mr. Barnes is entitled to fifteen days of vacation annually and has certain insurance and travel employment benefits.

Mr. Barnes may receive severance benefits and our obligation under a termination by us without Cause or Mr. Barnes terminates his employment for Good Reason are discussed above.

Offer Letter with David Reichwein

On October 1, 2017, we entered into an Offer Letter with David Reichwein pursuant to which we engaged Mr. Reichwein as our Vice-President of Research and Development on an at will basis.

Per the terms of the Reichwein Agreement, Mr. Reichwein's compensation is \$150,000 on an annual basis. Starting on the first quarter 2018, Mr. Reichwein is eligible to earn a quarterly commission based on 10% of tile gross margin dollars (which was amended subsequent to year ended December 31, 2017).

Mr. Reichwein was granted an option to purchase twenty million shares of our common stock under our 2011 Stock Incentive Plan at \$0.006 per share. The shares vest as follows:

- i Ten million shares vested immediately;
- ii Ten million shares vest on a quarterly basis over two years beginning on the date of grant.

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

Mr. Reichwein 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. Finally, Mr. Reichwein is entitled to fifteen days of vacation annually and has certain insurance and travel employment benefits.

Mr. Reichwein may receive severance benefits and our obligation under a termination by us without Cause or Mr. Reichwein terminates his employment for Good Reason are discussed above.

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.

		Early	Not For Good	Change in	
Executive	For Cause	or Normal	Cause	Control	Disability
Payments Upon	Termination	Retirement	Termination	Termination	or Death
Separation	on 12/31/17	on 12/31/17	on 12/31/17	on 12/31/17	on 12/31/17
Compensation:					
Base salary (1)	\$-	\$-	\$201,458	\$241,750	\$-
Performance-based incentive compensation	\$-	\$-	\$-	\$-	\$-
Stock options	\$-	\$-	\$-	\$-	\$-
Benefits and Perquisites:					
Health and welfare benefits	\$-	\$-	\$-	\$-	\$-
Accrued vacation pay	\$-	\$-	\$-	\$-	\$-
Total	\$-	\$-	\$201,458	\$241,750	\$-

Reflects amounts to be paid upon termination without cause and upon termination in a change of control, less any months worked.

Mr. Scott and Mr. Barnes currently do not have 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 options 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. During year ended December 31, 2017, Marco Hegyi and Mr. Scott did not receive any compensation for his service as director. The compensation disclosed in the Summary Compensation Table on page 37 represents the total compensation.

Director Summary Compensation

Non-Equity Non-Qualified

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Name	Fees Earned			Incentive	Deferred		Total
	or Paid in			Plan	Compensation	Other	
	Cash	Stock	Option	Compensation	Earnings	Compensation	
	(\$)	Awards (1)	Awards	(\$)	(\$)	(\$)	
Michael E. Fasci (2)	\$-	\$52,000	\$-	\$-	\$-	\$-	\$52,000
Katherine McLean (3)	-	14,000	-	-	-	-	14,000
Thom Kozik (4)	-	10,000	-	-	-	-	10,000
	\$-	\$24,000	\$-	\$-	\$-	\$-	\$24,000

(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 February 4, 2017, we issued 1,000,000 shares of our common stock to Michael E. Fasci pursuant to a service award for \$15,000. The shares were valued at the fair market price of \$0.015 per share. On April 27, 2017, we issued 1,000,000 shares of our common stock to Michael E. Fasci pursuant to a service award for \$9,000. The shares were valued at the fair market price of \$0.009 per share. On April 27, 2017, we issued 2,000,000 shares of our common stock to Michael E. Fasci pursuant to a consulting agreement for \$18,000. The shares were valued at the fair market price of \$0.009 per share. On November 2, 2017, we issued 2,000,000 shares of our common stock to Michael E. Fasci pursuant to a consulting agreement for \$10,000. The shares were valued at the fair market price of \$0.005 per share.

(3) Ms. Katherine McLain was appointed as a director on February 14, 2017. On June 28, 2017, we issued 1,000,000 shares of our common stock to Ms. McLain pursuant to a service award for \$9,000. The shares were valued at the fair market price of \$0.009 per share. On October 23, 2017, we issued 1,000,000 shares of our common stock to Ms. McLain pursuant to a service award for \$5,000. The shares were valued at the fair market price of \$0.005 per share.

(4) Mr. Kozik was appointed as a director on October 5, 2017. On October 23, 2017, we issued 2,000,000 shares of our common stock to Mr. Kozik pursuant to a service award for \$10,000. The shares were valued at the fair market price of \$0.005 per share.

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 no stock compensation plan for independent non-employee directors. There was no Director compensation during the year ended December 31, 2017.

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 December 31, 2017 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)	25,000,000	1.0%
Mark E. Scott (3)	18,666,667	*

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Michael E. Fasci (4)	13,425,000	*
Katherine McLain (5)	2,000,000	*
Thom Kozik (6)	2,000,000	*
Joseph Barnes (7)	9,691,666	*
Total Directors and Officers (6 in total)	70,783,333	3.0%

* Less than 1%.

(1) Based on 2,367,634,022 shares of common stock outstanding as of December 31, 2017.

(2) Reflects the shares beneficially owned by Marco Hegyi, including warrants to purchase 22,500,000 shares of our common stock at \$0.01 per share.

(3) Reflects the shares beneficially owned by Mark E. Scott, including stock option grants totaling 5,666,667 shares that Mr. Scott has the right to acquire in sixty days.

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

(5) Reflects the shares beneficially owned by Katherine McLain.

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

(7) Reflects the shares beneficially owned by Joseph Barnes, including stock option grants totaling 9,391,666 shares that Mr. Barnes has the right to acquire in sixty days.

Shares Beneficially Owned

Name and Address of Beneficial Owner	Number	Percentage
--------------------------------------	--------	------------

CANX USA LLC (1)		
------------------	--	--

410 South Rampart Blvd., Suite 350	540,000,000	18.6%
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Las Vegas, NV 89145		(Capped at 4.99%)
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(1) Reflects a warrant to purchase common stock totaling 540,000,000 beneficially owned by CANX USA LLC. CANX does not consider themselves a control group based on the individual ownership and legal structure of CANX. Each owner has a 4.99% ownership limit and the owners cannot act as a control group.

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 has not adopted a written policy for reviewing related person transactions. 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.

Certain Relationships

Please see the transactions with CANX, LLC and Logic Works in Note 4 and Chicago Venture Partners, L.P. discussed in Notes 7, 8, 10 and 14.

Transactions with an Entity Controlled by Marco Hegyi

On April 15, 2016, the Company issued 1,000,000 shares of its common stock to an entity affiliated with Marco Hegyi, our Chief Executive Officer, pursuant to a conversion of debt for \$20,000. The shares were valued at the fair market price of \$0.02 per share.

On October 12, 2016, the Company issued 4,000,000 shares of its common stock to an entity affiliated with Marco Hegyi, our Chief Executive Officer, pursuant to a conversion of debt for \$40,000. The shares were valued at the fair market price of \$0.01 per share.

On October 21, 2016, we entered into Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its Chief Executive Officer through October 20, 2018. Mr. Hegyi's previous Employment Agreement was dated December 4, 2013 and which is set to expire on December 4, 2016. Mr. Hegyi received a Warrant to purchase up to 10,000,000 shares of our common stock at an exercise price of \$0.01 per share. In addition, Mr. Hegyi received Warrants to purchase up to 10,000,000 shares of our common stock at an exercise price of \$0.01 per share which vest on October 21, 2017 and 2018. The Warrants are exercisable for 5 years.

Transactions with an Entity Controlled by Mark E. Scott

An entity controlled by Mr. Scott received an option to purchase sixteen million shares of our common stock at an exercise price of \$0.07 per share was reduced to \$0.01 per share on December 18, 2015. Two million shares vested on August 17, 2015 with the Company's resolution of the class action lawsuits. An additional two million share stock option vest on April 18, 2016 upon the Company securing a market maker with an approved 15c2-11 resulting in the Company's relisting on OTCBB.

On January 4, 2016, we issued 3,000,000 shares of its common stock to an entity affiliated with Mark E. Scott, Chief Financial Officer, pursuant to a conversion of debt for \$30,000. The shares were valued at the fair market price of \$0.01 per share.

On October 21, 2016, Mr. Scott cancelled stock option grants totaling 12,000,000 shares of our common stock at \$0.01 per share. Mr. Scott has 4,000,000 share stock option grants which are fully vested.

On October 21, 2016, Mr. Scott converted \$40,000 in deferred compensation into 4,000,000 shares of our common stock at \$0.01 per share. The price per share was based on the thirty-day trailing average.

On October 21, 2016, Mr. Scott was granted 6,000,000 shares of our common stock at \$0.01 per share. The price per share was based on the thirty-day trailing average.

On October 15, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$18,000.

Transactions with Michael E. Fasci

On January 27, 2016, we issued 1,500,000 shares of its common stock to Michael Fasci, a member of the Board of Directors, for director services. The shares were valued at the fair market price of \$0.01 per share. On May 25, 2016, we issued 2,500,000 shares of its common stock to Michael Fasci, a member of the Board of Directors, for director services. The shares were valued at the fair market price of \$0.02 per share. On October 21, 2016, we entered into a Consulting Agreement with an entity controlled by Michael E. Fasci, a Director. Mr. Fasci is to provide services related to lender management, financing and acquisitions. Mr. Fasci's compensation is 2,000,000 shares of our common stock valued at \$0.01 per share and to be issued on April 21, 2017 and October 21, 2017.

On February 4, 2017, we issued 1,000,000 shares of our common stock to Michael E. Fasci pursuant to a service award for \$15,000. The shares were valued at the fair market price of \$0.015 per share. On April 27, 2017, we issued 1,000,000 shares of our common stock to Michael E. Fasci pursuant to a service award for \$9,000. The shares were valued at the fair market price of \$0.009 per share. On April 27, 2017, we issued 2,000,000 shares of our common stock to Michael E. Fasci pursuant to a consulting agreement for \$18,000. The shares were valued at the fair market price of \$0.009 per share. On November 2, 2017, we issued 2,000,000 shares of our common stock to Michael E. Fasci pursuant to a consulting agreement for \$10,000. The shares were valued at the fair market price of \$0.005 per share.

