

GROWLIFE, INC.  
Form S-1/A  
July 11, 2016

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As filed with the Securities and Exchange Commission on July 8, 2016

Registration No. 333-211255

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

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AMENDMENT NO. 1 TO FORM S-1  
REGISTRATION STATEMENT

UNDER  
THE SECURITIES ACT OF 1933

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GROWLIFE, INC.  
(Exact name of registrant as specified in its charter)

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Delaware	5261	90-0821083
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

5400 Carillon Point  
Kirkland, WA 98033  
(866) 781-5559

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Marco Hegyi  
Chief Executive Officer  
GrowLife, Inc. 5400 Carillon Point  
Kirkland, Washington 98033

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Copies to:

Lawrence W. Horwitz, Esq.  
 Horwitz + Armstrong, A Professional Law Corporation  
 14 Orchard, Suite 200  
 Lake Forest, California 92630  
 (949) 540-6540

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement is declared effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

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

(Do not check if a smaller reporting Company)

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee (2)
Common Stock, par value, \$.0001 per share underlying convertible promissory notes (3)	211,923,077	\$ 0.013	\$ 2,755,000	\$ 320.13
<b>Total</b>	<b>211,923,077</b>	<b>\$ 0.013</b>	<b>\$ 2,755,000</b>	<b>\$ 320.13</b>

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price.

(3) Pursuant to Rule 416 under the Securities Act, the shares of common stock registered hereby also include an indeterminate number of additional shares of common stock as may from time to time become issuable by reason of stock splits, stock dividends, recapitalizations or other similar transactions. The amount being registered is an approximation of the stock issuable upon conversion of the underlying convertible promissory notes as calculated using an estimated average price of \$.013 per share.

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 8 , 2016

PRELIMINARY PROSPECTUS

211,923,077 Shares of Common Stock

GrowLife, Inc.

This prospectus relates to the resale of up to 211,923,077 of shares of our common stock that we may issue to Chicago Venture Partners, LP (“Chicago Venture”). The shares of common stock offered under this prospectus by the selling stockholder are issuable to Chicago Venture pursuant to a Securities Purchase Agreement between the Company and Chicago Venture dated April 4, 2016. We are not selling any securities under this prospectus and will not receive any proceeds from the sale of shares by the selling stockholder.

The selling stockholder may sell the shares of common stock described in this prospectus in a number of different ways and at varying prices. We provide more information about how the selling stockholder may sell its shares of common stock in the section titled “Plan of Distribution” on page 75. We will not be paying any underwriting discounts or commissions in this offering.

Our common stock trades on the OTC Bulletin Board under the symbol “PHOT.” On July 8, 2016, the last reported sale price for our common stock on the OTCBB was \$0.014 per share. The number of outstanding shares of our common stock that non-affiliates hold is 1,045,976,155 shares as of June 30, 2016.

INVESTING IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 10 IN THIS PROSPECTUS. YOU SHOULD CAREFULLY CONSIDER THESE RISK FACTORS, AS WELL AS THE INFORMATION CONTAINED IN THIS PROSPECTUS, BEFORE YOU INVEST.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Public offering price	\$	
Underwriting discounts and commissions (1)	\$-	\$-
Proceeds to selling stockholder (2)	\$	

(1) Not applicable.

(2) No proceeds will go to the Company.

The date of this Prospectus is July 8, 2016.

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## TABLE OF CONTENTS

	Page
Prospectus Summary	3
Selected Financial Data	10
Risk Factors	10
Special Note Regarding Forward-Looking Statements	21
Use of Proceeds	22
Price Range of Our Common Stock	22
Capitalization	23
Dilution	24
Selling Stockholder	25
Plan of Distribution	26
Description of Securities to be Registered	28
Legal Matters	31
Experts	31
Interests of Named Experts and Counsel	31
Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Business and Properties	43
Management	53
Executive and Director Compensation	57
Transactions with Related Persons	63
Principal Stockholders	69
Changes and Disagreements with Accountants on Accounting and Financial Disclosure	70
Where You Can Find More Information	70
Index to Financial Statements	F-1

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You should rely only on the information contained in this prospectus and any applicable prospectus supplement. We have not authorized anyone to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of securities described in this prospectus. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any prospectus supplement, as well as information we have previously filed with the Securities and Exchange Commission, is accurate as of the date on the front of those documents only. Our business, financial condition, results of operations and prospects may have changed since those dates.

For investors outside the United States: neither we nor the underwriters have done anything that would permit this offering or possession or distribution of this prospectus or any free writing prospectus we may provide to you in connection with this offering in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus and any such free writing prospectus outside of the United States.

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Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity and market share, is based on information from our own management estimates and research, as well as from industry and general publications and research, surveys and studies conducted by third parties. Management estimates are derived from publicly available information, our knowledge of our industry and assumptions based on such information and knowledge, which we believe to be reasonable. Our management estimates have not been verified by any independent source, and we have not independently verified any third-party information. In addition, assumptions and estimates of our and our industry's future performance are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors". These and other factors could cause our future performance to differ materially from our assumptions and estimates. See "Special Note Regarding Forward-Looking Statements".

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GrowLife, Inc. is our trademark that is used in this prospectus. This prospectus also includes trademarks, tradenames and service marks that are the property of other organizations. Solely for convenience, trademarks and tradenames referred to in this prospectus appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or that the applicable owner will not assert its rights, to these trademarks and tradenames.

## PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the "Risk Factors" section of this prospectus and our financial statements and the related notes appearing at the end of this prospectus, before making an investment decision.

As used in this prospectus, unless the context otherwise requires, references to "we," "us," "our," "our company" and "GrowLife" refer to GrowLife, Inc. and its consolidated subsidiaries.

### Our Company

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.

Our 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. Our mission is to best serve more cultivators in the design, build-out, expansion and maintenance of their facilities with products of high quality, exceptional value and competitive price. Through knowledgeable representatives, regional centers and its e-commerce website, GrowLife provides essential and hard-to-find goods including 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 primarily sell through our wholly owned subsidiary, GrowLife Hydroponics, Inc. In addition to the promotion and sales of GrowLife owned brands, GrowLife companies distribute and sell over 3,000 products through its e-commerce distribution channel, Greners.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.

### Resumed Trading of our Common Stock

On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority ("FINRA") on our Form 15c2-11. We are currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

### Overcoming Company Challenges

We grew through a series of acquisitions in 2012 and 2013 leading to seven retail stores. In 2013 we expected to grow through the following three key initiatives (i) expanding to 30 retail stores at an expected average annual revenue of \$1.25 million with 12 stores in 2014 resulting in sales of \$15 million; (ii) educating the investment community of the demand for indoor growing equipment from the cannabis industry; and (iii) engaging a joint venture investor willing to provide financial resources for acquisitions and strategic investments. The three initiatives were expected to help position us as the leading supplier and participating investor to the emerging cannabis industry and were therefore announced and allocated resources with those goals in mind.

The retail expansion plan, starting in July 2013, was expected to maintain the pre-acquisition revenue pace of GrowLife Hydroponics' earlier purchase of Rocky Mountain Hydroponics, LLC, a Colorado limited liability company ("RMC"), and Evergreen Garden Center, LLC, a Maine limited liability company ("EGC"), and generate sales of \$5.5

million in 2013. For several reasons, GrowLife Hydroponics achieved 2013 revenue of \$4.8 million. In addition, GrowLife Hydroponics opened two more stores in Plaistow, New Hampshire and Peabody, Massachusetts. This seven store expansion across five states exposed three issues with the retail expansion plan: (i) the cost of inventory, integration and ramp up in offsetting revenue was under-estimated; (ii) the laws, policies and resulting customer purchase process across the five states varied greatly and lowered the expected economies of scale benefit; and (iii) the increasing competitive hydroponic supplier market, stemming from manufacturers selling directly to cultivators, lowered expected operating margins. The lack of financial resources to offset the operating losses from the retail expansion initiative necessitated a change of our plans.

An education initiative was formed where GrowLife engaged Grass Roots Research and Distribution, Inc., a market research and marketing firm, to study our 2013 plan, the emerging growth of the cannabis industry and estimate the possible financial impact to GrowLife and its valuation. Sets of reports were published and supported with GrowLife press releases to educate the new industry and generate greater awareness of GrowLife. While this initiative proved successful in 2013, we ceased to engage Grass Roots in 2014, after we changed our business strategy.

The third investor initiative was formed in November 2013, through the Organic Growth International, LLC (“OGI”), a joint venture, between GrowLife and CANX USA LLC (“CANX”). CANX would provide the financial resources for OGI to facilitate acquisitions and strategic investments. GrowLife issued warrants for 240 million GrowLife shares to CANX and CANX would provide up to \$40 million in mutually agreed upon investments, \$1 million in a convertible note and a \$1.3 million commitment towards the GrowLife Infrastructure Funding & Technology (“GIFT”) program. GrowLife received the \$1 million as a convertible note in December 2013, received the \$1.3 million commitment but not executed and by January 2014 OGI had Letters of Intent with four investment and acquisition transactions valued at \$96 million. Before the deals could close, the SEC put a trading halt on our stock on April 10, 2014, which resulted in the withdrawal of all transactions. The business disruption from the trading halt and the resulting class action and derivative lawsuits ceased further investments with the OGI joint venture.

Starting in June 2014 we focused on cost reductions with minimal revenue loss as our focus. The primary reduction in operating costs came from (i) streamlining non-profitable personnel, lowering expenses by replacing the Woodland Hills, California headquarters with that of Kirkland, Washington that serves more people at a lower cost; (ii) closing the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores and Boulder, Colorado; (iii) relocating the Greners.com e-commerce operation from Santa Rosa, California to the Vail, Colorado store until a new Denver facility is set up; (iv) reducing full-time employees from 46 to 8 as of March 31, 2016; and (v) closing the Phototron subsidiary in California. While transition costs were paid out, the repurposing of company resources is expected to reduce our operating expenses and allows for greater market reach and efficiencies.

However, the challenges of operating a public company under the strains grey market trading and lawsuits, as well as limited access to investment capital kept the company lean. We also chose to convert inventory into cash. This reduced our inventory level from approximately \$1.8 million during 2014 to \$400,000 as of December 31, 2015 and lowered our gross margins to 14.8% for the year ended December 31, 2015. This conscientious decision was made to help us transition through this period. Also, we reduced our general and administrative expenses from approximately \$7.9 million for the year ended December 31, 2014 to \$2.7 million for the year ended December 31, 2015.

We remain focused on hiring the best people to expand our direct sales personnel. These personnel are knowledgeable in using the most progressive growing technologies that fit our customer’s needs. Whether they are small-scale local cultivation facilities or large-scale regional cultivators, our customer service team recommends smart medium, cost-effective lighting and ventilation, and the right nutrients that are best suited for the crop objective. Our knowledge layer is strategic for the evolution of the indoor growing industry. Unlike an outdoor superstore, GrowLife serves the specialty cultivation business as indoor crops are designed to deliver multiple grow cycles with greater quality and yield not available in outdoor agriculture. Technologies will be available to provide our customers with a way to further tune their ordering process and crop development using their own experience.

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

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

to the First TCA SPA whereby the parties agreed to amend the terms of the First TCA SPA in exchange for TCA's forbearance of existing defaults by the Company.

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

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

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

TCA's Forbearance. Due to our default on its repayment obligations under the TCA SPA's and related documents, the parties agreed to restructure the SPA's whereby TCA agreed to forbear from enforcement of our defaults and to restructure a payment schedule for repayment of debt under the SPAs. We defaulted because our operating results were not as expected and we were unable to generate sufficient revenue through its business operations to serve the TCA debt. Specifically, the First Amendment to Amended and Restated Securities Purchase Agreement made the following material modifications to the existing SPA's:

- All unpaid debentures were modified as described in more detail below.
- Payments on the debentures shall be made by (i) debt purchase agreement(s) to be entered into by TCA, (ii) through proceeds raised from the transaction(s) with Chicago Venture; or (iii) by the Company directly.
- The due date of the debentures was extended to April 28, 2018.
- TCA agreed that it shall not enforce and shall forbear from pursuing enforcement of any existing defaults by us unless and until a future Company default occurs.

In furtherance of TCA's forbearance, effective as of May 4, 2016, we issued Second Replacement Debenture A in the principal amount of \$150,000 and Second Replacement Debenture B in the principal amount of \$2,681,209.82 (collectively, the "Second Replacement Debentures").

Per the First Amendment to Amended and Restated Securities Purchase Agreement, the Second Replacement Debentures were combined, and apportioned into two separate replacement debentures. The Second Replacement Debentures were intended to act in substitution for and to supersede the debentures in their entirety. It was the intent of the Company and TCA that while the Second Replacement Debentures replace and supersede the debentures, in their entirety, they were not in payment or satisfaction of the debentures, but rather were the substitute of one evidence of debt for another without any intent to extinguish the old debt. The maximum number of shares subject to conversion under the Second Replacement Debentures is 383,028,714. This is an approximation. The estimation of the maximum number of shares issuable upon the conversion of the Second Replacement Debentures was calculated

using an estimated average price of \$.013 per share.

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

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

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

#### TCA Assignment of Debt to Old Main Capital, LLC

On June 9, 2016, we closed a Debt Purchase Agreement and related agreements (the “Old Main Transaction Documents”) with TCA and Old Main Capital, LLC (“Old Main”) whereby TCA agreed to sell and Old Main agreed to purchase in multiple tranches \$1,400,000 in senior secured convertible, redeemable debentures (the “Assigned Debt”) (the “Old Main Transaction”). The Assigned Debt was our debt incurred in the TCA financing transactions that closed in 2015. We were required to execute the Old Main Transaction Documents as we are the “borrower” on the Assigned Debt.

**Debt Purchase Agreement.** As set forth above, we entered into the Debt Purchase Agreement on June 9, 2015 with TCA and Old Main whereby Old Main agreed to purchase, in tranches, \$1,400,000 of debt previously held by TCA. We executed the Debt Purchase Agreement as it was the “borrower” under the Assigned Debt and was required to make certain representations and warranties regarding the Assigned Debt. The Assigned Debt is represented by a new “10% Senior Convertible Promissory Note” entered into by and between Old Main and the Company (more particularly described below.)

**Exchange Agreement.** In conjunction with the Debt Purchase Agreement, on June 9, 2016, we entered into an Exchange Agreement whereby we agreed to exchange, in tranches, the Assigned Debt, as well as any amendments thereto, with a 10% Senior Convertible Promissory Note (the “Note”) having a principal balance of \$1,400,000. The closing dates for the exchanges, scheduled to occur in tranches, are set forth in Schedule 1 attached to the Exchange Agreement.

**10% Senior Convertible Promissory Note.** Pursuant to the Exchange Agreement, we entered into a 10% Senior Convertible Promissory Note dated June 9, 2016 with Old Main whereby the Company agreed to be indebted to Old Main for the Assigned Debt. We promised to pay Old Main, by no later than the maturity date of June 9, 2017 the outstanding principal of the Assigned Debt together with interest on the outstanding principal amount under the Note,



at the rate of ten percent (10%) per annum simple interest.

At any time after June 9, 2016, and while the Note is still outstanding and at the sole option of Old Main, Old Main may convert all or any portion of the outstanding principal, accrued and unpaid interest redemption premium and any other sums due and payable hereunder or under any of the other Transaction Documents into shares of our Common Stock at a price equal to the lower of: (i) sixty-five percent (65%) of the lowest traded price of the Company's Common Stock during the thirty (30) trading days prior to the Conversion Date; or (ii) sixty-five percent (65%) of the lowest traded price of the Common Stock in the thirty (30) Trading Days prior to the Closing Date.

Option Agreement. In connection with the Old Main Transaction Documents, TCA and Old Main entered into an Option Agreement dated June 8, 2016 whereby TCA agreed to grant Old Main an option to purchase the Assigned Debt, or any portion thereof, under the terms and conditions of the Debt Purchase Agreement. In consideration, Old Main agreed to pay the Option Payment as more particularly described in the Option Agreement.

The foregoing descriptions of the Debt Purchase Agreement, the Exchange Agreement, the Note and the Option Agreement as well as any related documentation are qualified in their entirety by reference to the full text of the Old Main Transaction Documents, copies of which are attached to our Current Report on Form 8-K filed on June 16, 2016, as Exhibits 10.1, 10.2, 10.3, and 10.4, respectively, and incorporated by reference into this S-1.

We intend to use the funds generated from the Chicago Venture transaction to fuel our business operations and business plans which, in turn, will presumably generate revenues sufficient to avoid a default in our obligation to Old Main. If we are unable to raise sufficient funds through the Chicago Venture transaction and/or generate sales sufficient to service the Assigned Debt then we will be unable to avoid a default. Failure to operate in accordance with the various agreements with Old Main could result in an event of default which would have a material adverse effect on our business, results of operations or financial condition.

#### Our Corporate Information

Our principal executive offices are located at 5400 Carillon Point, Kirkland , Washington 98033 . Our telephone number is (866) 781-5559. Our principal website address is located at [www.growlifeinc.com](http://www.growlifeinc.com). The information contained on, or that can be accessed through, our website is not incorporated into and is not a part of this prospectus. We have included our website address in this prospectus solely as an inactive textual reference.

#### SECURITIES PURCHASE AGREEMENT WITH CHICAGO VENTURE

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

The Secured Investor Notes are payable (i) \$50,000 upon filing of a Registration Statement on Form S-1; (ii) \$100,000 upon effectiveness of the Registration Statement; and (iii) up to \$200,000 per month over the 10 months following effectiveness at our sole discretion, subject to certain conditions. We agreed to file the Registration Statement within forty-five (45) days of the Closing and agreed to register shares of our common stock for the benefit of Chicago Venture in exchange for the payments under the Secured Investor Notes.

Chicago Venture has the option to convert the Note at 65% of the average of the three (3) lowest volume weighted average prices in the twenty (20) Trading Days immediately preceding the applicable conversion (the “Conversion Price”). However, in no event will the Conversion Price be less than \$0.02 or greater than \$0.09. In addition, beginning on the date that is the earlier of six (6) months or five (5) days after the Registration Statement becomes effective, and on the same day of each month thereafter, the Company will re-pay the Note in monthly installments in cash, or, subject to certain Equity Conditions, in our common stock at 65% of the average of the three (3) lowest volume weighted average prices in the twenty (20) Trading Days immediately preceding the applicable conversion (the “Installment Conversion Price”).

As discussed above, once effective, we have the discretion to require Chicago Venture to sell to us up to \$200,000 per month over the next 10 months on the above terms. We would then have the option to issue shares registered under this Registration Statement to Chicago Venture. Through this prospectus, the selling stockholder may offer to the public for resale shares of our common stock that we may issue to Chicago Venture pursuant to the Chicago Venture Note.

For a period of no more than 36 months from the effective date of the Registration Statement, we may, from time to time, at our sole discretion, and subject to certain conditions that we must satisfy, draw down funds under the Chicago Venture Note.

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 its reporting obligations. Chicago Ventures' obligations under the equity line are not transferable.

The issuance of our common stock under the Chicago Venture Note will have no effect on the rights or privileges of existing holders of common stock except that the economic and voting interests of each stockholder will be diluted as a result of any such issuance. Although the number of shares of common stock that stockholders presently own will not decrease, these shares will represent a smaller percentage of our total shares that will be outstanding after any issuances of shares of common stock to Chicago Venture. If we draw down amounts under the Chicago Venture Note when our share price is decreasing, we will need to issue more shares to repay the same amount than if our stock price was higher. Such issuances will have a dilutive effect and may further decrease our stock price.

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. However, we do believe there is a strong likelihood, as long as we can meet the various conditions to funding, that we will receive the full amount of funding under the equity line of credit. Given our financial challenges and the competitive nature of our business, we also believe we will need the full amount of funding under the equity line of credit in order to fully realize our business plans.

A portion of the funds received from Chicago Venture will be used to pay off TCA Global Credit Master Fund, LP ("TCA"), a previous equity financing partner and a portion will be invested in our business. Specifically, we anticipate that approximately \$1,400,000 is expected to be used to pay TCA and the remaining funds, if any, will be used for general business purposes such as marketing, product development, expansion and administrative costs. We are not aware of any relationship between TCA and Chicago Venture. We have had no previous transactions with Chicago Venture or any of Chicago Ventures' affiliates. We cannot predict whether the Chicago Venture transaction will have either a positive or negative impact on our stock price. However, in addition to the fact that each Chicago Venture conversion, when and if it occurs, has a dilutive effect on our stock, that should Chicago Venture convert large portions of the debt into registered shares and then sells those shares on the market, that our stock price could be depressed.

The foregoing summary of the Securities Purchase Agreement, Chicago Venture Note and related documents does not purport to be complete and is qualified by reference to the Securities Purchase Agreement, Chicago Venture Note, the registration rights agreement and related agreements, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

## SUMMARY OF THE OFFERING

Securities offered:	Up to 211,923,077 of shares of our common stock.
Common stock outstanding before the offering (1):	1,129,182,443 shares
Use of proceeds	We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholder pursuant to this prospectus. Any sale of shares by us to Chicago Venture under the Securities Purchase Agreement will be made pursuant to an exemption from the registration requirements of the Securities Act. We expect to use \$1,400,000 of the proceeds from these sales to pay debt owed to TCA and the remainder for general working capital purposes.
Risk Factors	You should read the "Risk Factors" section starting on page 10 of this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Symbol	PHOT

(1) The number of shares of our common stock outstanding before this offering is based on 1,129,182,443 shares of our common stock outstanding as of June 30, 2016, and excludes:

- 24,010,000 shares of our common stock issuable upon the exercise of stock options outstanding as of June 30, 2016 at a weighted-average exercise price of \$0.023 per share;
- 565,000,000 shares of our common stock issuable upon the exercise of warrants outstanding as of June 30, 2016 at a weighted-average exercise price of \$0.032 per share. These warrants will expire between November, 2018 and June, 2019;
- 167,766,143 shares of common stock to be issued for the conversion of Convertible Notes Payables as of June 30, 2016 with expiration dates between September, 2015 and June, 2016 at conversion prices of \$0.007 per share. We expect these Notes Payable to be converted into common stock;
- 3,512,626 additional shares of our common stock available for future issuance under our 2011 Stock Incentive Plan;
- 6,000,000 contingent shares which we may have to issue under a severance agreement; and
- 211,923,077 shares of our common stock issuable upon the conversion of convertible promissory notes, which are being registered in this offering.

## Summary Financial Information

The following tables set forth a summary of our historical financial data as of, and for the period ended on, the dates indicated. We have derived the statements of operations data for the years ended December 31, 2015 and 2014 from our audited financial statements included in this prospectus. Historical results for any prior period are not necessarily indicative of results to be expected in any future period. You should read the following summary financial data together with our financial statements and the related notes appearing at the end of this prospectus and the "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections in this prospectus.



## Statements of Operations data:

(in thousands, except for  
share and per share data)

	Three Months Ended March 31, 2016 (Unaudited)	Years Ended December 31, 2015 (Audited)	2014 (Audited)	2013 (Audited)	2012 (Audited)
<b>STATEMENT OF OPERATIONS DATA:</b>					
Net revenue	\$ 467	\$ 3,500	\$ 8,538	\$ 4,859	\$ 1,451
Cost of goods sold	332	2,981	7,173	4,006	1,039
Gross profit	135	519	1,365	853	412
General and administrative expenses	402	2,684	7,851	11,796	1,683
Operating (loss)	(267 )	(2,165 )	(6,486 )	(10,943 )	(1,271 )
Other expense	(2,634 )	(3,524 )	(80,140 )	(10,437 )	(915 )
Net (loss)	\$ (2,901 )	\$ (5,689 )	\$ (86,626 )	\$ (21,380 )	\$ (2,186 )
Net (loss) per share	\$ (0.00 )	\$ (0.01 )	\$ (0.10 )	\$ (0.04 )	\$ (0.01 )
Weighted average number of shares	939,520,030	884,348,627	834,503,868	593,034,693	245,420,970

## Balance Sheet Data:

(in thousands)

	As of March 31, 2016 (Unaudited)	Pro Forma March 31, 2016 (1) (Unaudited)
<b>BALANCE SHEET DATA:</b>		
Total current assets	\$ 541	\$ 1,636
Total assets	1,504	2,599
Total current liabilities	7,446	6,828
Total current liabilities without derivative liability	3,601	2,983
Total liabilities	7,446	6,828
Commitments and contingencies	2,000	-
Stockholder's (deficiency)	(7,942 )	(4,225 )

- (1) As adjusted amounts give effect to the issuance and sale of 211,923,077 shares of common stock by us in this offering at an assumed public offering price of \$0.013 per share and the application of the net proceeds of the offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, as set forth under "Use of Proceeds". See "Use of Proceeds" and "Capitalization".

## RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this prospectus, including our financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in our common stock. If any of the following risks actually occur, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common stock could decline and you could lose all or part of your investment.

#### Risks Related to Our Business

Suspension of trading of the Company's securities.

On April 10, 2014, we received notice from the SEC that trading of our common stock on the OTCBB was to be suspended from April 10, 2014 through April 24, 2014. The SEC issued its order pursuant to Section 12(k) of the Securities Exchange Act of 1934. According to the notice received by us from the SEC: "It appears to the Securities and Exchange Commission that the public interest and the protection of investors require a suspension of trading in the securities of GrowLife, Inc. because of concerns regarding the accuracy and adequacy of information in the marketplace and potentially manipulative transactions in GrowLife's common stock." To date, we have not received notice from the SEC that it is being formally investigated.



On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on our Form 15c2-11. We are currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

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

SEC charges outsiders with manipulating our securities.

On August 5, 2014, the SEC charged four promoters with ties to the Pacific Northwest for manipulating our securities. The SEC alleged that the four promoters bought inexpensive shares of thinly traded penny stock companies on the open market and conducted pre-arranged, manipulative matched orders and wash trades to create the illusion of an active market in these stocks. They then sold their shares in coordination with aggressive third party promotional campaigns that urged investors to buy the stocks because the prices were on the verge of rising substantially. This action has 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.

On July 9, 2015, the SEC entered into settlements with two of the promoters. In connection with the settlement of their SEC action, the two men are liable for disgorgement of approximately \$2.1 million and \$306,000 in illicit profits, respectively. Earlier this year the two men were also sentenced to five and three years in prison, respectively, for their participation in the scheme.

We are involved in Legal Proceedings.

We are involved in the disputes and legal proceedings as discussed in this prospectus. In addition, as a public company, we are also potentially susceptible to litigation, such as claims asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse on our business, results of operations or financial condition.

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

On July 10, 2014, we closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. The Agreements require the filing of a registration statement on Form S-1 within 10 days of the filing of our Form 10-Q for the period ended June 30, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

Previously, we entered into a Joint Venture Agreement with CANX USA LLC, a Nevada limited liability company. Under the terms of the Joint Venture Agreement, the Company and CANX formed Organic Growth International, LLC (“OGI”), a Nevada limited liability company, for the purpose of expanding the Company’s operations in its current retail hydroponic businesses and in other synergistic business verticals and facilitating additional funding for commercially financeable transactions of up to \$40,000,000. In connection with the closing of the Agreement, CANX agreed to provide a commitment for funding in the amount of \$1,300,000 for a GrowLife Infrastructure Funding Technology program transaction and provided additional funding under a 7% Convertible Note instrument

for \$1,000,000, including \$500,000 each from Logic Works and China West III Investments LLC, entities that are unaffiliated with CANX and operate as separate legal entities. We initially owned a non-dilutive 45% share of OGI and we may acquire a controlling share of OGI as provided in the Joint Venture Agreement. In accordance with the Joint Venture Agreement, the Company and CANX entered into a Warrant Agreement whereby the Company delivered to CANX a warrant to purchase 140,000,000 shares of the Company common stock at a maximum strike price of \$0.033 per share. Also in accordance with the Joint Venture Agreement, we issued an additional warrant to purchase 100,000,000 shares of our common stock at a maximum strike price of \$0.033 per share on February 7, 2014.

On April 10, 2014, as a result of the suspension in the trading of our securities, we went into default on our 7% Convertible Notes Payable for \$500,000 each from Logic Works and China West III. As a result, we accrued interest on these notes at the default rate of 24% per annum. Furthermore, as a result of being in default on these notes, the Holders could have, at their sole discretion, called these notes.

#### Waiver and Modification Agreement

We entered into a Waiver and Modification Agreement dated June 25, 2014 with Logic Works LLC whereby the 7% Convertible Note with Logic Works dated December 20, 2013 was modified to provide for (i) a waiver of the default under the 7% Convertible Note; (ii) a conversion price which is the lesser of (A) \$0.025 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable Conversion Date on which the Holder elects to convert all or part of this Note; (iii) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the period ended June 30, 2014; and (iv) continuing interest of 24% per annum. China West III converted its Note into common stock on June 4, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

#### Amended and Restated Joint Venture Agreement

We entered into an Amended and Restated Joint Venture Agreement dated July 1, 2014 with CANX whereby the Joint Venture Agreement dated November 19, 2013 was modified to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to six months, subject to extension; (ii) up to \$10,000,000 in working capital loans, with each loaning requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to extension, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to extension, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; (vi) a four year term, subject to adjustment and (vi) the filing of a registration statement on Form S-1 within 10 days of the filing of our Form 10-Q for the period ended June 30, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

#### Secured Convertible Note and Secured Credit Facility

We entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding requires approval in advance by Logic Works, provides for interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into our common stock at the lesser of \$0.007 or (B) 20% of the average of the three (3) lowest daily VWAPs occurring during the 20 consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by our assets. We also agreed to file a registration statement on Form S-1 within 10 days of the filing of our Form 10-Q for the three months ended June 30, 2014 and have the registration statement declared effective within ninety days of the filing of our Form 10-Q for the three months ended June 30, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

On July 10, 2014, we closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. As of December 31, 2015, we have borrowed \$350,000 under the Secured Convertible Note and

Secured Credit Facility dated June 25, 2014 with Logic Works.

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

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

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

As of November 30, 2015, 23 states and the District of Columbia allow its citizens to use medical marijuana. Additionally, 4 states 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 has 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. However, there is no guarantee that the administration will not change its stated policy regarding the low-priority enforcement of federal laws. Additionally, any new administration that follows could change this policy and decide to enforce the federal laws strongly. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us and its shareholders.

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

The marijuana industry faces strong opposition.

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

Marijuana remains illegal under Federal law.

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

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

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

available, the terms or conditions would be acceptable to us.

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

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

#### Potential Convertible Note Defaults

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

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

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

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

Currently, there are twenty 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 year ended December 31, 2015 and 2014 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 March 31, 2016 , we had an accumulated deficit of \$119.6 million. There can be no assurance that we will achieve or maintain profitability.



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

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

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

Our management has concluded that we have material weaknesses in our internal controls over financial reporting and that our disclosure controls and procedures are not effective.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. During the review of our financial statements for the year ended December 31, 2015, our management identified material weaknesses in our internal control over financial reporting. If these weaknesses continue, investors could lose confidence in the accuracy and completeness of our financial reports and other disclosures.

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

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

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

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

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

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

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

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

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

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

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

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

If we incur substantial liability from litigation, complaints, or enforcement actions resulting from misconduct by our distributors, our financial condition could suffer. We will require that our distributors comply with applicable law and with our policies and procedures. Although we will use various means to address misconduct by our distributors, including maintaining these policies and procedures to govern the conduct of our distributors and conducting training seminars, it will still be difficult to detect and correct all instances of misconduct. Violations of applicable law or our policies and procedures by our distributors could lead to litigation, formal or informal complaints, enforcement

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

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

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

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

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

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

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

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

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

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

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

to be a limited one.

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

Our success depends to a significant degree upon the continued contributions of key management and other personnel, some of whom could be difficult to replace. We do not maintain key man life insurance covering our officers except for Marco Hegyi, our President. We are in default under the Employment Agreement with Mr. Hegyi and the Consulting Agreement with Mr. Scott.

17

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

#### Risks Related to our Common Stock

CANX and Logic Works and TCA could have significant influence over matters submitted to stockholders for approval.

#### CANX and Logic Works

As of June 30, 2016, CANX and Logic Works in the aggregate hold shares representing approximately 41.7% of our common stock on a fully-converted basis and could be considered a control group for purposes of SEC rules. However, their agreements limit their ownership to 4.99% individually and each of the parties disclaims its status as a control group or a beneficial owner due to the fact that their beneficial ownership is limited to 4.99% per their agreements. Beneficial ownership includes shares over which an individual or entity has investment or voting power and includes shares that could be issued upon the exercise of options and warrants within 60 days after the date of determination. If these persons were to choose to act together, they would be able to significantly influence all matters submitted to our stockholders for approval, as well as our officers, directors, management and affairs. For example, these persons, if they choose to act together, could significantly influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of us on terms that other stockholders may desire.

