

Risk Factors Comparison 2025-03-13 to 2024-03-13 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

RISKS RELATING TO OUR BUSINESS We face competition that could prohibit us from developing or increasing our customer base. Both the specialty gardening and hydroponic industry and storage solutions industry are highly competitive. Companies with much greater financial resources which do not currently compete with us may be able to adapt their existing operations to sales of gardening and hydroponic products or storage products. Our competitors may also introduce new competitive products, and manufacturers may sell products direct to consumers. Due to this competition, we may encounter difficulties maintaining or increasing revenues or profits. If we underestimate or overestimate demand for our products and do not maintain appropriate inventory levels, our net sales, working capital, or profitability could be negatively impacted. In determining the required quantities of our products, we must make judgments and estimates based on production capacity, timing of shipments, inventory levels, market trends and other factors. Because of the inherent nature of estimates, there could be significant differences between our estimates and the actual amounts of products we require, which could negatively impact our net sales, profit margins, net earnings, working capital, or cash flow, hinder our ability to meet customer demand, or cause us to incur excess or obsolete inventory charges. We identified ~~a material weaknesses~~ weakness in our internal control over financial reporting, and if we are unable to achieve and maintain effective internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected, along with investor confidence in our company and, as a result, the value of our common stock. Section 404 of the Sarbanes- Oxley Act of 2002 and the related rules and regulations of the SEC require an annual management assessment of the effectiveness of our internal control over financial reporting. We have hired additional accounting and financial staff, and leveraged outside resources, with appropriate public company experience and technical accounting knowledge to compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404. As part of management' s independent assessment as of December 31, ~~2023~~ 2024 as discussed in Item 9A of this report, we identified ~~a material weaknesses~~ weakness ~~in~~ related to our Storage Solutions business, MMI, and we are therefore unable to certify that our internal ~~control controls~~ control controls over financial reporting ~~and is effective.~~ Additionally, our independent registered public accounting firm issued an adverse opinion on internal ~~control controls~~ control controls over financial reporting ~~– We are therefore unable to certify that our internal control over financial reporting is effective.~~ A “ material weakness ” is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. ~~Our management identified certain material weaknesses as discussed in Item 9A of this report.~~ These material weaknesses could result in a misstatement of account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected on a timely basis. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our consolidated financial statements that could result in a restatement of our consolidated financial statements and cause us to fail to meet our reporting obligations. Because we are unable to conclude that our internal control over financial reporting for our MMI business is effective, and our independent registered public accounting firm also determined that we have ~~a material weaknesses~~ weakness ~~and significant deficiencies in our internal control over financial reporting,~~ we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to capital. We have taken several actions ~~towards~~ and remediating remediated these previously identified material weaknesses as discussed in Item 9A of this report. Although we have remediated certain ~~taken steps to address the~~ material weaknesses, we are still in the process of completing the remediation process for the MMI business and the steps we are taking may not be sufficient to remediate our material weaknesses or prevent future material weaknesses or significant deficiencies from occurring. We can give no assurance that additional material weaknesses in our internal control over financial reporting will not be identified in the future. We may not successfully develop new products or improve existing products, or successfully manage various risks that we may be exposed to in connection with our proprietary brand offerings. We expect to continue to grow our portfolio of proprietary brand offerings and have invested in development and procurement resources and marketing efforts relating to our proprietary brand offerings to meet evolving consumer needs and regulatory requirements. We may not be successful in developing, manufacturing, and marketing new products or product innovations that satisfy consumer needs or regulatory requirements in a timely manner. If we fail to successfully develop, manufacture, and market new products or product innovations, or if we fail to reach existing and potential consumers, our ability to maintain or grow our market share may be adversely affected, which in turn could adversely affect our business, financial condition, and results of operations. In addition, the development and introduction of new products and product innovations require development and marketing expenditures, which we may not recoup if such new products or innovations do not achieve market acceptance. Although we believe that our proprietary brand products offer value to our customers at each price point and provide us with higher gross margins than comparable third- party branded products we sell, the expansion of our proprietary brand offerings also subjects us to certain specific risks in addition to those discussed elsewhere in this section, such as: • Potential mandatory or voluntary product recalls; • Increased regulatory compliance burdens, and potential product liability exposure; • Potential competition with our vendors’ products, which may adversely affect our vendor relationships; • Our ability to successfully obtain, maintain, protect, and enforce our intellectual property and proprietary rights

