GROWLIFE, INC.
Form 10-K
March 08, 2019

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, 2018

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

For the transaction period from ________ to ________

Commission file number 000-50385

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

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

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

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

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, 2018 (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 $50,578,770.

As of March 8, 2019, there were 3,648,955,290 shares of the issuer's common stock, $0.0001 par value per share, outstanding.

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.

Over the last year we have been discussing how we can meet our goal and help our customers significantly lower their production costs. We have continued to distribute thousands of third-party products to growers through retail, e-commerce and direct sales channels, sold to both commercial and consumer cultivators, and began developing our own products in our Innovations division. As we pursued our goal of “measuring our success by our customer’s success” we discovered that we needed to acquire a critical technology for cloning.

As we illustrated in last quarter’s Management Discussion section, the bell curve we mapped out from our ‘Cube’ proof of concept tests showed that the Commercial Cultivation Stage is where most of the money is spent for production. However, the Cloning Stage is where the greatest yield to impact occurs (dashed line). While we could have simply partnered with EZ-Clone, the 20-year leader in cloning, to use their products to help increase the yield of Cube, there were far greater strategic and economic benefits to both companies if GrowLife pursued an acquisition.

On October 15, 2018, GrowLife acquired 51% of EZ-Clone and intends to acquire the remaining 49% in 2019. The addition of EZ-Clone was the missing piece for many reasons. Like a jigsaw puzzle, the pattern became apparent of how we needed to proceed, or pivot the GrowLife business for growth.

The Company will continue to provide the best products that drive down our customer’s production cost while increasing our gross margin. Initially we can purchase and resell third-party products as we have done in the past. However, over time we will develop our own technologies and, in some cases, acquire them to accelerate bringing them to market. Acquiring companies is not difficult but integrating talent and the best of their culture can be challenging. As a result, we have organized to integrate such acquisitions.

At the end of 2018, GrowLife decided to shift its operating organization from divisions to a functional structure with a deep leadership team to provide greater coverage for further geographical and acquisition expansion. Each leader has extensive experience in their roles. With a functional organization we maintain clear lines of daily communication across the company and deep into our operations. A newly acquired company can be quickly integrated into our three groups while maintaining continuity of leadership and knowledge transfer. EZ-Clone integrated into GrowLife in six months, less than half the time of FreeFit. Such best practices are conveyed with Standard Operating Procedures and absorbed with a receptive culture.

Where we once saw divisions to serve different market segments, we elected to align our resources behind three functional groups serving commercial customers at different stages. Where we were racing to the bottom by distributing other people’s commodity products that are perceived as too expensive for our customers and generating only 8-10% gross margins, we now focus on our own GrowLife/EZ-Clone products that generate 40-55% gross margins at reasonable prices to our customers. Additionally, our retail stores in Canada, Los Angeles and Maine serve as regional fulfillment and e-Commerce centers for our commercial customers. And, this is just the start. Given the 87% year-over-year revenue growth, GrowLife will continue to provide essential and hard-to-find goods including growing media, industry-leading hydroponics equipment, organic plant nutrients, and thousands more products on demand to our customers across the United States and Canada. However, as our revenue mix transitions to proprietary products we expect to see our gross margins grow up to approximately 300%.

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Vision

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.

Our vision continues to revolve around the key words in our mission statement, "value and trust", with our employees, our customers and our shareholders. Value is more than economic benefit; it must not mean compromise or that the relationship ends with the transaction; rather, quite the opposite. We have been exploring revenue models that may work the way our commercial customers need help such as dealing with the IRS 280e challenge. Employees and shareholders also expect value but benefits and dilution is challenging so we look to ways that solve problems. For competitive reasons we do not go into details but will disclose as we launch such programs. Thus, we seek value. Trust is earned through consistency of practice. Our operations have demonstrated such practice. We are cautiously transparent where we do not promise what we may not deliver therefore we do not give revenue guidance and, for competitive reasons, avoid too many details, but we share as much as we can to keep our customers and shareholders always informed.

We will continue to provide our customers the over 15,000 products that they demand, however, those third-party manufacturers are not rushing to lower their prices to help our customers lower their production costs. It is understandable because they make more in the short term without concern of the macro-market impact. GrowLife is a nationwide company and is concerned about the macro-economics.

One of the many things that attracted the Company to EZ-Clone was its principal, Billy Blackburn. Billy was working on the EZ-Clone Pro project that the Company saw in 2017. A cloning system for almost 500 clones at one time; a system that could easily cannibalize his smaller core cloning business. We discussed the trade-offs and he told me "that's where the market is going and what customer's need. EZ-Clone needs to adjust, not our customers." I am so glad that he is on our team and heading up R&D and manufacturing.

We see outdoor farming as 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, GrowLife's vision of indoor cultivation is that it is inevitable, not another gardening alternative. For the Cannabis market, as well as all indoor cultivators of fruits and vegetables, to serve their markets and customers they must significantly increase operations at scale, remove inefficiencies and lower their production costs with local, safer, healthier and affordable crops. We see lowering the cost of production as the game changer. 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.

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GrowLife's commercial customers are at different stages of commercial operations across all States and Provenances. Along with our business-to-business focus we have looked at the business-to-consumer sought to offer the GrowLife Consumer Cube products. We recognize demand is increasing from small, aspiring cultivation consumers across the country seeking to learn and use a complete indoor growing solution. At this time, however, we recognize that we cannot serve both the consumer and commercial markets so we have decided to concentrate our efforts on commercial customers.

To grow our commercial programs GrowLife is investing in two areas, Sales with Marketing support and Research and Development or innovation. The funding for these efforts started with $1 million in equity financing in February 2018 from Chicago Venture Partners and then with $2.5 million from our shareholders in our Rights Offering. These funds allowed us to begin our expansion and innovation projects, thus our greater than normal G&A expenses and EZ-Clone acquisition.

Demand: Market Size and Growth

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 continuing 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, plumping 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
  - o 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.

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.
- 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 2016.

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:
  - 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, 4mmm thickness and 22mil wear layer and wear and stain resistance.
- Direct to consumer sales model that major competitors cannot execute on due to resale agreements.

Growth Outlook:

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

Employees

As of December 31, 2018, we had 32 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 25 full and part time employees located throughout the United States and Canada who operate our businesses. We employ 7 full-time and part-time employees at EZ-Clone in Sacramento, CA. None of our employees are subject to a collective bargaining agreement or represented by a trade or labor union. We believe that we have a good relationship with our employees.

Key Partners

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

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

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Competition

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

Intellectual Property and Proprietary Rights

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

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

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

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

Closed Transactions Expected to Grow the Company

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.

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

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

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

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

Government Regulation

Currently, there are thirty three 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 ten states and the District of Columbia that allow recreational use of cannabis. As of March 8, 2019, 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.

Demand: Market Size and Growth

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, through two recent asset acquisitions, GrowLife has begun selling company manufactured products including:

- Luxury Vinyl Tile for residential, commercial, and temporary surface consumers of the Floor Covering industry.

- Plant cloning and propagation equipment which service the plant cultivation market with consumers in both commercial and non-commercial areas of plant growing

Hydroponic Growing Equipment

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.

Key Industry Statistics:

- In 2018, the Hydroponic Growing Equipment Stores industry generated $842 million in gross revenue in the United States. (source).
- The industry grew 4.6% from 2013 to 2018 and is expected to continuing growing at a rate of 1.4% through 2019. (source|source)

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As of 2019, there are approximately 2,546 businesses engaged in the industry who employ around 9,982. (source|source)

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No companies have been identified as “major players”.

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According to the market research report by Transparency Market Research, the global hydroponics market is anticipated to reach a value of US$12.1 bn from US$6.9 bn by the end of 2025. The market is likely to register a promising 6.50% CAGR between 2017 and 2025. (source)

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, plumping 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, in addition to the increasing size of the legalized cannabis market.

- The increasing awareness among consumers regarding the consumption of greens is predicted to encourage the growth of the global hydroponics market in the coming years. (source)

- Vertical cultivation to act as a major opportunity for the market players, which is likely to accelerate market growth in the near future. (source)

- Consumer interest in organic foods and hydroponic growing has also increased as disposable income continues to rise.
- According to the World Bank, there is a deduction of 3% land in the past 54 years which may lead to more urbanization and adoption of hydroponics in the years to come. (source)
- 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
  - o The legalized cannabis industry is growing exponentially. Hydroponics is the preferred method of cultivation of cannabis products, which will in turn increase demand for hydroponics equipment.
  - o In certain states and throughout Canada, individuals above 21 years of age and 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 all of North America.

Growth Outlook of Hydroponics Industry:

"The industry is growing faster than overall GDP"

Factors:

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

- Medical and recreational cannabis has been legalized in multiple states and the country of Canada and is expected to be approved in a number of US states over the next five years, which will lead more patients and cultivators to buy cannabis products and hydroponic growing equipment to fulfill demand for this growing market.
- This hydroponics 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.

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.

Key Industry Statistics:

- In 2018, the Medical and Recreational Marijuana Growing industry in the United States generated $6 billion and is expected to grow to $8.2 billion in 2019. (source)

- According to data released by Forbes, i n 2017 the worldwide legal marijuana trade grew by 37% and was worth $9.5 billion. At $8.5 billion, the U.S. accounted for 90% of it. At $0.6 billion Canada's 2017 share was 6%. The rest of the world combined made up the remaining 4%. (source)

- Ten states and the District of Columbia have legalized the drug for recreational purposes, according to the National Conference of State Legislatures. More than half the states (33) – plus the District of Columbia, Guam and Puerto Rico – have legalized it for medical purposes. (source)

- As of 2018, there are approximately 223,123 businesses engaged in the industry, employing roughly 763,189 people.

- No companies have been identified as "major players".

- Over the past five years, the number of growers has grown by 14.6% and the number of employees has grown by 16.5%.

- 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.

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.
- The industry has been significantly restricted by an increasing amount of proposed regulations. In particular, medical marijuana remains a Schedule I controlled substance under federal law, despite state-level legalization. Following legalization in many states during the 2016 election cycle, and expected legalization in the upcoming 2018 cycle, beneficial regulation is expected to create an opportunity for the industry. (source)
- Growth Outlook of the Medical and Recreational Marijuana Growing Industry:

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

- The industry has experienced an annual growth rate of 28.3% from 2013-2018 and is expected to grow 27.4% in 2019 over the previous year. (source)
- Forbes expects that by 2022, legal cannabis revenue in the U.S. market is projected to hit $23.4 billion (73% of the world market market). During the same period, Canada is projected to reach $5.5 billion (17%) and at $3.1 billion, the rest of the world will represent almost 10% of the legal cannabis market (source)

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 the Pew Research Center, 62% of Americans say the use of marijuana should be legalized in 2018, compared with just 31% in 2000.
- 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.

Competitive advantages:

- GrowLife has branded itself among cannabis cultivators as experts in the space. The company is associated with cannabis growing and is known as one of the first companies in the space
- GrowLife offers consultancy services on commercial cultivation set ups.
- GrowLife offers educational resources on proper growing procedures for home growing consumers.

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

Industry Definition:

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

2016 Key Industry Statistics:

- 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.

Key Industry Drivers:

- 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.
- 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 2016.

Competitive advantages:

- GrowLife’s LVT product features significant competitive advantages including:
  - Custom imaging, “Real Touch” texture technology, fully customizable platform, “Seriously Easy to Install” design, made in the US, waterproof, lifespan 3x longer than traditional vinyl, 4mmm thickness and 22mil wear layer and wear and stain resistance.

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

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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.

OUR COMMON STOCK

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. As of March 4, 2019, we began to trade on the Pink Sheet stocks system. Our bid price had closed below $0.01 for more than 30 consecutive calendar days.

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.

Risks Related to Our Business

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

Risks Associated with Securities Purchase Agreement with Chicago Venture

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

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

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

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

Our common stock.

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. As of March 4, 2019, we began to trade on the Pink Sheet stocks system. Our bid price had closed below $0.01 for more than 30 consecutive calendar days.

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 have been involved in Legal Proceedings.