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

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

On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority ("FINRA") on our Form 15c2-11. We are currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

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 June 30, 2016, there were approximately 1.129.2 billion shares of our common stock issued and outstanding. In addition, as of June 30, 2016, there are also (i) stock option grants outstanding for the purchase of 24.0 million common shares at a \$0.023 average strike price; (ii) warrants for the purchase of 565.0 million common shares at a \$0.032 average exercise price; (iii) 167.8 million shares related to convertible debt that can be converted at 0.007 per share; (iv) 6.0 million shares that may be issued to a former executive related to a severance agreement; In addition, we have an unknown number of common shares to be issued under the TCA financing agreements because the number of shares ultimately issued to TCA depends on the price at which TCA converts its debt to shares. The lower the conversion price, the more shares that will be issued to TCA upon the conversion of debt to shares. We won't know the exact number of shares of stock issued to TCA until the debt is actually converted to equity. If all stock option grant, warrant and contingent shares are issued, approximately 1.885 billion of our currently authorized 3 billion shares of common stock will be issued and outstanding. For purposes of estimating the number of shares issuable upon the exercise/conversion of all stock options, warrants and contingent shares, we assumed the number of shares and average share prices detailed above

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

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

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

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

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

Our 6% Senior Secured Convertible Notes Payable, our 7% Convertible Notes Payable and our 6% Convertible Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works may require an adjustment in the current conversion price of \$0.007 per share if we issue common stock, warrants or equity below the price that is reflected in the convertible notes payable. The conversion price of the convertible notes will have an impact on the market price of our common stock. Specifically, if under the terms of the convertible notes the conversion price goes down, then the market price, and ultimately the trading price, of our common stock will go down. If under the terms of the convertible notes the conversion price goes up, then the market price, and ultimately the trading price, of our common stock will likely go up. In other words, as the conversion price goes down, so does the market price of our stock. As the conversion price goes up, so presumably does the market price of our stock. The more the conversion price goes down, the more shares are issued upon conversion of the debt which ultimately means the more stock that might flood into the market, potentially causing a further depression of our stock.

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

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

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

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

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

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

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

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

#### 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 \$2,500,000 Chicago Venture Note.

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 its 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 \$2,500,000 available 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes statements that are, or may be deemed, "forward-looking statements." In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "plans", "intends", "may", "could", "might", "will", "should", "approximately" or, in each case, their negative or other variations thereon or comparable terminology, although not all forward-looking statements contain these words. They appear in a number of places throughout this prospectus and include statements regarding our intentions, beliefs, projections, outlook, analyses or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth and strategies, the length of time that we will be able to continue to fund our operating expenses and capital expenditures, our expected financing needs and sources of financing, the industry in which we operate and the trends that may affect the industry or us.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events, competitive dynamics, and market developments and depend on the economic circumstances that may or may not occur in the future or may occur on longer or shorter timelines than anticipated. Although we believe that we have a reasonable basis for each forward-looking statement contained in this prospectus, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this prospectus. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this prospectus, they may not be predictive of results or developments in future periods.

Any forward-looking statements that we make in this prospectus speak only as of the date of such statement, and we undertake no obligation to update such statements to reflect events or circumstances after the date of this prospectus.

You should also read carefully the factors described in the "Risk Factors" section of this prospectus to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this prospectus will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all. We disclaim any obligation to update or revise any forward-looking statement as a result of new information, future events or for any other reason.

#### USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholder pursuant to this prospectus. Any sale of shares by us to Chicago Venture under the Securities Purchase Agreement will be made pursuant to an exemption from the registration requirements of the Securities Act. We expect to use \$1,400,000 of the proceeds from these sales to pay debt owed to TCA and the remainder for general working capital purposes. The amounts and timing of our actual expenditures will depend on numerous factors, such as the progress of our sales development and cultivation supplier efforts and the amount of cash used by our operations. We may also use a portion of the net proceeds to acquire or invest in businesses, products and technologies that are complementary to our own, although we currently are not planning or negotiating any such transactions. As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds to us from the sale of shares to Chicago Venture. Accordingly, we will retain broad discretion over the use of these proceeds, if any.

#### PRICE RANGE OF OUR COMMON STOCK

Our common stock traded on the grey market under the symbol “PHOT” through February 17, 2016. While the company was without a market maker, its stock did trade directly between buyers and sellers on the grey sheets. The quotations reflected inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. Consequently, the information provided below may not be indicative of our common stock price under different conditions.



On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on our Form 15c2-11. We are currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

Period Ended	High	Low
Year Ending December 31, 2016		
Through June 30, 2016	\$0.030	\$0.010
March 31, 2016	\$0.058	\$0.003
Year Ending December 31, 2015		
December 31, 2015	\$0.02	\$0.003
September 30, 2015	\$0.18	\$0.01
June 30, 2015	\$0.06	\$0.01
March 31, 2015	\$0.35	\$0.02
Year Ending December 31, 2014		
December 31, 2014	\$0.36	\$0.01
September 30, 2014	\$0.80	\$0.01
June 30, 2014	\$0.64	\$0.06
March 31, 2014	\$0.78	\$0.16

As of July 7, 2016, the closing price of the company's common stock was \$0.0014 per share. As of June 30, 2016, there were 1,129,182,443 shares of common stock outstanding. We have approximately 112 stockholders of record. This number does not include up to approximately 80,000 beneficial owners whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

#### CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 2016:

- on an actual basis; and
- on an as adjusted basis to give effect to this offering, including the issuance of 211,923,077 shares of our common stock. The pro forma includes all share issuances since March 31, 2016 and the expected results of the transactions with Chicago Ventures, TCA and Old Main and described elsewhere in the prospectus.

In thousands, except for share and per share data

	March 31, 2016	
	As Filed (Unaudited)	Pro Forma (Unaudited)
Cash and cash equivalents	\$ 37	\$ 1,132
Convertible notes payable	1,845	1,227
Commitments and contingencies	2,000	-
Series B Convertible Preferred stock - \$0.0001 par value, 150,000 shares authorized, 150,000 shares issued and outstanding at 3/31/2016 and 12/31/2015, respectively	15	-
Series C Convertible Preferred stock - \$0.0001 par value, 51 shares authorized, 51 shares issued and outstanding at 3/31/2016 and 12/31/2015, respectively	-	-

Common stock - \$0.0001 par value, 3,000,000,000 shares authorized, 999,002,933 and 891,116,496 shares issued and outstanding at 3/31/2016 and 12/31/2015, respectively	100	150
Additional paid in capital	111,575	117,441
Accumulated deficit	(119,617 )	(121,816 )
Total stockholders' deficit	(7,927 )	(4,225 )
<b>TOTAL CAPITALIZATION</b>	<b>\$ (4,082 )</b>	<b>\$ (2,998 )</b>

You should read this table together with the sections entitled "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus.

The outstanding share information in the table above is based on 999,002,933 shares of our common stock outstanding as of March 31, 2016, and excludes the following:

- 29,020,000 shares of our common stock issuable upon the exercise of stock options outstanding as of March 31, 2016 at a weighted-average exercise price of \$0.028 per share;
- 565,000,000 shares of our common stock issuable upon the exercise of warrants outstanding as of March 31, 2016 at a weighted-average exercise price of \$0.032 per share. These warrants will expire between November, 2018 and July, 2019;
- 163,984,000 shares of common stock to be issued for the conversion of Convertible Notes Payables as of March 31, 2016 with expiration dates between September, 2015 and June, 2016 at conversion prices of \$0.007 per share. This excludes shares owed under the TCA financing agreements and cannot be determined;
- 6,000,000 contingent shares which we may have to issue under a severance agreement; and,
- 115,141,048 shares of our common stock on April 6, 2016 pursuant to the settlement of the Consolidated Class Action and Derivative Action lawsuits alleging violations of federal securities laws that were filed against the Company in United States District Court, Central District of California.

#### DILUTION

If you invest in our common stock in this offering, your ownership interest will be immediately diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock immediately after this offering.

Our historical net tangible book value deficit of (\$4,096,556), net of derivative liability – warrants of \$3,845,467, is the amount of our total tangible assets less our total liabilities as of March 31, 2016. Net historical tangible book value (deficit) per share of (\$.004) is our historical net tangible book value deficit divided by the number of shares of common stock outstanding as of March 31, 2016.

Pro forma as adjusted net book value is our pro forma net tangible book value (deficit), after giving effect to the sale of shares of our common stock by the selling stockholder in this offering at an assumed public offering price of \$0.013 per share and other share issuances since March 31, 2016. Our pro forma as adjusted net book value as of March 31, 2016, after giving effect to this offering, would have been approximately (\$380,556) net of derivative liability – warrants of \$3,845,467, or (\$.003) per share. This amount represents an immediate increase in pro forma as adjusted net tangible book value of \$0.002 per share to our existing stockholders, and an immediate dilution of \$0.013 per share to new investors participating in this offering. Dilution per share to new investors is determined by subtracting pro forma as adjusted net tangible book value per share after this offering from the public offering price per share paid by new investors.

The following table illustrates the per share dilution to investors purchasing shares in the offering:

Assumed public offering price per share		\$0.013
Pro forma net tangible book value per share as of March 31, 2016	\$(0.003 )	
Increase in net tangible book value per share attributable to this offering	\$0.002	
Pro forma as adjusted net tangible book value per share after this offering		\$(0.000 )
Amount of dilution in net tangible book value per share to new investors in this offering		\$0.013

If any shares are issued upon exercise of outstanding options or warrants, you may experience further dilution. The number of shares of our common stock outstanding before this offering is based 999,002,933 shares of our common stock outstanding as of March 31, 2016, and excludes the following:

- 29,020,000 shares of our common stock issuable upon the exercise of stock options outstanding as of March 31, 2016 at a weighted-average exercise price of \$0.028 per share;
- 565,000,000 shares of our common stock issuable upon the exercise of warrants outstanding as of March 31, 2016 at a weighted-average exercise price of \$0.032 per share. These warrants will expire between November, 2018 and July, 2019;
- 163,984,000 shares of common stock to be issued for the conversion of Convertible Notes Payables as of March 31, 2016 with expiration dates between September, 2015 and June, 2016 at conversion prices of \$0.007 per share. This excludes shares owed under the TCA financing agreements and cannot be determined;
- 6,000,000 contingent shares which we may have to issue under a severance agreement; and,
- 115,141,048 shares of our common stock on April 6, 2016 pursuant to the settlement of the Consolidated Class Action and Derivative Action lawsuits alleging violations of federal securities laws that were filed against the Company in United States District Court, Central District of California.

#### SELLING STOCKHOLDER

The following table sets forth the number of shares of our common stock which may be sold by the selling stockholder pursuant to this prospectus, of up to \$2,755,000 of shares of our common stock, \$.0001 par value per share issuable to Chicago Venture, an accredited investor, under a Securities Purchase Agreement which closed on April 5, 2016. The common stock covered by this prospectus will be offered for sale from time to time by the selling stockholder identified in this prospectus in accordance with the terms described in the section entitled Plan of Distribution. We are not selling any securities under this prospectus and will not receive any proceeds from the sale of shares by the selling stockholder.

We agreed to register for resale the shares covered by this prospectus as a condition to the various Agreements with Chicago Venture. We are registering these securities in order to permit the selling stockholder to dispose of the shares of common stock, or interests therein, from time to time, as provided in the Securities Purchase Agreement.

The selling stockholder may ultimately sell all, some, or none of the securities listed below as provided in the Securities Purchase Agreement. See the Plan of Distribution. We cannot provide an estimate of the number of securities that the selling stockholder will hold in the future. For purposes of this table, beneficial ownership is determined in accordance with the rules of the SEC, and includes voting power and investment power with respect to such securities.

The selling stockholder has not had a material relationship with us during the last three years. No selling stockholder is a registered broker-dealer or an affiliate of a broker-dealer.

The table below lists the selling stockholder and other information regarding the beneficial ownership of the shares of common stock by the selling stockholder. Column B lists the number of shares of common stock beneficially owned by each selling stockholder prior to this offering. Column C lists the number of shares of common stock that will be beneficially owned by the selling stockholder assuming all of the shares covered by this prospectus are sold. Column D lists the shares of common stock covered by this prospectus that may be disposed of by the selling stockholder. Column E lists the percentage of shares beneficially owned by the selling stockholder after and assuming all of the shares covered by this prospectus are sold. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act.

Name of Selling Shareholder (A)	Common Stock Beneficially Owned Prior to this Offering (B)	Common Stock Beneficially Owned After Offering (C)	Common Stock Being Offered (D)	% Beneficial Ownership After Offering (E)
Chicago Venture Partners, LP	-	-	211,923,077	-

#### PLAN OF DISTRIBUTION

We are registering 211,923,077 shares of common stock under this prospectus on behalf of Chicago Venture. Except as described below, to our knowledge, the selling stockholder has not entered into any agreement, arrangement or understanding with any particular broker or market maker with respect to the shares of common stock offered hereby, nor, except as described below, do we know the identity of the brokers or market makers that will participate in the sale of the shares.

The selling stockholder may decide not to sell any shares. The selling stockholder may from time to time offer some or all of the shares of common stock through brokers, dealers or agents who may receive compensation in the form of discounts, concessions or commissions from the selling stockholder and/or the purchasers of the shares of common stock for whom they may act as agent. In effecting sales, broker-dealers that are engaged by the selling stockholder may arrange for other broker-dealers to participate. Chicago Venture is an “underwriter” within the meaning of the Securities Act. Any brokers, dealers or agents who participate in the distribution of the shares of common stock may also be deemed to be “underwriters,” and any profits on the sale of the shares of common stock by them and any discounts, commissions or concessions received by any such brokers, dealers or agents may be deemed to be underwriting discounts and commissions under the Securities Act. To the extent the selling stockholder may be deemed to be an underwriter, the selling stockholder will be subject to the prospectus delivery requirements of the Securities Act and may be subject to certain statutory liabilities of, including but not limited to, Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

The selling stockholder will act independently of us in making decisions with respect to the timing, manner and size of each sale. Such sales may be made via the over-the-counter market, otherwise, or in a combination of such methods of sale, at then prevailing market prices, at prices related to prevailing market prices or at negotiated prices. The shares of common stock may be sold according to one or more of the following methods:

- a block trade in which the broker or dealer so engaged will attempt to sell the shares of common stock as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this prospectus;
- an over-the-counter distribution;
- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- a combination of such methods of sale; and
- any other method permitted pursuant to applicable law.



Any broker-dealer participating in such transactions as agent may receive commissions from Chicago Venture (and, if they act as agent for the purchaser of such shares, from such purchaser). Broker-dealers may agree with Chicago Venture to sell a specified number of shares at a stipulated price per share, and, to the extent such a broker-dealer is unable to do so acting as agent for Chicago Venture, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to Chicago Venture. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions (which may involve crosses and block transactions and which may involve sales to and through other broker-dealers, including transactions of the nature described above) on the over-the-counter market, in privately-negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices, and in connection with such resales may pay to or receive from the purchasers of such shares commissions computed as described above. To the extent required under the Securities Act, an amendment to this prospectus, or a supplemental prospectus will be filed, disclosing:

- the name of any such broker-dealers;
- the number of shares involved;
- the price at which such shares are to be sold;
- the commission paid or discounts or concessions allowed to such broker-dealers, where applicable;
- that such broker-dealers did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, as supplemented; and
- other facts material to the transaction.

Underwriters and purchasers that are deemed underwriters under the Securities Act may engage in transactions that stabilize, maintain or otherwise affect the price of the securities, including the entry of stabilizing bids or syndicate covering transactions or the imposition of penalty bids. Chicago Venture and any other persons participating in the sale or distribution of the shares will be subject to the applicable provisions of the Exchange Act and the rules and regulations thereunder including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of, purchases by the selling stockholder or other persons or entities. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to special exceptions or exemptions. Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making and certain other activities with respect to those securities. In addition, the anti-manipulation rules under the Exchange Act may apply to sales of the securities in the market. All of these limitations may affect the marketability of the shares and the ability of any person to engage in market-making activities with respect to the securities.

We have agreed to pay the expenses of registering the shares of common stock under the Securities Act, including registration and filing fees, printing expenses, administrative expenses and certain legal and accounting fees, as well as certain fees of counsel for the selling stockholder incurred in the preparation and negotiation of the Securities Purchase Agreement, related agreements and the registration statement of which this prospectus forms a part. The selling stockholder will bear all discounts, commissions or other amounts payable to underwriters, dealers or agents, as well as transfer taxes and certain other expenses associated with the sale of securities.

Under the terms of the Chicago Venture Securities Purchase Agreement and the registration rights agreement, we have agreed to indemnify the selling stockholder and certain other persons against certain liabilities in connection with the



offering of the shares of common stock offered hereby, including liabilities arising under the Securities Act or, if such indemnity is unavailable, to contribute toward amounts required to be paid in respect of such liabilities.

At any time a particular offer of the shares of common stock is made, a revised prospectus or prospectus supplement, if required, will be distributed. Such prospectus supplement or post-effective amendment will be filed with the SEC, to reflect the disclosure of required additional information with respect to the distribution of the shares of common stock. We may suspend the sale of shares by the selling stockholder pursuant to this prospectus for certain periods of time for certain reasons, including if the prospectus is required to be supplemented or amended to include additional material information.

## DESCRIPTION OF SECURITIES TO BE REGISTERED

### 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 registration statement, of which this prospectus forms a part.

### Authorized Capital Stock

We have authorized 3,010,000,000 shares of capital stock, of which 3,000,000,000 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

The number of shares of our common stock outstanding before this offering is based on 1,129,182,443 shares of our common stock outstanding as of June 30, 2016, and excludes:

- 24,010,000 shares of our common stock issuable upon the exercise of stock options outstanding as of June 30, 2016 at a weighted-average exercise price of \$0.023 per share;
- 565,000,000 shares of our common stock issuable upon the exercise of warrants outstanding as of June 30, 2016 at a weighted-average exercise price of \$0.032 per share. These warrants will expire between November, 2018 and July, 2019;
- 167,766,143 shares of common stock to be issued for the conversion of Convertible Notes Payables as of June 30, 2016 with expiration dates between September, 2015 and June, 2016 at conversion prices of \$0.007 per share. We expect these Notes Payable to be converted into common stock;
- 3,512,626 additional shares of our common stock available for future issuance under our 2011 Stock Incentive Plan;
- 6,000,000 contingent shares which we may have to issue under a severance agreement; and
- 211,923,077 shares of our common stock issuable upon the conversion of convertible promissory notes, which are being registered in this offering.

### 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 for the election of directors. 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 its 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.

### Series B Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series B Preferred Stock as provided in our Certificate of Incorporation, as amended.

The Series B Preferred Stock has authorized 150,000 shares with a stated value equal to \$10.00 per share. Dividends payable to other classes of stock are restricted until repayment of the aggregate value of Series B Preferred Stock. Upon our liquidation or dissolution, Series B Preferred Stock has no priority or preference with respect to distributions of any assets by us. The Series B Preferred Stock is convertible into common stock by dividing the stated value of the shares being converted by 100% of the average of the five lowest closing bid prices for the common stock during the ten consecutive trading days immediately preceding the conversion date as quoted by Bloomberg, LP.

TCA was issued 150,000 shares of Series B Preferred Stock. However, in no event will Purchaser be entitled to hold in excess of 4.99% of the outstanding shares of common stock of the Company.

In connection with the First Amendment to Amended and Restated Securities Purchase Agreement, TCA is surrendering the Series B Preferred Stock.

### Series C Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series C Preferred Stock as provided in our Certificate of Incorporation, as amended, and the issuance of 51 shares of Series C Preferred Stock. These shares only have voting rights in the event of a default by us under the Amended and Restated Transaction Documents. The Series C Preferred Stock is cancelled with the repayment of the TCA debt.

The Series C Preferred Stock Designation authorizes 51 shares of Series C Preferred Stock. Series C Preferred Stock is not entitled to dividend or liquidation rights and is not convertible into our common stock.

In the event of a default under the Amended and Restated Transaction Documents, each share of Series C Preferred Stock shall have voting votes equal to 0.019607 multiplied by the total issued and outstanding common stock and preferred stock eligible to vote divided by .49 minus the numerator. For example, if the total issued and outstanding

common stock eligible to vote is 5,000,000, the voting rights of one share of Series C Preferred Stock shall be equal to 102,036 (e.g.  $((0.019607 \times 5,000,000 / 0.49) - (0.019607 \times 5,000,000)) = 102,036$ ). In the event of a default under the Amended and Restated TCA Transaction Documents, TCA can exercise voting control over our common stock.

#### Warrants to Purchase Common Stock

As of March 31, 2016, warrants to purchase an aggregate of 565,000,000 shares of common stock with expiration dates between November 2018 and July 2019 at an average exercise price of \$0.032 per share are outstanding.

## Options to Purchase Common Stock

In fiscal year 2011, we authorized a Stock Incentive Plan whereby a maximum of 18,870,184 shares of the Company's common stock could be granted in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards. On April 18, 2013, the Company's Board of Directors voted to increase to 35,000,000 the maximum allowable shares of the Company's common stock allocated to the 2011 Stock Incentive Plan. After the exercise of stock option grants, we have 27,522,626 shares available for issuance. We have outstanding unexercised stock option grants totaling 24,020,000 shares at an average exercise price of \$0.023 per share as of July 8, 2016. All grants are considered non-qualified until the increase is approved by the shareholders.

## Stock Option Vesting

On February 18, 2016, an entity affiliated with Mark E. Scott, the Company's Chief Financial Officer, had a two million share stock option grant issued at \$0.01 per share vest immediately upon the Company securing a market maker with an approved 15c2-11 resulting in the Company's relisting on OTCBB.

## Dividend Policy

We have not previously declared or 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 finance the growth and development of our business. We can give no assurances that we will ever have excess funds available to pay dividends.

## Anti-Takeover Provisions

## Delaware Revised Statutes

## 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.

Transfer Agent

The transfer agent for our common stock is Issuer Direct Corporation located at 500 Perimeter Park, Suite D, Morrisville, NC 27560.

#### Offer Restrictions outside the United States

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

#### LEGAL MATTERS

Unless otherwise indicated in the applicable prospectus supplement, Horwitz + Armstrong, A Professional Law Corporation, Lake Forest, California, will provide opinions regarding the validity of the shares of our Common Stock. Horwitz + Armstrong, A Professional Law Corporation may also provide opinions regarding certain other matters.

#### EXPERTS

PMB Helin Donovan LLP, independent registered public accounting firm, has audited our financial statements at December 31, 2015 and 2014 and for the year ended December 31, 2015 and 2014, as set forth in their report which includes an explanatory paragraph relating to our ability to continue as a going concern, included elsewhere in this prospectus. We have included our financial statements in this prospectus and elsewhere in this registration statement in reliance on PMB Helin Donovan LLP, independent report, given on their authority as experts in accounting and auditing.

#### INTERESTS OF NAMED EXPERTS AND COUNSEL

Horwitz + Armstrong, A Professional Law Corporation, counsel to the Company, is a holder of 3,500,000 shares of Common Stock of the Company as of the date of this filing. Except with respect to Horwitz + Armstrong, A Professional Law Corporation, no expert named in this Prospectus as having prepared or certified any part of this Prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the Common Stock was employed on a contingency basis, or had, or is to receive, in connection with the offering, a substantial interest, direct or indirect, in the Company or any of its subsidiaries.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.





## Overview

### Our Company

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.

Our 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. Our mission is to best serve more cultivators in the design, build-out, expansion and maintenance of their facilities with products of high quality, exceptional value and competitive price. Through knowledgeable representatives, regional centers and its e-commerce website, GrowLife provides essential and hard-to-find goods including 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 primarily sell through our wholly owned subsidiary, GrowLife Hydroponics, Inc. In addition to the promotion and sales of GrowLife owned brands, GrowLife companies distribute and sell over 3,000 products through its e-commerce distribution channel, Greners.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.

### Resumed Trading of our Common Stock

On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on our Form 15c2-11. The Company is currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

### Overcoming Company Challenges

We grew through a series of acquisitions in 2012 and 2013 leading to seven retail stores. In 2013 we expected to grow through the following three key initiatives (i) expanding to 30 retail stores at an expected average annual revenue of \$1.25 million with 12 stores in 2014 resulting in sales of \$15 million; (ii) educating the investment community of the demand for indoor growing equipment from the cannabis industry; and (iii) engaging a joint venture investor willing to provide financial resources for acquisitions and strategic investments. These three initiatives were expected to help position us as the leading supplier and participating investor to the emerging cannabis industry and were therefore announced and allocated resources with those goals in mind.

The retail expansion plan, starting in July 2013, was expected to maintain the pre-acquisition revenue pace of GrowLife Hydroponics’ earlier purchase of Rocky Mountain Hydroponics, LLC, a Colorado limited liability company (“RMC”), and Evergreen Garden Center, LLC, a Maine limited liability company (“EGC”), and generate sales of \$5.5 million in 2013. For several reasons, GrowLife Hydroponics achieved 2013 revenue of \$4.8 million. In addition, GrowLife Hydroponics opened two more stores in Plaistow, New Hampshire and Peabody, Massachusetts. This seven store expansion across five states exposed three issues with the retail expansion plan: (i) the cost of inventory, integration and ramp up in offsetting revenue was under-estimated; (ii) the laws, policies and resulting customer purchase process across the five states varied greatly and lowered the expected economies of scale benefit; and (iii) the increasing competitive hydroponic supplier market, stemming from manufacturers selling directly to cultivators, lowered expected operating margins. The lack of financial resources to offset the operating losses from the retail expansion initiative necessitated a change of our plans.

An education initiative was formed where GrowLife engaged Grass Roots Research and Distribution, Inc., a market research and marketing firm, to study our 2013 plan, the emerging growth of the cannabis industry and estimate the possible financial impact to GrowLife and its valuation. Sets of reports were published and supported with GrowLife press releases to educate the new industry and generate greater awareness of GrowLife. While this initiative proved successful in 2013, we ceased to engage Grass Roots in 2014, after we changed our business strategy.

The third investor initiative was formed in November 2013, through the Organic Growth International, LLC (“OGI”), a joint venture, between GrowLife and CANX USA LLC (“CANX”). CANX would provide the financial resources for OGI to facilitate acquisitions and strategic investments. GrowLife issued warrants for 240 million GrowLife shares to CANX and CANX would provide up to \$40 million in mutually agreed upon investments, \$1 million in a convertible note and a \$1.3 million commitment towards the GrowLife Infrastructure Funding & Technology (“GIFT”) program. GrowLife received the \$1 million as a convertible note in December 2013, received the \$1.3 million commitment but not executed and by January 2014 OGI had Letters of Intent with four investment and acquisition transactions valued at \$96 million. Before the deals could close, the SEC put a trading halt on our stock on April 10, 2014, which resulted in the withdrawal of all transactions. The business disruption from the trading halt and the resulting class action and derivative lawsuits ceased further investments with the OGI joint venture.

Starting in June 2014, we focused on cost reductions with minimal revenue loss as our focus. The primary reduction in operating costs came from (i) streamlining non-profitable personnel, lowering expenses by replacing the Woodland Hills, California headquarters with that of Seattle, Washington that serves more people at a lower cost; (ii) closing the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores and Boulder, Colorado; (iii) relocating the Greners.com e-commerce operation from Santa Rosa, California to the Vail, Colorado store until a new Denver facility is set up; (iv) reducing full-time employees from 46 to 8 as of December 31, 2015; and (v) closing the Phototron subsidiary in California. While transition costs were paid out, the repurposing of company resources is expected to reduce our operating expenses and allows for greater market reach and efficiencies.

However, the challenges of operating a public company under the strains grey market trading and lawsuits, as well as limited access to investment capital kept the company lean. We also chose to convert inventory into cash. This reduced our inventory level from approximately \$1.8 million during 2014 to \$400,000 as of December 31, 2015 and lowered our gross margins to 14.8% for the year ended December 31, 2015. This conscientious decision was made to help us transition through this period. Also, we reduced our general and administrative expenses from approximately \$7.9 million for the year ended December 31, 2014 to \$2.7 million for the year ended December 31, 2015.

We remain focused on hiring the best people to expand our direct sales personnel. These personnel are knowledgeable in using the most progressive growing technologies that fit our customer’s needs. Whether they are small-scale local cultivation facilities or large-scale regional cultivators, our customer service team recommends smart medium, cost-effective lighting and ventilation, and the right nutrients that are best suited for the crop objective. Our knowledge layer is strategic for the evolution of the indoor growing industry. Unlike an outdoor superstore, GrowLife serves the specialty cultivation business as indoor crops are designed to deliver multiple grow cycles with greater quality and yield not available in outdoor agriculture. Technologies will be available to provide our customers with a way to further tune their ordering process and crop development using their own experience.

## 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)

	Three Months Ended March 31,			% Variance	
	2016 (Unaudited)	2015 (Unaudited)	\$ Variance		
Net revenue	\$ 467	\$ 1,498	\$ (1,031 )	-68.8	%
Cost of goods sold	332	1,104	(772 )	69.9	%
Gross profit	135	394	(259 )	-65.7	%
General and administrative expenses	402	786	(384 )	48.9	%
Operating loss	(267 )	(392 )	125	31.9	%
Other income (expense):					
Change in fair value of derivative	(2,468 )	(1,408 )	(1,060 )	-75.3	%
Interest expense, net	(166 )	(184 )	18	9.8	%
Total other (expense)	(2,634 )	(1,592 )	(1,042 )	-65.5	%
(Loss) before income taxes	(2,901 )	(1,984 )	(917 )	-46.2	%
Income taxes - current benefit	-	-	-	0.0	%
Net (loss)	\$ (2,901 )	\$ (1,984 )	\$ (917 )	-46.2	%

### THREE MONTHS ENDED MARCH 31, 2016 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2015

#### Revenue

Net revenue for the three months ended March 31, 2016 decreased \$1,031,000 to \$467,000 as compared to \$1,498,000 for the three months ended March 31, 2015. The decrease was due to (i) lower revenue from the retail stores acquired by GrowLife Hydroponics' acquisition of Rocky Mountain Hydroponics and Evergreen Garden Center on June 7, 2013; (ii) closure of the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores; (iii) relocation of the Greners eCommerce operation from Santa Rosa, California to the Boulder, Colorado store until a new Denver facility is set up; (iv) reducing full-time employees from 46 to 8 as of March 31, 2016; (v) closing the Phototron subsidiary in California; and (vi) lack of liquidity.

#### Cost of Goods Sold

Cost of sales for the three months ended March 31, 2016 decreased \$772,000 to \$332,000 as compared to \$1,104,000 for the three months ended March 31, 2015. The decrease was due to (i) lower revenue from the retail stores acquired by GrowLife Hydroponics' acquisition of Rocky Mountain Hydroponics and Evergreen Garden Center on June 7, 2013; (ii) closure of the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores; (iii) relocation of the Greners eCommerce operation from Santa Rosa, California to the Boulder, Colorado store until a new Denver facility is set up; (iv) reducing full-time employees from 46 to 8 as of March 31, 2016; (v) closing the Phototron subsidiary in California; and (vi) lack of liquidity.

Gross profit was \$135,000 for the three months ended March 31, 2016 as compared to \$394,000 for the three months ended March 31, 2015. The gross margin was 28.9% for the three months ended March 31, 2016 as compared to 26.3% for the three months ended March 31, 2015. The gross profit percentage was due to selling our products at reduced discounting during the three months ended March 31, 2016.

#### General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2016 decreased \$384,000 to \$402,000 as compared to \$786,000 for the three months ended March 31, 2015. The decrease was due to (i) reduced legal expense of \$31,000; (ii) reduced wages of \$146,000; (iii) reduced rent of \$32,000; (iv) reduced insurance expense of \$57,000; and (v) reduced other general expenses of \$120,000. As part of the general and administrative expenses for the three months ended March 31, 2016, we did not record any public relation, investor relation or business development expenses.

The decrease was due to (i) lower revenue from the retail stores acquired by GrowLife Hydroponics' acquisition of Rocky Mountain Hydroponics and Evergreen Garden Center on June 7, 2013; (ii) closure of the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores; (iii) relocation of the Greners eCommerce operation from Santa Rosa, California to the Boulder, Colorado store until a new Denver facility is set up; (iv) reducing full-time employees from 46 to 8 as of March 31, 2016; (v) closing the Phototron subsidiary in California; and (vi) lack of liquidity.

Non-cash general and administrative expenses for the three months ended March 31, 2016 was \$67,000, with (i) depreciation and amortization of \$29,000; (ii) stock based compensation of \$33,000 related to stock option grants; (iii) common stock issued for services of \$15,000.

Non-cash general and administrative expenses for the three months ended March 31, 2015 was \$82,000, with (i) depreciation and amortization of \$31,000; (ii) stock based compensation of \$51,000 related to stock option grants.

#### Other Income/ Expense

Other expense for the three months ended March 31, 2016 was \$2,634,000 as compared to other expense of \$1,592,000 for the year ended December 31, 2014. The other expense for the three months ended March 31, 2016 included change in derivative liability of \$2,468,000, interest expense of \$166,000. 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, accrued interest expense related to our notes payable.

The expense for the three months ended March 31, 2015 included loss on change – derivative liability warrants of \$1,408,000 and interest expense of \$184,000. The loss on change- 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, accrued interest expense related to our notes payable.