(including defending against counterfeit, grey- market, infringing, or otherwise unauthorized goods); and • Our ability to successfully navigate and avoid claims related to the proprietary rights of third parties. A significant interruption in the operation of our or our suppliers' facilities could impact our capacity to produce products and service our customers, which could adversely affect revenues and earnings. Operations at our suppliers' facilities are subject to disruption for a variety of reasons, including fire, flooding, or other natural disasters, disease outbreaks or pandemics, acts of war, terrorism, government shut-downs, and work stoppages. A significant interruption in the operation of our suppliers' facilities, especially for those products manufactured at a limited number of facilities, such as our proprietary brand products, could significantly impact our capacity to sell products and service our customers in a timely manner, which could have a material adverse effect on our customer relationships, revenues, profits, and financial position. The manufacture of some of our products is complex and requires precise, high- quality manufacturing that is difficult to achieve. We have in the past, and may in the future, experience difficulties in manufacturing our products on a timely, cost- effective basis and in sufficient quantities. Our failure to achieve and maintain the required high manufacturing standards could result in further delays or failures in product testing or delivery, cost overruns, product recalls or withdrawals, increased warranty costs, or other problems that could harm our business and prospects. Disruptions in availability or prices of materials sourced by suppliers could adversely affect our results of operations. We and our suppliers source products and components thereof from both inside and outside the U. S. The general availability and price of those products and components can be affected by forces beyond our control, including political instability, armed conflict, laws and regulations, duties and tariffs, price controls, currency fluctuations, and weather. A significant disruption in the availability of any of our key products or components thereof could negatively impact our business. In addition, increases in the prices of key commodities and other materials could adversely affect our ability to manage our cost structure. Market conditions may limit our ability to raise selling prices to offset increases in product or raw material costs. For certain products, new sources of supply may be difficult to locate or have to be qualified under regulatory standards, which can require additional investment and delay bringing a product to market. Economic conditions could adversely affect our business. Uncertain economic conditions, both in the U. S. and globally, driven by circumstances such as rising interest rates, uncertainty around cannabis reforms at the federal level, and armed conflict abroad, could adversely affect our business. Negative global economic trends, such as decreased consumer and business spending, high inflation and interest rates, and declining consumer and business confidence, pose challenges to our business and could result in declining revenues, profitability, and cash flow. Although we continue to devote significant resources to support our brands, unfavorable economic conditions may negatively affect demand for our products. **Potential tariffs or a global trade war could increase the cost of our products, which could adversely impact the competitiveness of our products and our financial results. If the U. S. administration imposes tariffs, or if additional tariffs or trade restrictions are implemented by the United States or other countries, the cost of our products manufactured in the United States and imported into other countries could increase, which in turn could adversely affect the demand for these products and have a material adverse effect on our business and results of operations.** Our operations may be impaired if our information technology systems, or those of our third- party vendors, fail to perform adequately, or if we or our third- party vendors are the subject of a data breach or cyber- attack. We rely on information technology systems to operate our business, including communicating with employees, ordering and managing materials from suppliers, selling and shipping products to customers, analyzing and reporting results of operations, and storing confidential information. While we have taken steps to ensure the functionality and security of our information technology systems, our measures or those of our third- party vendors may not be effective and our or our vendors' **information technology** systems may nevertheless be vulnerable to computer viruses, security breaches, and other disruptions from unauthorized users, as well as failures of such **information technology** systems to operate as expected. In addition, as we replace or upgrade our technology systems, or integrate new systems, issues may arise, such as failure of such systems to perform as expected, that disrupt our business and cause us to lose customers or incur unanticipated expenditures. If our or our third- party vendors' information technology systems are damaged or cease to be available or function properly, whether as a result of a cyber incident or otherwise, our ability to operate our business, including to communicate, coordinate supply chain, inventory, and ordering, manage internal and external reporting, and protect confidential information could be impaired, which may adversely impact our business. Additionally, the techniques used to obtain unauthorized, improper, or illegal access to information technology systems are constantly evolving, may be difficult to detect quickly, and often are not recognized until after they have been launched against a target. We may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventative or remedial measures. Any operational failure or breach of security from these cyber threats could lead to the loss or disclosure of our or third- party information, which could result in expensive and time- consuming regulatory or other legal proceedings and have a material adverse effect on our business and reputation. In addition, we may incur significant costs and operational consequences related to investigating, mitigating, remediating, eliminating, and putting in place additional tools and devices designed to prevent future security incidents, as well as in connection with complying with any notification or other obligations resulting from any security incidents. Because we do not control our third- party vendors' or the processing of data by our third- party vendors, our ability