We have been involved in certain disputes and legal proceedings as discussed in the section title “Legal Proceedings” within our Form 10-K for year ended December 31, 2018. In addition, as a public company, we are also potentially susceptible to litigation, such as claims asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse on our business, results of operations or financial condition.

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

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

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

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

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

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

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

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

The marijuana industry faces strong opposition.

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

Marijuana remains illegal under Federal law.

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

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

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

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

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

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

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

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

Currently, there are thirty three 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 years ended December 31, 2018 and 2017 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, 2018, we had an accumulated deficit of $141.2 million. There can be no assurance that we will achieve or maintain profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are dependent on key personnel.

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

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

Chicago Venture, Iliad and St, George

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

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

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

Our stock is categorized as a penny stock The SEC has adopted Rule 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, 2018, there were approximately 3.44 billion shares of our common stock issued and outstanding. In addition, as of December 31, 2018, there are also (i) stock option grants outstanding for the purchase of 100 million common shares at a $0.010 average exercise price; (ii) warrants for the purchase of 902.8 million common shares at a $0.029 average exercise price; and (iii) 112.8 million shares related to convertible debt that can be converted at 0.002535 per share.

In addition, we have an unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing agreements because the number of shares ultimately issued to Chicago Venture depends on the price at which Chicago Venture converts its debt to shares and exercises its warrants. The lower the conversion or exercise prices, the more shares that will be issued to Chicago Venture upon the conversion of debt to shares. We won’t know the exact number of shares of stock issued to Chicago Venture until the debt is actually converted to equity. If all stock option grant and warrant and contingent shares are issued, approximately 4.553 billion of our currently authorized 6 billion shares of common stock will be issued and outstanding. For purposes of estimating the number of shares issuable upon the exercise/conversion of all stock options, warrants and contingent shares, we assumed the number of shares and average share prices detailed above.

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Operating Leases

On May 31, 2018, 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. The Company's agreement expires May 31, 2019.

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

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

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

On August 31, 2018, GrowLife, Inc. entered into the Fourth Amendment to the Lease Agreement for the store in Encino, California. The monthly lease is approximately $6,720, with a 3% increase on March 1, 2019. The lease expires September 1, 2019 and we are required to provide six months' notice to terminate the lease.

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

ITEM 3. LEGAL PROCEEDINGS

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

Other than those certain legal proceedings as reported in our annual report on Form 10-K filed with the SEC on March 8, 2019, 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.

Capital Stock Issued and Outstanding

As of December 31, 2018, we have issued and outstanding securities on a fully diluted basis, consisting of:

3.44 billion shares of common stock;
Stock option grants for the purchase of 100 million shares of common stock at average exercise price of $0.010 per share;
Warrants to purchase an aggregate of 902.8 million shares of common stock with expiration dates between November 2018 (subject to extension) and October 2028 at an exercise price of $0.029 per share;
112.8 million shares related to convertible debt that can be converted at 0.002535 per share; and
An unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George 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, 2018, we had warrants to purchase an aggregate of 902.8 million shares of common stock with expiration dates between November 2018 (subject to extension) and October 2028 at an exercise price of $0.029 per share.

Options to Purchase Common Stock

On December 6, 2018, our shareholders voted to approve the First Amended and Restated 2017 Stock Incentive Plan to increase the shares issuable under the plan from 100 million to 200 million. We have 100,000,000 shares available for issuance. We have outstanding unexercised stock option grants totaling 100,000,000 shares at an average exercise price of $0.010 per share as of December 31, 2018. We filed registration statements on Form S-8 to register 200,000,000 shares of our common stock related to the 2017 Stock Incentive Plan and First Amended and Restated 2017 Stock Incentive Plan.

Dividend Policy

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

Change in Control Provisions

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

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

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

Articles of Incorporation and Bylaws Provisions

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

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

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

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

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

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. As of March 4, 2019, we began to trade on the Pink Sheet stocks system. Our bid price had closed below $0.01 for more than 30 consecutive calendar days.

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, 2018		
December 31, 2018	$0.023	$0.006
September 30, 2018	$0.019	$0.011
June 30, 2018	$0.028	$0.015
March 31, 2018	$0.050	$0.014
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

As of March 4, 2019, the closing price of the company's common stock was $0.0083 per share. As of March 8, 2019, there were 3,523,955,290 shares of common stock issued and outstanding. We 131 stockholders of record. This number does not include over 101,000 beneficial owners whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

Transfer Agent

The transfer agent for our common stock is Issuer Direct Corporation located 500 Perimeter Park, Suite D, Morrisville NC 27560, and their telephone number is (919) 481-4000.

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, 2018, we had the following sales of unregistered sales of equity securities.

On October 15, 2018, we closed the Purchase and Sale Agreement with EZ-Clone and issued 107,307,692 restricted shares of our common stock at a price of $0.013 per share or $1,395,000.

On November 30, 2018, we closed our Rights Offering. We received $2,533,648 under the Rights Offering and issued 211,137,293 shares of common stock at $0.012 per share.

On December 19, 2018, we issued 1,500,000 shares to a supplier related to a debt conversion. We valued the shares at $0.010 per share or $15,000.

During the three months ended December 31, 2018, we issued 6,250,000 shares to suppliers for services provided. We valued the shares at $0.0104 per share or $65,000.

During the three months ended December 31, 2018, Chicago Venture converted principal and accrued interest of $367,000 into 56,185,736 shares of our common stock at a per share conversion price of $0.00652.

During the three months ended December 31, 2018, an employee exercised a stock option grant for 1,000,000 shares at $0.006 or $6,000.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2018 related to the equity compensation plan in effect at that time.

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plan approved by shareholders	100,000,000	$0.010	100,000,000
Equity compensation plans not approved by shareholders			
Total	100,000,000	$0.010	100,000,000

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, 2018 and 2017. 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,				
	2018	2017	2016	2015	2014
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
STATEMENT OF OPERATIONS DATA:					
Net revenue	$4,573	$2,452	$1,231	$3,500	$8,538
Cost of goods sold	4,105	2,181	1,276	2,981	7,173
Gross profit	468	271	(45)	519	1,365
General and administrative expenses	5,017	2,320	2,764	2,684	7,851
Operating (loss)	(4,549)	(2,049)	(2,809)	(2,165)	(6,486)
Other expense	(6,924)	(3,272)	(4,886)	(3,524)	(80,140)
Net (loss)	$(11,473)	$(5,321)	$(7,695)	$(5,689)	$(86,626)
Net (loss) per share	$(0.00)	$(0.00)	$(0.01)	$(0.01)	$(0.10)
Weighted average number of shares	2,978,812,920	2,044,521,389	1,197,565,907	884,348,627	834,503,868

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

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.

We 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.

On October 15, 2018, we closed the Purchase and Sale Agreement with EZ-Clone for 51% ownership of EZ-Clone. EZ-Clone is the manufacturer of multiple award-winning products specifically designed for the commercial cloning and propagation stage of indoor plant cultivation including cannabis, food, and other hydroponic farming.

On August 17, 2018, we entered into an Asset Purchase Agreement and acquired the intellectual property and assumed the lease for the property located at 15721 Ventura Blvd., Encino, CA 91436. We intend to operate a retail store, sale over the internet and sell on a direct basis at this location.

On October 3, 2017, we closed the acquisition of 51% of the Purchased Assets, including intellectual property, copy rights and trademarks related to reflective tiles and flooring. The Company did not acquire business, customer list or employees. On February 16, 2018, we purchased the remaining 49% of the Purchased Assets.

RESULTS OF OPERATIONS

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

(dollars in thousands)

	Years Ended December 31,			
	2018	2017	$ Variance	% Variance
Net revenue	$4,573	$2,452	$2,121	86.5%
Cost of goods sold	4,105	2,181	1,924	-88.2%
Gross profit	468	271	197	72.7%
General and administrative expenses	5,017	2,320	2,697	-116.3%
Operating loss	(4,549)	(2,049)	(2,500)	-122.0%
Other income (expense):				
Change in fair value of derivative	978	496	482	97.2%
Interest expense, net	(1,321)	(1,281)	(40)	-3.1%
Other income	-	16	(16)	-100.0%
Impairment of acquired assets	(62)	-	(62)	-100.0%
Loss on debt conversions	(6,519)	(2,503)	(4,016)	-160.4%
Total other (expense)	(6,924)	(3,272)	(3,652)	-111.6%
(Loss) before income taxes	(11,473)	(5,321)	(6,152)	-115.6%
Income taxes - current benefit	-	-	-	0.0%
Net (loss)	$(11,473)	$(5,321)	$(6,152)	-115.6%

YEAR ENDED DECEMBER 31, 2018 COMPARED TO THE YEAR ENDED DECEMBER 31, 2017

Revenue

Net revenue for the year ended December 31, 2018 increased $2,121,000 to $4,573,000 as compared to $2,452,000 for the year ended December 31, 2017. The increase resulted from increased sales personnel and channels of distribution, the development of the reflective tiles and flooring product line which was acquired on October 3, 2017, the development of the Encino business and the acquisition of EZ-Clone on October 15, 2018.

Cost of Goods Sold

Cost of sales for the year ended December 31, 2018 increased $1,924,000 to $4,105,000 as compared to $2,181,000 for the year ended December 31, 2017. The increase resulted from increased sales personnel and channels of distribution, the development of the reflective tiles and flooring product line which was acquired on October 3, 2017, the development of the Encino business and the acquisition of EZ-Clone on October 15, 2018.

Gross profit was $468,000 for the year ended December 31, 2018 as compared to a gross profit of $271,000 for the year ended December 31, 2017. The gross profit percentage was 10.2% for the year ended December 31, 2018 as compared to 11.1% for the year ended December 31, 2017. The increase was due increased sales, offset by lower cost of sales related to favorable product mix at the reflective tiles and flooring product line and the acquisition of EZ-Clone on October 15, 2018. The gross margin % decrease related to an additional $100,000 reserve for obsolete inventory that was recorded during the year ended December 31, 2018.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2018 were $5,017,000 as compared to $2,320,000 for the year ended December 31, 2017. The variances were as follows: (i) an increase in insurance of $106,000 (ii) an increase in legal expense of $62,000; (iii) an increase in payroll of $518,000; (iv) an increase in sales and marketing of $ 131,000; (v) an increase in consulting of $142,000; (vi) an increase in non-cash other expenses of $388,000; (vii) an increase in rent of $189,000; (viii) an increase in EZ-Clone expenses of $269,000; and (ix) an increase in other expenses of $892,000. As part of the general and administrative expenses for the year ended December 31, 2018, we recorded public relation, investor relation or business development expenses of $41,000 and $0 respectively. The increase resulted from increased sales personnel and channels of distribution, the development of the reflective tiles and flooring product line which was acquired on October 3, 2017, the development of the Encino business and the acquisition of EZ-Clone on October 15, 2018.

Non-cash general and administrative expenses for the year ended December 31, 2018 were $682,000 including (i) depreciation and amortization of $223,000; (ii) stock based compensation of $241,000 related to stock option grants and warrants; (iii) common stock issued for services of $218,000.

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.

Other Expense

Other expense for the year ended December 31, 2018 was $6,924,000 as compared to other expense of $3,272,000 for the year ended December 31, 2017. The other expense for the year ended December 31, 2018 included (i) change in derivative liability of $978,000; offset by (ii) interest expense of $1,321,000; (iii) loss on debt conversions of $6,519,000; (iv) and impairment of acquired assets of $62,000. 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 impairment of acquired assets related to the Encino operation.

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.

Net (Loss)

Net loss for the year ended December 31, 2018 was $11,473,000 as compared to $5,321,000 for the year ended December 31, 2017 for the reasons discussed above.

Net loss for the year ended December 31, 2018 included non-cash expenses of $7,477,000 including (i) depreciation and amortization of $223,000; (ii) stock based compensation of $241,000 related to stock option grants and warrants; (iii) common stock issued for services of $218,000. (iv) accrued interest and amortization of debt discount on convertible notes payable of $1,191,000; (v) loss on debt conversions of $6,519,000; (vi) impairment of acquired assets of $62,000; offset by (vii) change in derivative liability of $978,000.