#### Net (Loss)

Net loss for the three months ended March 31, 2016 was \$2,901,000 as compared to a net loss of \$1,984,000 for the three months ended March 31, 2015 for the reasons discussed above.

Net loss for the three months ended March 31, 2016 included non-cash expense of \$2,755,000, including (i) depreciation and amortization of \$29,000; (ii) stock based compensation of \$33,000 related to stock option grants; (iii) common stock issued for services of \$15,000; (iv) interest expense of \$210,000; and (v) change in derivative liability of \$2,468,000.

Net loss for the three months ended March 31, 2015 included non-cash expenses of \$1,673,000 consisting of (i) depreciation and amortization of \$31,000; (ii) stock based compensation of \$51,000 related to stock option grants; (iii) \$126,000 related to the amortization of the debt discount associated with our convertible notes payable; (iv) \$57,000 of accrued interest expense related to our notes payable; and (v) loss on change – derivative liability of \$1,408,000.

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

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,			% Variance	
	2015	2014	\$ Variance		
Net revenue	\$ 3,500	\$ 8,538	\$ (5,038 )	-59.0	%
Cost of goods sold	2,981	7,173	(4,192 )	58.4	%
Gross profit	519	1,365	(846 )	-62.0	%
General and administrative expenses	2,684	7,851	(5,167 )	65.8	%
Operating loss	(2,165 )	(6,486 )	4,321	66.6	%
Other income (expense):					
Change in fair value of derivative	1,679	(16,253 )	17,932	110.3	%
Interest expense, net	(1,119 )	(64,074 )	62,955	98.3	%
Other expense	(2,003 )	-	(2,003 )	-100.0	%
Realized gain on sale of investment	-	187	(187 )	-100.0	%
Loss on class action lawsuit settlements	(2,081 )	-	(2,081 )	-100.0	%
Total other income (expense)	(3,524 )	(80,140 )	76,616	95.6	%
Income (loss) before income taxes	(5,689 )	(86,626 )	80,937	93.4	%
Income taxes - current benefit	-	-	-	0.0	%
Net income (loss)	\$ (5,689 )	\$ (86,626 )	\$ 80,937	93.4	%

## YEAR ENDED DECEMBER 31, 2015 COMPARED TO THE YEAR ENDED DECEMBER 31, 2014

## Revenue

Net revenue for the year ended December 31, 2015 decreased \$5,038,000 to \$3,500,000 as compared to \$8,538,000 for the year ended December 31, 2014. The decrease was due to (i) lower revenue from the retail stores acquired by GrowLife Hydroponics' acquisition of Rocky Mountain Hydroponics and Evergreen Garden Center on June 7, 2013; (ii) closure of the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores; (iii) relocation of the Greners eCommerce operation from Santa Rosa, California to the Boulder, Colorado store until a new Denver facility is set up; (iv) reducing full-time employees from 46 to 8 as of December 31, 2015; and (v) closing the Phototron subsidiary in California.

## Cost of Goods Sold

Cost of sales for the year ended December 31, 2015 decreased \$4,192,000 to \$2,981,000 as compared to \$7,173,000 for the year ended December 31, 2014. The decrease was due to (i) lower revenue from the retail stores acquired by GrowLife Hydroponics' acquisition of Rocky Mountain Hydroponics and Evergreen Garden Center on June 7, 2013; (ii) closure of the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores; (iii) relocation of the Greners eCommerce operation from Santa Rosa, California to the Boulder, Colorado store until a new Denver facility is set up; and (iv) closing the Phototron subsidiary in California.

Gross profit was \$519,000 for the year ended December 31, 2015 as compared to \$1,365,000 for the year ended December 31, 2014. The gross margin was 14.8% for the year ended December 31, 2015 as compared to 16.0% for the year ended December 31, 2014. The gross profit percentage was due to selling our products at a lower price during the year ended December 31, 2015 and 2014 to reduce inventory to be shipped from the closed stores to the remaining stores and the direct channel.



### General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2015 decreased \$5,167,000 to \$2,684,000 as compared to \$7,851,000 for the year ended December 31, 2014. The decrease was due to (i) reduced legal expense of \$455,000; (ii) reduced wages of \$1,906,000; (iii) reduced rent of \$389,000; (iv) reduced sales and marketing of \$210,000; (v) and reduced common stock issued for services expenses of \$2,510,000; offset by (vi) increased other general expenses of \$303,000. As part of the general and administrative expenses for the year ended December 31, 2015, we recorded public relation expenses of \$14,000 and we did not record any investor relation or business development expenses.

The decrease related to (i) closure of the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores; (ii) relocation of the Greners eCommerce operation from Santa Rosa, California to the Boulder, Colorado store until a new Denver facility is set up; (iii) reducing full-time employees from 46 to 8 as of December 31, 2015; and (iv) closing the Phototron subsidiary in California.

Non-cash general and administrative expenses for the year ended December 31, 2015 was \$531,000, with (i) depreciation and amortization of \$120,000; (ii) stock based compensation of \$176,000 related to stock option grants; (iii) common stock issued for services of \$211,000; and (iii) other of \$24,000.

Non-cash general and administrative expenses for the year ended December 31, 2014 totaled \$3,583,000, with (i) depreciation and amortization of \$140,000; (ii) stock based compensation of \$724,000 related to stock option grants; (iii) increased common stock issued for services expenses of \$2,721,000; (iv) change in inventory reserve of \$13,000.

#### Other Income/ Expense

Other expense for the year ended December 31, 2015 was \$3,524,000 as compared to other expense of \$80,140,000 for the year ended December 31, 2014. The other expense for the year ended December 31, 2015 included change in derivative liability of \$1,679,000, offset by interest expense of \$1,120,000, other expense of \$2,003,000 and loss on class action lawsuit settlements of \$2,081,000. 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, accrued interest expense related to our notes payable. The other expense is primarily related to the TCA funding. We accrued \$2,081,000 as loss on class action lawsuits and contingent liabilities as of December 31, 2015.

Other expense for the year ended December 31, 2014 included loss on change – derivative liability warrants of \$16,253,000 and interest expense of \$64,074,000, offset by the realized gain on the sale of investment of \$187,000. The loss on change- 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, accrued interest expense related to our notes payable and the issuance of a 100,000,000 share warrant to CANX in February 7, 2014 and a 300,000,000 share warrant to CANX on July 10, 2014.

#### Net (Loss)

Net loss for the year ended December 31, 2015 was \$5,689,000 as compared to a net loss of \$86,626,000 for the year ended December 31, 2014 for the reasons discussed above.

Net loss for the year ended December 31, 2015 included non-cash expense of \$3,759,000, including (i) depreciation and amortization of \$120,000; (ii) stock based compensation of \$176,000 related to stock option grants; (iii) common stock issued for services of \$211,000; (iv) interest expense of \$1,120,000, (v) loss on class action lawsuit settlements of \$2,000,000; (vi) preferred shares issued for services of \$300,000; (vii) issuance of Series B Convertible Preferred Stock of \$1,500,000; and (viii) other of \$176,000, offset by (ix) change in derivative liability of \$724,000.

Net loss for the year ended December 31, 2014 included non-cash expenses of \$83,899,000, including (i) loss on change – derivative liability of \$16,253,000; (ii) depreciation and amortization of \$140,000; (iii) stock based compensation of \$724,000 related to stock option grants; (iv) common stock issued for services expenses of \$2,722,000; (v) change in inventory reserve of \$13,000; (vi) interest expense of \$64,046,000, offset by the realized gain on the sale of investment of \$187,000.

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

## LIQUIDITY AND CAPITAL RESOURCES

We had cash of \$37,000 and a net working capital deficit of approximately \$3,060,000 (excluding the derivative liability- warrants of \$3,845,000 as of March 31, 2016). We expect losses to continue as we grow our business. Our cash used in operations for the year ended December 31, 2015 and 2014 was \$1,376,000 and \$2,123,000, respectively.

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

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

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

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

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

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

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

**TCA’s Forbearance.** Due to our default on its repayment obligations under the TCA SPA’s and related documents, the parties agreed to restructure the SPA’s whereby TCA agreed to forbear from enforcement of our defaults and to restructure a payment schedule for repayment of debt under the SPAs. We defaulted because our operating results were not as expected and we were unable to generate sufficient revenue through its business operations to serve the TCA debt. Specifically, the First Amendment to Amended and Restated Securities Purchase Agreement made the following material modifications to the existing SPA’s:

- All unpaid debentures were modified as described in more detail below.
- Payments on the debentures shall be made by (i) debt purchase agreement(s) to be entered into by TCA, (ii) through proceeds raised from the transaction (s) with Chicago Venture; or (iii) by the Company directly.

- The due date of the debentures was extended to April 28, 2018.
- TCA agreed that it shall not enforce and shall forbear from pursuing enforcement of any existing defaults by us unless and until a future Company default occurs.

In furtherance of TCA's forbearance, effective as of May 4, 2016, we issued Second Replacement Debenture A in the principal amount of \$150,000 and Second Replacement Debenture B in the principal amount of \$2,681,209.82 (collectively, the "Second Replacement Debentures").

Per the First Amendment to Amended and Restated Securities Purchase Agreement, the Second Replacement Debentures were combined, and apportioned into two separate replacement debentures. The Second Replacement Debentures were intended to act in substitution for and to supersede the debentures in their entirety. It was the intent of the Company and TCA that while the Second Replacement Debentures replace and supersede the debentures, in their entirety, they were not in payment or satisfaction of the debentures, but rather were the substitute of one evidence of debt for another without any intent to extinguish the old debt. The maximum number of shares subject to conversion under the Second Replacement Debentures is 383,028,714. This is an approximation. The estimation of the maximum number of shares issuable upon the conversion of the Second Replacement Debentures was calculated using an estimated average price of \$.013 per share.

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

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

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

#### TCA Assignment of Debt to Old Main Capital, LLC

On June 9, 2016, we closed a Debt Purchase Agreement and related agreements (the "Old Main Transaction Documents") with TCA and Old Main Capital, LLC ("Old Main") whereby TCA agreed to sell and Old Main agreed to purchase in multiple tranches \$1,400,000 in senior secured convertible, redeemable debentures (the "Assigned Debt") (the "Old Main Transaction"). The Assigned Debt was our debt incurred in the TCA financing transactions that closed in 2015. We were required to execute the Old Main Transaction Documents as we are the "borrower" on the Assigned Debt.

Debt Purchase Agreement. As set forth above, we entered into the Debt Purchase Agreement on June 9, 2015 with TCA and Old Main whereby Old Main agreed to purchase, in tranches, \$1,400,000 of debt previously held by TCA. We executed the Debt Purchase Agreement as it was the “borrower” under the Assigned Debt and was required to make certain representations and warranties regarding the Assigned Debt. The Assigned Debt is represented by a new “10% Senior Convertible Promissory Note” entered into by and between Old Main and the Company (more particularly described below.)

Exchange Agreement. In conjunction with the Debt Purchase Agreement, on June 9, 2016, we entered into an Exchange Agreement whereby we agreed to exchange, in tranches, the Assigned Debt, as well as any amendments thereto, with a 10% Senior Convertible Promissory Note (the "Note") having a principal balance of \$1,400,000. The closing dates for the exchanges, scheduled to occur in tranches, are set forth in Schedule 1 attached to the Exchange Agreement.

10% Senior Convertible Promissory Note. Pursuant to the Exchange Agreement, we entered into a 10% Senior Convertible Promissory Note dated June 9, 2016 with Old Main whereby the Company agreed to be indebted to Old Main for the Assigned Debt. We promised to pay Old Main, by no later than the maturity date of June 9, 2017 the outstanding principal of the Assigned Debt together with interest on the outstanding principal amount under the Note, at the rate of ten percent (10%) per annum simple interest.

At any time after June 9, 2016, and while the Note is still outstanding and at the sole option of Old Main, Old Main may convert all or any portion of the outstanding principal, accrued and unpaid interest redemption premium and any other sums due and payable hereunder or under any of the other Transaction Documents into shares of our Common Stock at a price equal to the lower of: (i) sixty-five percent (65%) of the lowest traded price of the Company's Common Stock during the thirty (30) trading days prior to the Conversion Date; or (ii) sixty-five percent (65%) of the lowest traded price of the Common Stock in the thirty (30) Trading Days prior to the Closing Date.

Option Agreement. In connection with the Old Main Transaction Documents, TCA and Old Main entered into an Option Agreement dated June 8, 2016 whereby TCA agreed to grant Old Main an option to purchase the Assigned Debt, or any portion thereof, under the terms and conditions of the Debt Purchase Agreement. In consideration, Old Main agreed to pay the Option Payment as more particularly described in the Option Agreement.

The foregoing descriptions of the Debt Purchase Agreement, the Exchange Agreement, the Note and the Option Agreement as well as any related documentation are qualified in their entirety by reference to the full text of the Old Main Transaction Documents, copies of which are attached to our Current Report on Form 8-K filed on June 16, 2016, as Exhibits 10.1, 10.2, 10.3, and 10.4, respectively, and incorporated by reference into this S-1.

We intend to use the funds generated from the Chicago Venture transaction to fuel our business operations and business plans which, in turn, will presumably generate revenues sufficient to avoid a default in our obligation to Old Main. If we are unable to raise sufficient funds through the Chicago Venture transaction and/or generate sales sufficient to service the Assigned Debt then we will be unable to avoid a default. Failure to operate in accordance with the various agreements with Old Main could result in an event of default which would have a material adverse effect on our business, results of operations or financial condition.

#### Transactions with CANX, LLC and Logic Works LLC

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

#### Operating Activities

Net cash used in operating activities for the three months ended March 31, 2016 was \$24,000. This amount was primarily related to a net loss of \$2,901,000, an increase in inventory of \$89,000 an increase in accounts payable and accrued expenses of \$211,000 and non-cash expenses of \$2,755,000 including (i) depreciation and amortization of \$29,000; (ii) stock based compensation of \$33,000 related to stock option grants; (iii) common stock issued for services of \$15,000; (iv) interest expense of \$210,000, (v) change in derivative liability of \$2,468,000.



Our contractual cash obligations as of March 31, 2016 are summarized in the table below:

40

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Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years
Operating leases	\$ 126,493	\$ 71,829	\$ 54,665	\$ -	\$ -
Note payable	2,373,990	2,373,990	-	-	-
Capital expenditures	50,000	50,000	-	-	-
	\$ 2,550,483	\$ 2,495,818	\$ 54,665	\$ -	\$ -

#### 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, 2015), the following policies involve a higher degree of judgment and/or complexity:

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

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

**Inventories** - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. The reserve for inventory was \$20,000 at March 31, 2016 and December 31, 2015.

**Goodwill and Intangible Assets** - We evaluate the carrying value of goodwill, intangible assets, and long-lived assets during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, (3) an adverse action or assessment by a regulator, (4) continued losses from operations, (5) continued negative cash flows from operations, and (6) the suspension of trading of the Company's securities. When evaluating whether goodwill is impaired, we compare the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of

reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill.

We amortize the cost of other intangible assets over their estimated useful lives, which range up to ten years, unless such lives are deemed indefinite. Intangible assets with indefinite lives are tested in the fourth quarter of each fiscal year for impairment, or more often if indicators warrant.

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

**Fair Value Measurements and Financial Instruments** - ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a 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** -We evaluate all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a 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.

**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.

**Quantitative and Qualitative Disclosure 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.

## BUSINESS

### Overview

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.

Our 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. Our mission is to best serve more cultivators in the design, build-out, expansion and maintenance of their facilities with products of high quality, exceptional value and competitive price. Through knowledgeable representatives, regional centers and its e-commerce website, GrowLife provides essential and hard-to-find goods including 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 primarily sell through our wholly owned subsidiary, GrowLife Hydroponics, Inc. In addition to the promotion and sales of GrowLife owned brands, GrowLife companies distribute and sell over 3,000 products through its e-commerce distribution channel, Greners.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.

### Resumed Trading of our Common Stock

On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on our Form 15c2-11. We are currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

### Overcoming Company Challenges

We grew through a series of acquisitions in 2012 and 2013 leading to seven retail stores. In 2013 we expected to grow through the following three key initiatives (i) expanding to 30 retail stores at an expected average annual revenue of \$1.25 million with 12 stores in 2014 resulting in sales of \$15 million; (ii) educating the investment community of the demand for indoor growing equipment from the cannabis industry; and (iii) engaging a joint venture investor willing to provide financial resources for acquisitions and strategic investments. The three initiatives were expected to help position us as the leading supplier and participating investor to the emerging cannabis industry and were therefore announced and allocated resources with those goals in mind.

The retail expansion plan, starting in July 2013, was expected to maintain the pre-acquisition revenue pace of GrowLife Hydroponics’ earlier purchase of Rocky Mountain Hydroponics, LLC, a Colorado limited liability company (“RMC”), and Evergreen Garden Center, LLC, a Maine limited liability company (“EGC”), and generate sales of \$5.5 million in 2013. For several reasons, GrowLife Hydroponics achieved 2013 revenue of \$4.8 million. In addition, GrowLife Hydroponics opened two more stores in Plaistow, New Hampshire and Peabody, Massachusetts. This seven store expansion across five states exposed three issues with the retail expansion plan: (i) the cost of inventory, integration and ramp up in offsetting revenue was under-estimated; (ii) the laws, policies and resulting customer purchase process across the five states varied greatly and lowered the expected economies of scale benefit; and (iii) the increasing competitive hydroponic supplier market, stemming from manufacturers selling directly to cultivators, lowered expected operating margins. The lack of financial resources to offset the operating losses from the retail expansion initiative necessitated a change of our plans.

An education initiative was formed where GrowLife engaged Grass Roots Research and Distribution, Inc., a market research and marketing firm, to study our 2013 plan, the emerging growth of the cannabis industry and estimate the possible financial impact to GrowLife and its valuation. Sets of reports were published and supported with GrowLife press releases to educate the new industry and generate greater awareness of GrowLife. While this initiative proved successful in 2013, we ceased to engage Grass Roots in 2014, after we changed our business strategy.

The third investor initiative was formed in November 2013, through the Organic Growth International, LLC (“OGI”), a joint venture, between GrowLife and CANX USA LLC (“CANX”). CANX would provide the financial resources for OGI to facilitate acquisitions and strategic investments. GrowLife issued warrants for 240 million GrowLife shares to CANX and CANX would provide up to \$40 million in mutually agreed upon investments, \$1 million in a convertible note and a \$1.3 million commitment towards the GrowLife Infrastructure Funding & Technology (“GIFT”) program. GrowLife received the \$1 million as a convertible note in December 2013, received the \$1.3 million commitment but not executed and by January 2014 OGI had Letters of Intent with four investment and acquisition transactions valued at \$96 million. Before the deals could close, the SEC put a trading halt on our stock on April 10, 2014, which resulted in the withdrawal of all transactions. The business disruption from the trading halt and the resulting class action and derivative lawsuits ceased further investments with the OGI joint venture.

Starting in June 2014 we focused on cost reductions with minimal revenue loss as our focus. The primary reduction in operating costs came from (i) streamlining non-profitable personnel, lowering expenses by replacing the Woodland Hills, California headquarters with that of Kirkland, Washington that serves more people at a lower cost; (ii) closing the unprofitable Peabody, Massachusetts, Woodland Hills, California and Plaistow, New Hampshire stores and Boulder, Colorado; (iii) relocating the Greners.com e-commerce operation from Santa Rosa, California to the Vail, Colorado store until a new Denver facility is set up; (iv) reducing full-time employees from 46 to 8 as of December 31, 2015; and (v) closing the Phototron subsidiary in California. While transition costs were paid out, the repurposing of company resources is expected to reduce our operating expenses and allows for greater market reach and efficiencies.

However, the challenges of operating a public company under the strains grey market trading and lawsuits, as well as limited access to investment capital kept the company lean. We also chose to convert inventory into cash. This reduced our inventory level from approximately \$1.8 million during 2014 to \$400,000 as of December 31, 2015 and lowered our gross margins to 14.8% for the year ended December 31, 2015. This conscientious decision was made to help us transition through this period. Also, we reduced our general and administrative expenses from approximately \$7.9 million for the year ended December 31, 2014 to \$2.7 million for the year ended December 31, 2015.

We remain focused on hiring the best people to expand our direct sales personnel. These personnel are knowledgeable in using the most progressive growing technologies that fit our customer’s needs. Whether they are small-scale local cultivation facilities or large-scale regional cultivators, our customer service team recommends smart medium, cost-effective lighting and ventilation, and the right nutrients that are best suited for the crop objective. Our knowledge layer is strategic for the evolution of the indoor growing industry. Unlike an outdoor superstore, GrowLife serves the specialty cultivation business as indoor crops are designed to deliver multiple grow cycles with greater quality and yield not available in outdoor agriculture. Technologies will be available to provide our customers with a way to further tune their ordering process and crop development using their own experience.

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

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transaction (the “Second TCA SPA”) occurred on August 6, 2015. On April 11, 2016, we agreed with TCA to mutually terminate the Second TCA SPA.

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

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

TCA's Forbearance. Due to our default on its repayment obligations under the TCA SPA's and related documents, the parties agreed to restructure the SPA's whereby TCA agreed to forbear from enforcement of our defaults and to restructure a payment schedule for repayment of

debt under the SPAs. We defaulted because our operating results were not as expected and we were unable to generate sufficient revenue through its business operations to serve the TCA debt. Specifically, the First Amendment to Amended and Restated Securities Purchase Agreement made the following material modifications to the existing SPA's:

- All unpaid debentures were modified as described in more detail below.
- Payments on the debentures shall be made by (i) debt purchase agreement(s) to be entered into by TCA, (ii) through proceeds raised from the transaction(s) with Chicago Venture; or (iii) by the Company directly.
- The due date of the debentures was extended to April 28, 2018.
- TCA agreed that it shall not enforce and shall forbear from pursuing enforcement of any existing defaults by us unless and until a future Company default occurs.

In furtherance of TCA's forbearance, effective as of May 4, 2016, we issued Second Replacement Debenture A in the principal amount of \$150,000 and Second Replacement Debenture B in the principal amount of \$2,681,209.82 (collectively, the "Second Replacement Debentures").

Per the First Amendment to Amended and Restated Securities Purchase Agreement, the Second Replacement Debentures were combined, and apportioned into two separate replacement debentures. The Second Replacement Debentures were intended to act in substitution for and to supersede the debentures in their entirety. It was the intent of the Company and TCA that while the Second Replacement Debentures replace and supersede the debentures, in their entirety, they were not in payment or satisfaction of the debentures, but rather were the substitute of one evidence of debt for another without any intent to extinguish the old debt. The maximum number of shares subject to conversion under the Second Replacement Debentures is 383,028,714. This is an approximation. The estimation of the maximum number of shares issuable upon the conversion of the Second Replacement Debentures was calculated using an estimated average price of \$.013 per share.

The Second Replacement Debentures contemplate TCA entering into debt purchase agreement(s) with third parties whereby TCA may, at its election, sever, split, divide or apportion the Second Replacement Debentures to accomplish the repayment of the balance owed to TCA by Company. The Second Replacement Debentures are convertible at 85%

of the lowest daily volume weighted average price (“VWAP”) of our common stock during the five (5) business days immediately prior to a conversion date.

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

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

#### TCA Assignment of Debt to Old Main Capital, LLC

On June 9, 2016, we closed a Debt Purchase Agreement and related agreements (the “Old Main Transaction Documents”) with TCA and Old Main Capital, LLC (“Old Main”) whereby TCA agreed to sell and Old Main agreed to purchase in multiple tranches \$1,400,000 in senior secured convertible, redeemable debentures (the “Assigned Debt”) (the “Old Main Transaction”). The Assigned Debt was our debt incurred in the TCA financing transactions that closed in 2015. We were required to execute the Old Main Transaction Documents as we are the “borrower” on the Assigned Debt.

**Debt Purchase Agreement.** As set forth above, we entered into the Debt Purchase Agreement on June 9, 2015 with TCA and Old Main whereby Old Main agreed to purchase, in tranches, \$1,400,000 of debt previously held by TCA. We executed the Debt Purchase Agreement as it was the “borrower” under the Assigned Debt and was required to make certain representations and warranties regarding the Assigned Debt. The Assigned Debt is represented by a new “10% Senior Convertible Promissory Note” entered into by and between Old Main and the Company (more particularly described below.)

**Exchange Agreement.** In conjunction with the Debt Purchase Agreement, on June 9, 2016, we entered into an Exchange Agreement whereby we agreed to exchange, in tranches, the Assigned Debt, as well as any amendments thereto, with a 10% Senior Convertible Promissory Note (the “Note”) having a principal balance of \$1,400,000. The closing dates for the exchanges, scheduled to occur in tranches, are set forth in Schedule 1 attached to the Exchange Agreement.

**10% Senior Convertible Promissory Note.** Pursuant to the Exchange Agreement, we entered into a 10% Senior Convertible Promissory Note dated June 9, 2016 with Old Main whereby the Company agreed to be indebted to Old Main for the Assigned Debt. We promised to pay Old Main, by no later than the maturity date of June 9, 2017 the outstanding principal of the Assigned Debt together with interest on the outstanding principal amount under the Note, at the rate of ten percent (10%) per annum simple interest.

At any time after June 9, 2016, and while the Note is still outstanding and at the sole option of Old Main, Old Main may convert all or any portion of the outstanding principal, accrued and unpaid interest redemption premium and any other sums due and payable hereunder or under any of the other Transaction Documents into shares of our Common Stock at a price equal to the lower of: (i) sixty-five percent (65%) of the lowest traded price of the Company’s Common Stock during the thirty (30) trading days prior to the Conversion Date; or (ii) sixty-five percent (65%) of the lowest traded price of the Common Stock in the thirty (30) Trading Days prior to the Closing Date.

**Option Agreement.** In connection with the Old Main Transaction Documents, TCA and Old Main entered into an Option Agreement dated June 8, 2016 whereby TCA agreed to grant Old Main an option to purchase the Assigned Debt, or any portion thereof, under the terms and conditions of the Debt Purchase Agreement. In consideration, Old Main agreed to pay the Option Payment as more particularly described in the Option Agreement.

The foregoing descriptions of the Debt Purchase Agreement, the Exchange Agreement, the Note and the Option Agreement as well as any related documentation are qualified in their entirety by reference to the full text of the Old Main Transaction Documents, copies of which are attached to our Current Report on Form 8-K filed on June 16, 2016, as Exhibits 10.1, 10.2, 10.3, and 10.4, respectively, and incorporated by reference into this S-1.

We intend to use the funds generated from the Chicago Venture transaction to fuel our business operations and business plans which, in turn, will presumably generate revenues sufficient to avoid a default in our obligation to Old Main. If we are unable to raise sufficient funds through the Chicago Venture transaction and/or generate sales sufficient to service the Assigned Debt then we will be unable to avoid a default. Failure to operate in accordance with the various agreements with Old Main could result in an event of default which would have a material adverse effect on our business, results of operations or financial condition.

#### Transactions with CANX, LLC and Logic Works LLC

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. The Agreements require the filing of a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the period ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

Previously, the Company entered into a Joint Venture Agreement with CANX USA LLC, a Nevada limited liability company. Under the terms of the Joint Venture Agreement, the Company and CANX formed Organic Growth International, LLC ("OGI"), a Nevada limited liability company, for the purpose of expanding the Company's operations in its current retail hydroponic businesses and in other synergistic business verticals and facilitating additional funding for commercially financeable transactions of up to \$40,000,000. In connection with the closing of the Agreement, CANX agreed to provide a commitment for funding in the amount of \$1,300,000 for a GrowLife Infrastructure Funding Technology program transaction and provided additional funding under a 7% Convertible Note instrument for \$1,000,000, including \$500,000 each from Logic Works and China West III Investments LLC, entities that are unaffiliated with CANX and operate as separate legal entities. We initially owned a non-dilutive 45 % share of OGI and we may acquire a controlling share of OGI as provided in the Joint Venture Agreement. In accordance with the Joint Venture Agreement, the Company and CANX entered into a Warrant Agreement whereby the Company delivered to CANX a warrant to purchase 140,000,000 shares of the Company common stock at a maximum strike price of \$0.033 per share. Also in accordance with the Joint Venture Agreement, the Company issued an additional warrant to purchase 100,000,000 shares of the Company's common stock at a maximum strike price of \$0.033 per share on February 7, 2014.

On April 10, 2014, as a result of the suspension in the trading of the Company's securities, the Company went into default on its 7% Convertible Notes Payable for \$500,000 each from Logic Works and China West III. As a result, the Company accrued interest on these notes at the default rate of 24% per annum. Furthermore, as a result of being in default on these notes, the Holders could have, at their sole discretion, called these notes.

#### Waiver and Modification Agreement

The Company entered into a Waiver and Modification Agreement dated June 25, 2014 with Logic Works LLC whereby the 7% Convertible Note with Logic Works dated December 20, 2013 was modified to provide for (i) a waiver of the default under the 7% Convertible Note; (ii) a conversion price which is the lesser of (A) \$0.025 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable Conversion Date on which the Holder elects to convert all or part of this Note; (iii) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the period ended June 30, 2014; and (iv) continuing interest of 24% per annum. China West III converted its Note into common stock on June 4, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement. This 20% of the average should be 70% and the Parties are working to resolve this issue.

Amended and Restated Joint Venture Agreement

The Company entered into an Amended and Restated Joint Venture Agreement dated July 1, 2014 with CANX whereby the Joint Venture Agreement dated November 19, 2013 was modified to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to nine months, subject to extension; (ii) up to \$10,000,000 in working capital loans, with each loaning requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to extension, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to extension, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; (vi) a four year term, subject to adjustment and (vi) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the period ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

### Secured Convertible Note and Secured Credit Facility

The Company entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding requires approval in advance by Logic Works, provides for interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.0070 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. The Company also has agreed to file a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the three months ended September 30, 2014 and have the registration statement declared effective within ninety days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. As of December 31, 2014, the Company has borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works.

OGI was incorporated on January 7, 2014 in the State of Nevada and had no business activities as of December 31, 2015.

### Market Size and Growth

As the states across the country approve medicinal cannabis usage, with different THC and CBD compositions, cultivators purchase equipment and supplies from GrowLife and similar indoor growing supply companies. Therefore, as the cannabis market grows so does the revenue growth opportunity for us. Researchers from The ArcView Group, a cannabis industry investment and research firm based in Oakland, California, found that the U.S. market for cannabis grew 74 percent in 2014 to \$2.7 billion, up from \$1.5 billion in 2013. Today, 23 states plus Washington, DC have legalized cannabis for medical use and four states plus Washington, DC have passed recreational use into law.

We serve a new, yet sophisticated community of commercial and urban cultivators growing specialty crops including organics, greens and plant-based medicines. Unlike the traditional agricultural industry, these cultivators use innovative indoor growing techniques to produce specialty crops in highly controlled environments. This enables them to produce crops at higher yields without having to compromise quality - regardless of the season or weather and drought conditions.

Indoor growing techniques have primarily been used to cultivate plant-based medicines. Plant-based medicines often require high-degree of regulation and controls including government compliance, security, and crop consistency, making indoor growing techniques a preferred method. Cultivators of plant-based medicines often make a significant investment to design and build-out their facilities. They look to work with companies such as GrowLife who understand their specific needs, and can help mitigate risks that could jeopardize their crops.



The ArcView report indicates that plant-based medicines are the fastest-growing market in the U.S., and conservatively predicts the market could be worth more than \$10 billion within five years. Several industry pundits including Dr. Sanjay Gupta of CNN believe that plant-based medicines may even displace prescription pain medication by providing patients with a safer, more affordable alternative.

Indoor growing techniques, however, are not limited to plant-based medicines. Vertical farms producing organic fruits and vegetables are beginning to emerge in the market due to a rising shortage of farmland, and environmental vulnerabilities including drought, other severe weather conditions and insect pests. Indoor growing techniques enables cultivators to grow crops all-year-round in urban areas, and take up less ground while minimizing environmental risks. Indoor growing techniques typically require a more significant upfront investment to design and build-out these facilities, than traditional farmlands. If new innovations lower the costs for indoor growing, and the costs to operate traditional farmlands continue to rise, then indoor growing techniques may be a compelling alternative for the broader agricultural industry.

### Strategy

Our goal is to become the nation's largest cultivation facility service provider for the production of organics, herbs and greens and plant-based medicines. We intend to achieve our goal by (i) expanding our nationwide, multi-channel sales network presence, (ii) offering the best terms for the full range of build-out equipment and consumable supplies, and (iii) deliver superior, innovative products exclusively.

First, we provide distribution through retail, e-commerce and direct sales to have national coverage and serve cultivators of all sizes. Each channel offers varying pricing for differing benefits. Retail sells at list price by offering inventory convenience, e-commerce provides the lowest price without requiring local inventory, and direct sales delivers the best bid price for high-volume purchasers. Additional points of service may be added through existing distribution locations and services. This may be done in several manners such as a value-added reseller program that reaches hundreds of cultivator-centric locations or with collations with other resellers.