Transactions with Katherine McLain

Ms. Katherine McLain was appointed as a director on February 14, 2017. On June 28, 2017, we issued 1,000,000 shares of our common stock to Ms. McLain pursuant to a service award for \$9,000. The shares were valued at the fair market price of \$0.009 per share. On October 23, 2017, we issued 1,000,000 shares of our common stock to Ms. McLain pursuant to a service award for \$5,000. The shares were valued at the fair market price of \$0.005 per share.

Transaction with Thom Kozik

Mr. Kozik was appointed as a director on October 5, 2017. On October 23, 2017, we issued 2,000,000 shares of our common stock to Mr. Kozik pursuant to a service award for \$10,000. The shares were valued at the fair market price of \$0.005 per share.

Transaction with Joseph Barnes

On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The stock option grant vests quarterly over three years and is exercisable for 5

years. The stock option grant was valued at \$24,000.

Director Independence

The Board has affirmatively determined that Michael E. Fasci, Katherine McLain, and Thom Kozik are independent as of December 31, 2017. For purposes of making that determination, the Board used NASDAQ's Listing Rules even though the Company is not currently listed on NASDAQ.

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, 2017, 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

On July 13, 2016, we dismissed PMB Helin Donovan LLP as our independent registered public accounting firm. On July 13, 2016 we engaged the services of SD Mayer and Associates, LLP as our new independent registered public accounting firm to audit our consolidated financial statements as of December 31, 2017 and 2016 and for the years then ended. The decision to change accountants was approved by our Audit Committee.

The following is the breakdown of aggregate fees paid for the last two fiscal years:

	Year Ended	Year Ended
	December 31,	December 31,
	2017	2016
Audit fees	\$73,371	\$52,500
Audit related fees	21,000	10,000
Tax fees	12,700	20,355
All other fees	25,570	12,500
	\$132,641	\$95,355

—

“Audit Fees” are fees paid for to Mayer and PMB for professional services for the audit of our financial statements.

—

“Audit-Related fees” are fees paid to Mayer for professional services not included in the first two categories, specifically, SAS 100 reviews, SEC filings and consents, and accounting consultations on matters addressed during the audit or interim reviews, and review work related to quarterly filings.

—

“Tax Fees” are fees primarily for tax compliance paid to Mayer and PMB in connection with filing US income tax returns.

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“All other fees were paid to Mayer and PMB related to the review 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

Title of Document	Page
Report of SD Mayer and Associates, LLP	F-1
Consolidated Balance Sheets as of December 31, 2017 and 2016	F-2
Consolidated Statements of Operations for the years ended December 31, 2017 and 2016	F-3
Consolidated Statements of Changes in Stockholders' (Deficit) for the years ended December 31, 2017 and 2016	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016	F-5
Notes to the Financial Statements	F-6

(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
Amended and Restated Bylaws. Filed as an exhibit to the Company's Form 8-K filed with the SEC on June 9, 2014, and hereby incorporated by reference.

3.3
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.

3.4
Certificate of Designation for Series B Preferred Stock. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 29, 2015, and hereby incorporated by reference.

3.5

Certificate of Designation for Series C Preferred Stock. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 29, 2015, and hereby incorporated by reference.

3.6

Certificate of Elimination of Certificate of Designation, Preferences, and Rights of GrowLife, Inc. dated October 19, 2017 eliminating the Series B Preferred Stock and Series C Preferred Stock. 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.

3.7

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 25, 2017, 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 August 4, 2017, and hereby incorporated by reference.

10.1

Not used.

10.2

Joint Venture Agreement dated November 19, 2013 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 November 21, 2013, and hereby incorporated by reference.

10.3

Warrant Agreement 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 November 21, 2013, and hereby incorporated by reference.

10.4

Commercial Lease Agreement dated March 8, 2013 by and between Evergreen Garden Center LLC and William C. Rowell Family Limited Partnership for our Portland, Maine store. Filed as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and incorporated by reference.

10.6

Not used

10.7

Letter by and between GrowLife, Inc. and Mark Scott Consulting Letter dated July 31, 2014. Filed as an exhibit to the Company's Form 8-K filed with the SEC on August 6, 2014, and hereby incorporated by reference.

10.8

Waiver and Modification Agreement dated June 25, 2014 by and between GrowLife, Inc. and Logic Works LLC. Filed as an Exhibit to the Company's Form 8-K and filed with the SEC on July 18, 2014, and hereby incorporated by reference.

10.9

Amended and Restated Joint Venture Agreement dated July 1, 2013 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 July 18, 2014, and hereby incorporated by reference.

10.10

Secured Credit Facility and Secured Convertible Note dated June 25, 2014 by and between GrowLife, Inc. and Logic Works LLC. Filed as an Exhibit to the Company's Form 8-K and filed with the SEC on July 18, 2014, and hereby incorporated by reference.

10.11

Closing Certificate dated July 10, 2014 by and between GrowLife, Inc. and CANX USA LLC and Logic Works LLC. Filed as an Exhibit to the Company's Form 8-K/A and filed with the SEC on August 18, 2014, and hereby incorporated by reference.

10.12

Form of Warrant by and between GrowLife, Inc. and CANX USA LLC. Filed as an exhibit to the Company's Form 8-K/A and filed with the SEC on August 18, 2014, and hereby incorporated by reference.

10.13

Settlement Agreement and Waiver of Default dated June 19, 2014 by and between GrowLife, Inc. and Forglen LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 18, 2014, and hereby incorporated by reference.

10.14

Joseph Barnes Promotion Letter dated October 10, 2014. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 14, 2014, and hereby incorporated by reference.

10.15

Securities Purchase Agreement, dated April 5, 2016, entered into by and among GrowLife, Inc., and Chicago Venture Partners, LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 12, 2016, and hereby incorporated by reference.

10.16

Convertible Promissory Note, dated April 5, 2016, entered into by and between GrowLife, Inc. and Chicago Venture Partners, LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 12, 2016, and hereby incorporated by reference.

10.17

Form of Secured Investor Note, dated April 5, 2016, entered into by and between GrowLife, Inc. and Chicago Venture Partners, LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 12, 2016, and hereby incorporated by reference.

10.18

Exchange Agreement dated August 17, 2016, entered into 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 August 31, 2016, and hereby incorporated by reference.

10.19

Marco Hegyi Employment Agreement and Warrants dated October 21, 2016. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 27, 2016, and hereby incorporated by reference.

10.20

Consent to Judgement and Settlement Agreement dated December 7, 2016 by and between Evergreen Garden Center LLC and GrowLife Hydroponics, Inc. and William C. Rowell Family Limited Partnership for our Portland, Maine store. Filed as an exhibit to the Company's Form 10-K and filed with the SEC on March 31, 2017, and hereby incorporated by reference.

10.21

Compilation of Securities Purchase Agreement, Secured Promissory Notes, Membership Interest Pledge Agreement and Security Agreement, dated February 1, 2017, entered into 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 7, 2017, and hereby incorporated by reference.

10.22

Compilation of Securities Purchase Agreement, Secured Promissory Notes, and Security Agreement dated August 11, 2017, entered into 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 August 17, 2017, and hereby incorporated by reference.

10.23

Lease Amending Agreement dated October 1, 2017 by and between GrowLife, Inc. and Berezan Management (Alta) Ltd. (filed herewith)

10.24

Offer Letter dated October 1, 2017 by and between GrowLife, Inc. and David Reichwein (filed herewith).

10.25

Asset Purchase Agreement dated as of October 2, 2017 amongst Growlife, Inc. and David Reichwein, GIP International Ltd and DPR International LLC. (filed herewith).

10.26

Texas commercial Lease Agreement dated October 9, 2017 by and between GrowLife Innovations, Inc. and All Commercial Flooring Inc. (filed herewith).

10.27

Share Exchange Agreement amongst GrowLife, Inc., GrowLife Hydroponics, Inc. and Soja, Inc. dated October 19, 2017. 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.

10.28

Compilation of Securities Purchase Agreement, Secured Promissory Notes, and Security Agreement dated December 22, 2017, entered into by and between GrowLife, Inc. and Chicago Venture Partners, L.P. (filed herewith)

14.1

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

21.1

Subsidiaries of the Registrant (filed herewith).

31.1

Certification of Principal Executive Officer Pursuant to Rule 13a-14 (filed herewith).

31.2

Certification of Principal Financial Officer Pursuant to Rule 13a-14 (filed herewith).

32.1

CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act (filed herewith).

32.2

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

The Board of Directors and Shareholders
GrowLife, Inc.:

We have audited the accompanying consolidated balance sheets of GrowLife, Inc. (the “Company”) as of December 31, 2017 and 2016 and the related consolidated statements of operations, stockholders’ deficit, and cash flows for the years ended December 31, 2017 and 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GrowLife, Inc. as of December 31, 2017 and 2016, and the results of its consolidated operations and its cash flows for the years ended December 31, 2017 and 2016 in conformity with generally accepted accounting principles in the United States of America.

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 a net loss 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.