to monitor our third- party vendors' data security is limited and we cannot ensure the integrity or security of the measures they take to protect and prevent the loss of our or our consumers' data. As a result, we are subject to the risk that cyber- attacks on, or other security incidents affecting, our third- party vendors may adversely affect our business even if an attack or breach does not directly impact our systems. Acquisitions, strategic alliances, and other investments could result in operating difficulties, dilution, and other consequences that may adversely impact our business and results of operations. Acquisitions are an important element of our overall corporate strategy. These transactions could entail material investments by us and be material to our financial condition and results of operations. We expect to evaluate and enter into discussions regarding a variety of potential strategic transactions. The process of integrating an acquired company, business, or product has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face

risks may include, but are not limited to: • Diversion of management's time and focus from operating our business to acquisition integration challenges; • Failure to successfully further develop the acquired business or products; • Implementation or remediation of controls, procedures, and policies at the acquired company; • Integration of the acquired company's accounting and other administrative systems; • Transition of operations, employees, and customers onto our existing platforms; • **Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire**; • Failure to recognize expected synergies from an acquisition; • Reliance on strategic partners with respect to market development, sales, regulatory compliance, and other operational matters; • Failure to obtain required governmental approvals on a timely basis, if at all, or conditions placed upon approval, under competition and antitrust laws, could, among other things, delay or prevent us from completing a transaction or otherwise restrict our ability to realize expected financial or strategic goals of an acquisition; • ~~Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire~~; • Liability for or reputational harm from activities of the acquired company before the acquisition or from our strategic partners, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities; and • Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties. Our due diligence may fail to identify all liabilities and risks associated with acquisitions, and we may not accurately assess the relative benefits and detriments of acquisition and may pay acquisition consideration exceeding the value of the acquired business. Our failure to address these risks or other problems related to past or future acquisitions, investments, or strategic alliances could cause us to fail to realize the anticipated benefits of such ~~transaction~~ **transactions**, incur unanticipated liabilities, and harm our business generally. Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, impairment of goodwill and purchased long-lived assets, and restructuring charges, any of which could harm our financial condition or results of operations and cash flows. Although acquisitions are an important element of our overall corporate strategy, there can be no assurance that we will be able to identify appropriate acquisition targets, successfully acquire identified targets, or successfully integrate the business of acquired companies to realize the full, anticipated benefits of such acquisitions. If we are unable to hire and retain employees, we may not be able to implement our business plan and our business may be materially adversely affected. Our future success depends to a large extent on our ability to attract, hire, train, and retain qualified managerial, operational, and other personnel. If we are unable to hire and retain qualified personnel, our business will be materially adversely affected. We face significant competition for diverse, qualified, and experienced employees and, as a result, we may be unable to attract and retain the personnel needed to successfully conduct and grow our operations. The COVID-19 pandemic and inflation have exacerbated these risks, and the impact on labor markets may continue to disrupt our ability to attract and retain personnel for an extended period of time. In addition, we do not maintain key man life insurance on any of our executive officers and directors. Key personnel, including members of management, may leave and compete against us, or may not perform well in their roles with us. If one or more of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all, and may face disruption in our operations and incur additional expenses, including to recruit and retain new talent as a result. Our products may be purchased for use in new and emerging industries subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement, judicial interpretations, and consumer perceptions. We sell products, including hydroponic gardening products, that end users may purchase for use in new and emerging industries, including the growing of cannabis and hemp, that may not grow or achieve market acceptance in a manner that we can predict. Demand for our products depends on the uncertain acceptance and growth of these industries. These new and emerging industries are also subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement, judicial interpretations, and consumer perceptions. For example, a majority of U. S. states and territories have adopted frameworks that authorize, regulate, and tax the cultivation, processing, sale, and use of cannabis for medicinal and / or non-medicinal use, while the federal Controlled Substances Act and laws of other U. S. states prohibit such activities and use. Because demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement, judicial interpretations, and consumer perceptions develop, we cannot reasonably predict the nature of such developments or the effect, if any, that such developments could have on our business. Notwithstanding this conflicted legal landscape, we believe that there is a continuing trend towards further legalization that will allow the Company to expand its marketplace opportunities. Litigation may adversely affect our business, financial condition, and results of operations. From time to time in the normal course of our business, we may become subject to litigation that may result in liability material to our consolidated financial statements as a whole or that may negatively affect our operating results if changes to our business operation are required. The cost to defend such litigation may be significant and may require a diversion of our resources **and attention of management**. There also may be adverse publicity associated with litigation that could negatively affect customer, vendor, and public perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, and results of operations. There can be no assurance that future developments related to pending claims or claims filed in the future, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on our business, financial condition, and results of operations. We believe that our assessment of contingencies is reasonable and that the related accruals, in the aggregate, are adequate; however, there can be no assurance that the final resolution of these matters will not have a material effect on our financial condition, results of operations, or cash flows. Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which could have a material adverse effect on our business, financial condition, or results of operations. As a result of building and continuing to build our proprietary brands and new product technologies, we may become party to, or threatened with, adversarial proceedings or litigation regarding intellectual property or proprietary rights with respect to our products and

technology, including proceedings before the U. S. Patent and Trademark Office or non- U. S. opposition proceedings. A successful claim of intellectual property or proprietary right infringement, misappropriation, or other violation against us, or any other successful challenge to the use of our intellectual property and proprietary rights, could subject us to damages or prevent us from providing certain products or services or using certain of our recognized brand names, which could have a material adverse effect on our business, financial condition, and results of operations. As a result of any such intellectual property claims, regardless of merit, or to avoid potential claims, we may choose or be compelled to seek intellectual property licenses from third parties. These licenses may not be available **to us** on acceptable terms, or at all. Any such license would likely obligate us to pay license fees, royalties, or other payments, and the rights granted to us could be nonexclusive, meaning that our competitors could obtain licenses to the same intellectual property. We could be prevented from commercializing a product or technology or be forced to cease some of our business operations if, as a result of actual or threatened intellectual property claims, we are unable to enter into licenses of the relevant intellectual property on acceptable terms. Further, if we attempt to modify a product or technology or to develop alternative methods or products in response to intellectual property claims or to avoid potential claims, we could incur substantial costs or encounter delays in product introductions or interruptions in sales. If our owned or in-licensed trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected. The registered or unregistered trademarks, trade names, and service marks that we own or in- license from third parties may be challenged, infringed, circumvented, declared generic, or determined to be infringing on or dilutive of other marks. Additionally, competitors may adopt trademarks, trade names, or service marks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. If we are unable to establish name recognition based on our owned and in- licensed trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected. We may also license our trademarks, trade names, or service marks out to third parties, such as our distributors. Though these license agreements may restrict how our trademarks, trade names, or service marks may be used, a breach of these agreements or misuse of our trademarks, trade names, or service marks by our licensees may jeopardize our rights **in** or diminish the goodwill associated therewith. Any efforts to enforce or protect our intellectual property and proprietary rights related to trademarks, trade names, and service marks may be ineffective and could result in substantial costs and diversion of resources and thereby adversely affect our business, financial condition, results of operations, and prospects. Compliance with, or violation of, environmental, health, and safety laws and regulations, including laws pertaining to the use of pesticides, could result in significant costs that adversely impact our reputation, businesses, financial position, results of operations, and cash flows. International, federal, state, provincial, and local laws and regulations relating to environmental, health, and safety matters affect us in several ways in light of the ingredients that are used in our products, including growing media, nutrients, and additives. In the U. S., certain products such as those containing pesticides must be registered with the Environmental Protection Agency (" EPA") and similar state agencies before they can be sold or applied. These products are either granted a registration by the EPA or exempt from such a registration and may be evaluated by the EPA as part of its ongoing exposure risk assessment. The failure by us or one of our business relationships to obtain, or the cancellation or non- renewal of, any such registration, or the withdrawal from the marketplace of such products, could have an adverse effect on our businesses, the severity of which would depend on the products involved, whether other products could be substituted, and whether our competitors were similarly affected. We cannot predict the outcome or the severity of the effect on our business of future evaluations, if any, conducted by the EPA. In addition, certain of our products are subject to complex and overlapping laws and regulation by various international, federal, state, provincial, and local environmental and public health agencies. Even if we are able to comply with all such laws and regulations and obtain all necessary registrations and licenses, the products could nonetheless be alleged to cause injury to the environment, to people, or to animals, or such products could be banned in certain circumstances. The costs of compliance, noncompliance, investigation, remediation, combating reputational harm, or defending civil or criminal proceedings, products liability, personal injury, or other lawsuits could have a material adverse impact on our reputation, businesses, financial