Second, we serve the needs of all size cultivators and each one's unique formulation. We provide thousands of varieties of supplies from dozens of vendors and distributors. More importantly is our experience of knowing which products to recommend under each customer's circumstance. Growing operations seeking expansion may also qualify for leasing terms by one of our financing partner.

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

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

### Key Market Priorities

Demand for indoor growing equipment is currently high due to legalization of plant-based medicines, primarily cannabis, which is mainly due to equipment purchases for build-out and repeated consumables. This demand is projected to continue to grow as a result of the supporting state laws in 23 states and the District of Columbia. Continued innovation in more efficient build-out technologies along with larger and consolidated

cultivation facilities will further expand market demand for our products and services.

We expect for the market to continue to segment into urban farmers serving groups of individuals, community cultivators, and large-scale cultivation facilities across the states. Each segment will be optimized to different distribution channels that we currently provide. Our volume purchasing will allow us to obtain the best prices and maximize both our revenues and gross margins.

The nature of the cannabis industry's inefficiencies due to the lack of interstate commerce imposed by the Federal government has segmented the market opportunities by State laws, population and demand. Currently, Colorado laws and population demand make it the most progressive and top market in the industry. We have elected to have a major retail presence in Colorado with our direct sales team and centralized our national e-commerce operations. We are currently reaching most of the legal states using both direct sales and seek to re-introduce GrowLife eco products to other hydroponic retailers.

#### Employees

As of March 31, 2016, we had one full-time employee and one consultant at our Seattle, Washington office. Marco Hegyi, our President, is based in Seattle, Washington. Mark E. Scott, our consulting CFO, is based out of in Seattle, Washington. In addition, we have 7 employees located throughout the United States who operate our e-commerce, direct sales and retail businesses. None of our employees is 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 varying by state and are expected to be more defined as the company moves from its retail walk-in purchasing sales strategy to serving cultivation facilities directly and under predictable purchasing contracts.

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

#### Competition

Certain large commercial cultivators have found themselves willing to assume their own equipment support by buying large volume purchased directly from certain suppliers and distributors such as Sunlight Supplies, HydroFarm, and UHS. 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, HorticultureSource.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 more than 30 website addresses related to our business including websites that are actively used in our day-to-day business such as [www.growlifeinc.com](http://www.growlifeinc.com), [www.growlifeeco.com](http://www.growlifeeco.com), [www.stealthgrow.com](http://www.stealthgrow.com), and [www.greners.com](http://www.greners.com).

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

## Government Regulation

Currently, there are twenty-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. About a dozen other states are considering legislation to similar effect. There are currently four states that allow recreational use of cannabis. 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. 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.

#### Properties and Operating Leases

##### Current Operating Leases

Upon our acquisition of Rocky Mountain Hydroponics, LLC and Evergreen Garden Center, LLC, we assumed the lease for the RMH/EGC retail hydroponics store located in Portland, Maine. The lease commencement date was May 1, 2013 with an expiration date of April 30, 2016. The monthly rent for year one of the lease was \$4,917, with monthly rent of \$5,065 in year two, and monthly rent of \$5,217 in year three of the lease. We have an option to extend the lease for two three year terms as long it is not in default under the lease.

On October 21, 2013, we entered into a lease agreement for retail space for its hydroponics store in Avon (Vail), Colorado. The lease expires on September 30, 2018. Monthly rent for year one of the lease is \$2,606 and increases 3.5% per year thereafter through the end of the lease. We do not have an option to extend the lease.

On May 31, 2016, we rented space at 5400 Carillon Point, Kirkland, Washington 98033 for \$1,539 per month for our corporate office. Our agreement expires May 31, 2017 and can be extended.

##### Terminated Operating Leases

In May 2011, we entered into a lease for our Phototron business unit to rent a warehouse facility in Gardena, California. The terms of the lease provide for monthly rental expense of \$4,065 with annual rent increases through the expiration of the lease on May 31, 2014. During the last twelve months of the lease the monthly rent was \$4,313. We terminated this lease as of May 31, 2014.

Upon our acquisition of Rocky Mountain Hydroponics, LLC and Evergreen Garden Center, we assumed the lease for the RMH/EGC retail hydroponics store located in Plaistow, New Hampshire. The lease commencement date was May 1, 2013 with an expiration date of January 31, 2016. The monthly rent throughout the term of the lease is \$2,105. We vacated this store and to terminated this lease during 2015.

On June 5, 2013, we entered into a lease to rent office space in Woodland Hills, California for our corporate headquarters. The landlord was 20259 Ventura Blvd LP, which was a previous affiliate of a stockholder of our company. The term was for ninety days and can be renewed, or terminated, by either party with thirty days written notice. The monthly rent was \$6,758. We terminated this lease as of June 30, 2014.

On May 30, 2013, we entered into a lease to rent retail space in Woodland Hills, California for its Urban Garden Supply (Soja, Inc.) hydroponics store. The term was for ninety days and can be renewed, or terminated, by either party with ninety days' written notice. The monthly rent was \$3,257. We terminated this lease as of June 1, 2015.

On August 26, 2013, we entered into a lease agreement for warehouse and retail space for its Greners (Business Bloom, Inc.) business unit in Santa Rosa, California. The lease commencement date was September 1, 2013 with an expiration date of August 31, 2015. The monthly rent is \$3,000. We terminated this lease as of November 25, 2014.

On September 23, 2013, we entered into an Assignment and Assumption and Amendment of Lease Agreement for our retail hydroponics store in Peabody, Massachusetts. The original lease between the landlord and Evergreen Garden

Center, LLC was assigned from Evergreen Garden Center, LLC to GrowLife Hydroponics, Inc. In addition, the term of the lease was extended from the original expiration date of October 31, 2013 to October 31, 2014. The monthly rent remained at \$4,500 through October 31, 2014. Our lease expired on October 31, 2014.

On January 23, 2014, we entered into a lease agreement for retail space for its hydroponics store in Boulder, Colorado. The lease commenced on February 1, 2014 and expires on May 31, 2017. Monthly rent for year one of the lease was \$4,051, with monthly rent of \$4,173 in year two, \$4,298 in year three, and \$4,427 for month 37 through 39. We had an option to extend the lease for one three year terms as long it is not in default under the lease. We vacated the retail space as of November 30, 2015. The landlord has filed a collection claim for \$179,920 against GrowLife Hydroponics. We expect to contest this claim.

We are in default on our Portland, Maine, Boulder, Colorado and Plaistow, New Hampshire store leases for non-payment of the lease payments and are negotiating with the landlords.

#### Legal Proceedings

We are involved in the disputes and legal proceedings described below. 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. We accrue any contingent liabilities that are likely.

#### Class Actions Alleging Violations of Federal Securities Laws

Beginning on April 18, 2014, three class action lawsuits alleging violations of federal securities laws were filed against the Company in United States District Court, Central District of California (the "Court"). At a hearing held on July 21, 2014, the three class action lawsuits were consolidated into one case with Lawrence Rosen as the lead plaintiff (the "Consolidated Class Action," styled Romero et al. vs. GrowLife et al.). On May 15, 2014 and August 4, 2014, respectively two shareholder derivative lawsuits were filed against the Company with the Court (the "Derivative Actions"). On October 20, 2014, AmTrust North America, our insurer, filed a lawsuit contesting insurance coverage on the above legal proceedings. We made a general appearance in this action. On June 1, 2015, the Court preliminarily approved the proposed settlement of the Derivative Actions pursuant to a proposed stipulated settlement agreement. On August 3, 2015, the Court entered a Final Order and Judgment resolving the Consolidated Class Action litigation in its entirety. The Consolidated Class Action was thereby dismissed in its entirety with prejudice and without costs.

On August 10, 2015, pursuant to a settlement by and between the Company and AmTrust North America, AmTrust's lawsuit contesting insurance coverage of the Consolidated Class Action and Derivative Actions was dismissed in its entirety with prejudice pursuant to a Stipulation for Dismissal of Entire Action with Prejudice executed by and between AmTrust and the Company. On August 17, 2015, the Court entered a Final Order and Judgment resolving the Derivative Actions in their entirety. The Derivative Actions were thereby dismissed in their entirety with prejudice. We issued \$2 million in common stock or 115,141,048 shares of the Company's common stock on April 6, 2016 pursuant to the settlement of the Consolidated Class Action and Derivative Action lawsuits alleging violations of federal securities laws that were filed against the Company in United States District Court, Central District of California. We accrued \$2,000,000 as loss on class action lawsuits and contingent liabilities during the year ending December 31, 2015.

#### Sales and Payroll Tax Liabilities

As of March 31, 2016, we owe approximately \$110,000 in sales tax and \$19,000 in payroll taxes. We are currently negotiating or operating under payment plans on these liabilities.

#### Potential Convertible Note Defaults

Several of our convertible promissory notes remain outstanding beyond their respective maturity dates. This may trigger an event of default under the respective agreements. We are working with these noteholders to convert their

notes into common stock and intends to resolve these outstanding issues as soon as practicable.



## Other Legal Proceedings

We are in default on our Portland, Maine, Boulder, Colorado, Plaistow, New Hampshire and Vail, Colorado store leases for non-payment of lease payments and we are negotiating with the landlords. We are currently subject to legal actions with various vendors and a former officer.

It is possible that additional lawsuits may be filed and served on the Company.

## MANAGEMENT

The following changes in directors and named executive officers occurred during the year ending December 31, 2014 and for the subsequent periods:

Eric Shevin was appointed Director on April 1, 2013 and resigned April 1, 2014.

John Genesi was appointed Chief Financial Officer on July 22, 2013 and resigned on July 15, 2014.

Rob Hunt was appointed President of GrowLife Hydroponics, Inc. and Director on June 7, 2013. Mr. Hunt resigned as Executive Vice President of GrowLife, Inc. and President of GrowLife Hydroponics, Inc. effective May 23, 2014 and as a Director effective on June 3, 2014.

Marco Hegyi was appointed President on December 4, 2013 and Director on December 9, 2013. Mr. Hegyi was appointed Chairman of the Board and CEO on April 1, 2016.

Alan Hammer was appointed Director on December 17, 2013 and resigned May 6, 2014.

Jeff Giarraputo Director was appointed Director on December 19, 2013 and resigned on October 27, 2015.

Anthony Ciabattini was appointed Director on December 19, 2013 and resigned on October 27, 2015.

Sterling Scott resigned as Chairman, Chief Executive Officer and Director on May 19, 2014.

Mark Scott was appointed Director on May 21, 2014, Chairman of the Audit Committee on June 3, 2014 and Consulting Chief Financial Officer on July 31, 2014. Mr. Scott resigned as Director and Chairman of the Audit Committee on October 18, 2015.

Joseph Barnes was appointed Senior Vice President of Business Development on October 10, 2014.

Michael Fasci was appointed Director on October 27, 2015 and Chairman of the Audit Committee on November 11, 2015. Mr. Fasci was appointed Secretary on April 1, 2016.

Tara Antal was appointed Director on October 27, 2015 and resigned on March 4, 2016.

Brad Fretti was appointed Director on October 27, 2015 and Chairman of the Compensation Committee on November 11, 2015. Mr. Fretti resigned as Director and Chairman of the Compensation Committee on March 4, 2016.

## Directors and Executive Officers

The following table sets forth certain information about our current directors and executive officers:

The following table sets forth certain information about our current directors and executive officers:

Name	Age	Director/ Executive Officer
Marco Hegyi	58	Chairman of the Board, CEO, President and Nominations and Governance Committee Chairman (1)
Mark E. Scott	62	Consulting Chief Financial Officer
Michael E. Fasci	57	Director, Audit Committee Chairman and Secretary (2)(3)

Joseph Barnes	43	Senior Vice President of Business Development
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All directors hold office until their successors are duly appointed or until their earlier resignation or removal.

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. Mr. Hegyi has served as an independent director of Visualant, Inc. since February 14, 2008 and as Chairman of the Board since May 2011, and serves at the Chairman of the Audit and Compensation committees. 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.

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 holds several patents.

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

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

Michael E. Fasci – Mr. Fasci joined GrowLife as a Member of its Board of Directors on October 27, 2015 and was appointed Audit Committee Chairman on November 11, 2015. On April 1, 2016, Mr. Fasci was appointed as the Secretary of the Company. Mr. Fasci is a 30-year veteran in the finance sector having served as an officer and director of many public and private companies. Mr. Fasci is a seasoned operator across various industries and has served in both CEO and CFO capacities for both growth and turnaround situations. Mr. Fasci began his career as a field engineer and then manager of various remediation filtration and environmental monitoring projects globally before focusing his efforts on the daily operations, accounting and financial reporting and SEC compliance of the numerous companies he has served. Mr. Fasci resides in East Taunton, Massachusetts and studied Electrical Engineering at Northeastern University and maintains his qualification as an Enrolled Agent of the Internal Revenue Service.

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

Mark E. Scott – Mr. Scott was appointed to the Board of Directors and Secretary of GrowLife, Inc. on May 21, 2014 and as Chairman of the Audit Committee on June 3, 2014. On July 31, 2014, Mr. Scott appointed Consulting Chief Financial Officer. Mr. Scott resigned from the Board of Directors and Secretary and as Chairman of the Audit Committee on October 18, 2015.

Mr. Scott has significant financial, capital market and relations experience in public microcap companies. Mr. Scott also currently serves as (i) Chief Financial Officer, Secretary and Treasurer of Visualant, Inc., a position he has held since May 2010. Mr. Scott also provides consulting services to other non-public entities from time to time.

Mr. Scott was Chief Financial Officer of U.S. Rare Earths, Inc., a consulting position he held December 19, 2011 to April 30, 2014 and Chief Financial Officer of Sonora Resources Corporation, a consulting position he held from June 15, 2011 to August 31, 2014. Also, Mr. Scott was Chief Financial Officer, Secretary and Treasurer of WestMountain Gold from February 28, 2011 to December 31, 2013 and was a consultant from December 2010 to February 27, 2011. Mr. Scott previously served as Chief Financial Officer and Secretary of IA Global, Inc. from October 2003 to June 2011. Previously, he held executive financial positions with Digital Lightwave; Network Access Solutions; and

Teltronics, Inc. He has also held senior financial positions at Protel, Inc., Crystals International, Inc., Ranks Hovis McDougall, LLP and Britannia Sportswear, and worked at Arthur Andersen. Mr. Scott is also a certified public accountant and received a Bachelor of Arts in Accounting from the University of Washington.

Joseph Barnes- Mr. Barnes was appointed Senior Vice President of Business Development for GrowLife, Inc. on October 10, 2014. Mr. Barnes works from our Boulder, Colorado store. Mr. Barnes joined GrowLife in 2010 and is responsible for all national sales operations including direct sales, retail and e-commerce. 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.

#### Board Composition and Appointment of Directors

Our business is managed under the direction of our board of directors. Our board of directors currently consists of two members. Our board of directors conducts its business through meetings of our board of directors and our committees. During 2015, our current board of directors held six meetings and acted by unanimous written consent nine times. All members of our current board of directors attended 75% of the meetings of our board during 2015.

There are no family relationships among any of our directors or executive officers.

#### Communication with our Board of Directors

Our stockholders and other interested parties may communicate with our board of directors by sending written communication in an envelope addressed to "Board of Directors" in care of the Secretary, 810 Union Street, Suite 810, Seattle, Washington 98101.

#### Corporate Governance Measures Implemented Pursuant to Derivative Action Settlement

On October 16, 2015, as provided in the Company's settlement agreement of the "Roof Derivative Action" (Steve Roof v. Sterling C. Scott, et al (2:14-cv-0377)) the Board of Directors of the Company approved wide-ranging corporate governance measures to be implemented on a "roll-out" basis over the next year (collectively, the "Corporate Governance Measures"). The Corporate Governance Measures approved on October 16, 2015 are discussed in detail below and full text of said documents are incorporated by reference to the Exhibit Index to this Registration Statement.

#### Second Amended and Restated Bylaws

On October 16, 2015, the Board of Directors of the Company approved a Second Amended and Restated Bylaws.

The Second Amended and Restated Bylaws provide for, in pertinent part the following material changes to the existing First Amended and Restated Bylaws:

- Increase of board size to minimum of 7 directors
- Independent chairman of board
- Majority independent directors within 1 year
- 10-year director term limits

#### Director Independence

The Board has affirmatively determined that Michael E. Fasci is independent as of December 31, 2015. For purposes of making that determination, the Board used NASDAQ's Listing Rules even though the Company is not currently listed on NASDAQ. The Board expects to appoint independent directors during 2016. Subsequent to the fiscal year-ended December 31, 2015, Mr. Fasci was appointed as Secretary of the Company and is no longer deemed independent under this standard.

#### Board Committees

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 director. The table below shows current membership for each of the standing Board committees.

Audit	Compensation	Nominations and Governance
Michael E. Fasci (Chairman)	Michael E. Fasci (Chairman)	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](http://www.growlifeinc.com). These standards were adopted by our board of directors to promote transparency and integrity. The standards apply to our board of directors, executives and employees. Waivers of the requirements of our code of ethics or associated policies with respect to members of our board of directors or executive officers are subject to approval of the full board.

#### 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.

## EXECUTIVE AND DIRECTOR COMPENSATION

### Summary Compensation Table

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, 2015 and 2014:

Principal Position		Salary (\$)	Bonus (\$)	Non-Equity Incentive			Other Compensation (\$)	Total (\$)
				Stock Awards (\$)(1)	Plan Compensation (\$)	Option Awards (\$)		
Marco Hegy, President and Director (2)	12/31/2015	\$ 253,000	\$ -	\$ -	\$ -	\$ -	\$ 8,561	\$ 261,561
	12/31/2014	\$ 156,906	\$ -	\$ -	\$ -	\$ -	\$ 14,997	\$ 171,903
	12/31/2015	\$ 156,250	\$ -	\$ -	\$ -	\$ 7,312	\$ -	\$ 163,562

Mark E. Scott,  
 Consulting Chief  
 Financial Officer

(3)	12/31/2014	\$ 86,250	\$ -	\$ -	\$ -	\$ 292,480	\$ 15,686	\$ 394,416
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Joseph Barnes, Senior Vice President of Business	12/31/2015	\$ 90,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90,000
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Development	(4)	12/31/2014	\$ 70,096	\$ 6,500	\$ 24,000	\$ -	\$ 120,648	\$ 9,119	\$ 230,363
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(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 \$253,000 (cash salary of \$203,500 and accrued salary of \$49,500) during the year ended December 31, 2015. This accrual was based on the tight cash flow of the Company and agreed to by Mr. Hegyi, but there was no formal deferral agreement. There was no accrued interest paid on the unpaid salary. The accrued salary is expected to be paid during the year ended December 31, 2016. The Company paid life insurance of \$8,561 for Mr. Hegyi during the year ended December 31, 2015. Mr. Hegyi was paid a cash salary of \$156,906 during the year ended December 31, 2014. The Company paid life insurance of \$14,997 for Mr. Hegyi during the year ended December 31, 2014.

(3) Mark E. Scott was appointed a Director on May 24, 2014 and as consulting Chief Financial Officer on July 31, 2014. Mr. Scott was paid a consulting fee of \$156,250 (cash salary of \$105,000 and accrued salary of \$51,250 during the year ended December 31, 2015. This accrual was based on the tight cash flow of the Company and agreed to by Mr. Scott, but there was no formal deferral agreement. There was no accrued interest paid on the unpaid consulting fee. The accrued consulting fee is expected to be paid during the year ended December 31, 2016. Mr. Scott was paid a cash consulting fee of \$86,250 during the year ended December 31, 2014. Mr. Scott was reimbursed \$15,686 for insurance and travel expenses during the year ended December 31, 2014.

On July 31, 2014, the Board of Directors approved a stock option grant for Mr. Scott to purchase 16,000,000 shares of our common stock under our 2011 Stock Incentive Plan at an exercise price of \$0.07 per share, the fair market price on July 31, 2014. The exercise price was reduced to \$0.01 per share on December 18, 2015. The shares vest as follows:

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

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 Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as consultant 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 Stock Incentive Plan except for CANX USA, LLC, then 100% of the total number of Shares shall immediately become vested. We valued the options at \$7,312 and \$292,480 during the years ended December 31 2015 and 2014, respectively.

(4) Joseph Barnes was appointed Senior Vice President of Business Development on October 1, 2014. Mr. Barnes was paid a cash salary of \$90,000 during the year ended December 31, 2015. Mr. Barnes was paid a cash salary of \$70,096, a bonus of \$6,500 and expense reimbursements of \$9,119 during the year ended December 31, 2014. During the year ended December 31, 2014, Mr. Barnes was issued 300,000 shares of our common stock which was valued at \$0.08 per share or \$24,000 in the aggregate. Mr. Barnes was paid a cash salary of \$15,385 during the year ended December 31, 2013. Mr. Barnes was granted an option to purchase eight million shares of the Company's Common

Stock under the Company's 2011 Stock Incentive Plan at an exercise price on the date of grant. The Shares vest as follows:

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

All options will have a five-year life and allow for a cashless exercise. The stock option grant is subject to the terms and conditions of the Company's 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 Stock Incentive, then 100% of the total number of Shares shall immediately become vested. We valued the options at \$120,648.

Grants of Stock Based Awards during the year ended December 31, 2015

The Compensation Committee approved the following performance-based incentive compensation to the Named Executive Officers for the year ended December 31, 2015:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards	Market Value of Unearned Shares	Market or Payout Value of
		Threshold	Target	Maximum	Threshold	Target	Maximum				
Marco Hegyi	-	\$ -	-	\$ -	-	-	-	-	-	\$-	\$-
Mark E. Scott (2)	-	\$ -	-	\$ -	-	-	-	-	2,000,000	\$0.010	\$7,312
Joseph Barnes	-	\$ -	-	\$ -	-	-	-	-	-	\$-	\$-

(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) An entity controlled by Mr. Scott received a stock option grant of 10,000,000 shares of our common stock which vests monthly over three years beginning July 31, 2014. An additional two million shares vested on August 17, 2015 with the Company's resolution of the class action lawsuits. A further 4,000,000 of stock option grants vest upon the achievement of certain performance criteria.

Outstanding Equity Awards as of December 31, 2015

The Named Executive Officers had the following outstanding equity awards as of December 31, 2015:

Number of Securities Underlying	Number of Securities Underlying	Option Awards Number of Securities Underlying	Stock Awards		Market or Payout Value of
			Number of	Market Value	
			Number of	Market Value	Market or Payout Value of

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Name	Unexercised	Unexercised	Unexercised	Option	Expiration	Shares	of	Units or	Unearned
	Options	Options	Unearned	Exercise		or Units	Shares	Other	Shares,
	Exercisable	Unexercisable	Options	Price		of	Units	Rights	Units,
	(#)	(#)	(#)	(\$)	(1)	Stock	of	That	or
						That	Stock	Have	Other
						Have	That	Not	Rights
						Not	Have	Not	That
						Have	Not	Have	Have
						Not	Not	Not	Not
						Vested	Vested	Vested	Vested
						(#)	(\$)	(#)	(\$)
Marco Hegyi	-	-	-	\$-		-	\$-	-	\$-
Mark E. Scott (2)	7,833,333	4,166,667	-	\$0.01	7/30/2019	-	\$-	-	\$-
Joseph Barnes (3)	4,500,000	3,500,000	-	\$0.05	10/9/2019	-	\$-	-	\$-

(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) An entity controlled by Mr. Scott received a stock option grant of 10,000,000 shares of our common stock which vests monthly over three years beginning July 31, 2014. An additional two million shares vested on August 17, 2015 with the Company's resolution of the class action lawsuits. A further 4,000,000 of stock option grants vest upon the achievement of certain performance criteria.

(3) Mr. Barnes stock option grant consists of 6,000,000 shares of our common stock which vest quarterly over three years beginning October 1, 2014 and 2,000,000 shares of our common stock that vested October 10, 2014.

#### Option Exercises and Stock Vested for the year ended December 31, 2015

Mr. Hegyi, Scott and Barnes did not have any option exercised or stock that vested during the year ended December 31, 2015.

#### Pension Benefits

We do not provide any pension benefits.

#### Nonqualified Deferred Compensation

We do not have a nonqualified deferral program.

#### Employment and Consulting Agreements

##### Employment Agreement with Marco Hegyi

On December 4, 2013, we entered into an Employment Agreement with Marco Hegyi pursuant to which we engaged Mr. Hegyi as its President from December 4, 2013 through December 4, 2016 to provide consulting and management services. Per the terms of the Hegyi Agreement, Mr. Hegyi established an office in Kirkland, Washington while also maintaining operations in the Southern California area. Mr. Hegyi's annual compensation is \$150,000 for the first year of the Hegyi Agreement; \$250,000 for the second year; and \$250,000 for the third year. Mr. Hegyi is also entitled to receive an annual bonus equal to four percent (4%) of our EBITDA for that year. The annual bonus shall be paid no later than 31 days (i.e., by January 31st) following the end of each calendar year. Mr. Hegyi's first annual bonus will be calculated based on the Company's EBITDA for calendar year 2014, with such bonus payable on or before January 31, 2015. If Mr. Hegyi's employment is terminated for any reason prior to the expiration of the Term, as applicable, his annual bonus will be prorated for that year based on the number of days worked in that year. At the commencement of Mr. Hegyi's employment, an entity affiliated with Mr. Hegyi received a Warrant to purchase up to 25,000,000 shares of our common stock at an exercise price of \$0.08 per share. The Hegyi Warrant is exercisable for five years. On June 20, 2014, Mr. Hegyi and the Company agreed to reduce the warrant life from ten to five years. On January 25, 2016, we reduced the warrant exercise price to \$0.01 per share effective December 18, 2015.

Mr. Hegyi was entitled to participate in all group employment benefits that are offered by us to our senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements. In addition, we are required to purchase and maintain during the Term a "key manager" insurance policy on Mr. Hegyi's life in the amount of \$4,000,000, paid as \$2,000,000 payable to Mr. Hegyi's named heirs or estate as the beneficiary, and \$2,000,000 payable to the Company. Mr. Hegyi and the Company waived this \$2,000,000 key manager insurance. If, prior to the expiration of the Term, we terminate Mr. Hegyi's employment for "Cause", or if Mr. Hegyi voluntarily terminates his employment without "Good Reason", or if Mr. Hegyi's employment is terminated by reason of his death, then all of our obligations hereunder shall cease immediately, and Mr. Hegyi will not be entitled to any further compensation beyond any pro-rated base salary due and bonus amounts earned through the effective date of termination. Mr. Hegyi will also be reimbursed for any expenses incurred prior to the date of termination for which he was not previously reimbursed.

If we terminate Mr. Hegyi's employment at any time prior to the expiration of the Term without Cause, 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, which bonus amount shall be equal to the greater of (A) the annual bonus amount for the immediately preceding year, or (B) the bonus amount that would have been earned for the year of termination, absent

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



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

On July 31, 2014, we entered into a Consulting Chief Financial Officer Letter with an entity controlled by Mark E. Scott pursuant to which we engaged Mr. Scott as its Consulting CFO from July 1, 2014 through September 30, 2014, and continuing thereafter until either party provides sixty-day notice to terminate the Letter or Mr. Scott enters into a full-time employment agreement.

Per the terms of the Scott Agreement, Mr. Scott's compensation is \$150,000 on an annual basis for the first year of the Scott Agreement. Mr. Scott is also entitled to receive an annual bonus equal to two percent of our EBITDA for that year. Our Board of Directors granted Mr. Scott an option to purchase sixteen million shares of our Common Stock under our 2011 Stock Incentive Plan at an exercise price of \$0.07 per share, the fair market price on July 31, 2014. On December 18, 2015, we reduced the exercise price to \$0.01 per share. The shares vest (i) two million shares vest immediately upon securing a market maker with an approved 15c2-11 resulting in our relisting on OTCBB (earned as of February 18, 2016); (ii) two million shares vest immediately upon the successful approval and effectiveness of our S-1 (not earned as of July 8, 2016); (iii) two million shares vest immediately upon the Company's resolution of the class action lawsuits (earned as of August 17, 2015); and (iv) ten million shares will vest on a monthly basis over a period of three years beginning on the July 1, 2014.

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 Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as consultant 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 Stock Incentive Plan except for CANX USA, LLC, then 100% of the total number of shares shall immediately become vested.

Mr. Scott 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, we are required to purchase and maintain an insurance policy on Mr. Scott's life in the amount of \$2,000,000 payable to Mr. Scott's named heirs or estate as the beneficiary. Finally, Mr. Scott is entitled to twenty days of vacation annually and also has certain insurance and travel employment benefits.

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

## Promotion Letter with Joseph Barnes

On October 10, 2014, we entered into a Promotion Letter with Joseph Barnes which was effective October 1, 2014 pursuant to which we engaged Mr. Barnes as its Senior Vice-President of Business Development from October 1, 2014 on an at will basis.

Per the terms of the Barnes Agreement, Mr. Barnes's compensation is \$90,000 on an annual basis. Mr. Barnes received a bonus of \$6,500 and is also entitled to receive a quarterly bonus based on growth of our gross margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Barnes was granted an option to purchase eight million shares of our common stock under the Company's 2011 Stock Incentive Plan at an exercise price on the date of grant. The shares vest (i) two million shares vested immediately; and (ii) six million shares vest on a monthly basis over a period of three years beginning on the date of grants.

Barnes's continuous status as our employee is terminated by us 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 our Stock Incentive, then 100% of the total number of shares shall immediately become vested.

Mr. Barnes was entitled to participate in all group employment benefits that are offered by us to our senior executives and management employees from time to time, subject to the terms and conditions of such benefit plans, including any eligibility requirements. Finally, Mr. Barnes is entitled to fifteen days of vacation annually and also has certain insurance and travel employment benefits.

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

## Potential Payments upon Termination or Change in Control

Our Employment Agreement with Marco Hegyi has provisions providing for severance payments as detailed below.

Executive Payments Upon Separation	For Cause Termination on 12/31/15	Early or Normal Retirement on 12/31/15	Not For Good Cause Termination on 12/31/15	Change in Control Termination on 12/31/15	Disability or Death on 12/31/15
Compensation:					
Base salary (1)	\$ -	\$ -	\$ 250,000	\$ 550,000	\$ -
Performance-based incentive compensation	\$ -	\$ -	\$ -	\$ -	\$ -
Stock options	\$ -	\$ -	\$ -	\$ -	\$ -
Benefits and Perquisites:					
Health and welfare benefits	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued vacation pay	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 250,000</b>	<b>\$ 550,000</b>	<b>\$ -</b>

(1)

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

Mr. Scott and Mr. Barnes currently do not have amounts to be paid upon termination without cause and upon termination in a change of control. Their outstanding stock options vest fully under certain conditions.

## DIRECTOR COMPENSATION

We primarily use stock options grants to incentive compensation to attract and retain qualified candidates to serve on the Board. This compensation reflected the financial condition of the Company. In setting director compensation, we consider the significant amount of time that Directors expend in fulfilling their duties to the Company as well as the skill-level required by our members of the Board. During year ended December 31, 2015, Marco Hegyi and Mark E. Scott did not receive any compensation for their service as directors. The compensation disclosed in the Summary Compensation Table on page 57 represents the total compensation.

### Director Summary Compensation

#### Compensation Paid to Board Members

Our independent non-employee directors are not compensated in cash. The only compensation has been in the form of stock awards. There is no stock compensation plan for independent non-employee directors. There was no Director compensation during the year ended December 31, 2015.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

### Certain Relationships

The parties listed in certain relationships are unrelated parties to us and to each other.

#### Agreement and Plan of Merger with SGT Merger Corporation

On March 21, 2012, we entered into an Agreement and Plan of Merger with SGT Merger Corporation, a Nevada corporation and the Company's wholly-owned subsidiary, SG Technologies Corp, a Nevada corporation ("SGT"), Sterling C. Scott, and W-Net Fund I, L.P., a Delaware limited partnership and current holder of the Company's common stock. The transaction closed on April 5, 2012. At the Closing, (i) The Merger Corporation was merged with and into SGT; (ii) SGT became the Company's wholly-owned subsidiary; and (iii) all SGT shares of common stock were exchanged for shares of our common stock and shares of a new series of our preferred stock, which was designated Series A Preferred Stock. At the Closing, the Company issued to SGT's former stockholders 157,000,000 shares of the Company's common stock and 3,000,000 shares of Series A Preferred Stock in exchange for the 200 shares of SGT's common stock outstanding immediately prior to the Merger. Sterling C. Scott was appointed to the then Company's Board of Directors and Chief Executive Officer.

After the Merger, former holders of SGT's common stock owned in excess of 50% of our fully-diluted shares of common stock, and as a result of certain other factors, including that all members of our executive management are members of SGT's management, SGT is deemed to be the acquiring company and the Company was deemed to be the legal acquirer for accounting purposes, and the Merger was accounted for as a reverse merger and a recapitalization in accordance with GAAP. The consolidated financial statements of GrowLife and its subsidiaries reflect the historical activity of SGT, and the historical stockholders' equity of SGT has been retroactively restated for the equivalent number of shares received in the exchange.