SD Mayer & Associates, LLP

/s/ SD Mayer & Associates, LLP

March 28, 2018
Seattle, WA

GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$69,191	\$103,070
Inventory, net	465,678	418,453
Deposits	24,308	11,163
Total current assets	559,177	532,686
EQUIPMENT, NET	302,689	1,890
TOTAL ASSETS	\$861,866	\$534,576
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade	\$821,398	\$1,529,919
Accounts payable - related parties	-	10,952
Accrued expenses	133,988	132,656
Accrued expenses - related parties	37,776	19,605
Derivative liability	2,660,167	2,701,559
Current portion of convertible notes payable	3,015,021	2,798,800
Deferred revenue	10,000	47,995
Total current liabilities	6,678,350	7,241,486
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock - \$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Series B Convertible Preferred stock - \$0.0001 par value, 150,000 shares authorized, no shares issued and outstanding	-	-
Series C Convertible Preferred stock - \$0.0001 par value, 51 shares authorized, no shares and 51 shares issued and outstanding at 12/31/2017 and 12/31/2016, respectively	-	-
Common stock - \$0.0001 par value, 6,000,000,000 shares authorized, 2,367,634,022		

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and 1,656,120,083 shares issued and outstanding at 12/31/2017 and 12/31/2016, respectively	236,752	165,600
Additional paid in capital	123,678,069	117,537,822
Accumulated deficit	(129,731,305)	(124,410,332)
Total stockholders' deficit	(5,816,484)	(6,706,910)
 TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	 \$861,866	 \$534,576

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

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GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended,	
	December 31, 2017	December 31, 2016
NET REVENUE	\$2,452,104	\$1,231,281
COST OF GOODS SOLD	2,180,603	1,275,580
GROSS PROFIT	271,501	(44,299)
GENERAL AND ADMINISTRATIVE EXPENSES	2,320,455	1,888,537
IMPAIRMENT OF LONG-LIVED ASSETS	-	876,056
OPERATING LOSS	(2,048,954)	(2,808,892)
OTHER INCOME (EXPENSE):		
Change in fair value of derivative	496,306	(1,324,384)
Interest expense, net	(1,281,083)	(816,750)
Other (expense) income	15,577	144,882
Loss on debt conversions	(2,502,819)	(2,889,540)
Total other (expense) income	(3,272,019)	(4,885,792)
(LOSS) BEFORE INCOME TAXES	(5,320,974)	(7,694,684)
Income taxes - current benefit	-	-
NET (LOSS)	\$(5,320,974)	\$(7,694,684)
Basic and diluted (loss) per share	\$(0.00)	\$(0.01)
Weighted average shares of common stock outstanding- basic and diluted	2,044,521,389	1,197,565,907

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

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

	Series B Convertible		Series C Convertible		Common Stock		Unrealized Gain on Investment in	Additional	
	Preferred Stock		Preferred Stock		Common Stock		Related	Paid	Accumulated
	Shares	Amount	Shares	Amount	Shares	Amount	Party	in Capital	Deficit
Balance as of December 31, 2015	150,000	\$15	51	\$-	891,116,496	\$89,098	-	\$110,585,434	\$(116,715,648)
Stock based compensation for stock options	-	-	-	-	-	-	-	145,729	-
Shares issued for debt conversion	-	-	-	-	13,400,000	1,340	-	142,660	-
Shares issued for services rendered	-	-	-	-	26,020,000	2,602	-	282,598	-
Shares issued for convertible note and interest conversion	-	-	-	-	595,442,539	59,546	-	5,594,400	-
Shares issued for mezzanine equity					15,000,000	1,500	-	298,500	-
Series B Convertible Preferred Stock	(150,000)	(15)	-	-	-	-	-	(1,499,985)	-
converted into convertible notes payable									
Shares issued for class action	-	-	-	-	115,141,048	11,514	-	1,988,486	-

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settlements									
Net loss for the year ended December 31, 2016	-	-	-	-	-	-	-	-	(7,694,684)
Balance as of December 31, 2016	-	-	51	-	1,656,120,083	165,600	-	117,537,822	(124,410,332)
Stock based compensation for stock options	-	-	-	-	-	-	-	29,251	-
Stock based compensation for warrants	-	-	-	-	-	-	-	187,292	-
Shares issued for debt conversion	-	-	-	-	64,869,517	6,487	-	542,052	-
Shares issued for services rendered	-	-	-	-	10,000,000	1,000	-	75,000	-
Shares issued for convertible note and interest conversion	-	-	-	-	636,644,422	63,665	-	4,768,954	-
Cancellation of Series C Convertible Preferred Stock	-	-	(51)	-	-	-	-	-	-
Write-off of derivative liability to additional paid in capital	-	-	-	-	-	-	-	537,698	-
Net loss for the year ended December 31, 2017	-	-	-	-	-	-	-	-	(5,320,974)
Balance as of December 31, 2017	-	\$-	-	\$-	2,367,634,022	\$236,752	\$-	\$123,678,069	\$(129,731,306)

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

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GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended,	
	December 31, 2017	December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(5,320,974)	\$(7,694,684)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	1,890	8,437
Amortization of intangible assets	-	106,548
Stock based compensation	216,543	145,729
Common stock issued for services	76,000	285,200
Amortization of debt discount	419,666	514,668
Change in fair value of derivative liability	(496,306)	1,324,384
Accrued interest on convertible notes payable	203,697	120,824
Loss on debt conversions	2,502,799	2,889,540
Write-off of derivative liability to additional paid in capital	537,698	-
Impairment of long-lived assets	-	876,056
Changes in operating assets and liabilities:		
Inventory	(47,225)	20,014
Deposits	13,145	(5,591)
Accounts payable	(170,934)	196,379
Accrued expenses	19,503	(22,791)
Deferred revenue	(37,995)	22,995
CASH (USED IN) OPERATING ACTIVITIES	(2,082,493)	(1,212,292)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in purchased assets	(302,689)	-
NET CASH (USED IN) INVESTING ACTIVITIES:	(302,689)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash provided from Convertible Promissory Note with Chicago Venture Partners, L.P.	3,860,344	1,255,000
Cash payoff to TCA Global Credit Master Fund, LP	(1,509,041)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,351,303	1,255,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	(33,879)	42,708
CASH AND CASH EQUIVALENTS, beginning of period	103,070	60,362
CASH AND CASH EQUIVALENTS, end of period	\$69,191	\$103,070

Supplemental disclosures of cash flow information:

Interest paid	\$-	\$-
Taxes paid	\$-	\$-

Non-cash investing and financing activities:

Shares issued for convertible note and interest conversion	\$2,329,800	\$2,423,729
Shares issued for debt conversion	\$-	\$64,000
Shares issued for class action settlements	\$-	\$2,000,000
Shares issued for mezzanine equity	\$-	\$300,000
Series B Convertible Preferred Stock converted into convertible notes payable	\$-	\$(1,500,000)
Series B Convertible Preferred Stock converted into convertible notes payable debt discount	\$-	\$315,669
Common shares issued for accounts payable	\$548,539	\$-

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

GROWLIFE, INC. AND SUBSIDIARIES
NOTES TO 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.

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

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

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

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

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

The Company acquired its 51% interest in the Purchased Assets for \$400,000. The Company funded equipment and rent of an office lease. On February 16, 2018, the Company purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of \$250,000. As of December 31, 2017, the Company had recorded investment in purchased assets of \$302,689.

On October 17, 2017, the Company informed by Alpine Securities Corporation (“Alpine”) that Alpine has demonstrated compliance with the Financial Industry Regulatory Authority (“FINRA”) Rule 6432 and Rule 15c2-11 under the Securities Exchange Act of 1934. As a result, Alpine may initiate an unpriced quotation for the Company’s common stock. The Company expects to file an amended application with the OTC Markets to list the Company’s common stock on the OTCQB once the minimum share price of \$0.01 per share is achieved. The Company currently trades on the OTC Pink Sheet market. On February 18, 2016, the Company’s common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on the Company’s Form 15c2-11.

NOTE 2 – GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$5,320,974 and \$7,694,684 for the years ended December 31, 2017 and 2016, respectively. Our net cash used in operating activities was \$2,082,493 and \$1,212,192 for the years ended December 31, 2017 and 2016, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of December 31, 2017, our accumulated deficit was \$129,731,305. The Company has experienced recurring operating losses and negative operating cash flows since inception, and has financed its working capital requirements during this period primarily through the recurring issuance of convertible notes payable and advances from a related party. The audit report prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2017 and 2016 filed with the SEC on March 28, 2018 includes an explanatory paragraph expressing the substantial doubt about our ability to continue as a going concern.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

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

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

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

Accounts Receivable and Revenue - Revenue is recognized on the sale of a product when the product is shipped, which is when the risk of loss transfers to our customers, the fee is fixed and determinable, and collection of the sale is reasonably assured. A product is not shipped without an order from the customer and the completion of credit acceptance procedures. The majority of our sales are cash or credit card; however, we occasionally extend terms to our customers. Accounts receivable are reviewed periodically for collectability.

Inventories - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. The reserve for inventory was \$20,000 as of December 31, 2017 and 2016, respectively.

Property and Equipment - Property and equipment are stated at cost. Assets acquired held under capital leases are initially recorded at the lower of the present value of the minimum lease payments discounted at the implicit interest rate or the fair value of the asset. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over an estimated useful life of five years. Assets acquired under capital lease are depreciated over the lesser of the useful life or the lease term. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations.

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

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

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

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

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

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

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

Sales Returns - We allow customers to return defective products when they meet certain established criteria as outlined in our sales terms and conditions. It is our practice to regularly review and revise, when deemed necessary, our estimates of sales returns, which are based primarily on actual historical return rates. We record estimated sales returns as reductions to sales, cost of goods sold, and accounts receivable and an increase to inventory. Returned products which are recorded as inventory are valued based upon the amount we expect to realize upon its subsequent disposition. As of December 31, 2017 and 2016, there was no reserve for sales returns, which are minimal based upon our historical experience.

Stock Based Compensation - The Company has share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, as well as options and warrants to purchase shares of Company common stock at the fair market value at the time of grant. Stock-based compensation cost to employees is measured by the Company at the grant date, based on the fair value of the award, over the requisite service period under ASC 718. For options issued to employees, the Company recognizes stock compensation costs utilizing the fair value methodology over the related period of benefit. Grants of stock to non-employees and other parties are accounted for in accordance with the ASC 505.

Net (Loss) Per Share - Under the provisions of ASC 260, "Earnings per Share," basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of December 31, 2017, there are also (i) stock option grants outstanding for the purchase of 56,000,000 common shares at a \$0.007 average exercise price; (ii) warrants for the purchase of 595 million common shares at a \$0.031 average exercise price; and (iii) 241,766,075 million shares related to convertible debt that can be converted at \$0.002535 per share. In addition, we have an unknown number of common shares to be issued under the Chicago Venture Partners, L.P. financing agreements. As of December 31, 2016, there are also (i) stock option grants outstanding for the purchase of 12,010,000 common shares at a \$0.010 average strike price; (ii) warrants for the purchase of 595 million common shares at a \$0.031 average exercise price; and (iii) 207,812,222 shares related to convertible debt that can be converted at \$0.0036 per share. In addition, we have an unknown number of common shares to be issued under the TCA Global Credit Master Fund LP and Chicago Venture Partners, L.P. financing agreements.

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

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

Recent Accounting Pronouncements

Recent accounting pronouncements, other than those below, issued by the FASB, the AICPA and the SEC did not or are not believed by management to have a material effect on the Company's present or future financial statements.

Effective January 1, 2017, the Company adopted ASU 2015-11, Inventory: Simplifying the Measurement of Inventory, which affects reporting entities that measure inventory using either the first-in, first-out or average cost method. Specifically, the guidance requires that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. This adoption did not have a material impact on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, to assist with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted for transactions not reported in financial statements that have been issued or made available for issuance.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which reduces the diversity in practice on how certain transactions are classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the effect of adopting this pronouncement.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires a lessee, in most leases, to initially recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within with those years. Early adoption is permitted. The Company is evaluating the effect of adopting this pronouncement.