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.

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

LIQUIDITY AND CAPITAL RESOURCES

We had cash of $2,334,000 and working capital of approximately $1,726,000 (less derivative liability, convertible debt and deferred revenue) as of December 31, 2018. We expect losses to continue as we grow our business. Our cash used in operations for the years ended December 31, 2018 and 2017 was $3,855,000 and $2,082,000, respectively.

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

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

Rights Offering to Shareholders

On September 18, 2018, we filed our proposed Rights Offering on Amendment 1 to Form S-1 that would allow our shareholders to acquire additional shares of common stock (the "Offering"). The Offering is designed to give record shareholders the opportunity to invest directly into the Company at a set price with additional warrants to support the Company's capital raise to be used for continued expansion. The SEC declared Amendment 1 to Form S-1 effective on October 15, 2018.

On November 30, 2018, we closed our Rights Offering. We received $2,533,648 under the Rights Offering and issued 211,137,293 shares of common stock at $0.012 per share. We also issued five year warrants to acquire 105,568,642 shares of common stock exerciseable at $.018 and five year warrants to acquire 105,568,642 shares of common stock exerciseable $.024 per share.

Funding Agreements with Chicago Venture Partners, L.P.

We have closed several financing transactions with Chicago Venture during 2018. We have $504,000 available under this debt financing as of December 31, 2018.

Securities Purchase Agreements with St. George Investments, LLC (" St. George")

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

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

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

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

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

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

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

On August 10, 2018, we closed the transactions described below with Iliad. On August 7, 2018, we executed the following agreements with Iliad: (i) Securities Purchase Agreement; (ii) Secured Promissory Notes; and (iii) Security

Agreement (collectively the "Iliad Agreements"). The Company entered into the Iliad Agreements with the intent to acquire working capital to grow our businesses.

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

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement with Iliad

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

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

The Warrant is exercisable for a period of five (5) years from the Closing, for the purchase of up to $387,500 shares of our Common Stock at the market price as of the date of exercise as defined in the agreements. The Warrant is subject to a cashless exercise option at the election of Iliad and other adjustments as detailed in the Warrant. The fair value of the warrant is $118,615 at December 31, 2018.

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

Operating Activities

Net cash used in operating activities for the year ended December 31, 2018 was $3,855,000. This amount was primarily related to a net loss of $11,445,000, (i) an increase in inventory of $327,000; (ii) an increase in prepaid expenses and deposits of $31,000; offset by (iii) an increase in accounts payable, accrued expenses and deferred revenue of $429,000; (iv) an increase in accounts receivable of $42,000 and (v) non-cash expenses of $7,477,000 including (vi) depreciation and amortization of $223,000; (vii) stock based compensation of $241,000 related to stock option grants and warrants; (viii) common stock issued for services of $218,000. (ix) accrued interest and amortization of debt discount on convertible notes payable of $1,191,000; (x) loss on debt conversions of $6,519,000; (xi) impairment of acquired assets of $62,000; offset by (xii) change in derivative liability of $978,000.

Investment Activities

Net cash used in investing activities for the year ended December 31, 2018 was $544,000. On February 16, 2018, we purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of $250,000 and the acquisition of 51% of EZ-Clone on October 15, 2018.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2018 was $6,664,000. The amount related to (i) we received $2,533,000 under the Rights Offering and issued 211,137,293 shares of common stock at $0.012 per share; (ii) proceeds from notes payable of $2,825,000 by Chicago Venture and Iliad; (iii) $1,300,000 in the issuance of common stock by St. George; and (iv) a stock option exercise of $,6000.

Our contractual cash obligations as of December 31, 2018 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	$2,010,082	$534,795	$925,511	$549,776	$-
Convertible notes payable	3,404,133	3,404,133	-	-	-
Notes payable- related parties	100,020	100,020	-	-	-
Capital leases	8,534	8,534	-	-	-
Capital expenditures	300,000	100,000	100,000	100,000	-
	$5,822,769	$4,147,482	$1,025,511	$649,776	$-

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, 2018), the following policies involve a higher degree of judgment and/or complexity:

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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. We have $1,923,046 of uninsured deposits at December 31, 2018.

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

Inventories - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. We record a provision for excess and obsolete inventory whenever an impairment has been identified. The reserve for inventory was $120,000 and $20,000 at December 31, 2018 and 2017, 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, 2018, that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately below.

Identified Material Weakness

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

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

Audit Committee:

The current Audit Committee has two independent directors, but the Chairman is an interim Named Executive Officer. We expect to expand this committee during 2019.

b) Changes in Internal Control over Financial Reporting

During the year ended December 31, 2018, there were no changes in our internal controls over financial reporting during this fiscal quarter, which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

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 (MARK)

Directors and Executive Officers

The following table sets forth certain information about our current directors and executive officers as of December 31, 2018:

Management Directors			
Marco Hegyi	61	Director	December 9, 2013
		Chairman of the Board	April 1, 2016- October 23, 2017 and December 6, 2018
		Chief Executive Officer	April 1, 2016
		President	December 4, 2013
		Nominations and Governance Committee Chairman	June 3, 2014- October 23, 2017
		Interim Audit Committee Chairman	December 6, 2018
Mark E. Scott	65	Chief Financial Officer	July 31, 2014
		Secretary	February 14, 2017
		Director	February 14, 2017
Independent Directors			
Katherine McLain	53	Director	February 14, 2017

		Nominations and Governance Committee Chairman	October 23, 2017
		Compensation Committee Chairman	December 6, 2018
Thom Kozik	58	Director	October 5, 2017
Other Named Executives			
Joseph Barnes	46	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. Effective December 6, 2018, Mr. Hegyi serves as Chairman of the Board, a Member of the Board of Directors, Chief Executive Officer, President, Interim Audit Committee Chairman and as a Member of the Compensation and Nominations and Governance Committees.

Mr. Hegyi served as an independent director of Know Labs, Inc., fka Visualant, Inc. from February 14, 2008 and as Chairman of the Board from May 2011, and served at the Chairman of the Audit and Compensation committees until his departure on February 2015. 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.

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

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

Joseph Barnes- Mr. Barnes was appointed President of GrowLife Hydroponics, Inc. on August 16, 2017 and was appointed Senior Vice President of Business Development for GrowLife, Inc. on October 10, 2014. Mr. Barnes works, 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 one management directors and two independent directors. The table below shows current membership for each of the standing Board committees.

Audit	Compensation	Nominations and Governance	Executive Committee
Marco Hegyi (Interim Chairman) Thom Kozik Katherine McLain	Katherine McLain (Chairman) Marco Hegyi Thom Kozik	Katherine McLain (Chairman) Marco Hegyi Thom Kozik	Marco Hegyi (Chairman)

Compensation Committee Interlocks and Insider Participation

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

Code of Conduct and Ethics

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Based solely on a review of copies of reports furnished to us, as of December 31, 2018 our executive officers, directors and 10% holders complied with all filing requirements.

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 35 under “Remuneration of Executive Officers” (the “Named Executive Officers”) who served during the year ended December 31, 2018. This compensation discussion primarily focuses on the information contained in the following tables and related footnotes and narrative for the last completed fiscal year. We also describe compensation actions taken after the last completed fiscal year to the extent that it enhances the understanding of our executive compensation disclosure. The principles and guidelines discussed herein would also apply to any additional executive officers that the Company may hire in the future.

The Compensation Committee of the Board has responsibility for overseeing, reviewing and approving executive compensation and benefit programs in accordance with the Compensation Committee’s charter. The members of the Compensation Committee are Marco Hegyi, Thom Kozik 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 2018 and 2017, 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, 2018

The Compensation Committee did not use a formula for allocating compensation among the elements of total compensation during the year that ended December 31, 2018. 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, 2018, 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, 2018 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, 2018 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, 2018, we provided the Named Executive Officers with medical insurance and nominal health club benefits. The Company paid $10,273 in life insurance for Mr. Hegyi and $27,018 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, 2018.

THE COMPENSATION COMMITTEE

Katherine McLain (Chairman)
Marco Hegyi
Thom Kozik

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, 2018 and 2017:

Summary Compensation Table

					Non-Equity			
					Incentive			
				Stock	Plan	Option	Other	
		Salary	Bonus	Awards	Compensation	Awards	Compensation	Total
Principal Position		($)	($)	($) (1)	($)	($)	($)	($)
Marco Hegyi, Chief Excutive Officer, Chairman of the Board and Director (2)	12/31/2018	$255,234	$20,000	$-	$-	$-	$285,023	$560,257
	12/31/2017	$250,000	$-	$-	$-	$-	$205,273	$455,273
Mark E. Scott, Chief Financial Officer and Director (3)	12/31/2018	$147,140	$20,000	$-	$-	$40,000	$27,018	$234,158
	12/31/2017	$138,250	$-	$-	$-	$18,000	$28,047	$184,297
Joseph Barnes,President of GrowLife Hydroponics, Inc. (4)	12/31/2018	$152,515	$20,000	$-	$-	$36,000	$-	$208,515
	12/31/2017	$138,670	$-	$-	$-	$24,000	$-	$162,670

(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 $275,000 during the period October 15, 2018 to December 31, 2018 and a salary of $250,000 during the period January 1, 2018 to October 14, 2018 and the year ended December 31, 2017. Mr. Hegyi received a discretionary bonus of $20,000 during the year ended December 31, 2018. We paid life insurance of $10,273 for Mr. Hegyi during the years ended December 31, 2018 and 2017, respectively. On October 21, 2018 and 2017, a Mr. Hegyi a 5 year Warrant to purchase up to 10,000,000 shares of our common stock at an exercise price of $0.01 per share vested. The warrants were valued at $390,000 and $192,000 we recorded $178,750 and $195,000 as compensation expense for the years ended December 31, 2018 and 2017, respectively.. On October 15, 2018, Mr. Hegyi received Warrants to purchase up to 48,000,000 shares of our common stock at an exercise price of $0.012 per share and which vest on October 15, 2018, 2019 and 2020. The Warrants are exercisable for 5 years. The warrant that vested on October 15, 2018 was valued at $96,000 and we recorded this amount compensation expense for the year ended December 31, 2018.

(3) Mr. Scott was paid a salary of $165,000 during the period October 15, 2018 to December 31, 2018 and a salary of $150,000 during the period January 1, 2018 to October 14, 2018 and the year ended December 31, 2017. Mr. Scott received a discretionary bonus of $20,000 during the year ended December 31, 2018. Mr. Scott was reimbursed $27,018 and $28,047 for insurance expenses during the years ended December 31, 2018 and 2017, respectively. On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 20,000,000 shares of common stock at an exercise price of $0.012 per share. 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $40,000 and $18,000. The Company recorded $8,833 and $1,500 as compensation expense for the years ended December 31, 2018 and 2017, respectively.

(4) Mr. Barnes was paid a salary of $165,000 during the period October 15, 2018 to December 31, 2018 and a salary of $150,000 during the period January 1, 2018 to October 14, 2018 and the year ended December 31, 2017. Mr. Barnes received a discretionary bonus of $20,000 during the year ended December 31, 2018. On October 15, 2018, Mr. Barnes was granted an option to purchase 18,000,000 shares of common stock at an exercise price of $0.012 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $36,000 and $24,000. The Company recorded $8,550 and $2,000 as compensation expense for the years ended December 31, 2018 and 2017, respectively.

Grants of Stock Based Awards during the year ended December 31, 2018

The Compensation Committee approved the following performance-based incentive compensation to the Named Executive Officers for the year ended December 31, 2018:

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards; Number of Shares of Stock or Units	All Other Option Awards; Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock an
	Grant	Threshold	Target	Maximum	Threshold	Target	Maximum				
Name	Date	($)	($)	($)	(#)	(#)	(#)	(#)	(#)	($/Sh) (1)	Option Awards
Marco Hegyi	-	$-	-	$-	-	-	-	-	-	$-	$-
Mark E. Scott (2)	October 15, 2018	$-	-	$-	-	-	-	20,000,000	-	$0.012	$40,000
Joseph Barnes (3)	October 25, 2018	$-	-	$-	-	-	-	18,000,000	-	$0.012	$36,000

(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, 2018, an entity controlled by Mr. Scott was granted an option to purchase 20,000,000 shares of common stock at an exercise price of $0.012 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at $40,000

(3) On October 15, 2018, Mr. Barnes was granted an option to purchase 18,000,000 shares of common stock at an exercise price of $0.012 per share. The stock option grant vests quarterly over three years and is exercisable for 5 years. The stock option grant was valued at $36,000.