position, results of operations, and cash flows. If product liability lawsuits are brought against us, we may incur substantial liabilities. We face a potential risk of product liability as a result of any of the products that we offer for sale. For example, we may be sued if any product we sell allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing, or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability, and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities. Even successful defense could require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in: • Decreased demand for products that we may offer for sale; • Injury to our reputation; • Costs to defend the related litigation; • Diversion of management' s time and our resources; • Substantial monetary awards to trial participants or patients; • Product recalls, withdrawals or labeling, marketing or promotional restrictions; or • Decline in our stock price. Our insurance coverage may not be sufficient to avoid material impact on our financial position or results of operations resulting from liabilities against us, and we may not be able to obtain insurance coverage in the future. We maintain insurance coverage to manage exposure to liabilities that may adversely impact our business, but liabilities against us may exceed such coverage and have a material adverse impact on our financial position or results of operations. We maintain commercial liability and operations **-** focused insurance coverage including property, cyber, workers compensation, and general liability. While we expect to be able to continue our insurance coverages, there can be no assurance we will be able to continue such insurance coverage, or that policy limits will be adequate to cover any liability we may incur, or that our premiums will continue to be available at a cost similar to our cost today. Additionally, it is possible one or more of our insurers could exclude from our policy certain liabilities. Cost- cutting measures could be insufficient to drive profitability and could have unanticipated negative consequences, including hindering strategic initiatives and future growth of our business. In response to a significant

and prolonged industry downturn, we have undergone various cost-cutting measures, including store consolidations and staffing reductions. While management believes such measures are prudent to improve our financial position and results of operations, they may not achieve their anticipated impact on profitability. In addition, cost-cutting measures may have unanticipated negative consequences, such as customer and employee attrition. Reducing costs also means fewer resources are available for strategic initiatives and operational improvements to support future growth, such as improvements to supply chain operations and information technology systems, which could have a negative impact on our business and results of operations. We are subject to collection risk that can impact the results of our operations. We extend credit to customers in the ordinary course of our business in the form of accounts receivable and promissory notes. We seek to ensure our customers are creditworthy before extending credit, but we cannot guarantee that we will receive repayment in full. The industries we serve are also newer and more fragmented, and some of our counter parties are smaller and / or newer businesses and therefore may be at higher credit risk. In addition, we may seek to strategically deploy capital in new markets, or with new business partners. Such new markets or partners may present higher risk. We may be required to record impairment charges against the carrying value of our goodwill and other intangible assets in the future. We are required to test for impairment of the carrying value of our goodwill and intangible assets at least annually and whenever evidence of impairment exists. We have recorded impairment charges in the current year. We may be required in the future to record additional impairment charges that could have a material adverse effect on our reported results. The estimates and judgments we make, or the assumptions on which we rely, in preparing our consolidated financial statements could prove inaccurate. The preparation of our consolidated financial statements in accordance with generally accepted accounting principles ("GAAP") requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues, and expenses, the amounts of charges accrued by us, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We cannot assure, however, that our estimates, or the assumptions underlying them, will not change over time or otherwise prove inaccurate. Any potential litigation related to the estimates and judgments we make, or the assumptions on which we rely, in preparing our consolidated financial statements could have a material adverse effect on our financial results, harm our business, and cause our share price to decline. We occupy many of our facilities under long-term, non-cancellable leases, and we may be unable to renew our leases at the end of their terms. Many of our facilities are located on leased premises subject to non-cancellable leases. Typically, our leases have initial terms ranging from three to ten years, with options to renew for specified periods of time. We believe that our future leases will likely also be long-term and non-cancellable and have similar renewal options. If we close or stop fully utilizing a facility, we will most likely remain obligated to perform under the applicable lease, which would include, among other things, paying base rent, insurance, taxes, and other expenses for the remainder of the lease term. Our inability to terminate a lease when we close or stop fully utilizing a facility can have an adverse impact on our financial condition, operating results, and cash flows. In addition, at the end of the lease term and any renewal period for a facility, we may be unable to renew the lease without substantial additional cost, if at all. If we are unable to renew our facility leases, we may close or relocate a facility, which could subject us to construction and other costs and risks, which in turn could have a material adverse effect on our business and operating results. Further, we may not be able to secure a replacement facility in a location that is as commercially viable. Having to close a facility, even briefly to relocate, could reduce the sales that such facility would have contributed to our revenues. Public health emergencies and efforts to mitigate their impact