In July 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company early adopted ASU 2017-11 and has reclassified its financial instrument with down round features to equity.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. Management is currently assessing the impact the adoption of ASU 2017-09 will have on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09), Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted for reporting periods where financial statements have not yet been made available for issuance. The ASU requires different transition methods and disclosures based on the type of amendment included in the ASU.). Management is currently assessing the impact the adoption of ASU 2016-09 will have on the Company’s Consolidated Financial Statements.

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

Transactions with CANX, LLC and Logic Works LLC

On November 19, 2013, the Company entered into a Joint Venture Agreement with CANX, a Nevada limited liability company. Under the terms of the Joint Venture Agreement, the Company and CANX formed Organic Growth International, LLC (“OGI”), a Nevada limited liability company, for the purpose of expanding the Company’s operations

in its current retail hydroponic businesses and in other synergistic business verticals and facilitating additional funding for commercially financeable transactions of up to \$40,000,000.

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

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

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

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

The Company entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding required approval in advance by Logic Works, provided interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.0070 or (B) twenty percent (20%) of the average of the nine (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. As of December 31, 2017, the outstanding balance on the Convertible Note was \$41,225.

OGI was incorporated on January 7, 2014 in the State of Nevada and had no business activities as of December 31, 2017.

NOTE 5 – INVENTORY

Inventory as of December 31, 2017 and 2016 consisted of the following:

	December 31, 2017	December 31, 2016
Raw materials	\$110,000	\$-
Finished goods	375,678	438,453
Inventory reserve	(20,000)	(20,000)
Total	\$465,678	\$418,453

Raw materials consist of supplies for the flooring product line.

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

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

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 and 2016 consists of the following:

	December 31,	December 31,
	2017	2016
Machines and equipment	\$365,861	\$63,172
Furniture and fixtures	49,787	49,787
Computer equipment	52,304	52,304
Leasehold improvements	56,965	56,965
Total property and equipment	524,917	222,228
Less accumulated depreciation and amortization	(222,228)	(220,338)
Net property and equipment	\$302,689	\$1,890

Fixed assets, net of accumulated depreciation, were \$302,689 and \$1,890 as of December 31, 2017 and 2016, respectively. Accumulated depreciation was \$222,228 and \$220,338 as of December 31, 2017 and 2016, respectively. Total depreciation expense was \$1,890 and \$8,437 for the years ended December 31, 2017 and 2016, respectively. All equipment is used for manufacturing, selling, general and administrative purposes and accordingly all depreciation is classified in cost of goods sold, selling, general and administrative expenses. The Company will begin depreciation on the purchased machine January 1, 2018 when significant operations begin.

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

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

The Company acquired its 51% interest in the Purchased Assets for \$400,000. The Company funded equipment and rent of an office lease. On February 16, 2018, the Company purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of \$250,000. As of December 31, 2017, the Company had recorded investment in purchased assets of \$302,689.

NOTE 7 – CONVERTIBLE NOTES PAYABLE, NET

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

				Balance
		Accrued	Debt	As of
	Principal	Interest	Discount	December 31, 2017
6% Secured convertible note (2014)	\$39,251	\$1,974	\$-	\$41,225
7% Convertible note (\$850,000)	250,000	321,652	-	571,652
10% OID Convertible Promissory Note with Chicago Venture Partners, L.P.	2,980,199	120,492	(698,547)	2,402,144
	\$3,269,450	\$444,118	\$(698,547)	\$3,015,021

Convertible notes payable as of December 31, 2016 consisted of the following:

			Balance
	Accrued	Debt	As of
Principal	Interest	Discount	December 31, 2016

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6% Secured convertible note (2014)	\$330,295	\$3,692	\$-	\$333,987
7% Convertible note (\$850,000)	250,000	164,137	-	414,137
Replacement debenture with TCA (\$2,830,210)	1,468,009	18,350	-	1,486,359
10% OID Convertible Promissory Note with Chicago Venture Partners, L.P.	683,042	2,670	(121,395)	564,317
	\$2,731,346	\$188,849	\$(121,395)	\$2,798,800

Several of the Company's convertible promissory notes remain outstanding beyond their respective maturity dates. This may trigger an event of default under the respective agreements. The Company is working with these noteholders to convert their notes into common stock and intends to resolve these outstanding issues as soon as practicable. As a result, the Company accrued interest on these notes at the default rates. Furthermore, as a result of being in default on these notes, the Holders could, at their sole discretion, have called these notes. Although no such action has been taken by the Holders, the Company classified these notes as a current liability as of December 31, 2017 and 2016.

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

The Company entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Logic Works funded \$350,000. The funding provided for interest at 6% with a default interest of 24% per annum and required repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.007 or (B) twenty percent (20%) of the average of the nine (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. On February 28, 2017, Logic Works converted principal and interest of \$297,939 into 82,640,392 shares of our common stock at a per share conversion price of \$0.004. As of December 31, 2017, the outstanding principal on this 6% convertible note was \$39,251 and accrued interest was \$1,974, which results in a total liability of \$41,225. On February 28, 2017, Logic Works converted principal and interest of \$291,044 into 82,640,392 shares of the Company's common stock at a per share conversion price of \$0.004.

During the year ended December 31, 2016, the Company recorded interest expense of \$20,837 and \$83,924 of non-cash interest expense related to the amortization of the debt discount associated with this 6% convertible note, respectively. Logic Works converted interest of \$47,386 into shares of the Company's common stock at a per share conversion price of \$0.0036.

As of December 31, 2016, the Company has borrowed \$330,295 under the Secured Convertible Note and Secured Credit Facility, accrued interest was \$3,692 and the unamortized debt discount was \$0, which results in a net amount of \$333,987.

As of December 31, 2016, the outstanding principal on these 7% convertible notes was \$250,000, accrued interest was \$164,137, and unamortized debt discount was \$0, which results in a net amount of \$414,137. Logic Works converted principal of \$250,000 and interest of \$75,149 and interest of into shares of the Company's common stock at a per share conversion price of \$0.004 to \$0.007.

7% Convertible Notes Payable

On October 11, 2013, the Company issued 7% Convertible Notes in the aggregate amount of \$850,000 to investors, including \$250,000 to Forflen LLC. The Note was due September 30, 2015. All other Notes were converted in 2014. On July 14, 2014, the Board of Directors approved a Settlement Agreement and Waiver of Default dated June 19, 2014 with Forflen related to the 7% Convertible Note. The rate of interest was increased to 24% per annum. On October 1, 2015, the rate of interest increased to 24% compounded. The conversion price was \$0.007 per share, subject to adjustment as provided in the Note. As of December 31, 2017, the outstanding principal on this 7% convertible note was \$250,000 and accrued interest was \$321,652, which results in a total liability of \$571,652. Since the note is in default and the terms of settlement are no longer acceptable to the holder the Company has recognized the loss of \$571,652 and reclassified the derivative liability related to the beneficial conversion to equity.

As of December 31, 2016, the outstanding principal on these 7% convertible notes was \$250,000, accrued interest was \$164,137, and unamortized debt discount was \$0, which results in a net amount of \$414,137.

Funding from TCA Global Credit Master Fund, LP ("TCA")

As of December 31, 2016, the Company was indebted to TCA under the First and Second Replacement Debentures in the amount of \$1,468,009, accrued interest was \$18,350 and the unamortized debt discount was \$0, which results in a net amount of \$1,486,359.

During the year ended December 31, 2016, Old Main LLC converted TCA principal and accrued interest of \$757,208 into 144,650,951 shares of our common stock at a per share conversion price of \$0.0052.

During the year ended December 31, 2016, the Company recorded the unamortized debt discount reversal of \$750,339 related to the TCA financing as a reduction in additional paid in capital because TCA did not convert its debt but assigned its debentures to others.

The Company has recorded a loss on these transactions in the amount of \$2,889,540 during the year ended December 31, 2016. The loss on debt conversions related to the conversion of our notes payable at prices below the market price.

On January 10, 2017, Chicago Venture, at the Company's instruction, remitted funds of \$1,495,901 to TCA in order to satisfy all debts to TCA. On or around January 11, 2017, the Company was notified by TCA that \$13,540 were due to TCA in order for TCA to release its security interest in the Company's assets. On February 1, 2017, TCA notified the Company that all funds were received and TCA would release its security interest in Company's assets. TCA has confirmed that it is paid in full and the Company is not aware of any other obligations that the Company has as to TCA. The funds received under the Chicago Venture Agreements and previous Chicago Venture Agreements were used to pay-off TCA.

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

The Company has the following funding transactions with Chicago Venture:

Securities Purchase Agreement with Chicago Venture Partners, L.P. As of April 4, 2016, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note (the “Chicago Venture Note”) with Chicago Venture, whereby we agreed to sell, and Chicago Venture agreed to purchase an unsecured convertible promissory note in the original principal amount of \$2,755,000. In connection with the transaction, the Company received \$350,000 in cash as well as a series of twelve Secured Investor Notes for a total Purchase Price of \$2,500,000. The Note carries an Original Issue Discount (“OID”) of \$250,000 and we agreed to pay \$5,000 to cover Purchaser’s legal fees, accounting costs and other transaction expenses.

Debt Purchase Agreement and First Amendment to Debt Purchase Agreement and Note Assignment Agreement. On August 24, 2016, the Company closed a Debt Purchase Agreement and a First Amendment to Debt Purchase Agreement and related agreements with Chicago Venture and TCA.

On August 24, 2016, TCA closed an Assignment of Note Agreement and related agreements with Chicago Venture. The referenced agreements relate to the assignment of Company debt, in the form of debentures, by TCA to Chicago Venture. The Company was a party to the agreements between TCA and Chicago Venture because the Company is the “borrower” under the TCA held debentures.

Exchange Agreement, Convertible Promissory Note and related Agreements with Chicago Venture. On August 17, 2016, the Company closed an Exchange Agreement and a Convertible Promissory Note and related agreements with Chicago Venture whereby the Company agreed to the assignment of debentures representing debt between the Company, on the one hand, and with TCA, on the other hand. Specifically, the Company agreed that TCA could assign a portion of the Company’s debt held by TCA to Chicago Venture.