Outstanding Equity Awards as of December 31, 2018

The Named Executive Officers had the following outstanding equity awards as of December 31, 2018:

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexerciseable (#)	Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($) (1)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Marco Hegyi (2)	-	-	-	$-		-	$-	-	$-
Mark E. Scott (3)	4,000,000	-	-	$0.010	7/30/2019	-	$-	-	$-
	5,000,000	7,000,000	-	$0.006	10/15/2022	-	$-	-	$ -
	1,666,667	18,333,333	-	$0.012	10/23/2023	-	$-	-	$ -
Joseph Barnes (4)	8,000,000	-	-	$0.001	10/9/2019	-	$-	-	$-
	4,166,667	5,833,333		$ 0.007	10/25/2022	-	$-	-	$ -
	1,500,000	8,608,334	-	$0.012	10/23/2023	-	$-	-	$-

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

(2) On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 20,000,000 shares of common stock at an exercise price of $0.012 per share. 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $40,000 and $18,000 The Company recorded $8,833 and $1,500 as compensation expense for the years ended December 31, 2018 and 2017, respectively..An entity controlled by Mr. Scott has an additional 4,000,000 share stock option grant that is fully vested.

(3) On October 15, 2018, Mr. Barnes was granted an option to purchase 18,000,000 shares of common stock at an exercise price of $0.012 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $36,000 and $24,000. The Company recorded $8,550 and $2,000 as compensation expense for the years ended December 31, 2018 and 2017, respectively. 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, 2018

Mr. Hegyi, Scott and Barnes did not have any option exercised or stock that vested during the year ended December 31, 2018.

Pension Benefits

We do not provide any pension benefits.

Nonqualified Deferred Compensation

We do not have a nonqualified deferral program.

Employment Agreements

Employment Agreement with Marco Hegyi

On October 15, 2018, the Board of Directors approved an Employment Agreement with Marco Hegyi pursuant to which we engaged Mr. Hegyi as its Chief Executive Officer through October 15, 2021. Mr. Hegyi’s previous Employment Agreement was set to expire on October 21, 2018.

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

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

Mr. Hegyi will be entitled to participate in all group employment benefits that are offered by 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 will purchase and maintain during the Term an insurance policy on Mr. Hegyi’s life in the amount of $2,000,000 payable to Mr. Hegyi’s named heirs or estate as the beneficiary.

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

Employment Agreement with Mark E. Scott

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

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

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

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

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

Employment Agreement with Joseph Barnes

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

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

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

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

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

Potential Payments upon Termination or Change in Control

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

		Early	Not For Good	Change in	
Executive	For Cause	or Normal	Cause	Control	Disability
Payments Upon	Termination	Retirement	Termination	Termination	or Death
Separation	on 12/31/18	on 12/31/18	on 12/31/18	on 12/31/18	on 12/31/18
Compensation:					

Base salary (1)	$-	$-	$575,000	$575,000	$-
Performance-based incentive compensation	$-	$-	$-	$-	$-
Stock options	$-	$-	$-	$-	$-
Benefits and Perquisites:					
Health and welfare benefits	$-	$-	$-	$-	$-
Accrued vacation pay	$-	$-	$-	$-	$-
Total	$-	$-	$575,000	$575,000	$-

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

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

Executive Payments Upon Separation	For Cause Termination on 12/31/18	Early or Normal Retirement on 12/31/18	Not For Good Cause Termination on 12/31/18	Change in Control Termination on 12/31/18	Disability or Death on 12/31/18
Compensation:					
Base salary (1)	$-	$-	$41,250	$41,250	$-
Performance-based incentive compensation	$-	$-	$-	$-	$-
Stock options	$-	$-	$-	$-	$-
Benefits and Perquisites:					
Health and welfare benefits	$-	$-	$-	$-	$-
Accrued vacation pay	$-	$-	$-	$-	$-
Total	$-	$-	$41,250	$41,250	$-

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

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

Executive Payments Upon Separation	For Cause Termination on 12/31/18	Early or Normal Retirement on 12/31/18	Not For Good Cause Termination on 12/31/18	Change in Control Termination on 12/31/18	Disability or Death on 12/31/18
Compensation:					

Base salary (1)	$-	$-	$41,250	$41,250	$-
Performance-based incentive compensation	$-	$-	$-	$-	$-
Stock options	$-	$-	$-	$-	$-
Benefits and Perquisites:					
Health and welfare benefits	$-	$-	$-	$-	$-
Accrued vacation pay	$-	$-	$-	$-	$-
Total	$-	$-	$41,250	$41,250	$-

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

DIRECTOR COMPENSATION

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

During year ended December 31, 2018, Marco Hegyi and Mr. Scott did not receive any compensation for their service as directors. The compensation disclosed in the Summary Compensation Table on page 35 represents the total compensation.

Director Summary Compensation

Name	Fees Earned or Paid in Cash $	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings $	Other Compensation ($)	Total
Michael E. Fasci (2)	$-	$125,781	$-	$-	$-	$-	$125,781
Katherine McLean (3)	-	57,863	-	-	-	-	57,863
Thom Kozik (4)	-	19,562	-	-	-	-	19,562
	$-	$203,205	$-	$-	$-	$-	$77,425

(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 1, 2018, we issued 3,789,041 shares of our common stock to Mr. Fasci that was valued at $0.02 per share or $75,781. On December 6, 2018, we issued Mr. Fasci 5,000,000 shares of our common stock that was valued at $0.01 per share or $50,000. On December 6, 2018, Michael E. Fasci resigned as a Member of the Board of Directors.

(3) On February 1, 2018, we issued 2,893,151 shares of our common stock to Katherine McLain that was valued at $0.02 per share or $57,863.

(4) On February 1, 2018, we issued 978,082 shares of our common stock to Thom Kozik that was valued at $0.02 per share or $19,562.

Compensation Paid to Board Members

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

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

The following table sets forth certain information regarding the ownership of our common stock as of December 31, 2018 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)	46,000,000	1.3%
Mark E. Scott (3)	23,666,667	*
Katherine McLain (4)	4,893,151	*
Thom Kozik (5)	2,978,082	*
Joseph Barnes (6)	13,966,667	*
Total Directors and Officers (5 in total)	91,504,567	2.7%

* Less than 1%.

(1) Based on 3,437,599,095 shares of common stock outstanding as of December 31, 2018.

(2) Reflects the shares beneficially owned by Marco Hegyi, including warrants to purchase 53,500.000 shares of our common stock.

(3) Reflects the shares beneficially owned by Mark E. Scott, including stock option grants totaling 10,666,667 shares that Mr. Scott has the right to acquire in sixty days.

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

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

(6) Reflects the shares beneficially owned by Joseph Barnes, including stock option grants totaling 13,666,667 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	13.6%
Las Vegas, NV 89145		(Capped at 4.99%)

(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. On February 15, 2019, we entered into a Termination of Existing Agreements and Release with CANX USA, LLC, a Nevada limited liability company. Pursuant to the Agreement, the Parties agreed to terminate, release and discharge all existing and further rights and obligations between the Parties under, arising out of, or in any way related to that certain Waiver and Modification Agreement and Amended and Restated Joint Venture Agreement made as of July 10, 2014, and any ancillary agreements or instruments thereto, including, but not limited to, the Warrants issued to CANX entitling CANX to purchase 540,000,000 shares of the Company's common stock at an exercise price of $0.033. Subsequent to the year ended December 31, 2018, in exchange for the Agreement and cancellation of the CANX Agreements and Warrants, we agreed to issue $1,000,000 of restricted common stock priced at the February 7, 2019 closing price of $0.008, or 125,000,000 restricted common stock shares.

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

Review and Approval of Related Person Transactions

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

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

Since January 1, 2017, the Company engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

Certain Relationships

Please see the transactions with Chicago Venture Partners, L.P. discussed in Note 10, 11, 13 and 17.

Transactions with Marco Hegyi

On October 21, 2018 and 2017, a Mr. Hegyi Warrant to purchase up to 10,000,000 shares of our common stock at an exercise price of $0.01 per share vested. The Warrant is exercisable for 5 years. . The warrants were valued at $390,000 and $192,000 we recorded $178,750 and $195,000 as compensation expense for the years ended December 31, 2018 and 2017, respectively. On October 15, 2018, Mr. Hegyi received Warrants to purchase up to 48,000,000 shares of our common stock at an exercise price of $0.012 per share and which vest on October 15, 2018, 2019 and 2020. The Warrants are exercisable for 5 years. The warrant that vested on October 15, 2018 was valued at $96,000 and we recorded this amount compensation expense for the year ended December 31, 2018.

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

Transactions with an Entity Controlled by Mark E. Scott

On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 20,000,000 shares of common stock at an exercise price of $0.012 per share. 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $40,000 and $18,000. The Company recorded $8,833 and $1,500 as compensation expense for the years ended December 31, 2018 and 2017, respectively

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

Transaction with Joseph Barnes

On October 15, 2018, Mr. Barnes was granted an option to purchase 18,000,000 shares of common stock at an exercise price of $0.012 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $36,000 and $24,000, The Company recorded $8,550 and $2,000 as compensation expense for the years ended December 31, 2018 and 2017, respectively.

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

Transactions with Michael E. Fasci

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.

On February 1, 2018, we issued 3,789,041 shares of our common stock to Mr. Fasci that was valued at $0.02 per share or $75,781. On December 6, 2018, we issued Mr. Fasci 5,000,000 shares of our common stock that was valued at $0.01 per share or $50,000. On February 6, 2018, Michael E. Fasci resigned as a Member of the Board of Directors.

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. On February 1, 2018, we issued 2,893,151 shares of our common stock to Katherine McLain that was valued at $0.02 per share or $57,863.

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. On February 1, 2018, we issued 978,082 shares of our common stock to Thom Kozik that was valued at $0.02 per share or $19,562.

Director Independence

The Board has affirmatively determined that Katherine McLain, and Thom Kozik are independent as of December 31, 2018. 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, 2018, 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, 2018 and 2017 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 December 31, 2018	Year Ended December 31, 2017
Audit fees	$64,501	$73,371
Audit related fees	28,754	21,000
Tax fees	9,850	12,700
All other fees	14,500	25,570
	$117,605	$132,641

- "Audit Fees" are fees paid for to Mayer 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 in connection with filing US income tax returns.

- “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

(b) Exhibits

3.1
Certificate of Incorporation. Filed as an exhibit to the Company's Form 10-SB General Form for Registration of Securities of Small Business Issuers filed with the SEC on December 7, 2007, and hereby incorporated by reference.

3.2
Second Amended and Restated Bylaws of GrowLife, Inc. dated October 16, 2015. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.

3.3
Certificate of Amendment of Certificate of Incorporation of GrowLife, Inc. dated October 23, 2017 to increase the authorized shares of Common Stock from 3,000,000,000 to 6,000,000,000 shares. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 24, 2017, and hereby incorporated by reference.

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
Lease Amending Agreement dated October 1, 2017 by and between GrowLife, Inc. and Berezan Management (Alta) Ltd. Filed as an exhibit to the Company's Form 10-K and filed with the SEC on March 28, 2018, and hereby incorporated by reference.

10.2
Asset Purchase Agreement dated as of October 2, 2017 amongst GrowLife, Inc. and David Reichwein, GIP International Ltd and DPR International LLC. Filed as an exhibit to the Company's Form 10-K and filed with the SEC on March 28, 2018, and hereby incorporated by reference.

10.3
Offer Letter dated October 1, 2017 by and between GrowLife, Inc. and David Reichwein. Filed as an exhibit to the Company's Form 10-K and filed with the SEC on March 28, 2018, and hereby incorporated by reference.