may have an adverse effect on our business, liquidity, results of operations, and financial condition and the price of our securities. Public health emergencies, such as the one involving the novel strain of coronavirus, or COVID-19, including mutations and variants thereof, and the measures taken to combat them, may have an adverse effect on our business. Public health authorities and governments may impose various measures to respond to such emergencies that have an adverse effect on our business, liquidity, results of operations, and financial condition, such as voluntary or mandatory quarantines, restrictions on travel, and distancing, testing, and vaccine mandates. Although many impacts of the COVID-19 pandemic appear to have alleviated, the pandemic has not yet been eliminated, and we cannot predict future impacts of the COVID-19 pandemic, if any, on markets generally or on our operations or the operations of our customers and suppliers. If we need additional capital to fund our operations, we may not be able to obtain sufficient capital and may be forced to limit the scope of our operations. In connection with our growth strategies, an economic downturn, decline in the performance of our business, or other adverse circumstances, we may experience increased capital needs and accordingly, we may not have sufficient capital to fund our future operations without additional capital investments. There can be no assurance that additional capital will be available to us, including as a result of our relationship with the cannabis industry. If we cannot obtain sufficient capital to fund our operations, we may be forced to limit the scope of our expansion. Ongoing and future armed conflicts could create or exacerbate certain risks we face to our business, financial condition, and results of operations. Present and future armed conflicts such as the ongoing conflict between Russia and Ukraine, as well as fighting in Israel and Palestine, could create or exacerbate certain risks we face to our business, financial condition, and results of operations. For example, Russia's invasion of Ukraine and the global response, including the imposition of financial and economic sanctions by the United States and other countries, has created supply constraints and driven inflation that could impact our operations and could create or exacerbate other risks facing our business. Damage to our reputation could have an adverse effect on our business. Maintaining our strong reputation is a key component in our success. Product recalls, disputes and litigation, unauthorized employee statements on social media, our inability to ship, sell, or transport our products, and other matters may harm our reputation and acceptance of our products, which may materially and adversely affect our business operations, decrease sales and increase costs. In addition, perceptions that the products we distribute and market are not safe could adversely affect us and contribute to the risk of legal action against us. We distribute and market a variety of products, such as nutrients and growing media. On occasion, allegations or news reports may be made that some of these products have failed to perform up to expectations or have caused damage or injury to individuals or property. In addition, our products or their use by our customers may be alleged to be damaging to the

environment. Public perception that the products we distribute or market harm human health or the environment could impair our reputation, involve us in litigation, damage our brand names, and have a material adverse effect on our business, financial condition, and results of operations. Climate change and other environmental, social, and governance issues could adversely affect our brands, business, results of operations, and financial condition. Climate change continues to receive increasing global attention. The possible effects of climate change could include severe weather, changes in rainfall patterns, changing temperature levels, and changes in legislation, regulation, and international accords. These changes could over time affect, for example, the availability and cost of raw materials, commodities, and energy, which in turn may impact our ability to procure goods or services required for our business. Consumers also may change their behavior as a result of the impact of climate change, governmental regulations, and public perceptions. Additionally, the impacts of climate change may present physical risks, such as damage to facilities, which could disrupt our operations or those of our customers or suppliers, and therefore our results of operations. There has also been increasing focus by investors, regulators and other constituencies on environmental, social and governance ("ESG") matters. As a result, we may face demands or requirements to make disclosure or commitments or take other action with respect to ESG issues. Our results of operations and financial condition may be adversely impacted if we are unable to effectively manage the risks or costs to us, our brands and our supply chain associated with ESG matters.

Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability and cash flows. We are subject to income and other taxes in the U. S. federal jurisdiction and various local, state and foreign jurisdictions. Our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets (such as net operating losses and tax credits) and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly related to our operations in the U. S., is dependent on our ability to generate future taxable income of the appropriate character in the relevant jurisdiction. From time to time, tax proposals are introduced or considered by the U. S. Congress or the legislative bodies in local, state and foreign jurisdictions that could also affect our tax rate, the carrying value of our deferred tax assets, or our tax liabilities. Our tax liabilities are also affected by the amounts we charge for inventory, services, licenses and funding. We are subject to ongoing tax audits in various jurisdictions. In connection with these audits (or future audits), tax authorities may disagree with our determinations and assess additional taxes. We regularly assess the likely outcomes of our audits in order to determine the appropriateness of our tax provision. As a result, the ultimate resolution of our tax audits, changes in tax laws or tax rates, and the ability to utilize our deferred tax assets could materially affect our tax provision, net income and cash flows in future periods.