On January 10, 2017, Chicago Venture, at the Company’s instruction, remitted funds of \$1,495,901 to TCA in order to satisfy all debts to TCA. On or around January 11, 2017, the Company was notified by TCA that \$13,540 were due to TCA in order for TCA to release its security interest in the Company’s assets. On February 1, 2017, TCA notified the Company that all funds were received and TCA would release its security interest in Company’s assets. TCA has confirmed that it is paid in full and the Company is not aware of any other obligations that the Company has as to TCA. The funds received under the Chicago Venture Agreements and previous Chicago Venture Agreements were used to pay-off TCA.

Debt Purchase Agreement and First Amendment to Debt Purchase Agreement and Note Assignment Agreement. On August 24, 2016, the Company closed a Debt Purchase Agreement and a First Amendment to Debt Purchase Agreement and related agreements with Chicago Venture and TCA.

On February 1, 2017, the Company closed the transactions described below with Chicago Venture:

Securities Purchase Agreement, Secured Promissory Notes, Membership Interest Pledge Agreement and Security Agreement

On January 9, 2017, the Company executed the following agreements with Chicago Venture: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; (iii) Membership Interest Pledge Agreement; and (iv) Security Agreement (collectively the “Chicago Venture Agreements”). The Company entered into the Chicago Venture Agreements with the intent of paying its debt, in full, to TCA Global Credit Master Fund, LP (“TCA”).

The total amount of funding under the Chicago Venture Agreements is \$1,105,000. Each 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. The Company agreed to reserve 500,000,000 of its shares of common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before January 9, 2018. The Debt carries an interest rate of 10%. The Debt is convertible, at Chicago Venture’s option, into the Company’s common stock at \$0.009 per share subject to adjustment as provided for in the Secured Promissory Notes attached hereto and incorporated herein by this reference.

Chicago Venture’s obligation to fund the Debt was secured by Chicago Venture’s 60% interest in Typenex Medical, LLC, an Illinois corporation, as provided for in the Membership Pledge Agreement.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement

On August 11, 2017, the Company executed the following agreements with Chicago Venture: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security Agreement (collectively the “Chicago Venture Agreements”). The Company entered into the Chicago Venture Agreements with the intent to acquire working capital

to grow the Company's business.

The total amount of funding under the Chicago Venture Agreements is \$1,105,000.00 (the "Debt"). Each 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. We agreed to reserve 200,000,000 of its shares of common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before August 11, 2018. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Chicago Venture's option, into our common stock at \$0.009 per share subject to adjustment as provided for in the Secured Promissory Notes attached hereto and incorporated herein by this reference.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement

On December 22, 2017, the Company executed the following agreements with Chicago Venture: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security Agreement (collectively the "Chicago Venture Agreements"). The Company entered into the Chicago Venture Agreements with the intent to acquire working capital to grow the Company's businesses.

The total amount of funding under the Chicago Venture Agreements is \$1,105,000. Each 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. The Company agreed to reserve three times the number of shares based on the redemption value with a minimum of 50 million shares of its common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before December 21, 2018. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Chicago Venture's option, into the Company's common stock at \$0.015 per share subject to adjustment as provided for in the Secured Promissory Notes.

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

As of December 31, 2017, the outstanding principal balance due to Chicago Venture is \$2,980,199, accrued interest was \$120,492, net of the OID of \$698,547, which results in a total amount of \$2,402,144. The OID has been recorded as a discount to debt and \$419,666 was amortized to interest expense during the nine months ended September 30, 2017.

During the year ended December 31, 2017, Chicago Venture converted principal and accrued interest of \$2,688,000 into 554,044,030 shares of the Company's common stock at a per share conversion price of \$0.0049. During the year ended December 31, 2016, Chicago Venture converted principal and accrued interest of \$1,403,599 into 264,672,323 shares of our common stock at a per share conversion price of \$0.0053.

The Company recognized \$2,384,678 and \$0 of loss on debt conversions during the years ended December 31, 2017 and 2016, respectively. During the year ended December 31, 2016, Chicago Venture converted principal and accrued interest of \$1,403,599 into 264,672,323 shares of our common stock at a per share conversion price of \$0.0053.

NOTE 8 – DERIVATIVE LIABILITY

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

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

Derivative liability as of December 31, 2017 is as follows:

	Carrying
Financial Instruments	Fair Value Measurements Using Inputs Amount at

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Level 1 Level 2 Level 3 December 31, 2017

Liabilities:

Derivative Instruments	\$-	\$2,660,167	\$-	\$2,660,167
Total	\$-	\$2,660,167	\$-	\$2,660,167

For the year ended December 31, 2017, the Company recorded non-cash income of \$496,036 related to the “change in fair value of derivative” expense related to its 6%, 7% and 10% convertible notes.

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Derivative liability as of December 31, 2016 is as follows:

Financial Instruments	Fair Value Measurements Using			Carrying
	Level 1	Level 2	Level 3	Amount at
				December 31, 2016
Liabilities:				
Derivative Instruments	\$-	\$2,701,559	\$-	\$2,701,559
Total	\$-	\$2,701,559	\$-	\$2,701,559

For the year ended December 31, 2016, the Company recorded non-cash income of \$1,324,384 related to the “change in fair value of derivative” expense related to its 6%, 7% and 18% convertible notes.

7% Convertible Notes

As of December 31, 2016, the Company had outstanding 7% convertible notes with a remaining balance of \$250,000 that the Company determined had an embedded derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$1,495,495.

6% Convertible Notes

As of December 31, 2016, the Company had outstanding unsecured 6% convertible notes for \$330,295 that the Company determined had an embedded derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$1,206,064.

Funding from TCA Global Credit Master Fund, LP (“TCA”).

The First TCA SPA. On July 9, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP (“TCA”), an accredited investor, whereby the Company agreed to sell and TCA agreed to purchase up to \$3,000,000 of senior secured convertible, redeemable debentures, of which \$700,000 was purchased on July 9, 2015 and up to \$2,300,000 may be purchased in additional closings. The closing of the transaction (the “First TCA SPA”) occurred on July 9, 2015. Effective as of May 4, 2016, the Company and TCA entered into a First Amendment to the First TCA SPA whereby the parties agreed to amend the terms of the First TCA SPA in exchange for TCA’s forbearance of existing defaults by the Company.

The Second TCA SPA. On August 6, 2015, the Company closed a second Securities Purchase Agreement and related agreements with TCA whereby the Company agreed to sell and TCA agreed to purchase a \$100,000 senior secured convertible redeemable debenture and the Company agreed to issue and sell to TCA, from time to time, and TCA agreed to purchase from the Company up to \$3,000,000 of the Company’s common stock pursuant to a committed equity facility. The closing of the transaction (the “Second TCA SPA”) occurred on August 6, 2015. On April 11, 2016,

the Company agreed with TCA to mutually terminate the Second TCA SPA.

Amendment to the First TCA SPA. On October 27, 2015, the Company entered into an Amended and Restated Securities Purchase Agreement and related agreements with TCA whereby the Company agreed to sell, and TCA agreed to purchase \$350,000 of senior secured convertible, redeemable debentures. This was an amendment to the First TCA SPA (the “Amendment to the First TCA SPA”.) As of October 27, 2015, the Company sold \$1,050,000 in Debentures to TCA and up to \$1,950,000 in Debentures remain for sale by the Company. The closing of the Amendment to the First TCA SPA occurred on October 27, 2015. In addition, TCA advanced the Company an additional \$100,000 for a total of \$1,150,000.

Issuance of Preferred Stock to TCA. Also, on October 21, 2015 the Company issued 150,000 Series B Preferred Stock at a stated value equal to \$10.00 per share to TCA. The Series B Preferred Stock was convertible into common stock by dividing the stated value of the shares being converted by 100% of the average of the five (5) lowest closing bid prices for the common stock during the ten (10) consecutive trading days immediately preceding the conversion date as quoted by Bloomberg, LP. On October 21, 2015, the Company also issued 51 shares of Series C Preferred Stock at \$0.0001 par value per share to TCA. The Series C Preferred Stock was not convertible into common stock. In the event of a default under the Amended and Restated TCA Transaction Documents, TCA could exercise voting control over our common stock with their Series C Preferred Stock voting rights.

TCA's Forbearance. Due to the Company's default on its repayment obligations under the TCA SPA's and related documents, the parties agreed to restructure the SPA's whereby TCA agreed to forbear from enforcement of our defaults and to restructure a payment schedule for repayment of debt under the SPAs. The Company defaulted because operating results were not as expected and the Company was unable to generate sufficient revenue through its business operations to serve the TCA debt.

In furtherance of TCA's forbearance, effective as of May 4, 2016, the Company issued Second Replacement Debenture A in the principal amount of \$150,000 and Second Replacement Debenture B in the principal amount of \$2,681,210 (collectively, the "Second Replacement Debentures").

Per the First Amendment to Amended and Restated Securities Purchase Agreement, the Second Replacement Debentures were combined, and apportioned into two separate replacement debentures. The Second Replacement Debentures were intended to act in substitution for and to supersede the debentures in their entirety. It was the intent of the Company and TCA that while the Second Replacement Debentures replace and supersede the debentures, in their entirety, they were not in payment or satisfaction of the debentures, but rather were the substitute of one evidence of debt for another without any intent to extinguish the old debt. As of September 30, 2016, the maximum number of shares subject to conversion under the Second Replacement Debentures was 19,401,389. This is an approximation. The estimation of the maximum number of shares issuable upon the conversion of the Second Replacement Debentures was calculated using an estimated average price of \$.0036 per share.

The Second Replacement Debentures contemplate TCA entering into debt purchase agreement(s) with third parties whereby TCA may, at its election, sever, split, divide or apportion the Second Replacement Debentures to accomplish the repayment of the balance owed to TCA by Company. The Second Replacement Debentures are convertible at 85% of the lowest daily volume weighted average price ("VWAP") of the Company's common stock during the five (5) business days immediately prior to a conversion date.

In connection with the above agreements, the parties acknowledged and agreed that certain advisory fees previously paid to TCA as provided in the SPAs in the amount of \$1,500,000 were added and included within the principal balance of the Second Replacement Debentures. The advisory fees related to financial, merger and acquisition and regulatory services provided to the Company. The conversion price discount on the Second Replacement Debentures did not apply to the advisory fees added to the Second Replacement Debentures. TCA also agreed to surrender its Series B Preferred Stock in exchange for the \$1,500,000 being added to the Second Replacement Debenture.