#### Acquisition of Rocky Mountain Hydroponics, LLC and Evergreen Garden Center, LLC

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. The Company purchased all of the assets and liabilities of the RMH and EGC Companies, and their retail hydroponics stores, which are located in Vail and Boulder, Colorado and

Portland, Maine. The Company purchased RMC and EGC from Robert Hunt, who was appointed to the then Company's Board of Directors and President of GrowLife Hydroponics, Inc.

#### Agreements with CANX USA, LLC

On July 10, 2014, we closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. The Agreements require the filing of a registration statement on Form S-1 within 10 days of the filing of our Form 10-Q for the period ended June 30, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

Previously, we entered into a Joint Venture Agreement with CANX USA LLC, a Nevada limited liability company. Under the terms of the Joint Venture Agreement, the Company and CANX formed Organic Growth International, LLC (“OGI”), a Nevada limited liability company, for the purpose of expanding the Company’s operations in its current retail hydroponic businesses and in other synergistic business verticals and facilitating additional funding for commercially financeable transactions of up to \$40,000,000. In connection with the closing of the Agreement, CANX agreed to provide a commitment for funding in the amount of \$1,300,000 for a GrowLife Infrastructure Funding Technology program transaction and provided additional funding under a 7% Convertible Note instrument for \$1,000,000, including \$500,000 each from Logic Works and China West III Investments LLC, entities that are unaffiliated with CANX and operate as separate legal entities. We initially owned a non-dilutive 45% share of OGI and we may acquire a controlling share of OGI as provided in the Joint Venture Agreement. In accordance with the Joint Venture Agreement, the Company and CANX entered into a Warrant Agreement whereby the Company delivered to CANX a warrant to purchase 140,000,000 shares of the Company common stock at a maximum strike price of \$0.033 per share. Also in accordance with the Joint Venture Agreement, we issued an additional warrant to purchase 100,000,000 shares of our common stock at a maximum strike price of \$0.033 per share on February 7, 2014.

On April 10, 2014, as a result of the suspension in the trading of our securities, we went into default on our 7% Convertible Notes Payable for \$500,000 each from Logic Works and China West III. As a result, we accrued interest on these notes at the default rate of 24% per annum. Furthermore, as a result of being in default on these notes, the Holders could have, at their sole discretion, called these notes.

#### Waiver and Modification Agreement

We entered into a Waiver and Modification Agreement dated June 25, 2014 with Logic Works LLC whereby the 7% Convertible Note with Logic Works dated December 20, 2013 was modified to provide for (i) a waiver of the default under the 7% Convertible Note; (ii) a conversion price which is the lesser of (A) \$0.025 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable Conversion Date on which the Holder elects to convert all or part of this Note; (iii) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company’s Form 10-Q for the period ended June 30, 2014; and (iv) continuing interest of 24% per annum. China West III converted its Note into common stock on June 4, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

#### Amended and Restated Joint Venture Agreement

We entered into an Amended and Restated Joint Venture Agreement dated July 1, 2014 with CANX whereby the Joint Venture Agreement dated November 19, 2013 was modified to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to six months, subject to extension; (ii) up to \$10,000,000 in working capital loans, with each loaning requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to extension, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not

considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to extension, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; (vi) a four year term, subject to adjustment and (vi) the filing of a registration statement on Form S-1 within 10 days of the filing of our Form 10-Q for the period ended June 30, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

### Secured Convertible Note and Secured Credit Facility

We entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding requires approval in advance by Logic Works, provides for interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into our common stock at the lesser of \$0.0070 or (B) 20% of the average of the three (3) lowest daily VWAPs occurring during the 20 consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by our assets. We also agreed to file a registration statement on Form S-1 within 10 days of the filing of our Form 10-Q for the three months ended June 30, 2014 and have the registration statement declared effective within ninety days of the filing of our Form 10-Q for the three months ended June 30, 2014. Due to our grey sheet trading status and other issues, we did not file the registration statement.

On July 10, 2014, we closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. As of June 30, 2015, we have borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works.

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

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

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

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



TCA's Forbearance. Due to our default on its repayment obligations under the TCA SPA's and related documents, the parties agreed to restructure the SPA's whereby TCA agreed to forbear from enforcement of our defaults and to restructure a payment schedule for repayment of debt under the SPAs. We defaulted because our operating results were not as expected and we were unable to generate sufficient revenue through its business operations to serve the TCA debt. Specifically, the First Amendment to Amended and Restated Securities Purchase Agreement made the following material modifications to the existing SPA's:

- All unpaid debentures were modified as described in more detail below.

- Payments on the debentures shall be made by (i) debt purchase agreement(s) to be entered into by TCA, (ii) through proceeds raised from the transaction(s) with Chicago Venture; or (iii) by the Company directly.
- The due date of the debentures was extended to April 28, 2018.
- TCA agreed that it shall not enforce and shall forbear from pursuing enforcement of any existing defaults by us unless and until a future Company default occurs.

In furtherance of TCA's forbearance, effective as of May 4, 2016, we issued Second Replacement Debenture A in the principal amount of \$150,000 and Second Replacement Debenture B in the principal amount of \$2,681,209.82 (collectively, the "Second Replacement Debentures").

Per the First Amendment to Amended and Restated Securities Purchase Agreement, the Second Replacement Debentures were combined, and apportioned into two separate replacement debentures. The Second Replacement Debentures were intended to act in substitution for and to supersede the debentures in their entirety. It was the intent of the Company and TCA that while the Second Replacement Debentures replace and supersede the debentures, in their entirety, they were not in payment or satisfaction of the debentures, but rather were the substitute of one evidence of debt for another without any intent to extinguish the old debt. The maximum number of shares subject to conversion under the Second Replacement Debentures is 383,028,714. This is an approximation. The estimation of the maximum number of shares issuable upon the conversion of the Second Replacement Debentures was calculated using an estimated average price of \$.013 per share.

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

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

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

#### TCA Assignment of Debt to Old Main Capital, LLC

On June 9, 2016, we closed a Debt Purchase Agreement and related agreements (the "Old Main Transaction Documents") with TCA and Old Main Capital, LLC ("Old Main") whereby TCA agreed to sell and Old Main agreed to purchase in multiple tranches \$1,400,000 in senior secured convertible, redeemable debentures (the "Assigned Debt") (the "Old Main Transaction"). The Assigned Debt was our debt incurred in the TCA financing transactions that closed

in 2015. We were required to execute the Old Main Transaction Documents as we are the “borrower” on the Assigned Debt.

Debt Purchase Agreement. As set forth above, we entered into the Debt Purchase Agreement on June 9, 2015 with TCA and Old Main whereby Old Main agreed to purchase, in tranches, \$1,400,000 of debt previously held by TCA. We executed the Debt Purchase Agreement as it was the “borrower” under the Assigned Debt and was required to make certain representations and warranties regarding the Assigned Debt. The Assigned Debt is represented by a new “10% Senior Convertible Promissory Note” entered into by and between Old Main and the Company (more particularly described below.)

Exchange Agreement. In conjunction with the Debt Purchase Agreement, on June 9, 2016, we entered into an Exchange Agreement whereby we agreed to exchange, in tranches, the Assigned Debt, as well as any amendments thereto, with a 10% Senior Convertible Promissory Note (the "Note") having a principal balance of \$1,400,000. The closing dates for the exchanges, scheduled to occur in tranches, are set forth in Schedule 1 attached to the Exchange Agreement.

10% Senior Convertible Promissory Note. Pursuant to the Exchange Agreement, we entered into a 10% Senior Convertible Promissory Note dated June 9, 2016 with Old Main whereby the Company agreed to be indebted to Old Main for the Assigned Debt. We promised to pay Old Main, by no later than the maturity date of June 9, 2017 the outstanding principal of the Assigned Debt together with interest on the outstanding principal amount under the Note, at the rate of ten percent (10%) per annum simple interest.

At any time after June 9, 2016, and while the Note is still outstanding and at the sole option of Old Main, Old Main may convert all or any portion of the outstanding principal, accrued and unpaid interest redemption premium and any other sums due and payable hereunder or under any of the other Transaction Documents into shares of our Common Stock at a price equal to the lower of: (i) sixty-five percent (65%) of the lowest traded price of the Company's Common Stock during the thirty (30) trading days prior to the Conversion Date; or (ii) sixty-five percent (65%) of the lowest traded price of the Common Stock in the thirty (30) Trading Days prior to the Closing Date.

Option Agreement. In connection with the Old Main Transaction Documents, TCA and Old Main entered into an Option Agreement dated June 8, 2016 whereby TCA agreed to grant Old Main an option to purchase the Assigned Debt, or any portion thereof, under the terms and conditions of the Debt Purchase Agreement. In consideration, Old Main agreed to pay the Option Payment as more particularly described in the Option Agreement.

The foregoing descriptions of the Debt Purchase Agreement, the Exchange Agreement, the Note and the Option Agreement as well as any related documentation are qualified in their entirety by reference to the full text of the Old Main Transaction Documents, copies of which are attached to our Current Report on Form 8-K filed on June 16, 2016, as Exhibits 10.1, 10.2, 10.3, and 10.4, respectively, and incorporated by reference into this S-1.

We intend to use the funds generated from the Chicago Venture transaction to fuel our business operations and business plans which, in turn, will presumably generate revenues sufficient to avoid a default in our obligation to Old Main. If we are unable to raise sufficient funds through the Chicago Venture transaction and/or generate sales sufficient to service the Assigned Debt then we will be unable to avoid a default. Failure to operate in accordance with the various agreements with Old Main could result in an event of default which would have a material adverse effect on our business, results of operations or financial condition.

#### Review and Approval of Related Person Transactions

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

The Audit Committee is responsible for reviewing and approving all transactions with related persons. The Company has not adopted a written policy for reviewing related person transactions. The Company reviews all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. As required under SEC rules,

transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed.

## Related Party Transactions

Since January 1, 2014, we have 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.

### Transactions with an Entity Controlled by Marco Hegyi

An entity controlled by Mr. Hegyi received a warrant to purchase up to twenty five million shares of our common stock at an exercise price of \$0.08 per share was reduced to \$0.01 per share on December 18, 2015.

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

### Transactions with an Entity Controlled by Mark E. Scott

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

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

### Loans and Advances from Sterling C. Scott

Sterling Scott advanced various amounts to us. As of December 31, 2011, the amount due the then CEO was \$183,103, and additional advances of \$98,897 were made to us through April 5, 2012. On April 5, 2012, Mr. Scott converted \$282,000 of these advances into a 6% senior convertible note. Mr. Scott made further advances during the year ended December 31, 2012 which were converted into the 6% senior convertible note. As of December 31, 2013, total amount owed to Mr. Scott was \$453,932, which consisted of \$413,680 in principal and \$40,252 in accrued interest. As of September 10, 2014, the outstanding principal balance on Mr. Scott's 6% convertible note was \$413,680 and accrued interest were sold to two parties not related to us.

### Investment in Vape Holdings, Inc.

In May 2013, we made an investment in the amount of \$1,160 in Vape Holdings, Inc., a Nevada corporation, and received 200,428 shares.

Sterling C. Scott, our then Chief Executive Officer, also owned 257,320 shares of Vape's common stock. Furthermore, the former President of GrowLife, Inc., Kyle Tracey, was the Chief Executive Officer of Vape. As a result, we deemed Vape to be a related party and therefore has recorded its investment in Vape as an "Investment in a related party" on its balance sheet.

The value of our investment in Vape as of December 31, 2013 was \$5.60 per share, or \$1,122,397. We sold 200,428 shares of Vape's common stock during the year ended December 31, 2014 for net proceeds of \$186,791 which was

recorded as “other income” in the statement of operations. As of December 31, 2014, we recorded a \$1,122,397 loss in the value of its investment in Vape by decreasing its “Investment in a related party” balance sheet account while also recording a corresponding decrease to “Unrealized loss on investment in a related party” in the Stockholders’ deficit section of our balance sheet.

## Agreement with Jeff Giarraputo

On February 26, 2014, we engaged Jeff Giarraputo, a prior member of the Board of Directors, as an advisor to us for six months effective as of February 15, 2014. Mr. Giarraputo agreed to provide marketing, business development, and general management to us related to the cannabis industry. As compensation for these services, and subject to approval by our Board of Directors, we were expected to grant Mr. Giarraputo a stock option to purchase 2,000,000 shares of our common stock at \$0.31 per share, which represents the 30-day trailing average of our common stock. All shares subject to the option vested over a six-month period beginning on the date of engagement and are subject to the terms and conditions of our 2011 Stock Incentive Plan including vesting requirements. On August 19, 2014, the Parties cancelled this Agreement and the stock option grant was not issued.

## PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the ownership of our common stock as of June 30, 2016 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, Washington 98033 and the address of more than 5% of common stock is detailed below.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number	Percentage (1)
Directors and Named Executive Officers-		
Marco Hegyi (2)	26,000,000	2.3 %
Mark E. Scott (3)	14,222,222	1.2 %
Michael Fasci (4)	4,123,000	*
Tara Antal (5)	-	*
Brad Fretti (6)	-	*



Joseph Barnes (7)	5,800,000	*	
Total Directors and Officers (7 in total)	50,145,222	4.4	%

\* Less than 1%.

(1) Based on 1,129,182,443 shares of common stock outstanding as of June 30, 2016.

(2) Reflects the shares beneficially owned by Marco Hegyi, including warrants to purchase 25,000,000 shares of our common stock.

(3) Reflects the shares beneficially owned by Mark E. Scott, including stock option grants totaling 11,222,222 shares that Mr. Scott has the right to acquire in sixty days.

(4) Michael Fasci was appointed Director on October 27, 2015 and Chairman of the Audit Committee on November 11, 2015.

(5) Tara Antal was appointed Director on October 27, 2015 and resigned on March 4, 2016.

(6) Brad Fretti was appointed Director on October 27, 2015 and Chairman of the Compensation Committee on November 11, 2015. Mr. Fretti resigned as Director and Chairman of the Compensation Committee on March 4, 2016.

(7) Reflects the shares beneficially owned by Joseph Barnes, including stock option grants totaling 5,500,000 shares that Mr. Barnes has the right to acquire in sixty days.

Name and Address of Beneficial Owner	Shares Beneficially Owned	
	Number	Percentage
CANX USA LLC (1) 410 South Rampart Blvd., Suite 350 Las Vegas, NV 89145	540,000,000	32.4 % (Capped at 4.99 %)
Logic Works LLC (2) 9616 Emeraude Avenue Las Vegas, NV 89147	112,759,066	9.3 % (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.

(2) Reflects 33,061,066 shares owned by Logic Works LLC and 78,698,000 shares beneficially owned by Logic Works LLC related to Convertible Notes. Logic Works does not consider themselves a control group because Logic Works has a 4.99% ownership limit. The 33,061,066 shares owned by Logic works is the last known number of shares.

#### CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are not and have not been any disagreements between us and our accountants on any matter of accounting principles, practices, or financial statement disclosure during our two most recent fiscal years and subsequent interim period.

#### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933 with respect to the shares of common stock we are offering to sell. This prospectus, which constitutes part of the registration statement, does not include all of the information contained in the registration statement and the exhibits, schedules and amendments to the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and to the exhibits and schedules to the registration statement. Statements contained in this prospectus about the contents of any contract, agreement or other document are not necessarily complete, and, in each instance, we refer you to the copy of the contract, agreement or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You may read and copy the registration statement of which this prospectus is a part at the SEC's public reference room, which is located at 100 F Street, N.E., Room 1580, Washington, DC 20549. You can request copies of the registration statement by writing to the Securities and Exchange Commission and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the SEC's public reference room. In addition, the SEC maintains a website, which is located at [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. You may access the registration statement of which this prospectus is a part at the SEC's website.

We are subject to the information reporting requirements of the Securities Exchange Act of 1934 and are required to file reports, proxy statements and other information with the SEC. All documents filed with the SEC are available for inspection and copying at the public reference room and website of the SEC referred to above. We maintain a website at [www.growlifeinc.com](http://www.growlifeinc.com). You may access our reports, proxy statements and other information free of charge at this website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information on such website is not incorporated by reference and is not a part of this prospectus.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
GrowLife, Inc.:

We have audited the accompanying consolidated balance sheets of GrowLife, Inc. (the "Company") as of December 31, 2015 and 2014 and the related consolidated statements of operations, stockholders' deficit, and cash flow for the years ended December 31, 2015 and 2014. 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 audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GrowLife, Inc. as of December 31, 2015 and 2014, and the results of its consolidated operations and its cash flows for the years ended December 31, 2015 and 2014 in conformity with generally accepted accounting principles in the United States of America.

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

PMB Helin Donovan, LLP

/s/ PMB Helin Donovan, LLP

April 14, 2016  
Seattle, WA

GROWLIFE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$60,362	\$286,238
Inventory, net	398,439	883,350
Prepaid expenses	-	41,791
Deposits	16,754	33,584
Total current assets	475,555	1,244,963
<b>EQUIPMENT, NET</b>	<b>10,327</b>	<b>24,042</b>
<b>OTHER ASSETS</b>		
Intangible assets, net	243,604	353,752
Goodwill	739,000	739,000
<b>TOTAL ASSETS</b>	<b>\$1,468,486</b>	<b>\$2,361,757</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$1,272,572	\$1,129,130
Accounts payable - related parties	71,920	-
Accrued expenses	121,765	276,225
Accrued expenses - related parties	53,287	-
Derivative liability	1,377,175	2,100,915
Current portion of convertible notes payable	2,287,868	887,272
Deferred revenue	25,000	108,799
Total current liabilities	5,209,587	4,502,341
<b>LONG TERM LIABILITIES:</b>		
Convertible notes payable	-	98,333
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>2,000,000</b>	<b>-</b>
<b>MEZZANINE EQUITY:</b>		
Contingently redeemable common stock-15,000,000 shares issued and outstanding at 12/31/15 and 12/31/14, respectively	300,000	-
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock - \$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Series B Convertible Preferred stock - \$0.0001 par value, 150,000 shares authorized,		

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150,000 shares issued and outstanding at 12/31/2015 and 12/31/2014, respectively	15	-
Series C Convertible Preferred stock - \$0.0001 par value, 51 shares authorized, 51 shares issued and outstanding at 12/31/2015 and 12/31/2014, respectively	-	-
Common stock - \$0.0001 par value, 3,000,000,000 shares authorized, 891,116,496 and 879,343,771 shares issued and outstanding at 12/31/2015 and 12/31/2014, respectively	89,098	87,936
Additional paid in capital	110,585,434	108,699,950
Accumulated deficit	(116,715,648)	(111,026,803)
Total stockholders' deficit	(6,041,101 )	(2,238,917 )
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$1,468,486</b>	<b>\$2,361,757</b>

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

GROWLIFE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended,	
	December 31, 2015	December 31, 2014
NET REVENUE	\$3,499,642	\$8,537,676
COST OF GOODS SOLD	2,980,503	7,172,376
GROSS PROFIT	519,139	1,365,300
GENERAL AND ADMINISTRATIVE EXPENSES	2,684,107	7,851,370
OPERATING LOSS	(2,164,968 )	(6,486,070 )
<b>OTHER INCOME (EXPENSE):</b>		
Change in fair value of derivative	1,678,541	(16,252,823 )
Interest expense, net	(1,118,635 )	(64,073,997 )
Other expense, primarily related to TCA Global Credit Master Fund LP funding	(2,002,533 )	-
Loss on class action lawsuit settlements	(2,081,250 )	-
Realized gain on sale of investment	-	186,791
Total other (expense)	(3,523,877 )	(80,140,029 )
<b>(LOSS) BEFORE INCOME TAXES</b>	<b>(5,688,845 )</b>	<b>(86,626,099 )</b>
Income taxes - current benefit	-	-
<b>NET (LOSS)</b>	<b>\$(5,688,845 )</b>	<b>\$(86,626,099 )</b>
Basic and diluted (loss) per share	\$(0.01 )	\$(0.10 )
Weighted average shares of common stock outstanding- basic and diluted	884,348,627	834,503,868

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

GROWLIFE INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT)

	Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Unrealized Gain on Investment in Related Party	Additional Paid in Capital	Accumulated Deficit	Total Stockholders' (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2013	-	\$-	-	\$-	755,694,870	\$75,571	\$1,121,237	\$17,359,932	\$(24,400,704)	\$(5,843,964)
Options exercised for cash	-	-	-	-	2,351,187	235	-	44,438	-	44,673
Cashless exercise of options	-	-	-	-	3,570,455	357	-	(357)	-	-
Shares issued related to the conversion of principal and interest related to convertible notes payable	-	-	-	-	102,507,839	10,251	-	1,875,684	-	1,885,935
Shares issued for services rendered	-	-	-	-	15,219,420	1,522	-	2,720,078	-	2,721,600
Stock based compensation for stock options	-	-	-	-	-	-	-	724,267	-	724,267
Unrealized loss on investment in related party	-	-	-	-	-	-	(1,121,237)	-	-	(1,121,237)
Change in fair value of derivative liability	-	-	-	-	-	-	-	23,475,908	-	23,475,908
Value of warrants expensed issued to CANX USA LLC or its assignees	-	-	-	-	-	-	-	62,500,000	-	62,500,000
	-	-	-	-	-	-	-	-	(86,626,099)	(86,626,099)



Net loss for the year ended December 31, 2014										
Balance as of December 31, 2014	-	-	-	-	879,343,771	87,936	-	108,699,950	(111,026,803)	(2,238,917)
Stock based compensation for stock options	-	-	-	-	-	-	-	175,661	-	175,661
Shares issued for debt conversion	-	-	-	-	7,772,725	777	-	170,223	-	171,000
Shares issued for services rendered	-	-	-	-	4,000,000	400	-	39,600	-	40,000
Issuance of Series B Convertible Preferred Stock	150,000	15	-	-	-	(15 )	-	1,500,000	-	1,500,000
Issuance of Series C Convertible Preferred Stock	-	-	51	-	-	-	-	-	-	-
Net loss for the year ended December 31, 2015	-	-	-	-	-	-	-	-	(5,688,845 )	(5,688,845 )
Balance as of December 31, 2015	150,000	\$15	51	\$-	891,116,496	\$89,098	\$-	\$110,585,434	\$(116,715,648)	\$(6,041,101)

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

GROWLIFE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended,	
	December 31, 2015	December 31, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(5,688,845)	\$(86,626,099)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	13,715	33,641
Amortization of intangible assets	106,548	106,548
Change in inventory reserve	-	12,711
Stock based compensation	175,661	724,267
Preferred shares issued for services	300,000	-
Common stock issued for services	210,985	2,721,600
Amortization of debt discount	(158,237 )	1,363,847
Change in fair value of derivative liability	(723,740 )	16,252,823
Expense related to warrant	-	62,500,000
Accrued interest on convertible notes payable	310,500	183,214
Loss on class action lawsuit settlements	2,000,000	-
Issuance of Series B Convertible Preferred Stock	1,500,000	-
Write-off of patent expenses	3,600	-
Excess and obsolete inventory	20,215	-
Realized gain on sale of investment	-	(186,791 )
Changes in operating assets and liabilities:		
Restricted Cash	-	46,400
Accounts receivable	-	183,678
Inventory	464,696	357,660
Prepaid expenses	41,791	(24,790 )
Other receivable	-	3,666
Deposits	16,830	12,589
Accounts payable	215,362	33,926
Accrued expenses	(209,972 )	209,421
Deferred revenue	25,000	(30,888 )
<b>CASH (USED IN) OPERATING ACTIVITIES</b>	<b>(1,375,891)</b>	<b>(2,122,577 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net cash proceeds from shares in Vape Holdings, Inc.	-	187,951
Capital expenditures	-	(3,925 )
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES:</b>	<b>-</b>	<b>184,026</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of convertible note	1,150,000	350,000
Series B Convertible Preferred Stock	15	-
Proceeds from options exercised	-	44,673
Payments of notes payable - related party	-	(1,160 )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,150,015</b>	<b>393,513</b>

NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(225,876 )	(1,545,038 )
CASH AND CASH EQUIVALENTS, beginning of period	286,238	1,831,276
CASH AND CASH EQUIVALENTS, end of period	\$60,362	\$286,238
Supplemental disclosures of cash flow information:		
Interest paid	\$10,500	\$-
Taxes paid	\$-	\$-
Non-cash investing and financing activities:		
6% Senior secured convertible notes and interest converted into common stock	\$-	\$62,025
7% Convertible notes and interest converted into common stock	\$-	\$1,384,207
12% Senior secured convertible notes and interest converted into common stock	\$-	\$439,688
Common stock issued for cashless exercise of options	\$-	\$357
Common stock issued for conversion of accounts payable	\$171,000	\$-

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 Seattle, 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. In addition to the promotion and sales of GrowLife owned brands, GrowLife companies distribute and sell over 3,000 products through its e-commerce distribution channel, Greners.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.

Past Merger and Acquisition Transactions

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. The Company purchased all of the assets and liabilities of the RMH and EGC Companies, and their retail hydroponics stores, which are located in Vail and Boulder, Colorado and Portland, Maine. The Company purchased RMC and EGC from Rob Hunt, who was appointed to the then Company’s Board of Directors and President of GrowLife Hydroponics, Inc.

On July 23, 2012, the Company completed the purchase of substantially all of the assets of Donna Klauenburch and Tao Klauenburch related to the online retail business Greners.com.

On October 24, 2012, the Company’s wholly owned subsidiary GrowLife Hydroponics, Inc., a Delaware corporation, completed the purchase of all of the shares of Soja, Inc. dba Urban Garden Supplies (the “Urban Garden”) from Richard Melograno, Michael Cook, and Scott Glass (collectively the “UG Sellers”). The Company acquired all of the assets and liabilities of Urban Garden which included the inventory of the store located at 22516 Ventura Blvd., Woodland Hills, CA 91364.

Agreement and Plan of Merger with SGT Merger Corporation

On March 21, 2012, the Company entered into an Agreement and Plan of Merger with SGT Merger Corporation, a Nevada corporation and the Company’s wholly-owned subsidiary, SG Technologies Corp, a Nevada corporation (“SGT”), Sterling C. Scott, and W-Net Fund I, L.P., a Delaware limited partnership and current holder of the Company’s common stock. The transaction closed on April 5, 2012. At the Closing, (i) The Merger Corporation was merged with and into SGT; (ii) SGT became the Company’s wholly-owned subsidiary; and (iii) all SGT shares of common stock were exchanged for shares of our common stock and shares of a new series of our preferred stock, which was

designated Series A Preferred Stock. At the Closing, the Company issued to SGT's former stockholders 157,000,000 shares of the Company's common stock and 3,000,000 shares of Series A Preferred Stock in exchange for the 200 shares of SGT's common stock outstanding immediately prior to the Merger. Sterling C. Scott was appointed to the then Company's Board of Directors and Chief Executive Officer.

After the Merger, former holders of SGT's common stock owned in excess of 50% of our fully-diluted shares of common stock, and as a result of certain other factors, including that all members of our executive management are members of SGT's management, SGT is deemed to be the acquiring company and the Company was deemed to be the legal acquirer for accounting purposes, and the Merger was accounted for as a reverse merger and a recapitalization in accordance with GAAP. The consolidated financial statements of GrowLife and its subsidiaries reflect the historical activity of SGT, and the historical stockholders' equity of SGT has been retroactively restated for the equivalent number of shares received in the exchange.

#### Suspension of Trading of the Company's Securities

On April 10, 2014, the Company received notice from the SEC that trading of the Company's common stock on the OTCBB was to be suspended from April 10, 2014 through April 24, 2014. The SEC issued its order pursuant to Section 12(k) of the Securities Exchange Act of 1934. According to the notice received by us from the SEC: "It appears to the Securities and Exchange Commission that the public interest and the protection of investors require a suspension of trading in the securities of GrowLife, Inc. because of concerns regarding the accuracy and adequacy of information in the marketplace and potentially manipulative transactions in GrowLife's common stock." The Company did not receive notice from the SEC that it was being formally investigated.

The suspension of trading eliminated the Company's market makers, resulted in our trading on the grey sheets, resulted in legal proceedings and restricted the Company's access to capital. On April 25, 2014, shares of the Company's common stock resumed trading on the "grey sheets" and were not formally quoted or listed on any stock exchange as of December 31, 2015.

#### SEC Charges of Manipulating Our Securities

On August 5, 2014, the SEC charged four promoters with ties to the Pacific Northwest for manipulating the Company's open market and conducted pre-arranged, manipulative matched orders and wash trades to create the illusion of an active market in these stocks. The promoters then sold their shares in coordination with aggressive promotional campaigns that urged investors to buy the stocks because the prices were on the verge of rising substantially.

On July 9, 2015, the SEC entered into settlements with two of the promoters. In connection with the settlement of their SEC action, the two men are liable for disgorgement of approximately \$2.1 million and \$306,000 in illicit profits, respectively. Earlier this year the two men were also sentenced to five and three years in prison, respectively, for their participation in the scheme.

#### Resumed Trading of our Common Stock

On February 18, 2016, the Company's common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority ("FINRA") on our Form 15c2-11. The Company is currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

#### NOTE GOING CONCERN

2 –

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$5,688,845 and \$86,626,099 for the years ended December 31, 2015 and 2014, respectively. Our net cash used in operating activities was \$1,375,891 and \$2,122,577 and the years ended December 31, 2015 and 2014, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of December 31, 2015, our accumulated deficit was \$116,715,648. The Company has experienced recurring operating losses and negative operating cash flows since inception, and has financed its working capital requirements during this period primarily through the recurring issuance of convertible notes payable and advances from a related party. The audit report prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2015 and filed with the SEC on April 14, 2016 includes an explanatory paragraph expressing the substantial doubt about our ability to continue as a going concern.

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

#### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

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

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

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

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

**Inventories** - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. The reserve for inventory was \$20,000 and \$40,215 as of December 31, 2015 and 2014, respectively.

**Property and Equipment** - Property and equipment are stated at cost. Assets acquired held under capital leases are initially recorded at the lower of the present value of the minimum lease payments discounted at the implicit interest rate (35% for assets currently held under capital lease) or the fair value of the asset. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over an estimated useful life of five years. Assets acquired under capital lease are depreciated over the lesser of the useful life or the lease term. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations.

**Goodwill and Intangible Assets** - The Company evaluates the carrying value of goodwill, intangible assets, and long-lived assets during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, (3) an adverse action or assessment by a regulator, (4) continued losses from operations, (5) continued negative cash flows from operations, and (6) the suspension of trading of the Company's securities. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill.

The Company amortizes the cost of other intangible assets over their estimated useful lives, which range up to ten years, unless such lives are deemed indefinite. Intangible assets with indefinite lives are tested in the fourth quarter of each fiscal year for impairment, or more often if indicators warrant.

**Equity Investments** – The Company classifies all highly-liquid investments with stated maturities of greater than three months from the date of purchase and remaining maturities of less than one year as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such investments are viewed as being available to support current operations. The Company classifies and accounts for short-term investments as available-for-sale and reflect realized gains and losses using the specific identification method. Changes in market value, if any, excluding other-than-temporary impairments, are reflected under stockholders' deficit as unrealized gain/loss on related party investment.

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



Fair Value Measurements and Financial Instruments - ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a 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.

As of December 31, 2015 and 2014, the Company had outstanding 7% convertible notes for \$500,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$105,515 and \$1,278,878, respectively, using the Black-Scholes-Merton option pricing model.

As of December 31, 2015 and 2014, the Company had outstanding 6% convertible notes for \$350,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$54,377 and \$822,037, respectively using the Black-Scholes-Merton option pricing model.

As of December 31, 2015, the Company had outstanding 18% convertible notes for \$1,150,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$1,217,283 using the Black-Scholes-Merton option pricing model.

**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, 2015 and 2014, there was no reserve for sales returns, which are minimal based upon our historical experience.

**Shipping and Handling Fees and Cost** - For the years ended December 31, 2015 and 2014, shipping and handling fees billed to customers totaled \$95,455 and \$128,351, respectively, and were included in revenue.

**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.

**Advertising Costs** - Advertising costs are expensed as incurred and are recorded in general and administrative expenses. For the years ended December 31, 2015 and 2014, advertising costs of \$637 and \$141,369, respectively, were included in general and administrative expenses.

**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, 2015, there are also (i) stock option grants outstanding for the purchase of 29.0 million common shares at a \$0.028 average strike price; (ii) warrants for the purchase of 565.0 million common shares at a \$0.032 average exercise price; (iii) 243.6 million shares related to convertible debt that can be converted at 0.007 per share; and (iv) 6.0 million shares that may be issued to a former executive related to a severance agreement. We issued \$2 million in common stock or 115,141,048 shares of our common stock pursuant to the settlement of the Consolidated Class Action and Derivative Action lawsuits alleging violations of federal securities laws that were filed against the Company in United States

District Court, Central District of California. In addition, we have an unknown number of common shares to be issued under the TCA financing agreements. As of December 31, 2014, there were stock options outstanding for the purchase of 40,720,000 common shares, warrants for the purchase of 565,000,000 common shares, 209,061,571 shares related to convertible debt and 6,000,000 of shares which we may have to issue under a settlement agreement which could potentially dilute future earnings per share.