10.4
Texas commercial Lease Agreement dated October 9, 2017 by and between GrowLife Innovations, Inc. and All Commercial Flooring Inc. Filed as an exhibit to the Company's Form 10-K and filed with the SEC on March 28, 2018, and hereby incorporated by reference.

10.5
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 as an exhibit to the Company's Form 10-K and filed with the SEC on March 28, 2018, and hereby incorporated by reference.

10.6
Compilation of Securities Purchase Agreement and Warrant to Purchase Common Stock dated February 9, 2018, entered into by and between GrowLife, Inc. and St. George Investments LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on February 15, 2018, and hereby incorporated by reference.

10.7
First Addendum to Asset Purchase Agreement and Employment Agreement dated February 18,2018 amongst Growlife, Inc. and David Reichwein, GIP International Ltd and DPR InternationalLLC. Filed as an exhibit to the Company's Form 10-Q and filed with the SEC on March 1, 2018, and hereby incorporated by reference.

10.8
Second Amendment to Forglen LLC 7% Convertible Promissory Note. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 16, 2018, and hereby incorporated by reference.

10.9
Common Stock Purchase Agreement dated March 20, 2018 entered into by and between GrowLife, Inc. and St. George Investments LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 23, 2018, and hereby incorporated by reference.

10.10
Lease Agreement dated July 2, 2018 entered into by and between GrowLife Hydroponics, Inc. Inc. and Brixmor SPE 4 LP. Filed as an exhibit to the Company's Form 10-Q and filed with the SEC on November 14, 2018, and hereby incorporated by reference.

10.11
Compilation of Securities Purchase Agreement, Secured Promissory Notes, and Security Agreement. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 16, 2018, and hereby incorporated by reference.

10.12

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

10.13
Security Agreement dated August 17, 2018 by and between GrowLife, Inc. and Go Green Hydroponics, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 23, 2018, and hereby incorporated by reference.

10.14
Four Amendment to Lease Agreement dated August 31, 2018 entered into by and between GrowLife, Inc., The GST Non-Exempt Marital Trust under the Samuel and Elaine Rosenthal Revocable Trust and Ackerman-Rosenthal Property, LLC. Filed as an exhibit to the Company's Form 10-Q and filed with the SEC on November 14, 2018, and hereby incorporated by reference.

10.15
Assignment and Assumption of Lease dated August 31, 2018 entered into by and between GrowLife, Inc., Go Green Hydroponics, Inc., GST Non-Exempt Marital Trust Under the Samuel and Elaine Rosenthal Revocable Trust and Ackerman-Rosenthal Property, LLC. Filed as an exhibit to the Company's Form 10-Q and filed with the SEC on November 14, 2018, and hereby incorporated by reference.

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

10.17
Purchase and Sale agreement dated October 10, 2018 by and between GrowLife, Inc. and EZ-Clone Enterprises LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 18, 2018, and hereby incorporated by reference.

10.18
Compilation of Securities Purchase Agreement, Warrant, Secured Promissory Notes, and Security Agreement. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.

10.19
Marco Hegyi Employment Agreement dated October 15, 2018. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.

10.20
Mark Scott Employment Agreement dated October 15, 2018. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.

10.21
Joseph Barnes Employment Agreement dated October 15, 2018. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 17, 2018, and hereby incorporated by reference.

10.22
Prospectus Supplement dated November 8, 2018 to Rights Offering to Shareholders filed in 424(b)(4) Prospectus filed with the SEC on October 18, 2018, and hereby incorporated by reference. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 08, 2018, and hereby incorporated by reference.

10.23
Prospectus Supplement dated November 16, 2018 to Rights Offering to Shareholders filed in 424(b)(4) Prospectus filed with the SEC on October 18, 2018, and hereby incorporated by reference. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 16, 2018, and hereby incorporated by reference.

10.24
Standard and Industrial Multi-Tenant Lease dated December 18, 2018 by and between Pensco Trust Company and GrowLife, Inc. (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).

31.01
Certification of Principal Executive Officer Pursuant to Rule 13a-14 (filed herewith).

31.02
Certification of Principal Financial Officer Pursuant to Rule 13a-14 (filed herewith).

32.01
CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act (filed herewith).

32.02
CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act (filed herewith).

99.1

Audited Financial Statements of EZ-Clone Enterprises, Inc. Attached as an exhibit to the Company's Form 8-K filed and with the SEC on January 24, 2019, and hereby incorporated by reference.

99.2
Unaudited Pro Forma Financial Information of GrowLife, Inc. and EZ-Clone Enterprises, Inc. Attached as an exhibit to the Company's Form 8-K filed and with the SEC on January 24, 2019, 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.
Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of GrowLife, Inc. as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 2018 and the related notes (collectively referred to as the 'financial statements'). In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GrowLife, Inc. at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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.

/s/ SD Mayer & Associates, LLP

SD Mayer & Associates, LLP
We have served as the Company's auditor since 2016
Seattle, Washington
March 8, 2019

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GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2,334,377	$69,191
Accounts receivable - trade	42,254	-
Inventory, net	792,664	465,678
Prepaid costs	3,418	-
Deposits	51,916	24,308
Total current assets	3,224,629	559,177
EQUIPMENT, NET	712,866	302,689
INTANGIBLE ASSETS	3,280,453	-
TOTAL ASSETS	$7,217,948	$861,866
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade	$1,054,371	$821,398
Accrued expenses	261,954	133,988
Accrued expenses - related parties	73,585	37,776
Derivative liability	1,795,473	2,660,167
Current portion of convertible notes payable	3,404,133	3,015,021
Current portion of notes payable- related parties	100,020	-
Current portion of capital lease	8,534	-
Deferred revenue	89,504	10,000
Total current liabilities	6,787,574	6,678,350
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock - $0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock - $0.0001 par value, 6,000,000,000 shares authorized, 3,437,599,095 and 2,367,634,022 shares issued and outstanding at 12/31/2018 and 12/31/2017, respectively	343,749	236,752
Additional paid in capital	139,331,067	123,678,069
Accumulated deficit	(141,176,087)	(129,731,305)

Total stockholders' deficit	(1,501,271)	(5,816,484)
NON CONTROLLING INTEREST IN EZ-CLONE ENTERPRISES, INC.	1,931,645	-
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$7,217,948	$861,866

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

GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended,	
	December 31, 2018	December 31, 2017
NET REVENUE	$4,573,461	$2,452,104
COST OF GOODS SOLD	4,105,172	2,180,603
GROSS PROFIT	468,289	271,501
GENERAL AND ADMINISTRATIVE EXPENSES	5,016,977	2,320,455
OPERATING LOSS	(4,548,689)	(2,048,954)
OTHER INCOME (EXPENSE):		
Change in fair value of derivative	977,732	496,306
Interest expense, net	(1,320,811)	(1,281,083)
Impairment of acquired assets	(61,902)	-
Other (expense) income	-	15,577
Loss on debt conversions	(6,519,467)	(2,502,819)
Total other (expense)	(6,924,448)	(3,272,019)
(LOSS) BEFORE INCOME TAXES	(11,473,137)	(5,320,974)
Income taxes - current benefit	-	-
NET (LOSS)	(11,473,137)	(5,320,974)
Noncontrolling interest in EZ-Clone Enterprises, Inc.	28,355	-
NET LOSS ATTRIBUTABLE TO GROWLIFE, INC. AND SUBSIDIARIES COMMON SHAREHOLDERS	$(11,444,782)	$(5,320,974)
Basic and diluted (loss) per share	$(0.00)	$(0.00)
Weighted average shares of common stock outstanding- basic and diluted	2,978,812,920	2,044,521,389

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

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

	Series C Convertible Preferred Stock		Common Stock		Additional Paid	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	in Capital	Deficit	(Deficit)
Balance as of December 31, 2016	51	$-	1,656,120,083	$165,600	$117,537,822	$(124,410,332)	$(6,706,910)
Stock based compensation for stock options	-	-	-	-	29,251	-	29,251
Stock based compensation for warrants	-	-	-	-	187,292	-	187,292
Shares issued for debt conversion	-	-	64,869,517	6,487	542,052	-	548,539
Shares issued for services rendered	-	-	10,000,000	1,000	75,000	-	76,000
Shares issued for convertible note and interest conversion	-	-	636,644,422	63,665	4,768,954	-	4,832,619
Cancellation of Series C Convertible Preferred Stock	(51)	-	-	-	-	-	-
Write-off of derivative liability to additional paid in capital	-	-	-	-	537,698	-	537,698
Net loss for the year ended December 31, 2017	-	-	-	-	-	(5,320,973)	(5,320,973)
Balance as of December 31, 2017	-	-	2,367,634,022	236,752	123,678,069	(129,731,305)	(5,816,484)
Stock based compensation for stock	-	-	-	-	44,682	-	44,682

options							
Stock based compensation for warrants	-	-	-	-	196,750	-	196,750
Shares issued for debt conversion	-	-	2,400,000	240	32,760	-	33,000
Shares issued for services rendered	-	-	13,910,274	1,391	216,815	-	218,206
Shares issued for convertible note and interest conversion	-	-	669,032,996	66,904	9,966,328	-	10,033,232
Shares issued for common stock	-	-	65,176,818	6,518	1,293,482	-	1,300,000
Rigths offering	-	-	211,137,293	21,114	2,512,011	-	2,533,125
Stock option exercise	-	-	1,000,000	100	5,900	-	6,000
Shares issued for acquisition of EZ-Clone Enterprises, Inc.	-	-	107,307,692	10,731	1,384,270	-	1,395,001
Noncontrolling interest in EZ-Clone Enterprises, Inc.	-	-	-	-	-	28,355	28,355
Net loss for the year ended December 31, 2018	-	-	-	-	-	(11,473,137)	(11,473,137)
Balance as of December 31, 2018	-	$-	3,437,599,095	$343,749	$139,331,067	$(141,176,087)	$(1,501,271)

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

GROWLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended,	
	December 31, 2018	December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(11,444,782)	$(5,320,974)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation	80,125	1,890
Amortization of intangible assets	142,628	-
Stock based compensation	241,433	216,543
Common stock issued for services	218,206	76,000
Amortization of debt discount	769,237	419,666
Change in fair value of derivative liability	(977,732)	(496,306)
Accrued interest on convertible notes payable	421,666	203,697
Loss on debt conversions	6,519,467	2,502,799
Impairment of acquired assets	61,902	-
Write-off of derivaive liability to additional paid in capital	-	537,698
Changes in operating assets and liabilities:		
Accounts receivable	42,254	-
Inventory	(326,986)	(47,225)
Prepaids and other assets	(3,418)	-
Deposits	(27,608)	13,145
Accounts payable	232,973	(170,934)
Accrued expenses	116,625	19,503
Deferred revenue	79,504	(37,995)
CASH (USED IN) OPERATING ACTIVITIES	(3,854,506)	(2,082,493)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in purchased assets	(544,432)	(302,689)
NET CASH (USED IN) INVESTING ACTIVITIES:	(544,432)	(302,689)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock rights	2,533,125	-
Common stock option exercise	6,000	-
Proceeds from notes payable, net	2,825,000	3,860,344
Proceeds from the issuance of common stock	1,300,000	-
Cash payoff to TCA Global Credit Master Fund, LP	-	(1,509,041)
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,664,125	2,351,303

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,265,187	(33,879)
CASH AND CASH EQUIVALENTS, beginning of period	69,191	103,070
CASH AND CASH EQUIVALENTS, end of period	$2,334,377	$69,191
Supplemental disclosures of cash flow information:		
Interest paid	$-	$-
Taxes paid	$-	$-
Non-cash investing and financing activities:		
Shares issued for convertible note and interest conversion	$3,338,082	$2,329,800
Common shares issued for accounts payable	$33,000	$548,539
Acquisition of EZ-Clone Erterprises, Inc.- intangible assets	$3,423,081	$-
Acquisition of EZ-Clone Erterprises, Inc.	$1,395,000	$-
Noncontrolling interest in EZ-Clone Enterprises, Inc.	$1,931,645	$-

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 December 31, 2018, the Company had recorded investment in purchased assets of $552,689.