As more particularly described below, the Company remained in debt to TCA for the principal amount of \$1,500,000. The remaining \$1,400,000 of principal debt was assigned to Old Main Capital, LLC. The Company intends to use the funds generated from the Chicago Venture transaction to fuel its business operations and business plans which, in turn, will presumably generate revenues sufficient to avoid another default in the remaining TCA obligations. If the Company is unable to raise sufficient funds through the Chicago Venture transaction and/or generate sales sufficient to service the remaining TCA debt then the Company will be unable to avoid another default. Failure to operate in accordance with the various agreements with TCA could result in the cancellation of these agreements, result in foreclosure on the Company's assets in an event of default which would have a material adverse effect on our business, results of operations or financial condition.

On July 9, 2015, the Company valued the conversion feature as a derivative liability of this senior secured convertible redeemable debenture at \$888,134 and discounted debt by \$700,000 and recorded interest expense of \$188,134. The Company valued the derivative liability of this debenture at \$888,134.

At the inception of the Replacement Debentures, the embedded derivative liability was remeasured at fair value and the Company recorded a net gain of \$420,822.

At inception, the Company valued the conversion feature of the Replacement Debentures as a derivative liability in the amount of \$979,716. The amount was recorded as a discount to debt and will be amortized over the life of the debentures.

As of December 31, 2016, the Company remaining debt was below \$1,500,000 and does not include a derivative liability.

NOTE 9 – RELATED PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS

Since January 1, 2016, 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 CANX, LLC and Logic Works in Note 4, and Chicago Venture Partners, L.P. discussed in Note 7, 8, 10 and 14.

Transactions with an Entity Controlled by Marco Hegyi

On April 15, 2016, the Company issued 1,000,000 shares of its common stock to an entity affiliated with Marco Hegyi, our Chief Executive Officer, pursuant to a conversion of debt for \$20,000. The shares were valued at the fair market price of \$0.02 per share.

On October 12, 2016, the Company issued 4,000,000 shares of its common stock to an entity affiliated with Marco Hegyi, our Chief Executive Officer, pursuant to a conversion of debt for \$40,000. The shares were valued at the fair market price of \$0.01 per share.

On October 21, 2016, we entered into Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its Chief Executive Officer through October 20, 2018. Mr. Hegyi's previous Employment Agreement was dated December 4, 2013 and which is set to expire on December 4, 2016. Mr. Hegyi received a Warrant to purchase up to 10,000,000 shares of our common stock at an exercise price of \$0.01 per share. In addition, Mr. Hegyi received Warrants to purchase up to 10,000,000 shares of our common stock at an exercise price of \$0.01 per share which vest on October 21, 2017 and 2018. The Warrants are exercisable for 5 years.

Transactions with an Entity Controlled by Mark E. Scott

An entity controlled by Mr. Scott received an option to purchase sixteen million shares of our common stock at an exercise price of \$0.07 per share was reduced to \$0.01 per share on December 18, 2015. Two million shares vested on August 17, 2015 with the Company's resolution of the class action lawsuits. An additional two million share stock option vest on April 18, 2016 upon the Company securing a market maker with an approved 15c2-11 resulting in the Company's relisting on OTCBB.

On January 4, 2016, we issued 3,000,000 shares of its common stock to an entity affiliated with Mark E. Scott, Chief Financial Officer, pursuant to a conversion of debt for \$30,000. The shares were valued at the fair market price of \$0.01 per share.

On October 21, 2016, Mr. Scott cancelled stock option grants totaling 12,000,000 shares of our common stock at \$0.01 per share. Mr. Scott has 4,000,000 share stock option grants which are fully vested.

On October 21, 2016, Mr. Scott converted \$40,000 in deferred compensation into 4,000,000 shares of our common stock at \$0.01 per share. The price per share was based on the thirty-day trailing average.

On October 21, 2016, Mr. Scott was granted 6,000,000 shares of our common stock at \$0.01 per share. The price per share was based on the thirty-day trailing average.

On October 15, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$18,000.

Transactions with Michael E. Fasci

On January 27, 2016, we issued 1,500,000 shares of its common stock to Michael Fasci, a member of the Board of Directors, for director services. The shares were valued at the fair market price of \$0.01 per share. On May 25, 2016, we issued 2,500,000 shares of its common stock to Michael Fasci, a member of the Board of Directors, for director services. The shares were valued at the fair market price of \$0.02 per share. On October 21, 2016, we entered into a Consulting Agreement with an entity controlled by Michael E. Fasci, a Director. Mr. Fasci is to provide services

related to lender management, financing and acquisitions. Mr. Fasci's compensation is 2,000,000 shares of our common stock valued at \$0.01 per share and to be issued on April 21, 2017 and October 21, 2017.

On February 4, 2017, we issued 1,000,000 shares of our common stock to Michael E. Fasci pursuant to a service award for \$15,000. The shares were valued at the fair market price of \$0.015 per share. On April 27, 2017, we issued 1,000,000 shares of our common stock to Michael E. Fasci pursuant to a service award for \$9,000. The shares were valued at the fair market price of \$0.009 per share. On April 27, 2017, we issued 2,000,000 shares of our common stock to Michael E. Fasci pursuant to a consulting agreement for \$18,000. The shares were valued at the fair market price of \$0.009 per share. On November 2, 2017, we issued 2,000,000 shares of our common stock to Michael E. Fasci pursuant to a consulting agreement for \$10,000. The shares were valued at the fair market price of \$0.005 per share.

Transactions with Katherine McLain

Ms. Katherine McLain was appointed as a director on February 14, 2017. On June 28, 2017, we issued 1,000,000 shares of our common stock to Ms. McLain pursuant to a service award for \$9,000. The shares were valued at the fair market price of \$0.009 per share. On October 23, 2017, we issued 1,000,000 shares of our common stock to Ms. McLain pursuant to a service award for \$5,000. The shares were valued at the fair market price of \$0.005 per share.

Transaction with Thom Kozik

Mr. Kozik was appointed as a director on October 5, 2017. On October 23, 2017, we issued 2,000,000 shares of our common stock to Mr. Kozik pursuant to a service award for \$10,000. The shares were valued at the fair market price of \$0.005 per share.

Transaction with Joseph Barnes

On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$24,000.

NOTE 10 – EQUITY

Authorized Capital Stock

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

Non-Voting Preferred Stock

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

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

Certificate of Elimination for Series B and C Preferred Stock

On October 24, 2017, the Company filed a Certificate of Elimination with the Secretary of State of the State of Delaware to eliminate the Series B Convertible Preferred Stock and Series C Preferred Stock of the Company. None of the authorized shares of either the Series B or Series C Preferred Stock were outstanding.

The Certificate of Elimination, effective upon filing, had the effect of eliminating from the Company's Certificate of Incorporation, as amended, all matters set forth in the Certificate of Designations of the Series B Convertible Preferred Stock and Series C Preferred Stock with respect to each respective series, which were both previously filed by the Company with the Secretary of State on October 22, 2015. Accordingly, the 150,000 shares of Series B Preferred Stock and 51 shares of Series C Preferred Stock previously reserved for issuance under their respective Certificates of Designation resumed their status as authorized but unissued shares of undesignated preferred stock of the Company.

upon filing of the Certificate of Elimination.

Common Stock

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

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

During the year ended December 31, 2017, the Company had had the following sales of unregistered of equity securities to accredited investors unless otherwise indicated:

On February 28, 2017, Logic Works converted principal and interest of \$291,044 into 82,640,392 shares of the Company's common stock at a per share conversion price of \$0.004.

During the year ended December 31, 2017, five vendors converted debt of \$559,408 into 64,869,517 shares of the Company's common stock at the fair market price of \$0.0086 per share.

During the year ended December 31, 2017, four directors were issued 10,000,000 shares of the Company's common stock at the fair market price of \$0.0076 per share for 2017 director services.

During the year ended December 31, 2017, Chicago Venture converted principal and accrued interest of \$2,688,000 into 554,044,030 shares of the Company's common stock at a per share conversion price of \$0.0049.

During the year ended December 31, 2016, the Company had had the following sales of unregistered of equity securities to accredited investors unless otherwise indicated:

On January 4, 2016, the Company issued 3,000,000 shares of its common stock to an entity affiliated with Mark E. Scott, our Chief Financial Officer, pursuant to a conversion of accrued consulting fees and expenses for \$30,000. The shares were valued at the fair market price of \$0.01 per share. On October 21, 2016, an entity affiliated with Mr. Scott converted \$40,000 in accrued consulting fees and expenses into 4,000,000 shares of the Company's common stock at \$0.01 per share. The price per share was based on the thirty-day trailing average. On October 21, 2016, an entity affiliated with Mr. Scott was granted 6,000,000 shares of the Company's common stock at \$0.01 per share. The price per share was based on the thirty-day trailing average. On October 21, 2016, an entity affiliated with Mr. Scott cancelled stock option grants totaling 12,000,000 shares of the Company's common stock at \$0.01 per share.

On January 27, 2016, the Company issued 1,500,000 shares of its common stock to Michael E. Fasci, a Board Director, pursuant to a service award for \$15,000. The shares were valued at the fair market price of \$0.01 per share. On May 25, 2016, the Company issued 2,500,000 shares of its common stock to Michael E. Fasci pursuant to a service award for \$50,000. The shares were valued at the fair market price of \$0.02 per share.

In consideration for advisory services provided by TCA to the Company, the Company issued 15,000,000 shares of Common Stock during the year ending December 31, 2015. As the common stock was conditionally redeemable, the Company recorded the common stock as mezzanine equity in the accompanying consolidated balance sheet as of December 31, 2015. As of September 30, 2016, the shares are no longer conditionally redeemable and were recorded as issued and outstanding common stock.

The Company issued \$2 million in common stock or 115,141,048 shares of our common stock on April 6, 2016 pursuant to the settlement of the Consolidated Class Action and Derivative Action lawsuits alleging violations of federal securities laws that were filed against the Company in United States District Court, Central District of California. The Company accrued \$2,000,000 as loss on class action lawsuits and contingent liabilities during the year ending December 31, 2015.

On April 15, 2016, the Company issued 1,000,000 shares of its common stock to an entity affiliated with Marco Hegyi, our Chief Executive Officer, pursuant to a conversion of debt for \$20,000. The shares were valued at the fair market price of \$0.02 per share. On October 12, 2016, the Company issued 4,000,000 shares of its common stock to an entity affiliated with Marco Hegyi, pursuant to a conversion of debt for \$40,000. The shares were valued at the fair market price of \$0.01 per share.