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.

Reclassifications - Certain amounts in the consolidated financial statements for 2014 have been reclassified to conform to the 2015 presentation. These reclassifications have no effect on net income, earnings per share, or stockholders' equity as previously reported.

#### Recent Accounting Pronouncements

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to our consolidated financial statements.

In August 2014, FASB issued ASU 2014-15—Presentation of Financial Statements—Going Concern (ASC Subtopic 205-40): “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. The update requires management to assess a company’s ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. All entities are required to apply the new requirements in annual periods ending after December 15, 2016, and interim periods thereafter. Early application is permitted. As such, GrowLife, Inc. is required to adopt these provisions for the annual period ending December 31, 2016. The Company is currently evaluating the impact of FASB ASU 2014-15 but does not expect the adoption thereof to have a material effect on GrowLife’s financial statements.

In May 2014, FASB issued ASU 2014-09—Revenue from Contracts with Customers (Topic 606): “Section A—Summary and Amendments That Create Revenue from Contracts with Customers, (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40), Section B—Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables, Section C—Background Information and Basis for Conclusions”. The guidance in this update affects any entity that enters into contracts with customers to transfer goods or services and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. As such, GrowLife, Inc. is required to adopt these provisions as of December 31, 2016. The Company is currently evaluating the impact of FASB ASU 2014-09 but does not expect the adoption thereof to have a material effect on GrowLife’s financial statements.

In July 2013, FASB issued ASU 2013-11—Income Taxes (ASC Topic 740): “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)”. The amendments in this update provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of FASB ASU 2013-11 did not have a material effect on GrowLife’s financial statements.

#### New Accounting Standards Issued but Not Yet Adopted

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for us on January 1, 2016, with early adoption permitted. The Company does not believe that this pronouncement will have an impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The amendments in ASU 2015-03 require that debt issuance

costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 is effective for the Company on January 1, 2016, with early adoption permitted. The Company is currently evaluating the potential changes from this ASU to the Company's future financial reporting and disclosures.

**NOTE 4 – PURCHASE – ROCKY MOUNTAIN HYDROPONICS and EVERGREEN GARDEN CENTER**

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. The purchase included all of the assets and liabilities of the RMH and EGC Companies, and their retail hydroponics stores, which are located in Vail and Boulder, Colorado and Portland, Maine. The Company purchased RMC and EGC from Rob Hunt, who was appointed to the Company's Board of Directors and was appointed President of GrowLife Hydroponics, Inc.

The Company paid the former owners of the RMH and EGC Companies \$550,000 in cash, \$800,000 in 12% Secured Convertible Notes, and \$275,000 (7,857,141 shares at \$0.035/share) in shares of the Company's common stock.

The purchase price was allocated to specific identifiable tangible and intangible assets at their fair value at the date of the purchase in accordance with Accounting Standards Codification 805, “Business Combinations”, as follows:

	Allocation	\$
Assets		\$907,614
Intangible assets		366,000
Goodwill		739,000
Total		2,012,614
Less fair value of liabilities		(387,614 )
Purchase price		\$1,625,000

The Company is amortizing the \$366,000 of intangible assets at the rate of \$6,100 per month over 5 years, with the Company recording \$106,548 of non-cash amortization expense related to these intangible assets during the years ended December 31, 2015 and 2014.

The Company consolidated the results from operations from June 7, 2013.

#### NOTE 5 – TRANSACTIONS WITH CANX USA, LLC AND LOGIC WORKS LLC

##### Transactions with CANX, LLC and Logic Works LLC

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. The Agreements require the filing of a registration statement on Form S-1 within 10 days of the filing of the Company’s Form 10-Q for the period ended June 30, 2014. Due to the Company’s grey sheet trading status and other issues, the Company did not file the registration statement.

Previously, the Company entered into a Joint Venture Agreement with CANX USA LLC, a Nevada limited liability company. Under the terms of the Joint Venture Agreement, the Company and CANX formed Organic Growth International, LLC (“OGI”), a Nevada limited liability company, for the purpose of expanding the Company’s operations in its current retail hydroponic businesses and in other synergistic business verticals and facilitating additional funding for commercially financeable transactions of up to \$40,000,000. In connection with the closing of the Agreement, CANX agreed to provide a commitment for funding in the amount of \$1,300,000 for a GrowLife Infrastructure Funding Technology program transaction and provided additional funding under a 7% Convertible Note instrument for \$1,000,000, including \$500,000 each from Logic Works and China West III Investments LLC, entities that are unaffiliated with CANX and operate as separate legal entities. The Company initially owned a non-dilutive forty five percent (45%) share of OGI and the Company may acquire a controlling share of OGI as provided in the Joint Venture Agreement. In accordance with the Joint Venture Agreement, the Company and CANX entered into a Warrant Agreement whereby the Company delivered to CANX a warrant to purchase 140,000,000 shares of the Company common stock at a maximum strike price of \$0.033 per share. Also in accordance with the Joint Venture Agreement, the Company issued an additional warrant to purchase 100,000,000 shares of the Company’s common stock at a maximum strike price of \$0.033 per share on February 7, 2014.

On April 10, 2014, as a result of the suspension in the trading of the Company’s securities, the Company went into default on its 7% Convertible Notes Payable for \$500,000 each from Logic Works and China West III. As a result, the Company accrued interest on these notes at the default rate of 24% per annum. Furthermore, as a result of being in default on these notes, the Holders could have, at their sole discretion, called these notes.

##### Waiver and Modification Agreement

The Company entered into a Waiver and Modification Agreement dated June 25, 2014 with Logic Works LLC whereby the 7% Convertible Note with Logic Works dated December 20, 2013 was modified to provide for (i) a waiver of the default under the 7% Convertible Note; (ii) a conversion price which is the lesser of (A) \$0.025 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable Conversion Date on which the Holder elects to convert all or part of this Note; (iii) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the period ended June 30, 2014; and (iv) continuing interest of 24% per annum. China West III converted its Note into common stock on June 4, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement. This 20% of the average should be 70% and the Parties are working to resolve this issue.

#### Amended and Restated Joint Venture Agreement

The Company entered into an Amended and Restated Joint Venture Agreement dated July 1, 2014 with CANX whereby the Joint Venture Agreement dated November 19, 2013 was modified to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to nine months, subject to extension; (ii) up to \$10,000,000 in working capital loans, with each loaning requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to extension, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to extension, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; (vi) a four year term, subject to adjustment and (vi) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the period ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

## Secured Convertible Note and Secured Credit Facility

The Company entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding requires approval in advance by Logic Works, provides for interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.0070 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. The Company also has agreed to file a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the three months ended September 30, 2014 and have the registration statement declared effective within ninety days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. As of December 31, 2014, the Company has borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works.

OGI was incorporated on January 7, 2014 in the State of Nevada and had no business activities as of December 31, 2015.

## NOTE 6 – INVENTORY

Inventory as of December 31, 2015 and December 31, 2014 consists of the following:

	December 31, 2015 (Audited)	December 31, 2014 (Audited)
Finished goods	\$418,439	\$923,565
Inventory reserve	(20,000 )	(40,215 )
<b>Total</b>	<b>\$398,439</b>	<b>\$8</b>

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

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

## NOTE 7 – INVESTMENT IN VAPE HOLDINGS, INC.

In May 2013, the Company made an investment in the amount of \$1,160 in Vape Holdings, Inc., a Nevada corporation, and received 200,428 shares.

Sterling C. Scott, the Company's then Chief Executive Officer, also owned 257,320 shares of Vape's common stock. Furthermore, the former President of GrowLife, Inc., Kyle Tracey, was the Chief Executive Officer of Vape. As a



result, the Company deemed Vape to be a related party and therefore has recorded the Company's investment in Vape as an "Investment in a related party" on its balance sheet.

The value of the Company's investment in Vape as of December 31, 2013 was \$5.60 per share, or \$1,122,397. The Company sold 200,428 shares of Vape's common stock during the year ended December 31, 2014 for net proceeds of \$186,791 which was recorded as "other income" in the statement of operations. As of December 31, 2014, the Company recorded a \$1,122,397 loss in the value of its investment in Vape by decreasing its "Investment in a related party" balance sheet account while also recording a corresponding decrease to "Unrealized loss on investment in a related party" in the Stockholders' deficit section of the Company's balance sheet.

F-12

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## NOTE 8 – INTANGIBLE ASSETS

Intangible assets as of December 31, 2015 consisted of the following:

Intangible Assets:	Estimated Useful Lives	Cost	Accumulated Amortization	Net Book Value
RMH/EGC acquisition- customer contracts	5 years	\$ 366,000	\$ (189,100 )	\$ 176,900
Greners acquisition- customer contracts	5 years	230,000	(163,296 )	66,704
Phototron acquisition- customer contracts	5 years	215,000	(215,000 )	-
Soja, Inc. (Urban Garden Supply) acquisition- customer contracts	5 years	60,000	(60,000 )	-
Total intangible assets		\$ 871,000	\$ (627,396 )	\$ 243,604

Total amortization expense was \$106,548 for the years ended December 31, 2015 and 2014, respectively.

The fair value of the assets acquired detailed above, estimated by using a discounted cash flow approach based on future economic benefits associated with agreements with customers, or through expected continued business activities with its customers. 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 9 – 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. The adoption of these requirements can affect the accounting for warrants and many convertible instruments with provisions that protect holders from a decline in the stock price (or “down-round” provisions). For example, warrants or conversion features with such provisions are no longer recorded in equity. Down-round provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price.

## 7% Convertible Notes

As of December 31, 2013, the Company had outstanding 7% convertible notes for \$1,850,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company had valued the derivative liability of these notes at \$9,324,000 using the Black-Scholes-Merton option pricing model. As of December 31, 2014, the Company had outstanding 7% convertible notes for \$500,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$1,278,878 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques. As of December 31, 2015, the Company had outstanding 7% convertible notes for \$500,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$105,515 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 133.2%; (iii) risk free rate of .001%, (iv) stock price of \$.005, (v) per share conversion price of \$0.007, and (vi) expected term of .25 years, as the Company estimates that these notes will be converted by March 31, 2016.

### 6% Convertible Notes

As of December 31, 2014, the Company had outstanding 6% convertible notes for \$350,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$822,037 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques. As of December 31, 2015, the Company had outstanding unsecured 6% convertible notes for \$350,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$54,377 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 133.2%; (iii) risk free rate of 0.34%, (iv) stock price of \$.005, (v) per share conversion price of \$0.007, and (vi) expected term of .56 years.

### Secured Convertible Debenture Transaction with TCA Global Credit Master Fund LP

On July 9, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, an accredited investor, whereby the Company agreed to sell and TCA agreed to purchase up to \$3,000,000 of senior secured convertible redeemable debentures, of which \$700,000 was purchased on July 9, 2015 and up to \$2,300,000 may be purchased in additional closings. The closing of the Transaction occurred on July 9, 2015.

On July 9, 2015, the Company valued the conversion feature as a derivative liability of this senior secured convertible redeemable debenture at \$888,134 and discounted debt by \$700,000 and recorded interest expense of \$188,134. The Company valued the derivative liability of this debenture at \$888,134 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 160.0%; (iii) risk free rate of 0.25%, (iv) stock price of \$0.02, (v) per share conversion price of \$0.011, and (vi) expected term of 1.0 years.

Committed Equity Facility Transaction with TCA Global Credit Master Fund LP

On August 6, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, whereby the Company agreed to sell and TCA agreed to purchase a \$100,000 senior secured convertible redeemable debenture and the Company agreed to issue and sell to TCA, from time to time, and TCA agreed to purchase from the Company up to \$3,000,000 of the Company's common stock pursuant to a Committed Equity Facility. The closing of the Transaction occurred on August 6, 2015.

On August 6 2015, the Company valued the conversion feature as a derivative liability of this senior secured convertible redeemable debenture at \$66,668 and discounted debt by \$66,668. The Company valued the derivative liability of this debenture at \$66,668 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 160.0%; (iii) risk free rate of 0.25%, (iv) stock price of \$0.02, (v) per share conversion price of \$0.018, and (vi) expected term of 1.0 years.

Amended and Restated Securities Purchase Agreement with TCA Global Credit Master Fund LP

On October 27, 2015, the Company entered into an Amended and Restated Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP whereby we agreed to sell, and TCA agreed to purchase \$350,000 of senior secured convertible, redeemable debentures. The Company and TCA previously entered into a Securities Purchase Agreement dated as of April 30, 2015 and effective as of July 9, 2015 to purchase up to \$3,000,000 in Debentures. To date, the Company has sold \$1,050,000 in Debentures to TCA and up to \$1,950,000 in Debentures remains for sale by the Company. The closing of the transaction occurred on October 27, 2015.

The Company valued the conversion feature as a derivative liability at \$340,924 and discounted debt by \$340,924. The company value the derivative liability of this debenture using the Black-Scholes-Merton option pricing model which approximates the Monte Carlo and other binomial valuation techniques, with the following assumption (i) dividend yield of 0%, (ii) expected volatility of 160.0%; (iii) risk free rate of 0.25%, (iv) stock price of \$0.007, (v) per share conversion price of \$0.0065, and (vi) expected term of 1.0 years.

The risk-free rate of return reflects the interest rate for the United States Treasury Note with similar time-to-maturity to that of the warrants.

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at September 30, 2015
	Level 1	Level 2	Level 3	
Liabilities:				
Derivative Instruments - Warrants	\$-	\$1,377,175	\$-	\$1,377,175

Total	\$-	\$1,377,175	\$-	\$1,377,175
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For the year ended December 31, 2015, the Company recorded non-cash income of \$723,740 related to the “change in fair value of derivative” expense related to its 6%, 7% and 18% convertible notes.

F-14

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Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at December
	Level 1	Level 2	Level 3	31, 2014
Liabilities:				
Derivative Instruments - Warrants	\$-	\$2,100,915	\$-	\$2,100,915
<b>Total</b>	<b>\$-</b>	<b>\$2,100,915</b>	<b>\$-</b>	<b>\$2,100,915</b>

For the year ended December 31, 2015, the Company recorded non-cash income of \$16,252,823 related to the “change in fair value of derivative” expense related to its 6%, 7% and 12% convertible notes.

#### NOTE 10 – RELATED PARTY TRANSACTIONS AND CERTAIN RELATIONSHIPS

Since January 1, 2014, the Company engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

##### Certain Relationships

Please see the transactions with CANX, LLC and Logic Works LLC in Note 5 and TCA Global Credit Master Fund LP as discussed in Note 11 and 12.

##### Transaction with Marco Hegyi

Mr. Hegyi warrant to purchase up to twenty five million shares of the Company’s common stock at an exercise price of \$0.08 per share was reduced to \$0.01 per share on December 18, 2015. The reduction in exercise price resulted in no additional compensation expense at December 31, 2015.

##### Transaction with an Entity Controlled by Mark E. Scott

An entity controlled by Mr. Scott received an option to purchase sixteen million shares of the Company’s common stock at an exercise price of \$0.07 per share was reduced to \$0.01 per share on December 18, 2015. The reduction in exercise price resulted in no additional compensation expense at December 31, 2015. Two million shares vested on August 17, 2015 with the Company’s resolution of the class action lawsuits.

##### Loans and Advances from Sterling C. Scott

Sterling Scott, our former CEO, advanced various amounts to us. As of December 31, 2011, the amount due the former CEO was \$183,103, and additional advances of \$98,897 were made to us through April 5, 2012. On April 5, 2012, Mr. Scott converted \$282,000 of these advances into a 6% senior convertible note. Mr. Scott made further advances during the year ended December 31, 2012 which were converted into the 6% senior convertible note. As of December 31, 2013, total amount owed to Mr. Scott was \$453,932, which consisted of \$413,680 in principal and \$40,252 in accrued interest. As of September 10, 2014, the outstanding principal balance on Mr. Scott’s 6% convertible note was \$413,680 and accrued interest were sold to two parties not related to us.

##### Investment in Vape Holdings, Inc.

Please see the transactions with Vape Holding, Inc. as discussed in Note 7.

NOTE 11– CONVERTIBLE NOTES PAYABLE, NET

Convertible notes payable as of December 31, 2015 consists of the following:

F-15

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	Principal	Accrued Interest	Debt Discount	Balance As of December 31, 2015
6% Senior secured convertible notes (2012)	\$413,680	\$172,494	\$-	\$586,174
6% Secured convertible note (2014)	350,000	30,641	(83,924 )	296,717
7% Convertible note (\$850,000)	250,000	104,137	-	354,137
7% Convertible note (\$1,000,000)	250,000	134,469	-	384,469
18% Senior secured redeemable convertible debenture (\$1,050,000)	1,150,000	68,510	(552,139 )	666,371
	\$2,413,680	\$510,251	\$(636,063 )	\$2,287,868

On April 10, 2014, as a result of the SEC suspension in the trading of our securities, the Company went into default on its 6% Senior Secured Convertible Notes Payable and 7% Convertible Notes Payable. As a result, the Company accrued interest on these notes at the default rate of 12% and 24% per annum, respectively. Furthermore, as a result of being in default on these notes, the Holders could, at their sole discretion, call these notes. Although no such action has been taken by the Holders, the Company classified these notes as a current liability rather than long-term debt as of June 30, 2014.

#### 6% Senior Secured Convertible Notes Payable (2012)

On September 28, 2012, the Company entered into an Amendment and Exchange Agreement (“Exchange Agreement”) with investors, including Sterling Scott, our then CEO. The Exchange Agreement provided for the issuance of new 6% Senior Secured Convertible Notes that replaced the 6% Senior Secured Convertible Notes that were previously issued during 2012. The 6% Notes accrued interest at the rate of 6% per annum and had a maturity date of April 15, 2015. No cash payments were required; however, accrued interest is due at maturity. In the event of a default the investors may declare the entire principal and accrued interest to be due and payable. Default interest accrued at the rate of 12% per annum. The 6% Notes were secured by substantially all of the assets of the Company and are convertible into common stock at the rate of \$0.007 per share. The Company determined that the conversion feature was a beneficial conversion feature.

As of September 10, 2014, the outstanding principal balance on Mr. Scott’s 6% convertible note was \$413,680 and accrued interest were sold to two parties not related to us. On April 27, 2015, the Company entered into Amendment One of the Amended and Restated 6% Senior Secured Convertible Note, which increased the interest rate to 12% effective April 8, 2014 and extended the maturity to September 15, 2015.

On July 9, 2015, the two investors each entered into Amendment Two of the Amended and Restated 6% Senior Secured Convertible Note which provide for an increase in the interest rate from 6% to 10% and the default interest rate from 12% to 20% on the 6% Senior Secured Convertible Notes for so long as the Company remains in technical default on said notes due to its delisting from its Primary Trading Market April 2014. The Company further agreed that said 20% default interest will be applied to the date of default on April 10, 2014 and continuing through the present.

During the year ended December 31, 2014, the Company recorded interest expense of \$66,568 and \$81,609 of non-cash interest expense related to the amortization of the debt discount associated with these 6% convertible notes, respectively. As of December 31, 2014, the outstanding principal on these 6% convertible notes was \$413,680, accrued interest was \$71,669, and unamortized debt discount was \$20,486, which results in a net amount of \$464,683.



The Company accrued interest on these notes at the default rate of 12% from April 10, 2014 to July 10, 2014.

During the year ended December 31, 2015, the Company recorded interest expense of \$100,825 and \$20,486 of non-cash interest expense related to the amortization of the debt discount associated with these 6% convertible notes, respectively. As of December 31, 2015, the outstanding principal on these 6% convertible notes was \$413,680, accrued interest was \$172,494, and unamortized debt discount was \$0, which results in a net amount of \$586,174.

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

The Company entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding requires approval in advance by Logic Works, provides for interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.0070 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6% Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. The Company also has agreed to file a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014 and have the registration statement declared effective within ninety days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works LLC, a lender and shareholder of the Company. As of December 31, 2014, the Company has borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility, accrued interest was \$9,641 and the unamortized debt discount was \$261,308, which results in a net amount of \$98,333.

During the year ended December 31, 2015, the Company recorded interest expense of \$21,000 and \$177,384 of non-cash interest expense related to the amortization of the debt discount associated with these 6% convertible notes, respectively. As of December 31, 2015, the Company has borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility, accrued interest was \$30,641 and the unamortized debt discount was \$83,924, which results in a net amount of \$296,717.

#### 7% Convertible Notes Payable

On October 11, 2013, the Company issued 7% Convertible Notes in the aggregate amount of \$850,000 to investors, including Forglen LLC. The principal balance due to Forglen as of December 31, 2014 and 2015 is \$250,000 was due September 30, 2015. The current annual rate of interest is 24% per annum. The conversion price is \$0.007 per share. The Company determined that the conversion feature was a beneficial conversion feature.

On July 14, 2014, the Board of Directors approved a Settlement Agreement and Waiver of Default dated June 19, 2014 with Forglen related to the 7% Convertible Note. The Company cancelled the April 9, 2014 conversion as a result of the SEC suspension in the trading of the Company's securities and Forglen has \$250,000 of principal and interest outstanding on its note payable.

On December 20, 2013, the Company issued 7% Convertible Notes for \$1,000,000, including \$500,000 from Logic Works LLC. The principal balance due to Logic Works as of December 31, 2014 and 2015 is \$250,000 was due September 30, 2015. The current annual rate of interest is 24% per annum. The conversion price is \$0.007 per share. The Company determined that the conversion feature was a beneficial conversion feature.

During the year ended December 31, 2014, the Company recorded interest expense of \$136,980 and \$1,502,260 of non-cash interest expense related to the amortization of the debt discount associated with these 7% convertible notes, respectively. As of December 31, 2014, the outstanding principal on these 7% convertible notes was \$500,000, accrued interest was \$118,441, and unamortized debt discount was \$196,032, which results in a net amount of \$422,409.

During the year ended December 31, 2015, the Company recorded interest expense of \$120,165 and \$196,032 of non-cash interest expense related to the amortization of the debt discount associated with these 7% convertible notes, respectively. As of December 31, 2015, the outstanding principal on these 7% convertible notes was \$500,000, accrued interest was \$238,606, and unamortized debt discount was \$0, which results in a net amount of \$738,606.

#### Secured Convertible Debenture Transaction with TCA Global Credit Master Fund LP

On July 9, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, an accredited investor, whereby the Company agreed to sell and TCA agreed to purchase up to \$3,000,000 of senior secured convertible redeemable debentures, of which \$700,000 was purchased on July 9, 2015 and up to \$2,300,000 may be purchased in additional closings. The closing of the Transaction occurred on July 9, 2015.

#### Securities Purchase Agreement

As set forth above, the Company entered into the Securities Purchase Agreement on July 9, 2015 with the Purchaser whereby the Purchaser agreed to purchase up to \$3,000,000 of the Debentures of which \$700,000 was purchased at Closing. In connection with the Securities Purchase Agreement, the Company, at the discretion of Purchaser, may request in writing at any time after the Closing that Purchaser purchase additional Debentures at agreed upon time periods and amounts.

The Securities Purchase Agreement also provides that the Company shall, within ninety days of Closing, file any and all periodic reports with the SEC required under the Exchange Act to become current with the Company's reporting requirements under the Securities Exchange Act of 1934 and shall use its best efforts to obtain approval for the listing and quotation of the Company's common stock on the OTC Bulletin Board, or another Principal Trading Market more senior and established than the OTC Pink Sheets and approved by Purchaser, and to have such Common Stock trading in such Principal Trading Market.

In consideration for advisory services provided by Purchaser to the Company prior to the Closing, the Company paid to Purchaser a fee by issuing to Purchaser 10,000,000 shares of Common Stock at \$0.02 per share equal to \$200,000. The Advisory Fee Shares were valued at a price equal to the lowest volume weighted average price for the Common Stock for the five (5) Business Days immediately prior to the Effective Date, as reported by Bloomberg (the "VWAP"). The Advisory Fee Shares are subject to adjustment as provided in the Securities Purchase Agreement. If the Advisory Fee Shares are still in possession of the holder at twelve months the holder may require the Company to redeem that number of shares for cash, not to exceed \$200,000. As the common stock is conditionally redeemable, the Company has recorded the common stock as mezzanine equity in the accompanying consolidated balance sheet.

The Company also paid certain transaction, due diligence and document review and legal fees to the Purchaser in connection with the Transaction.

#### Senior Secured, Convertible, Redeemable Debenture

The Company entered into an initial Debenture dated July 9, 2015 with the Purchaser whereby the Purchaser purchased \$700,000 in senior secured, convertible, redeemable debentures in exchange for \$700,000 in immediately available and lawful money of the United States of America. The Company promised to pay Purchaser, by no later than October 9, 2016 the outstanding principal together with interest on the outstanding principal amount under the Debenture, at the rate of 18% per annum simple interest. The Company shall make monthly payments of principal and interest on the Debenture to Purchaser, while this Debenture is outstanding, until the Maturity Date, based on the payment, amortization and redemption premium schedule attached as Schedule A to the Debenture.

The indebtedness evidenced by this Debenture is also secured by a first priority lien and security interest in all of the assets and property of the Company and various other instruments as set forth in the Transaction Documents, subject to the terms and conditions of the Intercreditor Agreement described below.

At any time while the Debenture is outstanding on or after the Closing, (i) if mutually agreed upon by the parties or (ii) at the sole option of the Purchaser upon the occurrence of an Event of Default, the Purchaser may convert all or any portion of the outstanding principal, accrued and unpaid interest redemption premium and any other sums due and payable hereunder or under any of the other Transaction Documents into shares of Common Stock of the Company at a price equal to: (i) the Conversion Amount (the numerator); divided by (ii) 90% of the lowest of the average daily volume weighted average price of the Company's Common Stock during the 5 trading days immediately prior to the Conversion Date (the denominator).

#### Security Agreement(s)

In connection with the Securities Purchase Agreement and Debenture, the Company entered into a Security Agreement dated July 9, 2015 with the Purchaser whereby the Company agreed to grant to Purchaser an unconditional and continuing, first priority security interest in all of the assets and property of the Company to secure the prompt payment, performance and discharge in full of all of Company's obligations under the Debentures, the Purchase Agreement and the other Transaction Documents, subject to the terms and conditions of the Intercreditor Agreement set forth below.

In addition, each of the Company's operating subsidiaries also agreed to grant to Purchaser an unconditional and continuing, first priority security interest in all of the assets and property of each of the subsidiaries to further secure the prompt payment, performance and discharge in full of all of Company's obligations under the Debentures, the Purchase Agreement and the other Transaction Documents.

#### Guaranty Agreement(s)

In connection with the Securities Purchase Agreement and Debenture, each of the Company's operating subsidiaries entered into Guaranty Agreements dated July 9, 2015 with the Purchaser whereby the subsidiaries agreed to guarantee and become surety to Purchaser for the full, prompt and unconditional payment of the Liabilities and payment and performance of the Company's obligations and the full, prompt and unconditional performance of each term and condition to be performed by Company under the Debentures and the other Transaction Documents.

#### Pledge Agreement(s)

In connection with the Securities Purchase Agreement and Debenture, the Company entered into Pledge Agreements dated July 9, 2015 with the Purchaser whereby the Company agreed to pledge to Purchaser its shares in each of its operating subsidiaries as further security for the payment and performance of the Company's obligations and the full, prompt and unconditional performance of each term and condition to be performed by Company under the Debentures and the other Transaction Documents.

#### Intercreditor Agreement and Related Creditor Documentation

On July 9, 2015, the Company, each of its subsidiaries, Purchaser and Logic Works LLC (an existing senior secured creditor) entered into an Intercreditor Agreement whereby Purchaser and Logic Works agreed that their outstanding senior secured loans to the Company be secured on a pari passu basis with respect to all assets and property of the Company and its subsidiaries. As a result of the Intercreditor Agreement, all sums secured or owing to Purchaser and Logic Works shall be held by them on a pari passu and pro-rata basis between them, in proportion to such party's outstanding principal amount owing under their respective loan documents.

In addition, the Company, each of its subsidiaries, Purchaser and Jordan Scott and Andrew Gentile, respectively, each entered into Subordination Agreements dated July 9, 2015 whereby Scott and Gentile agreed to subordinate their existing 6% Senior Secured Convertible Notes, dated March 16, 2012, as amended, all of their indebtedness, obligations and security interests to the Purchaser's security interests as more fully set forth in the Transaction Documents.

On July 9, 2015, Jordan Scott and Andrew Gentile each entered into Amendment Two of the Amended and Restated 6% Senior Secured Convertible Note which provide for an increase in the interest rate from 6% to 10% and the default interest rate from 12% to 20% on the 6% Senior Secured Convertible Notes for so long as the Company remains in technical default on said notes due to its delisting from its Primary Trading Market April 2014. The Company further agreed that said 20% default interest will be applied to the date of default on April 10, 2014 and continuing through the present.

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

#### Committed Equity Facility Transaction with TCA Global Credit Master Fund LP

On August 6, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, whereby the Company agreed to sell and TCA agreed to purchase a \$100,000 senior secured convertible redeemable debenture and the Company agreed to issue and sell to TCA, from time to time, and TCA agreed to purchase from the Company up to \$3,000,000 of the Company's common stock pursuant to a Committed Equity Facility. The closing of the Transaction occurred on August 6, 2015.

In consideration for advisory services provided by Purchaser to the Company prior to the, the Company paid to Purchaser a fee by issuing to Purchaser 5,000,000 shares of Common Stock at \$0.02 per share equal to \$100,000. The Advisory Fee Shares were valued at price equal to the lowest volume weighted average price for the Common Stock for the five (5) Business Days immediately prior to the issuance. The Advisory Fee Shares are subject to adjustment as provided in the Securities Purchase Agreement. If the Advisory Fee Shares are still in possession of the holder at twelve months, the holder may require the Company to redeem that number of shares for cash, not to exceed \$100,000. As the common stock is conditionally redeemable, the Company has recorded the common stock as mezzanine equity in the accompanying consolidated balance sheet. The Company also paid certain transaction, due diligence and document review and legal fees in connection with the Transaction.

The Company entered into a Debenture dated August 6, 2015 with the Purchaser whereby the Purchaser purchased \$100,000 in a senior secured, convertible, redeemable debenture from the Company in exchange for \$100,000. The Company promised to pay Purchaser, by no later than August 6, 2016 the outstanding principal together with interest on the outstanding principal amount under the Debenture, at the rate of 18% per annum simple interest. The Debenture is convertible only at the option of Purchaser upon an event of default at a conversion price of 90% of the lowest of the average daily volume weighted average price of the Company's Common Stock during the 5 trading days immediately prior to the conversion date.

In addition, the Company entered into a Committed Equity Facility, dated August 6, 2015, with the Purchaser in which the Company agreed to issue and sell to the Purchaser, from time to time, and the Purchaser agreed to purchase from the Company up to \$3,000,000 of the Company's common stock. At any time during the duration of the agreement and after the Company has an effective registration statement outstanding, the Company can require the Purchaser to purchase shares of its common stock which will be sold by Purchaser with the net proceeds provided to the Company, subject to the terms and conditions set forth in the Committed Equity Facility.

To facilitate the Committed Equity Facility, the Company has granted the Purchaser certain registration rights pursuant to a Registration Rights Agreement dated August 6, 2015 whereby the Company filed a registration statement to facilitate the purchase and sale of the common stock under the Committed Equity Facility.

The Company's obligation to repay the Debenture disclosed herein as well as the Debenture entered into by and between the Company and Purchaser on July 9, 2015, are secured by security agreements, guaranty agreements and pledge agreements previously disclosed on the Company's Current Report on Form 8-K filed July 16, 2015 and incorporated herein by reference. The Company has additionally entered into an Authorization Agreement, dated August 6, 2015, with Purchaser whereby scheduled re-payments to the Purchaser will be debited from the Company's account according to the payment schedule of both the Debenture disclosed herein and the Debenture previously entered into on July 9, 2015.

On August 6, 2015, the Company valued the derivative liability of this senior secured convertible redeemable debenture at \$66,668 and reduced debt by \$66,668.

#### Amended and Restated Securities Purchase Agreement with TCA Global Credit Master Fund LP

On October 27, 2015, the Company entered into an Amended and Restated Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP whereby we agreed to sell, and TCA agreed to purchase \$350,000 of senior secured convertible, redeemable debentures. The Company previously entered into a Securities Purchase Agreement dated as of April 30, 2015 and effective as of July 9, 2015 to purchase up to \$3,000,000 in Debentures. As of October 27, 2015, the Company sold \$1,050,000 in Debentures to TCA and up to \$1,950,000 in Debentures remains for sale by us. The closing of the transaction occurred on October 27, 2015. In addition, TCA has advanced the Company an additional \$100,000 for a total of \$1,150,000. Also, on October 21, 2015 the Company issued 150,000 Series B Preferred Stock at a stated value equal to \$10.00 per share to TCA that is convertible into the Company's common stock. On October 21, 2015, the Company also issued 51 shares of Series C Preferred Stock at \$0.0001 par value per share to TCA that is not convertible into the Company's common stock. In the event of a default under the Amended and Restated TCA Transaction Documents, TCA can exercise voting control over the Company's common stock with their Series C Preferred Stock voting rights

#### Amended and Restated Securities Purchase Agreement

As set forth above, the Company entered into the Amended and Restated Securities Purchase Agreement on October 27, 2015 with the Purchaser whereby the Purchaser agreed to purchase \$350,000 of the Debentures.