RISKS RELATING TO THE CANNABIS INDUSTRY We are subject to a number of risks associated with the cannabis industry because cannabis is illegal under federal law. Under the Controlled Substances Act of 1970 (the "CSA"), the federal government lists cannabis as a Schedule I controlled substance (i. e., deemed to have no medical value), and accordingly the manufacturing (cultivation), sale, or possession of cannabis is federally illegal. The U. S. Supreme Court has ruled in 2001 that the federal government has the right to regulate and criminalize cannabis, even for medical purposes. The illegality of cannabis under federal law preempts state laws that legalize its use. Therefore, strict enforcement of federal law regarding cannabis would likely adversely affect our revenues and results of operations. Federal courts have denied bankruptcies for cannabis businesses upon the bases that businesses cannot violate federal law and then claim the benefits of federal bankruptcy for the same activity and that courts cannot ask a bankruptcy trustee to take possession of and distribute cannabis assets, as such action would violate the CSA. Therefore, we may have difficulties collecting outstanding payments if any of our customers in the cannabis industry declare bankruptcy. In addition, insurance that is otherwise readily available, such as general liability and directors and officer's insurance, may be more difficult or impossible to find, and more expensive. **Our growth to a certain extent is dependent on the U. S. cannabis market. In the past, California regulations caused licensing shortages and future regulations may create other limitations that decrease the demand for our products. State level regulations adopted in the future may adversely impact our business. Supply and demand and prevailing prices for cannabis may also adversely impact our business. The base of cannabis growers in the United States has grown over the past 20 years since the legalization of cannabis in various U. S. states such as California, Colorado, Michigan, Nevada, Oregon and Washington, with growers depending on products similar to those we distribute. If the U. S. cannabis cultivation market does not grow as expected, our business, financial condition and results of operations could be adversely impacted. Cannabis remains illegal under U. S. federal law, with cannabis currently listed as a Schedule I substance under the CSA. Notwithstanding laws in various states permitting certain cannabis activities, all cannabis activities, including possession, distribution, processing and manufacturing of cannabis and investment in, and financial services or transactions involving proceeds of, or promoting such activities remain illegal under various U. S. federal criminal and civil laws and regulations, including the CSA, as well as laws and regulations of several states that have not legalized some or any cannabis activities to date. Compliance with applicable state laws regarding cannabis activities does not protect a business from federal prosecution or other enforcement action, such as seizure or forfeiture remedies, nor does it provide any defense to such prosecution or action. Cannabis activities conducted in or related to conduct in multiple states may potentially face a higher level of scrutiny from federal authorities. Regulation of the cannabis industry impact those that we believe represent many end- users for our products and, accordingly, there can be no assurance that changes in regulation of the industry and more rigorous enforcement by federal authorities will not have a material adverse effect on us.**

Participants in the cannabis industry have difficulty accessing the service of banks, which makes it difficult for us to operate. Despite rules issued by the U. S. Department of the Treasury mitigating the risk to banks that do business with cannabis companies permitted under state law, as well as guidance from the U. S. Department of Justice, banks remain wary to accept funds from businesses in the cannabis industry or serving the cannabis industry, such as ours. So far we have been able to find certain banking institutions willing to provide banking services to us; however, there can be no assurance

that we will be able to maintain these banking relationships since the production, sale and use of cannabis remains illegal under federal law. An inability to open and maintain bank accounts may make it difficult for us and our customers to do business. In addition, we have a high volume of cash transactions, which exposes us to associated risks of holding large sums of cash, such as theft and embezzlement, as well as potential seizures of cash by federal authorities if they determine such cash is tied to activities that are illegal under federal law. If cannabis were to become legal under federal law, its sale and use could become regulated by the Food and Drug Administration ("FDA") or another federal agency, which could result in a decrease in cannabis sales and have a material adverse impact on the demand for our products. We sell our products through third-party retailers and resellers which do not exclusively sell to the cannabis industry. Some of our products are sold to cannabis industry participants and used in connection with cannabis businesses that are subject to federal and state controlled substance laws and regulations. If cannabis were to become legal under federal law, its sale and use could become regulated by the FDA or another federal agency and extensive regulations may be imposed on the sale or use of cannabis. Such regulations could result in a decrease in cannabis sales and have a material adverse impact on the demand for our products. If we or our customers who are participants in the cannabis industry are unable to comply with any applicable regulations and / or registration prescribed by the FDA, we may be unable to continue to transact with retailers and resellers who sell products to cannabis businesses and / or our financial condition may be adversely impacted. In addition, federal legalization, or legalization in foreign countries such as Mexico, may significantly increase competition and consolidation in our and our customers' markets. If we do not manage to successfully compete in such an environment, our revenues and results of operations will be adversely affected.