On July 13, 2016, the Company issued 6,000,000 shares of common stock pursuant to Settlement Agreement and Release with Mr. Robert Hunt, a former executive, which were valued at the fair market price of \$0.010 per share.

On October 21, 2016, the Company issued 5,020,000 shares to two former directors and a supplier (unaccredited) for services provided. The Company valued the 5,020,000 shares at \$0.01 per share or \$50,200.

During the year ended December 31, 2016, the Company issued 6,400,000 shares of its common stock to two service providers (one unaccredited) pursuant to conversions of debt totaling \$64,000. The shares were valued at the fair market price of \$0.010 per share.

During the year ended December 31, 2016, Holders of the Company's Convertible Notes Payables, converted principal and accrued interest of \$1,080,247 into 186,119,285 shares of the Company's common stock at a per share conversion price of \$0.006.

During the year ended December 31, 2016, Old Main converted principal and accrued interest of \$757,208 into 144,650,951 shares of our common stock at a per share conversion price of \$0.0052.

During the year ended December 31, 2016, Chicago Venture converted principal and accrued interest of \$1,403,599 into 264,672,323 shares of our common stock at a per share conversion price of \$0.0053.

Warrants

The Company did not issue any warrants during the year ended December 31, 2017.

The Company issued the following warrants during the year ended December 31, 2016.

On October 21, 2016, Mr. Hegyi received a Warrant to purchase up to 10,000,000 shares of common stock of the Company at an exercise price of \$0.01 per share. In addition, Mr. Hegyi received Warrants to purchase up to 10,000,000 shares of common stock of the Company at an exercise price of \$0.01 per share which vest on October 21, 2017 and 2018. The Warrants are exercisable for 5 years. The warrants were valued at \$390,000 and the Company recorded \$23,958 of compensation expense for the warrants that had vested at December 31, 2016.

A summary of the warrants issued as of December 31, 2017 is as follows:

December 31, 2017		
	Weighted	
	Average	
	Exercise	
	Shares	Price
Outstanding at beginning of period	595,000,000	\$0.031
Issued	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at end of period	595,000,000	\$0.031
Exerciseable at end of period	595,000,000	

A summary of the status of the warrants outstanding as of December 31, 2017 is presented below:

December 31, 2017		
Weighted	Weighted	Weighted
Average	Average	Average

Number of	Remaining	Exercise	Shares	Exercise
Warrants	Life	Price	Exerciseable	Price
540,000,000	1.28	\$0.033	540,000,000	\$0.033
55,000,000	2.55	0.010	45,000,000	0.010
595,000,000	1.32	\$0.031	585,000,000	\$0.031

Warrants totaling 45,000,000 shares of common stock had an intrinsic value of \$1,030,500 as of December 31, 2017.

NOTE 11– STOCK OPTIONS

Description of Stock Option Plan

On October 23, 2017, the Company’s Shareholders authorized a Stock Incentive Plan whereby a maximum of 100,000,000 shares of the Company’s common stock could be granted in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards. The Company has outstanding unexercised stock option grants totaling 56,000,000 shares as of December 31, 2017. The Company filed a registration statement on Form S-8 to register 100,000,000 shares of Company’s common stock related to the 2017 Stock Incentive Plan.

Determining Fair Value under ASC 505

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

Stock Option Activity

During the year ended December 31, 2017, the Company had the following stock option activity:

On June 28, 2017, the Company's Compensation Committee granted four advisory committee members each an option to purchase 500,000 shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at an exercise price of \$0.009 per share, the fair market price on June 28, 2017.

On October 1, 2017, Mr. Reichwein was granted an option to purchase 20,000,000 shares of our common stock under our 2011 Stock Incentive Plan at \$0.006 per share. The shares vest as follows:

- i Ten million shares vested immediately;
- ii Ten million shares vest on a quarterly basis over two years beginning on the date of grant.

The stock option grants are exercisable for 5 years and were valued at \$20,000.

On October 15, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$18,000.

On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at \$24,000.

During the year ended December 31, 2016, the Company had the following stock option activity:

An entity controlled by Mr. Scott had a two million share stock option that was previously issued vest on April 18, 2016 upon the Company securing a market maker with an approved 15c2-11 resulting in the Company's relisting on OTCBB.

An employee resigned January 13, 2016 and an option to purchase five million shares of the Company's common stock under the Company's 2011 Stock Incentive Plan expired on April 13, 2016.

An employee forfeited a stock grant for 10,000 shares of the Company's common stock during the nine months ended September 30, 2016.

On October 12, 2016, the Company amended the exercise price of the stock option grants for Mr. Barnes to \$0.010 per share.

On October 21, 2016, Mr. Scott cancelled stock option grants totaling 12,000,000 shares of the Company's common stock at \$0.01 per share. Mr. Scott has an additional 2,000,000 share stock option grant which continues to vest monthly over 36 months and a 2,000,000 share stock option grant which vests upon the achievement of certain performance goals related to acquisitions.

As of December 31, 2017, there are 56,000,000 options to purchase common stock at an average exercise price of \$0.007 per share outstanding under the 2017 Stock Incentive Plan. The Company recorded \$29,250 and \$121,770 of compensation expense, net of related tax effects, relative to stock options for the years ended December 31, 2017 and 2016 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.00). As of December 31, 2017, there is \$64,151 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 4.06 years.

Stock option activity for the years ended December 31, 2017 and 2016 is as follows:

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

The following table summarizes information about stock options outstanding and exercisable at December 31, 2017

	Weighted		Weighted		Weighted	
	Average		Average		Average	
Range of	Number	Remaining Life	Exercise Price	Number	Exercise Price	
Exercise Prices	Outstanding	In Years	Exerciseable	Exerciseable	Exerciseable	
\$0.006	32,000,000	4.75	\$0.006	12,500,000	\$0.006	
0.007	10,000,000	4.75	0.007	1,391,666	0.007	
0.009	2,000,000	2.50	0.009	333,333	0.009	
0.010	12,000,000	1.88	0.010	12,000,000	0.010	
	56,000,000	4.06	\$0.007	26,225,000	\$0.008	

Stock option grants totaling 26,225,000 shares of common stock have an intrinsic value of \$655,061 as of December 31, 2017.

NOTE 12 – COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Legal Proceedings

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

to time according to developments.

Sales, Payroll and Other Tax Liabilities

As of December 31, 2017, we owe approximately \$119,000 in sales tax.

Other Legal Proceedings

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

Operating Leases

On October 21, 2013, the Company entered into a lease agreement for retail space for its hydroponics store in Avon (Vail), Colorado. The lease expires on September 30, 2018. Monthly rent for year one of the lease is \$2,792 and increased 3.5% per year thereafter through the end of the lease. We terminated this lease agreement as of August 31, 2017.

On December 7, 2016, the Company entered into entered into a Consent to Judgement and Settlement Agreement related to its retail hydroponics store located in Portland, Maine. This Agreement provides for a monthly lease payment of \$5,373 through May 1, 2020. We also agreed to a repayment schedule for past due rent and owes \$45,175 as of December 31, 2017. We are past due on the repayment schedule by \$45,175 as of December 31, 2017. We do not have an option to extend the lease after May 1, 2020.

On May 31, 2017, the Company rented space at 5400 Carillon Point, Kirkland, Washington 98033 for \$623 per month for our corporate office and use of space in the Regus network, including California. Our agreement expires May 31, 2018 and is expected to be renewed.

On October 1, 2017, GrowLife Hydroponics, Inc. entered into a lease in Calgary, Canada. The monthly lease is approximately \$1,997. The lease expires September 30, 2022.

On December 19, 2017, GrowLife Innovations, Inc. entered into a lease in Grand Prairie, Texas dated October 9, 2017, for the manufacturing and distribution of its flooring products. The monthly lease is approximately \$15,000. The lease expires December 15, 2018 and can be renewed.

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

Years Ended December 31, Total

2018	\$319,962
2019	174,615
2020	61,668
2021	-
2022	-
Beyond	-
Total	\$556,245

Employment and Consulting Agreements

Employment Agreement with Marco Hegyi

On October 21, 2016, the Company entered into Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its Chief Executive Officer through October 20, 2018. Mr. Hegyi's previous Employment Agreement was dated December 4, 2013 and was set to expire on December 4, 2016.

Mr. Hegyi's annual compensation is \$250,000. Mr. Hegyi is also entitled to receive an annual bonus equal to four percent (4%) of the Company's EBITDA for that year. The annual bonus shall be paid no later than 31 days following the end of each calendar year.

Mr. Hegyi received a Warrant to purchase up to 10,000,000 shares of common stock of the Company at an exercise price of \$0.01 per share. In addition, Mr. Hegyi received Warrants to purchase up to 10,000,000 shares of common stock of the Company at an exercise price of \$0.01 per share which vest on October 21, 2017 and 2018. 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 agreed to 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.

If there has been a “Change in Control” and the Company (or its successor or the surviving entity) terminates Mr. Hegyi’s employment without Cause as part of or in connection with such Change in Control (including any such termination occurring within one (1) month prior to the effective date of such Change in Control), then in addition to the benefits set forth above, Mr. Hegyi will be entitled to (i) an increase of \$300,000 in his annual base salary amount (or an additional \$25,000 per month) through the end of the Term; plus (ii) a gross-up in the annual base salary amount each year to account for and to offset any tax that may be due by Mr. Hegyi on any payments received or to be received by Mr. Hegyi under this Agreement that would result in a “parachute payment” as described in Section 280G of the Internal Revenue Code of 1986, as amended. If we (or its successor or the surviving entity) terminate Mr. Hegyi’s employment without Cause within twelve (12) months after the effective date of any Change in Control, or if Mr. Hegyi terminates his employment for Good Reason within twelve (12) months after the effective date of any Change in Control, then in addition to the benefits set forth above, Mr. Hegyi will be entitled to (i) an increase of \$300,000 in his annual base salary amount (or an additional \$25,000 per month), which increased annual base salary amount shall be paid for the remainder of the Term or for two (2) years following the Change in Control, whichever is longer; (ii) a gross-up in the annual base salary amount each year to account for and to offset any tax that may be due by Mr. Hegyi on any payments received or to be received by Mr. Hegyi under this Letter Agreement that would result in a “parachute payment” as described in Section 280G of the Internal Revenue Code of 1986, as amended; (iii) payment of Mr. Hegyi’s annual bonus amount as set forth above for each year during the remainder of the Term or for two (2) years following the Change in Control, whichever is longer; and (iv) health insurance coverage provided for and paid by the Company for the remainder of the Term or for two (2) years following the Change in Control, whichever is longer.