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

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

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

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

On October 17, 2017, the Company 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. As of March 4, 2019, the Company began to trade on the Pink Sheet stocks system. The Company’s bid price had closed below $0.01 for more than 30 consecutive calendar days.

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 $11,444,782 and $5,320,974 for the years ended December 31, 2018 and 2017, respectively. Our net cash used in operating activities was $3,854,506 and $2,082,493 for the years ended December 31, 2018 and 2017, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of December 31, 2018, the accumulated deficit was $141,176,087. The Company has experienced recurring operating losses and negative operating cash flows since inception and has financed its working capital requirements during this period primarily through the recurring issuance of convertible notes payable and advances from a related party. The audit opinion prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2018 and 2017 filed with the SEC on March 8, 2019 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 consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”).

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

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. At December 31, 2018, the Company had uninsured deposits in the amount of $1,923,046.

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

Inventories - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. The reserve for inventory was $120,000 and $20,000 as of December 31, 2018 and 2017, respectively.

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

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

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

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

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

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

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

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

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

Sales Returns - We allow customers to return defective products when they meet certain established criteria as outlined in our sales terms and conditions. It is our practice to regularly review and revise, when deemed necessary, our estimates of sales returns, which are based primarily on actual historical return rates. We record estimated sales returns as reductions to sales, cost of goods sold, and accounts receivable and an increase to inventory. Returned products which are recorded as inventory are valued based upon the amount we expect to realize upon its subsequent disposition. As of December 31, 2018 and 2017, there was a reserve for sales returns of $40,000 and $10,000, respectively, which is minimal based upon our historical experience.

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

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

As of December 31, 2018, there are also (i) stock option grants outstanding for the purchase of 100 million common shares at a $0.010 average exercise price; (ii) warrants for the purchase of 902.8 million common shares at a $0.029 average exercise price; and (iii) 112.8 million shares related to convertible debt that can be converted at $0.002535 per share. In addition, the Company has an unknown number of common shares to be issued under the Chicago Venture, Iliad and St. George financing agreements. 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.

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

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

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11, "Simplifying the Measurement of Inventory," Topic 330, "Inventory" (ASU 2015-11). The amendments in ASU 2015-11, which apply to inventory that is measured using any method other than the last-in, first-out (LIFO) or retail inventory method, require that entities measure inventory at the lower of cost and net realizable value. The amendments in ASU 2015-11 should be applied on a prospective basis. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. The Company adopted the amendments of ASU 2015-11 effective January 1, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2018.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," Topic 718, "Compensation-Stock Compensation" (ASU 2016-09). ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the Company's financial statements, including income tax consequences, forfeitures and classification on the statement of cash flows. Under previous guidance, excess tax benefits and deficiencies from share-based compensation arrangements were recorded in equity when the awards vested or were settled. ASU 2016-09 requires prospective recognition of excess tax benefits and deficiencies in income tax expense, rather than paid-in-capital. The Company adopted the amendments of ASU 2016-09 effective January 1, 2018.The adoption of this standard did not have a material impact on the Company's consolidated statements of income for the year ended December 31, 2018.

In addition, under ASU 2016-09, excess tax income tax benefits from share-based compensation arrangements are classified as cash flow from operations, rather than as cash flow from financing activities. For the year ended December 31, 2018, there were no excess income tax benefits.

The Company has elected to continue to estimate the number of share-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur.

ASU 2016-09 requires excess tax benefits and deficiencies to be prospectively excluded from assumed future proceeds in the calculation of diluted shares, resulting in an immaterial decrease in diluted weighted average shares outstanding for the year ended December 31, 2018.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," Topic 350, "Intangibles – Goodwill and Other" (ASU 2017-04). The amendments in ASU 2017-04 simplify the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the current two-step impairment test. An impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value should be recognized; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments should be applied on a prospective basis. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017, and the ASU is effective for the Company's first quarter of the fiscal year ending December 31, 2020. The Company is currently evaluating the impact that the adoption of these provisions will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases," Topic 842, "Leases" (ASU 2016-02). ASU No. 2016-02 requires lessees to recognize a right-of-use asset and corresponding lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. ASU 2016-02 also requires certain quantitative and qualitative disclosures. The provisions of ASU 2016-02 are effective for the Company's first quarter of the fiscal year ending December 31, 2020, with early adoption permitted. The Company will apply the transition provisions of ASU 2016-02 at its adoption date, rather than the earliest comparative period presented in the financial statements, as permitted by ASU 2018-11, "Leases," Topic 842, "Targeted Improvements," released in July 2018.

The adoption of ASU 2016-02 may result in a material increase to the Company's consolidated balance sheets for lease liabilities and right-of-use assets. The Company is also performing a comprehensive review of its current processes to determine and implement changes required to support the adoption of this standard. The Company is currently evaluating the other effects the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2018, the FASB issued ASU 2018-01, "Leases," Topic 842, "Land Easement Practical Expedient for Transition to Topic 842" (ASU 2018-01). ASU 2018-01 permits an entity to elect a transition practical expedient to not assess, under Accounting Standards Codification (ASC) 842, land easements that exist or expired before the standard's effective date that were not previously accounted for as leases under ASC 840. The Company plans to elect this practical expedient in implementing ASU 2016-02.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," Topic 606, "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 provides guidance for revenue recognition and will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled for the transfer of those goods or services. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. Additionally, the amendments in this ASU provide a practical expedient for entities to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less, The Company plans to elect this practical expedient upon adoption.

In July 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The FASB approved the deferral of ASU 2014-09, by extending the new revenue recognition standard's mandatory effective date by one year and permitting public companies to apply the new revenue standard to annual reporting periods beginning after December 15, 2017. The guidance in ASU 2014-09 will be effective for the Company in the first quarter of the fiscal year ending December 31, 2019.

Further to ASU 2014-09 and ASU 2015-14, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers," Topic 606, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" (ASU 2016-08) in March 2016, ASU 2016-12, "Revenue from Contracts with Customers," Topic 606, "Narrow-Scope Improvements and Practical Expedients" (ASU 2016-12) in May 2016 and ASU 2016-20, "Revenue from Contracts with Customers," Topic 606, "Technical Corrections and Improvements" (ASU 2016-20) in December 2016. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The Company plans to make such election. The Company also plans to elect the practical expedient in ASU 2016-20 that provides entities do not need to disclose the transaction price allocated to performance obligations when the related contracts have a duration of one year or less. This includes loyalty rewards, which can be redeemed in the month subsequent to the quarter earned, and marketing promotions that cross accounting periods. Both of these classes of transactions are currently immaterial to the Company. The effective date and transition requirements for ASU 2016-08, ASU 2016-12 and ASU 2016-20 are the same as for ASU 2014-09.

The Company does not plan to early adopt the new revenue recognition guidance; adoption will be on the modified retrospective basis beginning in fiscal year 2019. The Company has substantially concluded its assessment of the impact of the adoption of this standard on its consolidated financial statements. Most of the Company's revenue is expected to continue to be generated from point-of-sale transactions, which ASU 2014-09 treats generally consistent with current accounting standards. The Company does not expect this standard will have a material impact on the accounting for point-of-sale transactions or related areas including the right of return and customer incentives. Although the impact on the consolidated financial statements is not expected to be material, additional disclosures will be required.

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation," Topic 718, "Improvements to Nonemployee Share-Based Payment Accounting" (ASU 2018-07) as part of its Simplification Initiative to reduce complexity when accounting for share-based payments to non-employees. ASU 2018-07 expands the scope of Topic 718 to more closely align share-based payment transactions for acquiring goods and services from non-employees with the accounting for share-based payments to employees, with certain exceptions. The provisions of ASU 2018-07 are effective for the Company's first quarter of the fiscal year ending December 31, 2020, with early adoption permitted.

NOTE 4 – TRANSACTIONS

Acquisition of 51% of EZ-Clone Enterprises, Inc.

On October 15, 2018, the Company closed the Purchase and Sale Agreement with EZ-Clone Enterprises, Inc., a California corporation that was founded in January 2000. EZ-Clone is the manufacturer of multiple award-winning products specifically designed for the commercial cloning and propagation stage of indoor plant cultivation including cannabis, food, and other hydroponic farming. The Company has proprietary products and services such as the Commercial Pro System, Hobbyist Cloning Systems, Cloning Tents, Coco Collars, Coco Seed Starters, Rooting Gel, and Clear Rez. Technical Support, know-how and overall knowledge is also considered proprietary. The Company trademarks are EZ CLONE and EZ CLONE CRIB.

This acquisition is expected to accelerate the Company's revenue growth, increase the Company gross margins and add additional manufacturing and research and development personnel.

The Company acquired 51% of EZ-Clone for $2,040,000, payable as follows: (i) a cash payment of $645,000; and (ii) the issuance of 107,307,692 restricted shares of the Company's common stock at a price of $0.013 per share or $1,395,000. The Company has the obligation to acquire the remaining 49% of EZ-Clone within one year for $1,960,000, payable as follows: (i) a cash payment of $855,000; and (ii) the issuance of 85,000,000 shares of the Company's common stock at a price of $0.013 per share or $1,105,000.

The cost to acquire these assets has been preliminarily allocated to the assets acquired according to estimated fair values and is subject to adjustment when additional information concerning asset valuations is finalized, but no later than October 15, 2019. The preliminary allocation is as follows:

Purchase Price Allocation $	
Common Stock	$1,395,000
Cash	645,000
Assets acquired	(911,294)
Liabilities acquired	939,375
Non-controlling interest	1,960,000
EZ-Clone equity	(605,000)
Total purchase price	$3,423,081

The results of operations of EZ-Clone were included in the Consolidated Statements of Operations for the period October 15, 2018 to December 31, 2018.

The unaudited pro-forma financial data for the acquisition for the year ended December 31, 2018, were as follows:

	As Reported December 31, 2018	Pre-Acquisition Operations of EZ- January 1, 2018 to October 14, 2018	Pro Forma Year Ended December 31, 2018
Net revenue	$4,573,461	$1,551,503	$6,124,964
Net loss	(11,473,137)	(111,671)	(11,584,808)
Net loss per share	$(0.00)		$(0.00)

The unaudited pro-forma financial data for the acquisition for the year ended December 31, 2017, were as follows:

	As Reported December 31, 2017	Pre-Acquisition Operations of EZ- January 1, 2017 to December 31, 2017	Pro Forma Year Ended December 31, 2017

Net revenue	$2,452,104	$2,648,873	$5,100,977
Net loss	(5,320,974)	(126,962)	(5,447,936)
Net loss per share	$(0.00)		$(0.00)

There were no material, nonrecurring items included in the reported the pro-forma results.

Termination of Agreements with CANX, LLC

On February 15, 2019, the Company entered into a Termination of Existing Agreements and Release with CANX USA, LLC, a Nevada limited liability company. Pursuant to the Agreement, the Parties agreed to terminate, release and discharge all existing and further rights and obligations between the Parties under, arising out of, or in any way related to that certain Waiver and Modification Agreement and Amended and Restated Joint Venture Agreement made as of July 10, 2014, and any ancillary agreements or instruments thereto, including, but not limited to, the Warrants issued to CANX entitling CANX to purchase 540,000,000 shares of the Company's common stock at an exercise price of $0.033.

In exchange for the Agreement and cancellation of the CANX Agreements and Warrants, the Company agreed to issue $1,000,000 of restricted common stock priced at the February 7, 2019 closing price of $0.008, or 125,000,000 restricted common stock shares.

NOTE 5 – INVENTORY

Inventory as of December 31, 2018 and 2017 consisted of the following:

	December 31, 2018	December 31, 2017
Raw materials	$417,570	$110,000
Work in process	35,280	-
Finished goods	459,814	375,678
Inventory reserve	(120,000)	(20,000)
Total	$792,664	$465,678

Raw materials consist of supplies for the flooring product line and EZ-Clone.

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 and EZ- Clone.