RISKS RELATING TO OUR COMMON STOCK There are risks, including stock market volatility, inherent in owning our common stock. The market price and volume of our common stock have been, and may continue to be, subject to significant fluctuations. These fluctuations may arise from general stock market conditions, the impact of risk factors described herein on our results of operations and financial position, or a change in opinion in the market regarding our business prospects or other factors, many of which may be outside our immediate control. We may incur indebtedness that ranks senior or equally to our common stock as to liquidation preference and other rights and that may dilute our stockholders' ownership interest. Shares of our common stock are common equity interests in us and, as such, will rank junior to all of our existing and future indebtedness and other liabilities. In addition, any additional capital raised through the sale of equity or equity-backed securities may dilute our stockholders' ownership percentages and could also result in a decrease in the market value of our common stock. Our security holders may be diluted by future issuances of securities by us. The market price of our common stock could be negatively affected by future sales of our common stock. In the future, we may issue our authorized but previously unissued equity securities, including additional shares of capital stock or securities convertible into or exchangeable for our capital stock. Such issuance of additional securities would dilute the ownership stake in us held by our existing stockholders and could adversely affect the value of our securities. As of the date of this report, we have **1.4 million shares of unvested restricted stock units**, outstanding options to purchase an aggregate of ~~577~~ **16** thousand shares of our common stock (all of which are vested as of this date) at a weighted average exercise ~~prices~~ **price** of \$ ~~4.01~~ **63** per share, and ~~do not~~ **no** have any outstanding stock purchase warrants. The **vesting of the restricted stock units and the** exercise of such outstanding options will result in dilution of our security holders. In the future, we may also issue additional shares of our common stock, **restricted stock units**, options, warrants, or other securities that are convertible into or exercisable for the purchase of shares of our common stock in connection with compensation to employees or consultants, acquisitions, sales of securities for capital raising, or for other business purposes. The future issuance of any such additional shares of our common stock or other securities, for any reason including those stated above, may have a negative impact on the market price of our common stock. There can be no assurance that the issuance of any additional shares of common stock, warrants or other convertible securities in the future may not be at a price (or exercise prices) below the current price of the common stock. If our existing stockholders, directors, or executive officers, or any of their affiliates, sell a substantial number of shares of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that these stockholders might sell our common stock could also depress the market price of our common stock and could impair our future ability to obtain capital, especially through an offering of equity securities. **We do not intend to pay dividends for the foreseeable future and, as a result, investor's ability to achieve a return on their investment will depend on appreciation in the price of our common stock. The decision to pay cash dividends on our common stock rests with our board of directors and will depend on our earnings, unencumbered cash, capital requirements and financial condition. We have never paid any cash dividends on our common stock and we do not anticipate declaring any dividends in the foreseeable future, as we intend to retain funds and future earnings to fund our operations and growth. Investors in our common stock should not expect to receive dividend income on their investment, and investors will be dependent on the appreciation of our common stock to earn a return on their investment.** If securities or industry analysts do not publish research or reports about our business, or they publish negative reports about our business, our share price and trading volume could decline. The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline. **If we fail to meet the continued listing standards of Nasdaq, our common stock may be delisted, which may adversely affect the market price and liquidity of our common stock. Our common stock is currently traded on the Nasdaq. Nasdaq requires us to meet certain financial, public float, bid price and liquidity standards on an ongoing basis in order to continue the listing of our common stock, including that we maintain a minimum closing bid price of \$ 1.00 per share. There can be no assurance that we will be able to maintain compliance with the requirements for continued listing of our common stock on Nasdaq. If our common stock is delisted**

and we are unable to list our common stock on another U. S. national securities exchange, we expect our securities would be quoted on an over- the- counter market. If this were to occur, our stockholders could face significant material adverse consequences, including limited availability of market quotations for our common stock and reduced liquidity for the trading of our securities. Furthermore, if our common stock were delisted it could adversely affect our ability to obtain financing for the continuation of our operations and / or result in the loss of confidence by investors, customers, suppliers and employees. 15