In addition, in consideration for advisory services provided by Purchaser to the Company prior to the closing (the “Second Closing Advisory Fee”), the Company paid to Purchaser a fee by issuing to Purchaser 150,000 Series B Preferred Stock valued at \$1,500,000 and convertible into common stock of the Company.

Purchaser was also granted 51 shares of Series C Preferred Stock as further security for the Company’s completion of post-closing obligations under the Amended and Restated Transaction Documents as further discussed below.

#### Series B Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series B Preferred Stock as provided in the Company’s Certificate of Incorporation, as amended.

The Series B Preferred Stock has authorized 150,000 shares with a stated value equal to \$10.00 per share. Dividends payable to other classes of stock are restricted until repayment of the aggregate value of Series B Preferred Stock. Upon liquidation or dissolution of the Company, Series B Preferred Stock has no priority or preference with respect to distributions of any assets of the Company. The Series B Preferred Stock is convertible into common stock by dividing the stated value of the shares being converted by 100% of the average of the five (5) lowest closing bid prices for the common stock during the ten (10) consecutive trading days immediately preceding the conversion date as quoted by Bloomberg, LP.

The Purchaser was issued 150,000 shares of Series B Preferred Stock. However, in no event will Purchaser be entitled to hold in excess of 4.99% of the outstanding shares of common stock of the Company.

#### Series C Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series C Preferred Stock as provided in the Company’s Certificate of Incorporation, as amended, and the issuance of 51 shares of Series C Preferred Stock. These shares only have voting rights in the event of a default by the Company under the Amended and Restated Transaction Documents.

The Series C Preferred Stock Designation authorizes 51 shares of Series C Preferred Stock. Series C Preferred Stock is not entitled to dividend or liquidation rights and is not convertible into common stock of the Company.

In the event of a default under the Amended and Restated Transaction Documents, each share of Series C Preferred Stock shall have voting votes equal to 0.019607 multiplied by the total issued and outstanding common stock and preferred stock eligible to vote divided by .49 minus the numerator. For example, if the total issued and outstanding common stock eligible to vote is 5,000,000, the voting rights of one share of Series C Preferred Stock shall be equal to 102,036 (e.g.  $((0.019607 \times 5,000,000) / 0.49) - (0.019607 \times 5,000,000) = 102,036$ ).

#### Amended and Restated Senior Secured, Convertible, Redeemable Debenture

In connection with the Amended and Restated Securities Purchase Agreement, the Company, on October 27, 2015, also entered into the Amended and Restated Debenture which was amended to increase the balance of the original



Debenture from \$700,000 to \$1,050,000 as a result of the additional \$350,000 advanced.

As of April 14, 2016, the Company is in default on our repayment obligations in its Agreements with TCA and owes TCA approximately \$254,000 in principal and interest payments. The Company is working to resolve these issues.

During the year ended December 31, 2015, the Company recorded interest expense of \$68,510 and \$552,139 of non-cash interest expense related to the amortization of the debt discount associated with the senior secured convertible redeemable debentures, respectively. As of December 31, 2015, the Company has borrowed \$1,150,000 under the senior secured convertible redeemable debentures, accrued interest was \$68,510 and the unamortized debt credit was \$552,139, which results in a net amount of \$666,371.

F-20

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## NOTE 12 – EQUITY

### Authorized Capital Stock

The Company has voting common stock of 3,000,000,000 shares at \$0.0001 par value and 10,000,000 shares of non-voting preferred stock with a par value of \$0.0001 as authorized by the shareholders.

In addition, on October 21, 2015 the Company issued 150,000 Series B Preferred Stock at a stated value equal to \$10.00 per share and convertible into our common stock. On October 21, 2015, the Company also issued 51 shares of Series C Preferred Stock at \$0.0001 par value per share that have certain voting rights but are not convertible into our common stock

### 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 its 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 the Company no present plans to issue any shares of preferred stock.

### Series B Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series B Preferred Stock as provided in our Certificate of Incorporation, as amended.

The Series B Preferred Stock has authorized 150,000 shares with a stated value equal to \$10.00 per share. Dividends payable to other classes of stock are restricted until repayment of the aggregate value of Series B Preferred Stock. Upon our liquidation or dissolution, Series B Preferred Stock has no priority or preference with respect to distributions of any assets by us. The Series B Preferred Stock is convertible into common stock by dividing the stated value of the shares being converted by 100% of the average of the five lowest closing bid prices for the common stock during the ten consecutive trading days immediately preceding the conversion date as quoted by Bloomberg, LP.

TCA was issued 150,000 shares of Series B Preferred Stock. However, in no event will Purchaser be entitled to hold in excess of 4.99% of the outstanding shares of common stock of the Company.

### Series C Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series C Preferred Stock as provided in our Certificate of Incorporation, as amended, and the issuance of 51 shares of Series C Preferred Stock. These shares only have voting rights in the event of a default by us under the Amended and Restated Transaction Documents. The Series C Preferred Stock is cancelled

with the repayment of the TCA debt.

The Series C Preferred Stock Designation authorizes 51 shares of Series C Preferred Stock. Series C Preferred Stock is not entitled to dividend or liquidation rights and is not convertible into our common stock.

In the event of a default under the Amended and Restated Transaction Documents, each share of Series C Preferred Stock shall have voting votes equal to 0.019607 multiplied by the total issued and outstanding common stock and preferred stock eligible to vote divided by .49 minus the numerator. For example, if the total issued and outstanding common stock eligible to vote is 5,000,000, the voting rights of one share of Series C Preferred Stock shall be equal to 102,036 (e.g.  $((0.019607 \times 5,000,000 / 0.49) - (0.019607 \times 5,000,000)) = 102,036$ ).

#### 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, 2015, the Company had had the following sales of unregistered sales of equity securities:

On June 16, 2015, the Company issued 7,772,725 shares of its common stock to Horwitz + Armstrong LLP pursuant a conversion of debt for \$171,000. The shares were valued at the fair market price of \$0.022 per share.

On December 18, 2015, the Company issued 2,000,000 shares to two of its former independent Board Directors. The Company valued the 4,000,000 shares at \$0.01 per share or \$40,000.

During the year ended December 31, 2014, the Company had had the following sales of unregistered sales of equity securities:

On January 3, 2014, the Company issued 4,700,196 shares of its common stock to Carla Badaracco related to the conversion of \$30,000 of principal and \$2,901 of accrued interest at a per share conversion price of \$0.007 of the Company's 6% Senior Secured Convertible Notes Payable.

On January 31, 2014, the Company issued 12,562,518 shares of its common stock related to the conversion of \$408,000 of principal and \$31,688 of accrued interest at a per share conversion price of \$0.035 of the Company's 12% Senior Secured Convertible Notes Payable.

On January 31, 2014, the Company issued 2,351,187 shares of its common stock to Doug Braun related to the exercise of a stock option granted in fiscal year 2011. The Company received \$44,673 or \$0.019 per share.

On February 13, 2014, the Company issued 29,420 shares of its common stock to Alby Segall, a third party consultant and non-accredited investor, as payment in full for services rendered. The shares were valued at the fair market price of \$0.3399 per share.

On February 16, 2014, the Company issued 1,250,000 shares of its common stock to Integrity Media, Inc. related to a November 16, 2013 Service Agreement for investor relations. The shares were valued at the fair market price of \$0.38 per share.

On March 7, 2014, the Company issued 2,000,000 shares of its common stock to Adam Liebross related to the conversion of \$50,000 of principal at a per share conversion price of \$0.025 of the Company's 7% Convertible Notes Payable.

On March 18, 2014, the Company issued 22,727,668 shares of its common stock to Adam Liebross (8,300,260 shares), Myli Burger Holdings LLC (4,122,248 shares) and Europa International Inc. (10,304,800 shares) related to the total conversion of \$550,000 of principal and \$18,192 of accrued and interest at a per share conversion price of \$0.025 of the Company's 7% Convertible Notes Payable.

On March 20, 2014, the Company issued 2,775,000 shares of its common stock to Doug Braun related to the cashless exercise of a stock option granted in fiscal year 2011 to purchase 4,500,000 shares of the Company's common stock at \$0.23 per share.

On March 31, 2014, the Company issued 500,000 shares to each of its four independent Board Directors, The Company valued the 2,000,000 shares at \$0.58 per share which was the closing price of the Company's common stock

on March 31, 2014. The Company recorded stock based compensation of \$1,160,000 during the three months ended March 31, 2014. On April 25, 2014, the Company entered into four Restricted Stock Cancellation Agreements with the four independent members of the Company's Board of Directors, pursuant to which the Directors agreed to each cancel 500,000 shares of the Company's restricted common stock granted to each Director on March 31, 2014. The Company recorded a reduction in common stock and an increase in additional paid in capital of \$200 during the year ended December 31, 2014 are related to cancellation of the Restricted Stock Agreements.

On April 9, 2014, the Company issued 5,347,032 shares of its common stock to Forglen LLC related to the conversion of \$125,000 of principal and \$8,676 of accrued interest at a per share conversion price of \$0.025 of the Company's 7% Convertible Notes Payable. On July 14, 2014, the Board of Directors approved a Settlement Agreement and Waiver of Default dated June 19, 2014 with Forglen related to the 7% Convertible Note. The Company cancelled the April 9, 2014 conversion as a result of the SEC suspension in the trading of the Company's securities.

On June 4, 2014, the Company issued 20,640,548 shares of the Company's common stock to China West III Investments LLC related to the conversion of \$500,000 of principal and \$16,014 of accrued interest at a per share conversion price of \$0.033 of the Company's 7% Convertible Notes Payable.

On July 1, 2014, Horwitz and Armstrong LLP converted debt of \$100,000 debt into 500,000 shares of the Company's common stock at a per share conversion price of \$0.11 and a cash payment of \$35,000.

On July 3, 2014, Sterling Scott exercised his option on a cashless basis and was issued 795,455 shares of restricted common stock at \$.085 per share. Mr. Scott was awarded a stock option grant on November 3, 2013 for 12,000,000 shares and had vested 3,500,000 shares as of his resignation on May 19, 2014. The shares were valued at the fair market price of \$0.085 per share.

On July 3, 2014, Robert Shapero, a Holder of the Company's 6% Convertible Notes Payable, converted \$25,000 of principal and \$4,136 of accrued interest into 4,162,623 shares of the Company's common stock at a per share conversion price of \$0.007.

On July 15, 2014, the Company entered into a Severance Agreement with Mr. Genesi whereby Mr. Genesi resigned as Chief Financial Officer and the Parties cancelled the Executive Employment Agreement dated November 3, 2013. The Company agreed to issue 6,000,000 shares of restricted common stock. The shares were valued at the fair market price of \$0.08 per share.

On July 31, 2014, Logic Works, a Holder of the Company's 7% Convertible Notes Payable, converted \$250,000 of principal into 35,714,286 shares of the Company's common stock at a per share conversion price of \$0.007.

On August 1, 2014, the Company issued 300,000 shares of its common stock to Joseph Barnes pursuant to a Manager Services Agreement with Mr. Barnes dated August 1, 2013. The shares were valued at the fair market price of \$0.08 per share.

On August 15, 2014, the Company issued 300,000 shares of its common stock to Dennis Kuznetsov pursuant to an Employment Agreement with Mr. Kuznetsov dated August 15, 2013. The shares were valued at the fair market price of \$0.06 per share.

On August 27, 2014, the Company issued 5,000,000 shares of its common stock to D. Weckstein and Co., Inc. pursuant to an Investment Banking Letter. The shares were valued at the fair market price of \$0.08 per share.

On September 15, 2014, the Company issued 80,000 shares of its common stock to Josh Nash pursuant to an Employment Agreement with Mr. Nash dated September 15, 2013. The shares were valued at the fair market price of \$0.07 per share.

On October 1, 2014, the Company issued 100,000 shares of its common stock to Jeremy Belmont pursuant to an Employment Agreement with Mr. Belmont dated October 1, 2013. The shares were valued at the fair market price of \$0.06 per share.

On October 8, 2014, Fifth Avenue Law Group PLLP converted debt of \$68,000 debt into 1,360,000 shares of the Company's common stock at a per share conversion price of \$0.05.

On October 31, 2014, the Company issued 100,000 shares of its common stock to Frank Hariton pursuant to a Legal Agreement with Mr. Hariton dated August 14, 2014. The shares were valued at the fair market price of \$0.05 per share.

On December 10, 2014, the Company issued 200,000 shares of its common stock to Velomedia, Inc. pursuant to a debt conversion. The shares were valued at the fair market price of \$0.05 per share.

Warrants

On November 19, 2013, the Company issued a warrant for 140,000,000 common shares to CANX or its assignees in accordance with the Joint Venture Agreement. The warrants have a five-year term with an original exercise price of \$0.033 per share. The warrants vest immediately and are exercisable in whole, or in part, at any time and from time to time on or after the issue date and on or before the termination date. The Company valued the warrants at the time of issuance using the Black-Scholes option pricing model using the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 24.82%; (iii) risk free rate of 0.05% and (iv) an expected term of one year. The Company expensed the entire \$5,040,000 at the time of issuance because the warrants vested immediately and were also exercisable immediately.

On February 7, 2014, the Company issued a warrant for 100,000,000 common shares to CANX or its assignees in accordance with the Joint Venture Agreement. The warrants have a five-year term with an original exercise price of \$0.033 per share. The warrant was earned by CANX upon completion of the Company's increase in the number of authorized common shares from 1 billion to 3 billion shares. This increase in authorized shares was effective with the shareholder approval on February 7, 2014. The Company valued the warrants at the time of issuance using the Black-Scholes option pricing model using the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 200%; (iii) risk free rate of 0.78% and (iv) an expected term of five years. The Company expensed the entire \$33,700,000 at the time of issuance because the warrants vested immediately and were also exercisable immediately.

The Company entered into an Amended and Restated Joint Venture Agreement dated July 1, 2014 with CANX and granted on July 10, 2014 CANX five year warrants, subject to extension, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; The warrants vest immediately and are exercisable in whole, or in part, at any time and from time to time on or after the issue date and on or before the termination date. The Company valued the warrants at the time of issuance using the Black-Scholes option pricing model using the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 161.0%; (iii) risk free rate of 0.78% and (iv) an expected term of five years. The Company expensed the entire \$28,800,000 at the time of issuance because the warrants vested immediately and were also exercisable immediately.

On December 11, 2013, the Company issued a warrant for 25,000,000 common shares to Hegyi, LLC, an entity controlled by Marco Hegyi, President of the Company. The warrants have a five-year term with an original exercise price of \$0.08 per share. On December 18, 2015, the Company reduced the warrant exercise price to \$0.01 per share. The warrants vest immediately and are exercisable in whole, or in part, at any time and from time to time on or after the issue date and on or before the termination date. The Company valued the warrants at the time of issuance using the Black-Scholes option pricing model using the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 88.81%; (iii) risk free rate of 0.02% and (iv) an expected term of three years. The Company expensed the entire \$1,725,000 at the time of issuance because the warrants vested immediately and were also exercisable immediately.

A summary of the warrants issued as of December 31, 2015 were as follows:

December 31, 2015		Shares	Weighted Average Exercise Price
Outstanding at beginning of period		565,000,000	\$0.032
Issued		-	-
Exercised		-	-
Forfeited		-	-
Expired		-	-
Outstanding at end of period		565,000,000	\$0.032
Exerciseable at end of period		565,000,000	

A summary of the status of the warrants outstanding as of December 31, 2015 is presented below:

Number of Warrants	December 31, 2015		Shares Exerciseable	Weighted Average Exercise Price
	Weighted Average Remaining Life	Weighted Average Exercise Price		
540,000,000	3.31	\$0.033	540,000,000	\$0.033
25,000,000	2.94	0.010	25,000,000	0.010
565,000,000	3.30	\$0.032	565,000,000	\$0.032

Warrants totaling 565,000,000 shares of common stock have an intrinsic value of \$0 as of December 31, 2015.

#### NOTE 13– STOCK OPTIONS

##### Description of Stock Option Plan

In fiscal year 2011, the Company authorized a Stock Incentive Plan whereby a maximum of 18,870,184 shares of the Company's common stock could be granted in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards. On April 18, 2013, the Company's Board of Directors voted to increase to 35,000,000 the maximum allowable shares of the



Company's common stock allocated to the 2011 Stock Incentive Plan. The Company has outstanding unexercised stock option grants totaling 29,020,000 shares as of December 31, 2015. All grants are non-qualified as the plan was not approved by the shareholders within one year of its adoption.

#### 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, 2015, the Company had the following stock option activity:

Mr. Adam Edwards resigned July 11, 2015 and an option to purchase four million five hundred thousand shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at \$0.05 per shares expired on October 10, 2015.

Ms. Tina Qunell resigned July 2, 2015 and an option to purchase seven million shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at \$0.05 per share expired on October 1, 2015.

Resigned employees forfeited options to purchase 200,000 shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at \$0.05 per share expired during the year ended December 31, 2015.

On July 31, 2014, the Company's Board of Directors granted Mr. Scott an option to purchase 16,000,000 shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at an exercise price of \$0.07 per share, the fair market price on July 31, 2014. On December 18, 2015, the Company reduced the exercise price to \$0.01 per share. Two million shares vested immediately upon the Company's resolution of the class action lawsuits on of August 17, 2015).

As of December 31, 2015, there are 29,020,000 options to purchase common stock at an average exercise price of \$0.028 per share outstanding under the 2011 Stock Incentive Plan. The Company recorded \$175,661 and \$724,267 of compensation expense, net of related tax effects, relative to stock options for the years ended December 31, 2015 and 2014 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.00). As of December 31, 2015, there is \$244,011 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 3.85 years.

Stock option activity for the years ended December 31, 2015 and 2014 is as follows:

	Weighted Average		
	Options	Exercise Price	\$
Granted	49,720,000	\$0.075	\$3,706,000
Exercised	(5,126,187 )	(0.133 )	(682,922 )
Forfeitures	(44,725,000)	(0.092 )	(4,132,751)
Outstanding as of December 31, 2014	40,720,000	0.058	2,356,000
Granted	-	-	(960,000 )
Exercised	-	-	-
Forfeitures	(11,700,000)	(0.050 )	(585,000 )
Outstanding as of December 31, 2015	29,020,000	\$0.028	\$811,000

The following table summarizes information about stock options outstanding and exercisable at December 31, 2015:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exercisable	Number Exercisable	Weighted Average Exercise Price Exercisable
\$0.05	13,020,000	4.00	\$ 0.050	7,120,000	\$ 0.050
0.01	16,000,000	3.77	0.010	7,833,333	0.010
	29,020,000	3.85	\$ 0.028	14,953,333	\$ 0.043

Stock option grants totaling 29,020,000 shares of common stock have an intrinsic value of \$0 as of December 31, 2015.

#### NOTE 14 – COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

##### Legal Proceedings

The Company is involved in the disputes and legal proceedings described below. In addition, as a public company, the Company is 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. The Company accrues any contingent liabilities that are likely.

##### Class Actions Alleging Violations of Federal Securities Laws

Beginning on April 18, 2014, three class action lawsuits alleging violations of federal securities laws were filed against the Company in United States District Court, Central District of California (the “Court”). At a hearing held on July 21, 2014, the three class action lawsuits were consolidated into one case with Lawrence Rosen as the lead plaintiff (the “Consolidated Class Action,” styled Romero et al. vs. GrowLife et al.). On May 15, 2014 and August 4, 2014, respectively two shareholder derivative lawsuits were filed against the Company with the Court (the “Derivative Actions”). On October 20, 2014, AmTrust North America, the Company’s insurer, filed a lawsuit contesting insurance coverage on the above legal proceedings. The Company made a general appearance in this action. On January 20, 2015, the Court ordered all of the above actions stayed pending completion of mediation of the dispute.

The parties then worked diligently to finalize settlement documentation on the above actions. On April 27, 2015, the Court preliminarily approved the proposed settlement of the Consolidated Class Action.

On June 1, 2015, the Court preliminarily approved the proposed settlement of the Derivative Actions pursuant to a proposed stipulated settlement agreement.

On August 3, 2015, the Court entered a Final Order and Judgment resolving the Consolidated Class Action litigation in its entirety. The Consolidated Class Action was thereby dismissed in its entirety with prejudice and without costs.

On August 10, 2015, pursuant to a settlement by and between the Company and AmTrust North America, AmTrust’s lawsuit contesting insurance coverage of the Consolidated Class Action and Derivative Actions was dismissed in its entirety with prejudice pursuant to a Stipulation for Dismissal of Entire Action with Prejudice executed by and between AmTrust and the Company.

On August 17, 2015, the Court entered a Final Order and Judgment resolving the Derivative Actions in their entirety. The Derivative Actions were thereby dismissed in their entirety with prejudice.

As a result of the foregoing, all litigation discussed herein is resolved in full at this time.

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

#### Sales and Payroll Tax Liabilities

As of December 31, 2015, the Company owes approximately \$102,000 in sales tax and \$20,000 in payroll taxes. The Company is currently negotiating or operating under payment plans on these liabilities.

#### Other Legal Proceedings

The Company is in default on our Portland, Maine, Boulder, Colorado and Plaistow, New Hampshire store leases for non-payment of lease payments and the Company is negotiating with the landlords. The Company is currently subject to legal actions with various vendors.

It is possible that additional lawsuits may be filed and served on the Company.

## Operating Leases

### Current Operating Leases

Upon the Company's acquisition of Rocky Mountain Hydroponics, LLC and Evergreen Garden Center, LLC, the Company assumed the lease for the RMH/EGC retail hydroponics store located in Portland, Maine. The lease commencement date was May 1, 2013 with an expiration date of April 30, 2016. The monthly rent for year one of the lease was \$4,917, with monthly rent of \$5,065 in year two, and monthly rent of \$5,217 in year three of the lease. The Company has an option to extend the lease for two three year terms as long it is not in default under the lease.

On October 21, 2013, the Company entered into a lease agreement for retail space for its hydroponics store in Avon (Vail), Colorado. The lease expires on September 30, 2018. Monthly rent for year one of the lease is \$2,606 and increases 3.5% per year thereafter through the end of the lease. The Company does not have an option to extend the lease.

On June 18, 2014, the Company rented space at 500 Union Street, Suite 810, Seattle, Washington for its corporate office. The Company rents the space on a month to month basis for \$1,700 per month.

### Terminated Operating Leases

In May 2011, the Company entered into a lease for our Phototron business unit to rent a warehouse facility in Gardena, California. The terms of the lease provide for monthly rental expense of \$4,065 with annual rent increases through the expiration of the lease on May 31, 2014. During the last twelve months of the lease the monthly rent was \$4,313. The Company terminated this lease as of May 31, 2014.

Upon the Company's acquisition of Rocky Mountain Hydroponics, LLC and Evergreen Garden Center, the Company assumed the lease for the RMH/EGC retail hydroponics store located in Plaistow, New Hampshire. The lease commencement date was May 1, 2013 with an expiration date of January 31, 2016. The monthly rent throughout the term of the lease is \$2,105. The Company vacated this store and terminated this lease during 2015.

On June 5, 2013, the Company entered into a lease to rent office space in Woodland Hills, California for the Company's corporate headquarters. The landlord was 20259 Ventura Blvd LP, which was a previous affiliate of a stockholder of our company. The term was for ninety days and can be renewed, or terminated, by either party with thirty days written notice. The monthly rent was \$6,758. The Company terminated this lease as of June 30, 2014.

On May 30, 2013, the Company entered into a lease to rent retail space in Woodland Hills, California for its Urban Garden Supply (Soja, Inc.) hydroponics store. The term was for ninety days and can be renewed, or terminated, by either party with ninety days written notice. The monthly rent was \$3,257. The Company terminated this lease as of June 1, 2015.

On August 26, 2013, the Company entered into a lease agreement for warehouse and retail space for its Greners (Business Bloom, Inc.) business unit in Santa Rosa, California. The lease commencement date was September 1, 2013 with an expiration date of August 31, 2015. The monthly rent is \$3,000. The Company terminated this lease as of

November 25, 2014.

On September 23, 2013, the Company entered into an Assignment and Assumption and Amendment of Lease Agreement for the Company's retail hydroponics store in Peabody, Massachusetts. The original lease between the landlord and Evergreen Garden Center, LLC was assigned from Evergreen Garden Center, LLC to GrowLife Hydroponics, Inc. In addition, the term of the lease was extended from the original expiration date of October 31, 2013 to October 31, 2014. The monthly rent remained at \$4,500 through October 31, 2014. The Company's lease expired on October 31, 2014.

On January 23, 2014, the Company entered into a lease agreement for retail space for its hydroponics store in Boulder, Colorado. The lease commenced on February 1, 2014 and expires on May 31, 2017. Monthly rent for year one of the lease was \$4,051, with monthly rent of \$4,173 in year two, \$4,298 in year three, and \$4,427 for month 37 through 39. The Company had an option to extend the lease for one three year terms as long it is not in default under the lease. The Company vacated the retail space as of November 30, 2015. The landlord has filed a collection claim for \$179,920 against GrowLife Hydroponics. The Company expects to contest this claim.

The Company is in default on our Portland, Maine, Boulder, Colorado and Plaistow, New Hampshire store leases for non-payment of the lease payments and is negotiating with the landlords.

F-27

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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
2016	\$76,929
2017	34,675
2018	28,365
2019	0
2020	-
Beyond	-
Total	\$139,969

## Employment and Consulting Agreements

### Employment Agreement with Marco Hegyi

On December 4, 2013, the Company entered into an Employment Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its President from December 4, 2013 through December 4, 2016 to provide consulting and management services. Per the terms of the Hegyi Agreement, Mr. Hegyi established an office in Seattle, Washington while also maintaining operations in the Southern California area. Mr. Hegyi's annual compensation is \$150,000 for the first year of the Hegyi Agreement; \$250,000 for the second year; and \$250,000 for the third year. 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 (i.e., by January 31st) following the end of each calendar year. Mr. Hegyi's first annual bonus will be calculated based on the Company's EBITDA for calendar year 2014, with such bonus payable on or before January 31, 2015. If Mr. Hegyi's employment is terminated for any reason prior to the expiration of the Term, as applicable, his annual bonus will be prorated for that year based on the number of days worked in that year. At the commencement of Mr. Hegyi's employment, an entity affiliated with Mr. Hegyi received a Warrant to purchase up to 25,000,000 shares of common stock of the Company at an exercise price of \$0.08 per share. The Hegyi Warrant is exercisable for five years. On June 20, 2014, the Company and Mr. Hegyi reduced the warrant life from ten to five years. On January 25, 2016, the Company reduced the warrant exercise price to \$0.01 per share effective December 18, 2015.

Mr. Hegyi was 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 to purchase and maintain during the Term a "key manager" insurance policy on Mr. Hegyi's life in the amount of \$4,000,000, paid as \$2,000,000 payable to Mr. Hegyi's named heirs or estate as the beneficiary, and \$2,000,000 payable to the Company. The Company and Mr. Hegyi waived this \$2,000,000 key manager insurance. If, prior to the expiration of the Term, the Company terminates Mr. Hegyi's employment for "Cause", or if Mr. Hegyi voluntarily terminates his employment without "Good Reason", or if Mr. Hegyi's employment is terminated by reason of his death, then all of the Company's obligations hereunder shall cease immediately, and Mr. Hegyi will not be entitled to any further compensation beyond any pro-rated base salary due and bonus amounts earned through the effective date of termination. Mr. Hegyi will also be reimbursed for any expenses incurred prior to the date of termination for which he was not previously reimbursed.

If the Company terminates Mr. Hegyi's employment at any time prior to the expiration of the Term without Cause, 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, which bonus amount shall be equal to the greater of (A) the annual bonus amount for the immediately preceding year, or (B) the bonus amount that would have been earned for the year of termination,

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



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

On July 31, 2014, the Company entered into a Consulting Chief Financial Officer Letter with an entity controlled by Mark E. Scott pursuant to which the Company engaged Mr. Scott as its Consulting CFO from July 1, 2014 through September 30, 2014, and continuing thereafter until either party provides sixty day notice to terminate the Letter or Mr. Scott enters into a full-time employment agreement.

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

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

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 Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as consultant 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 Stock Incentive Plan except for CANX USA, LLC, then 100% of the total number of shares shall immediately become vested.

Mr. Scott 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 is required to purchase and maintain an insurance policy on Mr. Scott's life in the amount of \$2,000,000 payable to Mr. Scott's named heirs or estate as the beneficiary. Finally, Mr. Scott is entitled to twenty days of vacation annually and also has certain insurance and travel employment benefits.

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

discussed above.

Promotion Letter with Joseph Barnes

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

F-29

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Per the terms of the Barnes Agreement, Mr. Barnes's compensation is \$90,000 on an annual basis. Mr. Barnes received a bonus of \$6,500 and is also entitled to receive a quarterly bonus based on growth of the Company's growth margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Barnes was granted an option to purchase eight million shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at an exercise price on the date of grant. The shares vest as follows:

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

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 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 Stock Incentive, then 100% of the total number of shares shall immediately become vested.

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

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

#### Agreements with Robert Hunt

On June 7, 2013, the Company entered into an Executive Services Agreement with Robert Hunt, pursuant to which the Company engaged Mr. Hunt, from June 8, 2013 through June 7, 2015 to provide consulting and management services as the President of GrowLife Hydroponics, Inc.

On May 30, 2014, the Company announced the resignation of Robert Hunt effective May 23, 2014 as Executive Vice President of GrowLife, Inc., President of GrowLife Hydroponics. On June 3, 2014, the Board of Directors accepted the resignation of Robert Hunt effective June 2, 2014 as a Director of the Company. On October 17, 2014, the Company entered into a Settlement Agreement and Release with Mr. Robert Hunt, whereby the Parties cancelled the Executive Services Agreement ("ESA") dated June 7, 2013 and his stock option grant for 12,000,000 shares. The Company agreed to issue 6,000,000 shares of restricted common stock under certain conditions that have not been met (issuance not triggered as of December 31, 2015), paid cash severance totaling \$50,000 monthly over five months starting October 25, 2014 and reimbursed Mr. Hunt for health insurance benefits and other expenses monthly over five months starting October 25, 2014. The Parties entered into a release agreement.

#### Promotion Letter with Jeremy Belmont

On October 10, 2014, the Company entered into a Promotion Letter with Jeremy Belmont which was effective October 1, 2014 pursuant to which the Company engaged Mr. Belmont as Vice President of Sales from October 1, 2014 on an at will basis. This Promotion Letter superseded and canceled the Manager Services Agreement with Mr. Belmont dated October 1, 2013.

Per the terms of the Belmont Agreement, Mr. Belmont's compensation was \$72,000 on an annual basis. Mr. Belmont received a bonus of \$6,500 and is also entitled to receive a quarterly bonus based on growth of the Company's growth margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Barnes was granted an option to purchase five million shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at an exercise price on the date of grant. The Shares vest as follows:

- i One million four hundred thousand shares vested immediately;
- iv Three million six hundred thousand shares will vest on a monthly basis over a period of three years beginning on the date of grant.

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

Mr. Belmont was 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. Finally, Mr. Belmont was entitled to fifteen days of vacation annually and also had certain insurance and travel employment benefits.

Mr. Belmont may receive severance benefits and the Company's obligation under a termination by the Company without Cause or Mr. Belmont terminated his employment for Good Reason are discussed above.

Mr. Belmont resigned January 13, 2016.

#### Promotion Letter with Adam Edwards

On October 10, 2014, the Company entered into a Promotion Letter with Adam Edwards which was effective October 1, 2014 pursuant to which the Company engaged Mr. Edwards as Vice President of Sales from October 1, 2014 on an at will basis.

Per the terms of the Edwards Agreement, Mr. Edwards's compensation is \$72,000 on an annual basis. Mr. Edwards received a bonus of \$6,500 and was also entitled to receive a quarterly bonus based on growth of the Company's growth margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Edwards was granted an option to purchase four million five hundred thousand shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at an exercise price on the date of grant. The shares vested quarterly over thirty six months.

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

Mr. Edwards was 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. Finally, Mr. Edwards was entitled to fifteen days of vacation annually and also has certain insurance and travel employment benefits.

Mr. Edwards may receive severance benefits and the Company's obligation under a termination by the Company without Cause or Mr. Edwards terminated his employment for Good Reason are discussed above.

Mr. Edwards resigned July 11, 2015.

#### Offer Letter with Tina Qunell

On November 20, 2014, the Company entered into an Offer Letter with Tina Qunell which was effective November 24, 2014 pursuant to which the Company engaged Ms. Qunell as Vice President of Marketing on an at will basis.