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, 2018 and 2017 consists of the following:

	December 31, 2018	December 31, 2017
Machinery, equipment and tooling	$943,326	$365,861
Furniture and fixtures	-	49,787
Computer equipment	16,675	52,304
Leasehold improvements	14,703	56,965
Total property and equipment	974,704	524,917
Less accumulated depreciation and amortization	(261,839)	(222,228)
Net property and equipment	$712,866	$302,689

Fixed assets, net of accumulated depreciation, were $712,866 and $302,689 as of December 31, 2018 and 2017, respectively. Accumulated depreciation was $261,839 and $222,228 as of December 31, 2018 and 2017, respectively.

Total depreciation expense was $80,125 and $1,890 for the years ended December 31, 2018 and 2017, respectively. All equipment is used for manufacturing, selling, general and administrative purposes and accordingly all depreciation is classified in cost of goods sold, selling, general and administrative expenses. The Company began depreciation on the purchased machine January 1, 2018 when significant operations began.

On October 3, 2017, the Company closed the acquisition of 51% of the Purchased Assets from David Reichwein, a Pennsylvania resident, GIP International Ltd, a Hong Kong corporation and DPR International LLC, a Pennsylvania limited liability corporation. The Purchased Assets include intellectual property, copy rights and trademarks related to reflective tiles and flooring.
The Company did not acquire business, customer list or employees.

The Company acquired its 51% interest in the Purchased Assets for $400,000. The Company funded equipment and rent of an office lease. On February 16, 2018, the Company purchased the remaining 49% of the Purchased Assets in exchange for a one-time payment of $250,000. As of December 31, 2018, the Company had recorded investment in purchased assets of $552,689.

On October 15, 2018, the Company acquired 51% of EZ-Clone Enterprises, Inc. and acquired $244,203 of net property and equipment.

During the year ended December 31, 2018, the Company retired fully depreciated assets of $358,156.

NOTE 7 – INTANGIBLE ASSETS

Intangible assets as of December 31, 2018 and 2017 consisted of the following:

	Estimated Useful Lives	December 31, 2018	December 31, 2017
Customer lists	3 years	$1,604,341	$-
Patents	3 years	1,818,740	
Less: accumulated amortization		(142,628)	-
Intangible assets, net		$3,280,453	$-

Total amortization expense was $142,628 and $0 for the years ended December 31, 2018 and 2017, respectively.

On October 15, 2018, the Company closed the Purchase and Sale Agreement with EZ-Clone Enterprises, Inc., a California corporation that was founded in January 2000. The Company acquired 51% of EZ-Clone for $2,040,000, payable as follows: (i) a cash payment of $645,000; and (ii) the issuance of 107,307,692 restricted shares of the Company's common stock at a price of $0.013 per share or $1,395,000. The Company has the obligation to acquire the remaining 49% of EZ-Clone within one year for $1,960,000, payable as follows: (i) a cash payment of $855,000; and (ii) the issuance of 85,000,000 shares of the Company's common stock at a price of $0.013 per share or $1,105,000.

The fair value of the intellectual property associated with the assets acquired was $3,423,081 estimated by using a discounted cash flow approach based on future economic benefits. In summary, the estimate was based on a projected income approach and related discounted cash flows over five years, with applicable risk factors assigned to assumptions in the forecasted results.

NOTE 8- ACCOUNTS PAYABLE

Accounts payable were $1,054,371 and $821,398 as of December 31, 2018 and December 31, 2017, respectively. Such liabilities consisted of amounts due to vendors for inventory purchases, audit, legal and other expenses incurred by the Company.

NOTE 9- ACCRUED EXPENSES

Accrued expenses were $261,954 and $133,988 as of December 31, 2018 and, 2017, respectively. Such liabilities consisted of amounts due to Go Green Hydroponics, Inc. and TCA – Go Green SPV, LLC and sales tax and payroll liabilities.

On August 17, 2018, the Company entered into an Asset Purchase Agreement with Go Green Hydroponics, Inc. and TCA – Go Green SPV, LLC. The Company acquired the inventory of Go Green but agreed to pay the Seller 100% of the proceeds generated from the sale of the closing inventory until all closing inventory has been sold. The Company recorded accrued expenses $98,150 as of December 31, 2018 related to the sale of inventory. Also, the Company agreed to pay 5% of all gross revenue of Company earned or in any way related to the Purchased Assets generated between October 1, 2018 and December 31, 2019, up to a maximum of $200,000. The Company estimated gross revenue for that period to be approximately $1,200,000 and recorded a $60,000 liability. The Company recorded an impairment of acquired assets in the amount of $60,000 as of December 31, 2018. In addition, the Company recorded an additional accrued liability of $1,986 as of December 31, 2018.

NOTE 10 – CONVERTIBLE NOTES PAYABLE, NET

Convertible notes payable as of December 31, 2018 consisted of the following:

	Principal	Accrued Interest	Debt Discount	Balance As of December 31, 2018
10% OID Convertible Promissory Notes	$2,982,299	$135,780	$-	$3,118,079
7% Convertible note ($850,000)	270,787	15,267	-	286,054
	$3,253,086	$151,047	$-	$3,404,133

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

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

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

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

7% Convertible Notes Payable

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

On February 12, 2018, the Company received a Notice of Conversion from Forglen LLC converting principal and interest of $321,945 owed under that 7% Convertible Note as amended June 19, 2014 into 127,000,000 shares of the Company's common stock with a fair value of $2,235,200. On March 12, 2018, the Company entered into a Second Amendment to the Note. Pursuant to the Amendment, the Note's maturity date has been extended to December 31, 2019, and interest accrues at 7% per annum, compounding on the maturity date. Additionally, after review of the Note and accrued interest, the Parties agreed that as of March 12, 2018, the outstanding balance on the Note was $270,787.

As of December 31, 2018, the outstanding principal on this 7% convertible note was $270,787 and accrued interest was $15,267, which results in a total liability of $286,054.

10% Convertible Promissory Notes

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

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

As of December 31, 2018, the outstanding principal balance due to Chicago Venture is $1,112,200 and accrued interest was $90,931, which results in a total amount of $1,203,230.

During the year ended December 31, 2018, Chicago Venture converted principal and interest of $3,104,181 into 525,587,387 shares of our common stock at a per share conversion price of $0.0059 with a fair value of $7,756,330. The Company recognized $6,565,415 loss on debt conversions during the year ended December 31, 2018.

During the year ended December 31, 2018, the Company recorded an OID debt discount expense of $660,472 to interest expense related to the Chicago Venture financing.

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

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

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

The total amount of funding under the Iliad Agreements is $1,500,000. The Convertible Promissory Note carries an original issue discount of $150,000 and a transaction expense amount of $5,000, for total debt of $1,655,000. The Company agreed to reserve three times the number of shares based on the redemption value with a minimum of 150 million shares of its common stock for issuance upon conversion of the Debt, if that occurs in the future. If not converted sooner, the Debt is due on or before August 7, 2019. The Debt carries an interest rate of ten percent (10%). The Debt is convertible, at Iliad's option, into our common stock at $0.015 per share subject to adjustment as provided for in the Secured Promissory Notes. The Company's obligation to pay the Debt, or any portion thereof, is secured by all of our assets. The Company has $504,098 available under this debt financing.

Securities Purchase Agreement, Secured Promissory Notes and Security Agreement with Iliad

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

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

The Warrant is exercisable for a period of five (5) years from the Closing, for the purchase of up to $387,500 shares of our Common Stock at the market price as of the date of exercise as defined in the agreements. The Warrant is subject to a cashless exercise option at the election of Iliad and other adjustments as detailed in the Warrant. The fair value of the warrant is $118,615 at December 31, 2018.

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

At December 31, 2018 the outstanding principal balance due to Iliad Research and Trading, L.P. is $1,870,000, accrued interest of $44,849 resulting in a total of $1,914,849. On January 17, 2019, the Company repaid $650,000 to Iliad.

NOTE 11 – DERIVATIVE LIABILITY

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

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

There was a derivative liability of $1,795,473 as of December 31, 2018. For the year ended December 31, 2018, the Company recorded non-cash income of $977,732 related to the "change in fair value of derivative" expense related to the Chicago Venture and Iliad financing. The income related to a decline in the share price and Chicago Venture converted principal and interest of $3,104,181 into 525,587,387 shares of our common stock at a per share conversion price of $0.0059.

Derivative liability as of December 31, 2018 was as follows:

				Carrying Amount at
	Fair Value Measurements Using Imputs			December 31,
Financial Instruments	Level 1	Level 2	Level 3	2018
Liabilities:				
Derivative Instruments	$-	$1,795,473	$-	$1,795,473

Total	$-	$1,795,473	$-	$1,795,473

NOTE 12 – RELATED PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS

Since January 1, 2017, the Company engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

Certain Relationships

Please see the transactions with Chicago Venture Partners, L.P. discussed in Notes 10, 11, 13 and 17.

Transactions with Marco Hegyi

On October 21, 2018 and 2017, a Mr. Hegyi Warrant to purchase up to 10,000,000 shares of our common stock at an exercise price of $0.01 per share vested. The Warrant is exercisable for 5 years. The warrants were valued at $390,000 and $192,000 we recorded $178,750 and $195,000 as compensation expense for the years ended December 31, 2018 and 2017, respectively. On October 15, 2018, Mr. Hegyi received Warrants to purchase up to 48,000,000 shares of our common stock at an exercise price of $0.012 per share and which vest on October 15, 2018, 2019 and 2020. The Warrants are exercisable for 5 years. The warrant that vested on October 15, 2018 was valued at $96,000 and we recorded this amount compensation expense for the year ended December 31, 2018.

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

Transactions with an Entity Controlled by Mark E. Scott

On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 20,000,000 shares of common stock at an exercise price of $0.012 per share. 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $40,000 and $18,000. The Company recorded $8,833 and $1,500 as compensation expense for the years ended December 31, 2018 and 2017, respectively.

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

Transaction with Joseph Barnes

On October 15, 2018, Mr. Barnes was granted an option to purchase 18,000,000 shares of common stock at an exercise price of $0.012 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 grants vest quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $36,000 and $24,000. The Company recorded $8,550 and $2,000 as compensation expense for the years ended December 31, 2018 and 2017, respectively
On October 15, 2018, the Compensation Committee of the Company approved an Employment Agreement with Joseph Barnes pursuant to which the Company engaged Mr. Barnes as President of the GrowLife Hydroponics Company through October 15, 2021. Mr. Barnes’s previous Agreement was cancelled. See Note 15 for additional details.

Transactions with Michael E. Fasci

On February 4, 2017, the Company 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, the Company 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, the Company 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, the Company 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.

On February 1, 2018, the Company issued 3,789,041 shares of our common stock to Mr. Fasci that was valued at $0.02 per share or $75,781. On December 6, 2018, the Company issued Mr. Fasci 5,000,000 shares of our common stock that was valued at $0.01 per share or $50,000. On December 6, 2018, Michael E. Fasci resigned as a Member of the Board of Directors.

Transactions with Katherine McLain

Ms. Katherine McLain was appointed as a director on February 14, 2017. On June 28, 2017, the Company 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, the Company 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. On February 1, 2018, the Company issued 2,893,151 shares of our common stock to Katherine McLain that was valued at $0.02 per share or $57,863.

Transaction with Thom Kozik

Mr. Kozik was appointed as a director on October 5, 2017. On October 23, 2017, the Company 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. On February 1, 2018, the Company issued 978,082 shares of our common stock to Thom Kozik that was valued at $0.02 per share or $19,562.

NOTE 13 – EQUITY

Authorized Capital Stock

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

Non-Voting Preferred Stock

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

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

Common Stock

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

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

During the year ended December 31, 2018, the Company had had the following sales of unregistered of equity securities to accredited investors unless otherwise indicated:

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

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

On 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 year ended December 31, 2018, the Company issued 2,400,000 shares of its common stock to a service provider pursuant to conversions of debt totaling $33,000. The shares were valued at the fair market price of $0.0138 per share.

During the year ended December 31, 2018, the Company issued 6,250,000 shares of its common stock to a service provider and a former director related to services. The shares were valued at the fair market price of $0.0104 per share or $65,000.