Chief Financial Officer Agreement with an Entity Controlled by Mark E. Scott

On July 31, 2014, the Company engaged Mr. Scott as its Consulting CFO from July 1, 2014 through September 30, 2014, and continuing thereafter until either party provides sixty-day notice to terminate the Letter or Mr. Scott enters into a full-time employment agreement. Mr. Scott became a full time employee on November 1, 2017.

Per the terms of the Scott Agreement, Mr. Scott's compensation is \$150,000 on an annual basis for the first year of the Scott Agreement. Mr. Scott is also entitled to receive an annual bonus equal to two percent of the Company's EBITDA for that year. The Company's Board of Directors granted Mr. Scott an option to purchase sixteen million shares of our Common Stock under our 2011 Stock Incentive Plan at an exercise price of \$0.07 per share, the fair market price on July 31, 2014. On December 18, 2015, we reduced the exercise price to \$0.01 per share. The shares vested as follows:

- i Two million shares vest immediately upon securing a market maker with an approved 15c2-11 resulting in the Company's relisting on OTCBB (earned as of February 18, 2016);
- ii Two million shares vest immediately upon the successful approval and effectiveness of the Company's S-1 (not earned as of December 31, 2016);
- iii Two million shares vest immediately upon the Company's resolution of the class action lawsuits (earned as of August 17, 2015); and,
- iv Ten million shares will vest on a monthly basis over a period of three years beginning on the July 1, 2014.

On October 21, 2016, Mr. Scott cancelled stock option grants totaling 12,000,000 shares of our common stock at \$0.01 per share. Mr. Scott has an additional 2,000,000 share stock option grant which continues to vest monthly over 36 months and a 2,000,000 share stock option grant which vests upon the achievement of certain performance goals related to acquisitions (earned as of October 3, 2017). On October 15, 2017, an entity controlled by Mr. Scott was granted an option to purchase 12,000,000 shares of common stock at an exercise price of \$0.006 per share. The option grant vests on a quarterly basis quarterly over three years.

All options have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as consultant to the Company 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 Stock Incentive Plan except for CANX USA, LLC, 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 to 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 has certain insurance and travel employment benefits.

If, prior to the expiration of the Term, the Company terminates Mr. Scott's employment for Cause, or if Mr. Scott voluntarily terminates his employment without Good Reason, or if Mr. Scott's employment is terminated by reason of his death, then all of our obligations hereunder shall cease immediately, and Mr. Scott will not be entitled to any further compensation beyond any pro-rated base salary due and bonus amounts earned through the effective date of termination. Mr. Scott will also be reimbursed for any expenses incurred prior to the date of termination for which he was not previously reimbursed. Mr. Scott may receive severance benefits and our obligation under a termination by

the Company without Cause or Mr. Scott terminates his employment for Good Reason are discussed above.

Promotion Letter with Joseph Barnes

On October 10, 2014, the Company entered into a Promotion Letter with Joseph Barnes which was effective October 1, 2014 pursuant to which the Company engaged Mr. Barnes as its Senior Vice-President of Business Development from October 1, 2014 on an at will basis. On August 16, 2017, Mr. Joseph Barnes, Senior Vice-President of Business Development GrowLife Hydroponics, Inc, was promoted to President of GrowLife Hydroponics, Inc.

Per the terms of the Barnes Agreement, Mr. Barnes's compensation is \$90,000 on an annual basis. On January 1, 2016, Mr. Barnes salary was increased to \$120,000 per year. On August 16, 2017, Mr. Barnes was increased to \$150,000 per year. Mr. Barnes received a bonus of \$6,500 and is also entitled to receive a quarterly bonus based on growth of our growth margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Barnes was granted an option to purchase eight million shares of our common stock under our 2011 Stock Incentive Plan at \$0.050 per share. The shares vest as follows:

- i Two million shares vested immediately;
- iv Six million shares vest on a monthly basis over a period of three years beginning on the date of grant.

On October 12, 2016, we amended the exercise price of the stock option grants for Mr. Barnes to \$0.010 per share. On October 25, 2017, Mr. Barnes was granted an option to purchase 10,000,000 shares of common stock at an exercise price of \$0.007 per share. The option grant vests on a quarterly basis over three years.

All options have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of our 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 Stock Incentive, then 100% of the total number of shares shall immediately become vested.

Mr. Barnes is 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. Finally, Mr. Barnes is entitled to fifteen days of vacation annually and has certain insurance and travel employment benefits.

Mr. Barnes may receive severance benefits and our obligation under a termination by the Company without Cause or Mr. Barnes terminates his employment for Good Reason are discussed above.

Offer Letter with David Reichwein

On October 1, 2017, the Company entered into an Offer Letter with David Reichwein pursuant to which the Company engaged Mr. Reichwein as its Vice-President of Research and Development on an at will basis.

Per the terms of the Reichwein Agreement, Mr. Reichwein's compensation is \$150,000 on an annual basis. Starting on the first quarter 2018, Mr. Reichwein is eligible to earn a quarterly commission based on 10% of tile gross margin dollars.

Mr. Reichwein was granted an option to purchase twenty million shares of our common stock under our 2011 Stock Incentive Plan at \$0.006 per share. The shares vest as follows:

- i Ten million shares vested immediately;
- ii Ten million shares vest on a quarterly basis over two years beginning on the date of grant.

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 Stock Incentive Plan, including vesting requirements. In the event that Mr. Reichwein's continuous status as employee to the Company is terminated by us without Cause or Mr. Reichwein terminates his employment with us for Good Reason as defined in the Reichwein Agreement, in either case upon or within twelve

months after a Change in Control as defined in our Stock Incentive, then 100% of the total number of shares shall immediately become vested.

Mr. Reichwein is 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. Finally, Mr. Reichwein is entitled to fifteen days of vacation annually and has certain insurance and travel employment benefits.

Mr. Reichwein may receive severance benefits and our obligation under a termination by the Company without Cause or Mr. Reichwein terminates his employment for Good Reason are discussed above.

Consulting Agreement with an Entity Controlled by Michael E. Fasci

On October 21, 2016, the Company entered into a Consulting Agreement with an entity controlled by Michael E. Fasci. Mr. Fasci agreed to provide services related to lender management, financing and acquisitions. Mr. Fasci's compensation is 2,000,000 shares of our common stock valued at \$0.01 per share and to be issued on April 21, 2017 and October 21, 2017. The Agreement expired October 20, 2017.

NOTE 13 – INCOME TAXES

The Company has incurred losses since inception, which have generated net operating loss carryforwards. The net operating loss carryforwards arise from United States sources.

Pretax losses arising from United States operations were approximately \$5,300,000 and \$7,700,000 and for the years ended December 31, 2017 and 2016, respectively.

The Company has net operating loss carryforwards of approximately \$18,000,000, which expire in 2021-2031. Because it is not more likely than not that sufficient tax earnings will be generated to utilize the net operating loss carryforwards, a corresponding valuation allowance of approximately \$7,100,000 was established as of December 31, 2017. 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.

For the year ended December 31, 2017, the Company's effective tax rate differs from the federal statutory rate principally due to net operating losses, warrants issued for services, change in fair value of derivative and debt discount.

The principal components of the Company's deferred tax assets at December 31, 2017 and 2016 are as follows:

	2017	2016
U.S. operations loss carry forward and state at statutory rate of 40%	\$7,154,699	\$6,704,362
Less valuation allowance	7,154,699	(6,704,362)
Net deferred tax assets	-	-
Change in valuation allowance	\$7,154,699	\$(6,704,362)

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Federal statutory rate	-34.0%	-34.0%
State income tax rate	-6.0%	-6.0%
Change in valuation allowance	40.0%	40.0%
Effective tax rate	0.0%	0.0%

The Company's tax returns for 2012 to 2017 are open to review by the Internal Revenue Service.

NOTE 14 – SUBSEQUENT EVENTS

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

Subsequent to December 31, 2017, the following material transactions occurred:

Equity Issuances

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

On February 12, 2018, the Company received a Notice of Conversion from Forflen LLC converting principal and interest of \$321,945.00 owed under that certain 7% Convertible Note as amended June 19, 2014 into 127,000,000 shares of our common stock with a fair value of \$2,235,200

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

During the three months ended March 31, 2018, Chicago Venture converted principal and interest of \$1,877,668 into 333,821,634 shares of our common stock at a per share conversion price of \$0.0055 with a fair value of \$5,040,707.

Securities Purchase Agreements with St. George Investments, LLC

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

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

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

On March 20, 2018, the Company entered into and closed on a Common Stock Purchase Agreement with St. George Investments, LLC, a Utah limited liability company.

Pursuant to the St. George Agreements, the Company sold and agreed to issue to St. George 6,410,256 shares of newly issued restricted Common Stock of the Company at a purchase price of \$0.0156 per share. The Purchase Price was paid at Closing and the Shares shall be issued upon the satisfaction of the Share Delivery Conditions as set forth in the Agreement. The Shares purchased represents less than 0.3% of the Company's current issued and outstanding common stock.

First Addendum to Agreements with David Reichwein

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

Amendment 2 to Note with Forglen LLC

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

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

Installment Agreement with the City of Boulder, Colorado

On March 12, 2017, the Company entered into an Installment Agreement with the City of Boulder, Colorado. This Agreement requires the Company to pay \$5,000 per month over the next twenty four months or \$119,217 for unpaid sales taxes.

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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: March 28, 2018 By: /s/ Marco Hegyi
 Marco Hegyi
 Chief Executive Officer and Director
 (Principal Executive Officer)

By: /s/ Mark E. Scott
 Mark Scott
 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)	March 28, 2018
/s/ Mark E. Scott Mark E. Scott	Chief Financial Officer, Director and Secretary (Principal Financial/Accounting Officer)	March 28, 2018
/s/ Michael E. Fasci Michael E. Fasci	Director	March 28, 2018
/s/ Katherine McLain Katherine McLain	Director	March 28, 2018
/s/ Thom Kozik Thom Kozik	Director	March 28, 2018