During the year ended December 31, 2018, Chicago Venture converted principal and interest of $3,104,181 into 525,587,387 shares of our common stock at a per share conversion price of $0.0059 with a fair value of $7,756,330. The Company recognized $6,565,415 loss on debt conversions during the year ended December 31, 2018.

During the year ended December 31, 2018, an employee exercised a stock option grant for 1,000,000 shares at $0.006 or $6,000.

Securities Purchase Agreements with St. George Investments, LLC

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

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

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

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

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

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

On October 15, 2018, the Company closed the Purchase and Sale Agreement with EZ-Clone and issued 107,307,692 restricted shares of our common stock at a price of $0.013 per share or $1,395,000.

On November 30, 2018, the Company closed its Rights Offering. We received $2,533,648 under the Rights Offering and issued 211,137,293 shares of common stock at $0.012 per share.

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.

Warrants

The Company issued the following warrants during the year ended December 31, 2018:

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

On October 15, 2018, Mr. Hegyi received Warrants to purchase up to 48,000,000 shares of our common stock at an exercise price of $0.012 per share and which vest on October 15, 2018, 2019 and 2020. The Warrants are exercisable for 5 years. The warrant that vested on October 15, 2018 was valued at $96,000 and we recorded this amount compensation expense for the year ended December 31, 2018.

The Warrant is exercisable for a period of five (5) years from the Closing, for the purchase of up to $387,500 shares of our Common Stock at the market price as of the date of exercise as defined in the agreements. The Warrant is subject to a cashless exercise option at the election of Iliad and other adjustments as detailed in the Warrant. The fair value of the warrant is $118,615 at December 31, 2018.

On November 30, 2018, the Company closed its Rights Offering. The Company received $2,533,648 under the Rights Offering and issued 211,137,293 shares of common stock at $0.012 per share. The Company also issued five year warrants to acquire 105,568,642 shares of common stock exercisable at $.018 and five year warrants to acquire 105,568,642 shares of common stock exercisable $.024 per share.

On February 15, 2019, the Company entered into a Termination of Existing Agreements and Release with CANX USA, LLC, a Nevada limited liability company. Pursuant to the Agreement, the Parties agreed to terminate, release and discharge all existing and further rights and obligations between the Parties under, arising out of, or in any way related to that certain Waiver and Modification Agreement and Amended and Restated Joint Venture Agreement made as of July 10, 2014, and any ancillary agreements or instruments thereto, including, but not limited to, the Warrants issued to CANX entitling CANX to purchase 540,000,000 shares of the Company's common stock at an exercise price of $0.033.

In exchange for the Agreement and cancellation of the CANX Agreements and Warrants, the Company agreed to issue $1,000,000 of restricted common stock priced at the February 7, 2019 closing price of $0.008, or 125,000,000 restricted common stock shares.

A summary of the warrants issued as of December 31, 2018 is as follows:

	December 31, 2018	
		Weighted Average Exercise
	Shares	Price
Outstanding at beginning of period	595,000,000	$0.029
Issued	307,825,146	0.025
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at end of period	902,825,146	$0.029
Exerciseable at end of period	902,825,146	

A summary of the status of the warrants outstanding as of December 31, 2018 is presented below:

	December 31, 2018			
	Weighted Average	Weighted Average		Weighted Average
Number of	Remaining	Exercise	Shares	Exercise

Warrants	Life	Price	Exerciseable	Price
540,000,000	0.33	$0.033	540,000,000	$0.033
55,000,000	7.67	0.010	55,000,000	0.010
48,000,000	5.75	0.012	16,000,000	0.012
48,687,862	4.08	0.050	48,687,862	0.050
211,137,284	2.92	0.021	211,137,284	0.021
902,825,146	1.44	$0.029	870,825,146	0.029

Warrants had no intrinsic value as of December 31, 2018.

The warrants were valued using the following assumptions:

Assumptions	
Dividend yield	0%
Expected life	5 Years
Expected volatility	200%
Risk free interest rate	0.78%

NOTE 14– STOCK OPTIONS

Description of Stock Option Plan

On December 6, 2018, the Company’s shareholders voted to approve the First Amended and Restated 2017 Stock Incentive Plan to increase the shares issuable under the plan from 100 million to 200 million. The Company has 100,000,000 shares available for issuance. The Company has outstanding unexercised stock option grants totaling 100,000,000 shares at an average exercise price of $0.010 per share as of December 31, 2018. The Company filed registration statements on Form S-8 to register 200,000,000 shares of the Company’s common stock related to the 2017 Stock Incentive Plan and First Amended and Restated 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, 2018, the Company had the following stock option activity:

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

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

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

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

On October 15, 2018, an entity controlled by Mr. Scott was granted an option to purchase 20,000,000 shares of common stock at an exercise price of $0.012 per share. The stock option grant vests quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $40,000 and the Company recorded this amount as compensation expense for the year ended December 31, 2018.

On October 15, 2018, Mr. Barnes was granted an option to purchase 18,000,000 shares of common stock at an exercise price of $0.012 per share. The stock option grant vests quarterly over three years and are exercisable for 5 years. The stock option grants were valued at $36,000 and the Company recorded this amount as compensation expense for the year ended December 31, 2018.

As of December 31, 2018, there are 100,000,000 options to purchase common stock at an average exercise price of $0.010 per share outstanding under the 2017 Amended and Restated Stock Incentive Plan. The Company recorded $44,682 and $29,250 of compensation expense, net of related tax effects, relative to stock options for the years ended December 31, 2018 and 2017 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately ($0.00). As of December 31, 2018, there is $140,970 of total unrecognized costs related to employee granted stock options that are not vested. These costs are expected to be recognized over a period of approximately 3.79 years.

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.

Stock option activity for the years ended December 31, 2018 and 2017 is as follows:

		Weighted Average	
	Options	Exercise Price	$
Outstanding as of December 31, 2016	12,010,000	$0.010	$120,500
Granted	44,000,000	0.006	280,000
Exercised	-	-	-
Forfeitures	(10,000)	(0.050)	(500)
Outstanding as of December 31, 2017	56,000,000	0.007	400,000
Granted	45,000,000	0.013	596,000
Exercised	(1,000,000)	0.006	(6,000)
Forfeitures	-	-	-
Outstanding as of December 31, 2018	100,000,000	$0.010	$990,000

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exerciseable	Number Exerciseable	Weighted Average Exercise Price Exerciseable
$0.006	31,000,000	3.75	$0.006	18,333,333	$0.006
0.007	10,000,000	3.75	0.007	4,166,667	0.007
0.009	2,000,000	1.50	0.009	1,000,000	0.009
0.010	12,000,000	0.88	0.010	12,000,000	0.010
0.012	38,000,000	4.75	0.012	3,166,667	0.012
0.020	7,000,000	4.39	0.020	1,416,667	0.020
	100,000,000	3.79	$0.010	40,083,333	$0.008

Stock option grants totaling 31,000,000 shares of common stock have an intrinsic value of $18,333 as of December 31, 2018.

The stock option grants were valued using the following assumpti0ns:

Assumptions	
Dividend yield	0%
Expected life	2 Years
Expected volatility	140%
Risk free interest rate	0.02%

NOTE 15 – 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 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 the Company's annual report on Form 10-K filed with the SEC on March 8, 2019, the Company's know of no material, existing or pending legal proceedings against our Company, nor is the Company 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 the Company's interest.

Operating Leases

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

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

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

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

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

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

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
2019	$534,795
2020	925,511
2021	549,776
2022	-
2023	-
Beyond	-
Total	$2,010,082

Employment Agreements

Employment Agreement with Marco Hegyi

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

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

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

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

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

Employment Agreement with Mark E. Scott

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

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

The Company's Board of Directors granted Mr. Scott an option to purchase twenty million shares of the Company's Common Stock under the Company's 2018 Amended and Restated Stock Incentive Plan at an exercise price of $0.012 per share. The Shares vest quarterly over three years. All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of the Company's Amended and Restated Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as employee to the Company is terminated by the Company without Cause or Mr. Scott terminates his employment with the Company for Good Reason as defined in the Scott Agreement, in either case upon or within twelve months after a Change in Control as defined in the Company's Amended and Restated Stock Incentive, then 100% of the total number of Shares shall immediately become vested.

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

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

Employment Agreement with Joseph Barnes

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

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

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

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

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

NOTE 16 – 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 $11,473,137 for the year ended December 31, 2018.

Pretax losses arising from United States operations were approximately $5,320,974 for the year ended December 31, 2018.

The Company has net operating loss carryforwards of approximately $19,101,728, which expire in 2022-2036. 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 $4,011,363 was established as of December 31, 2018. Additionally, under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses may be limited in certain circumstances, including a change in control.

Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that the Company will be able to utilize any net operating loss carryforwards in the future. The Company is subject to possible tax examination for the years 2012 through 2018

For the year ended December 31, 2018, the Company's effective tax rate differs from the federal statutory rate principally due to net operating losses and equity issued for services.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Reform Act). The Tax Reform Act significantly revises the future ongoing federal income tax by, among other things, lowering U.S. corporate income tax rates effective January 1, 2018. The Company has calculated a blended U.S. federal income tax rate of approximately 21% for the fiscal year ending December 31, 2018 and 21.0% for subsequent fiscal years. Remeasurement of the Company's deferred tax balance under the Tax Reform Act resulted in a non-cash tax benefit reduction of approximately $2.5 million for the year ended December 31, 2018.

The changes included in the Tax Reform Act are broad and complex. The final transition impacts of the Tax Reform Act may differ from the above estimate due to, among other things, changes in interpretations of the Tax Reform Act, any legislative action to address questions that arise because of the Tax Reform Act and any changes in accounting standards for income taxes or related interpretations in response to the Tax Reform Act.

The principal components of the Company's deferred tax assets at December 31, 2018 and 2017 are as follows:

	2018	2017
U.S. operations loss carry forward and state at statutory rate of 40%	$4,011,363	$3,068,992
Less valuation allowance	4,011,363	3,068,992

Net deferred tax assets	-	-
Change in valuation allowance	$4,011,363	$3,068,992

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Federal statutory rate	-21.0%	-21.0%
State income tax rate	-6.0%	-6.0%
Change in valuation allowance	27.0%	27.0%
Effective tax rate	0.0%	0.0%

The Company's tax returns for 2012 to 2018 are open to review by the Internal Revenue Service.

NOTE 17– SUBSEQUENT EVENTS

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

There were the material events subsequent to December 31, 2018:

Transactions with CANX, LLC

On February 15, 2019, the Company entered into a Termination of Existing Agreements and Release with CANX USA, LLC, a Nevada limited liability company. Pursuant to the Agreement, the Parties agreed to terminate, release and discharge all existing and further rights and obligations between the Parties under, arising out of, or in any way related to that certain Waiver and Modification Agreement and Amended and Restated Joint Venture Agreement made as of July 10, 2014, and any ancillary agreements or instruments thereto, including, but not limited to, the Warrants issued to CANX entitling CANX to purchase 540,000,000 shares of the Company's common stock at an exercise price of $0.033.

In exchange for the Agreement and cancellation of the CANX Agreements and Warrants, the Company agreed to issue $1,000,000 of restricted common stock priced at the February 7, 2019 closing price of $0.008, or 125,000,000 restricted common stock shares.

Repayment of Securities Purchase Agreement, Secured Promissory Notes and Security Agreement with Iliad

On January 17, 2019, the Company repaid $650,000 to Iliad due under the October 15, 2018 funding transaction with Iliad.

Trading on Pink Sheet Stock Systems

As of March 4, 2019, the Company began to trade on the Pink Sheet stocks system. The Company's bid price had closed below $0.01 for more than 30 consecutive calendar days.

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 8, 2019 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 8, 2019
/s/ Mark E. Scott Mark E. Scott	Chief Financial Officer, Director and Secretary (Principal Financial/Accounting Officer)	March 8, 2019

/s/ Katherine McLain Director March 8, 2019
Katherine McLain

/s/ Thom Kozik Director March 8, 2019
Thom Kozik