Per the terms of the Qunell Agreement, Ms. Qunell's compensation was \$72,000 on an annual basis. Ms. Qunell was granted an option to purchase seven million shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at an exercise price on the date of grant. One million of the shares vested immediately and six million vest quarterly over thirty six months.

All options had a five-year life and allow for a cashless exercise. The stock option grant was subject to the terms and conditions of the Company's Stock Incentive Plan, including vesting requirements. In the event that Ms. Qunell's continuous status as employee to the Company was terminated by the Company without Cause or Mr. Qunell terminates her employment with the Company for Good Reason as defined in the Qunell Agreement, in either case upon or within twelve months after a Change in Control as defined in the Company's Stock Incentive, then 100% of

the total number of shares shall immediately become vested.

Ms. Qunell was 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. Finally, Ms. Qunell was entitled to fifteen days of vacation annually and also has certain insurance and travel employment benefits.

Ms. Qunell may receive severance benefits and the Company's obligation under a termination by the Company without Cause or Ms. Qunell terminated her employment for Good Reason are discussed above.

Ms. Qunell resigned July 2, 2015.

Investment Banking Letter with D. Weckstein and Co. Inc.

On August 27, 2014, the Company issued 5,000,000 shares of its common stock to D. Weckstein and Co., Inc. pursuant to an Investment Banking Letter. The shares were valued at the fair market price of \$0.08 per share.

F-31

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## NOTE 15 – INCOME TAXES

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

Pretax losses arising from United States operations were approximately \$5,700,000 and \$87,000,000 and for the years ended December 31, 2015 and 2014, respectively.

The Company has net operating loss carryforwards of approximately \$17,000,000, which expire in 2023-2033. 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 \$6,700,000 was established as of December 31, 2015. Additionally, under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses may be limited in certain circumstances, including a change in control.

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

For the year ended December 31, 2015, the Company's effective tax rate differs from the federal statutory rate principally due to net operating losses, warrants issued for services, change in fair value of derivative and debt discount.

The principal components of the Company's deferred tax assets at December 31, 2015 and 2014 are as follows:

	2015	2014	2013
U.S. operations loss carry forward and state at statutory rate of 40%	\$6,713,538	\$5,038,976	\$3,612,736
Less valuation allowance	(6,713,538)	(5,038,976)	(3,612,736)
Net deferred tax assets	-	-	-
Change in valuation allowance	\$(6,713,538)	\$(5,038,976)	\$(3,612,736)

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate for the years ended December 31, 2015 and 2014 is as follows:

	2015		2014	
Federal statutory rate	-34.0	%	-34.0	%
State income tax rate	-6.0	%	-6.0	%
Change in valuation allowance	40.0	%	40.0	%
Effective tax rate	0.0	%	0.0	%

The Company's tax returns for 2010 to 2014 are open to review by the Internal Revenue Service.

## NOTE 16 – SUBSEQUENT EVENTS

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

Subsequent to December 31, 2015, the following material transactions occurred:

#### Resumed Trading of our Common Stock

On February 18, 2016, our common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on our Form 15c2-11. The Company is currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

#### Equity Issuances

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

On January 16, 2016, the Company issued 1,400,000 shares of its common stock to a former consultant pursuant a conversion of debt for \$40,000. The shares were valued at the fair market price of \$0.01 per share.



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

During March 2016, Holder of the Company's Convertible Notes Payables, converted principal and accrued interest of \$608,905 into 86,986,437 shares of the Company's common stock at a per share conversion price of \$0.007.

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

#### Stock Option Vesting

On February 18, 2016, an entity affiliated with Mark E. Scott, the Company's Chief Financial Officer, had a two million share stock option grant issued at \$0.01 per share vest immediately upon the Company securing a market maker with an approved 15c2-11 resulting in the Company's relisting on OTCBB.

#### Dissolution of Certain Non-Operating Subsidiaries

The Company determined that certain wholly-owned subsidiaries were unnecessary for the ongoing operations of the Company's business and elected to dissolve these entities and/or surrender their foreign status in certain jurisdictions for the purpose of reducing unnecessary compliance costs.

The Company is dissolving SG Technologies Corp., a Nevada corporation, and is surrendering its qualification to do business in California due to the fact that the Company no longer operates any business under this wholly-owned subsidiary.

The Company is dissolving Phototron, Inc. and GrowLife Productions, Inc., all California corporations, due to the fact that the Company no longer operates any business under these wholly-owned subsidiaries.

The Company is dissolving Business Bloom, Inc., a California corporation, and is withdrawing its foreign entity status in Colorado due to the fact that the Company no longer operates any business under this wholly-owned subsidiary.

The Company is surrendering its qualification to do business in California due to the fact that the Company has moved its headquarters to Seattle, Washington and is no longer required to register as a foreign entity in California.

#### Potential Convertible Note Defaults

Several of the Company's convertible promissory notes remain outstanding beyond their respective maturity dates. This may trigger an event of default under the respective agreements. The Company is working with these noteholders to convert their notes into common stock and intends to resolve these outstanding issues as soon as practicable.

#### Enactment of Heightened Corporate Governance Measures Pursuant to Derivative Action Settlement

In connection with the settlement of the Derivative Actions related to alleged violations of federal securities laws, the Company agreed to expansive corporate governance measures.

During 2015 and 2016, the Company has enacted and continues to enact heightened corporate governance measure pursuant to the Derivative Action Settlement. The Company plans to hold a special shareholder meeting in the coming months to further implement measures associated with the Derivative Action Settlement.

#### Employment and Consulting Agreements Defaults

The Company owes Marco Hegyi approximately \$53,287 in payroll and expenses as of December 31, 2015 and is in default under the Employment Agreement with Mr. Hegyi.

The Company owes Mark Scott approximately \$71,537 in payroll and expenses as of December 31, 2015 and is in default under the Consulting Agreement with Mr. Scott.

#### Expiration of Stock Option Grants

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

### Entry into Securities Purchase Agreement

On April 5, 2016, the Company entered into and closed a Securities Purchase Agreement and related agreements (the “Transaction Documents”) with an accredited investor (the “Purchaser”) whereby the Company agreed to sell, and the Purchaser agreed to purchase an unsecured convertible promissory note in the original principal amount of \$2,755,000 (the “Note”) (collectively, the “Transaction”).

In connection with the Transaction, the Company was provided \$350,000 in cash as well as a series of twelve Secured Investor Notes for a total Purchase Price of \$2,500,000. The Note carries an Original Issue Discount (“OID”) of \$250,000 and the Company agreed to pay \$5,000 to cover Purchaser’s legal fees, accounting costs and other transaction expenses.

The Secured Investor Notes are payable as follows: 1) \$50,000 upon filing of a Registration Statement on Form S-1 (the “Registration Statement”), 2) \$100,000 upon effectiveness of the Registration Statement, and 3) up to \$200,000 per month over the 10 months following effectiveness at the sole discretion of the Company, subject to certain conditions. The Company shall file the Registration Statement within forty-five (45) days of the Closing and will register shares of its common stock for the benefit of Purchaser in exchange for the payments under the Secured Investor Notes.

The Purchaser has the option to convert the Note at 65% of the average of the three (3) lowest volume weighted average prices in the twenty (20) Trading Days immediately preceding the applicable conversion (the “Conversion Price”). However, in no event will the Conversion Price be less than \$0.02 or greater than \$0.09. In addition, beginning on the date that is the earlier of six (6) months or five (5) days after the Registration Statement becomes effective, and on the same day of each month thereafter, the Company will re-pay the Note in monthly installments in cash, or, subject to certain Equity Conditions, in the Company’s common stock at 65% of the average of the three (3) lowest volume weighted average prices in the twenty (20) Trading Days immediately preceding the applicable conversion (the “Installment Conversion Price”).

## ITEM FINANCIAL STATEMENTS

1.

GROWLIFE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 36,560	\$ 60,362
Inventory, net	487,154	398,439
Deposits	16,754	16,754
Total current assets	540,468	475,555
<b>EQUIPMENT, NET</b>	<b>7,799</b>	<b>10,327</b>
<b>OTHER ASSETS</b>		
Intangible assets, net	216,967	243,604
Goodwill	739,000	739,000
<b>TOTAL ASSETS</b>	<b>\$ 1,504,234</b>	<b>\$ 1,468,486</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$ 1,380,161	\$ 1,272,572
Accounts payable - related parties	53,537	71,920
Accrued expenses	225,068	121,765
Accrued expenses - related parties	72,021	53,287
Derivative liability	3,845,467	1,377,175
Current portion of convertible notes payable	1,845,139	2,287,868
Deferred revenue	24,864	25,000
Total current liabilities	7,446,257	5,209,587
<b>LONG TERM LIABILITIES:</b>		
Convertible notes payable	-	-
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>2,000,000</b>	<b>2,000,000</b>
<b>MEZZANINE EQUITY:</b>		
Contingently redeemable common stock- 0 and 15,000,000 shares issued and outstanding at 3/31/2016 and 12/31/2015, respectively	-	300,000
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock - \$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-

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Series B Convertible Preferred stock - \$0.0001 par value, 150,000 shares authorized, 150,000 shares issued and outstanding at 3/31/2016 and 12/31/2015, respectively	15	15
Series C Convertible Preferred stock - \$0.0001 par value, 51 shares authorized, 51 shares issued and outstanding at 3/31/2016 and 12/31/2015, respectively	-	-
Common stock - \$0.0001 par value, 3,000,000,000 shares authorized, 999,002,933 and 891,116,496 shares issued and outstanding at 3/31/2016 and 12/31/2015, respectively	99,886	89,098
Additional paid in capital	111,575,070	110,585,434
Accumulated deficit	(119,616,994 )	(116,715,648 )
Total stockholders' deficit	(7,942,023 )	(6,041,101 )
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 1,504,234</b>	<b>\$ 1,468,486</b>

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

GROWLIFE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended,	
	March 31, 2016	March 31, 2015
NET REVENUE	\$ 467,495	\$ 1,497,811
COST OF GOODS SOLD	332,560	1,104,194
GROSS PROFIT	134,935	393,617
GENERAL AND ADMINISTRATIVE EXPENSES	401,813	785,202
OPERATING LOSS	(266,878 )	(391,585 )
<b>OTHER INCOME (EXPENSE):</b>		
Change in fair value of derivative	(2,468,292 )	(1,408,245 )
Interest expense, net	(166,176 )	(184,054 )
Total other (expense)	(2,634,468 )	(1,592,299 )
(LOSS) BEFORE INCOME TAXES	(2,901,346 )	(1,983,884 )
Income taxes - current benefit	-	-
NET (LOSS)	\$ (2,901,346 )	\$ (1,983,884 )
Basic and diluted (loss) per share	\$ (0.00 )	\$ (0.00 )
Weighted average shares of common stock outstanding- basic and diluted	939,520,030	879,343,771

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

GROWLIFE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended,	
	March 31, 2016	March 31, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,901,346 )	\$ (1,983,884 )
Adjustments to reconcile net loss to net cash (used in)		
Operating activities		
Depreciation and amortization	2,528	3,929
Amortization of intangible assets	26,637	26,637
Stock based compensation	32,520	50,617
Common stock issued for services	15,000	-
Amortization of debt discount	104,580	126,582
Change in fair value of derivative liability	2,468,292	1,408,245
Accrued interest on convertible notes payable	61,596	57,480
Interest converted on convertible notes payable	43,999	-
Changes in operating assets and liabilities:		
Inventory	(88,715 )	30,319
Prepaid expenses	-	(2,031 )
Accounts payable	89,206	159,921
Accrued expenses	122,037	(70,680 )
Deferred revenue	(136 )	-
<b>CASH (USED IN) OPERATING ACTIVITIES</b>	<b>(23,802 )</b>	<b>(192,865 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
	-	-
	-	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES:</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
	-	-
	-	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(23,802 )</b>	<b>(192,865 )</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>60,362</b>	<b>286,238</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 36,560</b>	<b>\$ 93,373</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -
<b>Non-cash investing and financing activities:</b>		
Shares issued for convertible note and interest conversion	\$ 608,904	\$ -

Shares issued for debt conversion	\$ 44,000	\$ -
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The accompanying notes are an integral part of these consolidated financial statements.

F-37

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GROWLIFE, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED 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 Seattle, 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. In addition to the promotion and sales of GrowLife owned brands, GrowLife companies distribute and sell over 3,000 products through its e-commerce distribution channel, Greners.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. The Company purchased all of the assets and liabilities of the RMH and EGC Companies, and their retail hydroponics stores, which are located in Vail and Boulder, Colorado and Portland, Maine. The Company purchased RMC and EGC from Rob Hunt, who was appointed to the then Company’s Board of Directors and President of GrowLife Hydroponics, Inc.

On February 18, 2016, the Company’s common stock resumed unsolicited quotation on the OTC Bulletin Board after receiving clearance from the Financial Industry Regulatory Authority (“FINRA”) on our Form 15c2-11. The Company is currently taking the appropriate steps to uplist to the OTCQB Exchange and resume priced quotations with market makers as soon as it is able.

NOTE 2 – GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$5,688,845 and \$86,626,099 for the years ended December 31, 2015 and 2014, respectively. Our net cash used in operating activities was \$1,375,891 and \$2,122,577 and the years ended December 31, 2015 and 2014, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of March 31, 2016, our accumulated deficit was \$119,616,994. The Company has experienced recurring operating losses and negative operating cash flows since inception, and has financed its working capital requirements during this period primarily through the recurring issuance of convertible notes payable and advances from a related party. The audit report prepared by our independent registered public accounting firm relating to our financial statements for the year ended December 31, 2015 and filed with the SEC on April 14, 2016 includes an explanatory paragraph expressing the substantial doubt about our ability to continue as a going concern.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

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

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

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

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

**Inventories** - Inventories are recorded on a first in first out basis. Inventory consists of raw materials, purchased finished goods and components held for resale. Inventory is valued at the lower of cost or market. The reserve for inventory was \$20,000 as of March 31, 2016 and December 31, 2015, respectively.

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

**Goodwill and Intangible Assets** - The Company evaluates the carrying value of goodwill, intangible assets, and long-lived assets during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, (3) an adverse action or assessment by a regulator, (4) continued losses from operations, (5) continued negative cash flows from operations, and (6) the suspension of trading of the Company's securities. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill.

The Company amortizes the cost of other intangible assets over their estimated useful lives, which range up to ten years, unless such lives are deemed indefinite. Intangible assets with indefinite lives are tested in the fourth quarter of each fiscal year for impairment, or more often if indicators warrant.

**Equity Investments** – The Company classifies all highly-liquid investments with stated maturities of greater than three months from the date of purchase and remaining maturities of less than one year as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such investments are viewed as being available to support current operations. The Company classifies and accounts for short-term investments as available-for-sale and reflect realized gains and losses using the specific identification method. Changes in market value, if any, excluding other-than-temporary impairments, are reflected under stockholders' deficit as unrealized gain/loss on related party investment.

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

**Fair Value Measurements and Financial Instruments** - ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a 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 March 31, 2016 and December 31, 2015, there was no reserve for sales returns, which are minimal based upon our historical experience.

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

**Net (Loss) Per Share** - Under the provisions of ASC 260, "Earnings per Share," basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of March 31, 2016, there are also (i) stock option grants outstanding for the purchase of 29.0 million common shares at a \$0.028 average strike price; (ii) warrants for the purchase of 565.0 million common shares at a \$0.032 average exercise price; (iii) 164.0 million shares related to convertible debt that can be converted at 0.007 per share; and (iv) 6.0 million shares that may be issued to a former executive related to a severance agreement. On April 6, 2016, we issued \$2 million in common stock or 115,141,048 shares of our common stock pursuant to the settlement of the Consolidated Class Action and Derivative Action lawsuits alleging violations of federal securities laws that were filed against the Company in United States District Court, Central District of California. In addition, we have an unknown number of common shares to be issued under the TCA financing agreements. As of March 31, 2015, there were stock options outstanding for the purchase of 40,720,000 common shares, warrants for the purchase of 565,000,000 common shares, 217,287,286 shares related to convertible debt and 6,000,000 of shares which we may have to issue under a settlement agreement which could potentially dilute future earnings per share.

**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**

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to our consolidated financial statements.

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

Transactions with CANX, LLC and Logic Works LLC

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works, a lender and shareholder of the Company. The Agreements require the filing of a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the period ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

F-40

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

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

#### Waiver and Modification Agreement

The Company entered into a Waiver and Modification Agreement dated June 25, 2014 with Logic Works whereby the 7% Convertible Note with Logic Works dated December 20, 2013 was modified to provide for (i) a waiver of the default under the 7% Convertible Note; (ii) a conversion price which is the lesser of (A) \$0.025 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable Conversion Date on which the Holder elects to convert all or part of this Note; (iii) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company’s Form 10-Q for the period ended June 30, 2014; and (iv) continuing interest of 24% per annum. Due to the Company’s grey sheet trading status and other issues, the Company did not file the registration statement. This 20% of the average should be 70% and the Parties are working to resolve this issue.

#### Amended and Restated Joint Venture Agreement

The Company entered into an Amended and Restated Joint Venture Agreement dated July 1, 2014 with CANX whereby the Joint Venture Agreement dated November 19, 2013 was modified to provide for (i) up to \$12,000,000 in conditional financing subject to review by GrowLife and approval by OGI for business growth development opportunities in the legal cannabis industry for up to nine months, subject to extension; (ii) up to \$10,000,000 in working capital loans, with each loaning requiring approval in advance by CANX; (iii) confirmed that the five year warrants, subject to adjustment, at \$0.033 per share for the purchase of 140,000,000 and 100,000,000 were fully earned and were not considered compensation for tax purposes by the Company; (iv) granted CANX five year warrants, subject to adjustment, to purchase 300,000,000 shares of common stock at the fair market price of \$0.033 per share as determined by an independent appraisal; (v) warrants as defined in the Agreement related to the achievement of OGI milestones; (vi) a four year term, subject to adjustment and (vi) the filing of a registration statement on Form S-1 within 10 days of the filing of the Company’s Form 10-Q for the period ended June 30, 2014. Due to the Company’s grey sheet trading status and other issues, the Company did not file the registration statement.

#### Secured Convertible Note and Secured Credit Facility

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

Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. The Company also has agreed to file a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014 and have the registration statement declared effective within ninety days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

On July 10, 2014, the Company closed a Waiver and Modification Agreement, Amended and Restated Joint Venture Agreement, Secured Credit Facility and Secured Convertible Note with CANX, and Logic Works, a lender and shareholder of the Company. As of December 31, 2014, the Company has borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works.

OGI was incorporated on January 7, 2014 in the State of Nevada and had no business activities as of March 31, 2016.

F-41

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## NOTE 5 – INVENTORY

Inventory as of March 31, 2016 and December 31, 2015 consists of the following:

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Finished goods	\$ 507,154	\$ 418,439
Inventory reserve	(20,000 )	(20,000 )
<b>Total</b>	<b>\$ 487,154</b>	<b>\$ 398,439</b>

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

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

## NOTE 6– INTANGIBLE ASSETS

Intangible assets as of March 31, 2016 consisted of the following:

	Estimated		Accumulated	Net Book
Intangible Assets:	Useful Lives	Cost	Amortization	Value
RMH/EGC acquisition- customer contracts	5 years	\$ 366,000	\$ (207,400 )	\$ 158,600
Greners acquisition- customer contracts	5 years	230,000	(171,633 )	58,367
Phototron acquisition- customer contracts	5 years	215,000	(215,000 )	-
Soja, Inc. (Urban Garden Supply) acquisition- customer contracts	5 years	60,000	(60,000 )	-
<b>Total intangible assets</b>		<b>\$ 871,000</b>	<b>\$ (654,033 )</b>	<b>\$ 216,967</b>

Total amortization expense was \$26,637 for the three months ended March 31, 2016 and 2015.

The fair value of the assets acquired detailed above, estimated by using a discounted cash flow approach based on future economic benefits associated with agreements with customers, or through expected continued business activities with its customers. 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 7 – CONVERTIBLE NOTES PAYABLE, NET

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

	Principal	Accrued Interest	Debt Discount	Balance As of March 31, 2016
6% Senior secured convertible notes (2012)	\$ 103,680	\$ 123,572	\$ -	\$ 227,252
6% Secured convertible note (2014)	350,000	35,877	(39,577 )	346,300
7% Convertible note (\$850,000)	250,000	119,096	-	369,096
7% Convertible note (\$1,000,000)	18,573	147,089	-	165,662
18% Senior secured redeemable convertible debenture (\$1,150,000)	1,150,000	78,735	(491,906 )	736,829

	\$ 1,872,253	\$ 504,369	\$ (531,483 )	\$ 1,845,139
		Accrued	Debt	Balance As of December 31, 2015
	Principal	Interest	Discount	
6% Senior secured convertible notes (2012)	\$ 413,680	\$ 172,494	\$ -	\$ 586,174
6% Secured convertible note (2014)	350,000	30,641	(83,924 )	296,717
7% Convertible note (\$850,000)	250,000	104,137	-	354,137
7% Convertible note (\$1,000,000)	250,000	134,469	-	384,469
18% Senior secured redeemable convertible debenture (\$1,150,000)	1,150,000	68,510	(552,139 )	666,371
	\$ 2,413,680	\$ 510,251	\$ (636,063 )	\$ 2,287,868

F-42

Several of the Company's convertible promissory notes remain outstanding beyond their respective maturity dates. This may trigger an event of default under the respective agreements. The Company is working with these noteholders to convert their notes into common stock and intends to resolve these outstanding issues as soon as practicable. As a result, the Company accrued interest on these notes at the default rates. Furthermore, as a result of being in default on these notes, the Holders could, at their sole discretion, call these notes. Although no such action has been taken by the Holders, the Company classified these notes as a current liability as of December 31, 2015 and March 31, 2016.

#### 6% Senior Secured Convertible Notes Payable (2012)

On September 28, 2012, the Company entered into an Amendment and Exchange Agreement with investors, including Sterling Scott, our then CEO. The Exchange Agreement provided for the issuance of new 6% Senior Secured Convertible Notes that replaced the 6% Senior Secured Convertible Notes that were previously issued during 2012. The 6% Notes accrued interest at the rate of 6% per annum and had a maturity date of April 15, 2015. No cash payments were required; however, accrued interest is due at maturity. In the event of a default the investors may declare the entire principal and accrued interest to be due and payable. Default interest accrued at the rate of 12% per annum. The 6% Notes were secured by substantially all of the assets of the Company and are convertible into common stock at the rate of \$0.007 per share. The Company determined that the conversion feature was a beneficial conversion feature.

As of September 10, 2014, the outstanding principal balance on Mr. Scott's 6% convertible note was \$413,680 and accrued interest were sold to two parties not related to us. On April 27, 2015, the Company entered into Amendment One of the Amended and Restated 6% Senior Secured Convertible Note, which increased the interest rate to 12% effective April 8, 2014 and extended the maturity to September 15, 2015.

On July 9, 2015, the two investors each entered into Amendment Two of the Amended and Restated 6% Senior Secured Convertible Note which provide for an increase in the interest rate from 6% to 10% and the default interest rate from 12% to 20% on the 6% Senior Secured Convertible Notes for so long as the Company remains in technical default on said notes due to its delisting from its Primary Trading Market April 2014. The Company further agreed that said 20% default interest will be applied to the date of default on April 10, 2014 and continuing through the present.

During the year ended December 31, 2015, the Company recorded interest expense of \$100,825 and \$20,486 of non-cash interest expense related to the amortization of the debt discount associated with these 6% convertible notes, respectively. As of December 31, 2015, the outstanding principal on these 6% convertible notes was \$413,680, accrued interest was \$172,494, and unamortized debt discount was \$0, which results in a net amount of \$586,174.

During the three months ended March 31, 2016, the Company recorded interest expense of \$18,556 related to these 6% convertible notes. Two investors converted principal and interest of \$310,000 and \$67,478, respectively, into shares of the Company's common stock at a per share conversion price of \$0.007. As of March 31, 2016, the outstanding principal on these 6% convertible notes was \$103,680, accrued interest was \$123,572, and unamortized debt discount was \$0, which results in a net amount of \$227,252.

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

The Company entered into a Secured Convertible Note and Secured Credit Facility dated June 25, 2014 with Logic Works whereby Logic Works agreed to provide up to \$500,000 in funding. Each funding requires approval in advance by Logic Works, provided for interest at 6% with a default interest of 24% per annum and requires repayment by June 26, 2016. The Note is convertible into common stock of the Company at the lesser of \$0.007 or (B) twenty percent (20%) of the average of the three (3) lowest daily VWAPs occurring during the twenty (20) consecutive Trading Days immediately preceding the applicable conversion date on which Logic Works elects to convert all or part of this 6%

Convertible Note, subject to adjustment as provided in the Note. The 6% Convertible Note is collateralized by the assets of the Company. The Company also agreed to file a registration statement on Form S-1 within 10 days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014 and have the registration statement declared effective within ninety days of the filing of the Company's Form 10-Q for the three months ended June 30, 2014. Due to the Company's grey sheet trading status and other issues, the Company did not file the registration statement.

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

During the year ended December 31, 2015, the Company recorded interest expense of \$21,000 and \$177,384 of non-cash interest expense related to the amortization of the debt discount associated with these 6% convertible notes, respectively. As of December 31, 2015, the Company has borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility, accrued interest was \$30,641 and the unamortized debt discount was \$83,924, which results in a net amount of \$296,717.

During the three months March 31, 2016, the Company recorded interest expense of \$5,236 and \$44,347 of non-cash interest expense related to the amortization of the debt discount associated with this 6% convertible note, respectively. As of March 31, 2016, the Company has borrowed \$350,000 under the Secured Convertible Note and Secured Credit Facility, accrued interest was \$35,877 and the unamortized debt discount was \$39,577, which results in a net amount of \$346,300.

### 7% Convertible Notes Payable

On October 11, 2013, the Company issued 7% Convertible Notes in the aggregate amount of \$850,000 to investors, including \$250,000 to Forglen LLC. The Note was due September 30, 2015. All other Notes were converted in 2014. On July 14, 2014, the Board of Directors approved a Settlement Agreement and Waiver of Default dated June 19, 2014 with Forglen related to the 7% Convertible Note. The Company cancelled the April 9, 2014 conversion as a result of the SEC suspension in the trading of the Company's securities and Forglen has \$250,000 of principal and interest outstanding on its note payable as of December 31, 2015 and March 31, 2016. The current annual rate of interest is 24% per annum. The conversion price is \$0.007 per share. The Company determined that the conversion feature was a beneficial conversion feature.

On December 20, 2013, the Company issued 7% Convertible Notes for \$1,000,000, including \$500,000 from Logic Works LLC. The principal balance due to Logic Works of \$250,000 was due September 30, 2015. The current annual rate of interest is 24% per annum. The conversion price is \$0.007 per share. The Company determined that the conversion feature was a beneficial conversion feature.

During the year ended December 31, 2015, the Company recorded interest expense of \$120,165 and \$196,032 of non-cash interest expense related to the amortization of the debt discount associated with these 7% convertible notes, respectively. As of December 31, 2015, the outstanding principal on these 7% convertible notes was \$500,000, accrued interest was \$238,606, and unamortized debt discount was \$0, which results in a net amount of \$738,606.

During the three months ended March 31, 2016, the Company recorded interest expense of \$27,579 related to these 7% convertible notes. Logic Works converted principal of \$231,427 into shares of the Company's common stock at a per share conversion price of \$0.007. As of March 31, 2016, the outstanding principal on these 7% convertible notes was \$268,573, accrued interest was \$266,185, and unamortized debt discount was \$0, which results in a net amount of \$534,758.

### Secured Convertible Debenture Transaction with TCA Global Credit Master Fund LP

On July 9, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, an accredited investor, whereby the Company agreed to sell and TCA agreed to purchase up to \$3,000,000 of senior secured convertible redeemable debentures, of which \$700,000 was purchased on July 9, 2015 and up to \$2,300,000 may be purchased in additional closings. The closing of the Transaction occurred on July 9, 2015.

### Securities Purchase Agreement

As set forth above, the Company entered into the Securities Purchase Agreement on July 9, 2015 with TCA whereby TCA agreed to purchase up to \$3,000,000 of the Debentures of which \$700,000 was purchased at Closing. In connection with the Securities Purchase Agreement, the Company, at the discretion of Purchaser, may request in writing at any time after the Closing that Purchaser purchase additional Debentures at agreed upon time periods and amounts.

The Securities Purchase Agreement also provides that the Company shall, within ninety days of Closing, file any and all periodic reports with the SEC required under the Exchange Act to become current with the Company's reporting requirements under the Securities Exchange Act of 1934 and shall use its best efforts to obtain approval for the listing and quotation of the Company's common stock on the OTC Bulletin Board, or another Principal Trading Market more senior and established than the OTC Pink Sheets and approved by Purchaser, and to have such Common Stock trading in such Principal Trading Market.

In consideration for advisory services provided by Purchaser to the Company prior to the Closing, the Company paid to Purchaser a fee by issuing to Purchaser 10,000,000 shares of Common Stock at \$0.02 per share equal to \$200,000. The Advisory Fee Shares were valued at a price equal to the lowest volume weighted average price for the Common Stock for the five (5) Business Days immediately prior to the Effective Date, as reported by Bloomberg (the "VWAP"). The Advisory Fee Shares are subject to adjustment as provided in the Securities Purchase Agreement. If the Advisory Fee Shares are still in possession of the holder at twelve months the holder may require the Company to redeem that number of shares for cash, not to exceed \$200,000. As the common stock is conditionally redeemable, the Company has recorded the common stock as mezzanine equity in the accompanying consolidated balance sheet at December 31, 2015. As of March 31, 2016, the shares are no longer conditionally redeemable and were recorded as issued and outstanding common stock.

The Company also paid certain transaction, due diligence and document review and legal fees to TCA in connection with the Transaction.

#### Senior Secured, Convertible, Redeemable Debenture

The Company entered into an initial Debenture dated July 9, 2015 with TCA whereby TCA purchased \$700,000 in senior secured, convertible, redeemable debentures in exchange for \$700,000 in immediately available and lawful money of the United States of America. The Company promised to pay Purchaser, by no later than October 9, 2016 the outstanding principal together with interest on the outstanding principal amount under the Debenture, at the rate of 18% per annum simple interest. The Company shall make monthly payments of principal and interest on the Debenture to Purchaser, while this Debenture is outstanding, until the Maturity Date, based on the payment, amortization and redemption premium schedule attached as Schedule A to the Debenture.

The indebtedness evidenced by this Debenture is also secured by a first priority lien and security interest in all of the assets and property of the Company and various other instruments as set forth in the Transaction Documents, subject to the terms and conditions of the Intercreditor Agreement described below.

At any time while the Debenture is outstanding on or after the Closing, (i) if mutually agreed upon by the parties or (ii) at the sole option of TCA upon the occurrence of an Event of Default, TCA may convert all or any portion of the outstanding principal, accrued and unpaid interest redemption premium and any other sums due and payable hereunder or under any of the other Transaction Documents into shares of Common Stock of the Company at a price equal to: (i) the Conversion Amount (the numerator); divided by (ii) 90% of the lowest of the average daily volume weighted average price of the Company's Common Stock during the 5 trading days immediately prior to the Conversion Date (the denominator).

#### Security Agreement(s)

In connection with the Securities Purchase Agreement and Debenture, the Company entered into a Security Agreement dated July 9, 2015 with TCA whereby the Company agreed to grant to Purchaser an unconditional and continuing, first priority security interest in all of the assets and property of the Company to secure the prompt payment, performance and discharge in full of all of Company's obligations under the Debentures, the Purchase Agreement and the other Transaction Documents, subject to the terms and conditions of the Intercreditor Agreement set forth below.

In addition, each of the Company's operating subsidiaries also agreed to grant to TCA an unconditional and continuing, first priority security interest in all of the assets and property of each of the subsidiaries to further secure the prompt payment, performance and discharge in full of all of Company's obligations under the Debentures, the Purchase Agreement and the other Transaction Documents.

#### Guaranty Agreement(s)

In connection with the Securities Purchase Agreement and Debenture, each of the Company's operating subsidiaries entered into Guaranty Agreements dated July 9, 2015 with TCA whereby the subsidiaries agreed to guarantee and become surety to Purchaser for the full, prompt and unconditional payment of the Liabilities and payment and performance of the Company's obligations and the full, prompt and unconditional performance of each term and condition to be performed by Company under the Debentures and the other Transaction Documents.

#### Pledge Agreement(s)

In connection with the Securities Purchase Agreement and Debenture, the Company entered into Pledge Agreements dated July 9, 2015 with TCA whereby the Company agreed to pledge to Purchaser its shares in each of its operating subsidiaries as further security for the payment and performance of the Company's obligations and the full, prompt and unconditional performance of each term and condition to be performed by Company under the Debentures and the other Transaction Documents.

#### Intercreditor Agreement and Related Creditor Documentation

On July 9, 2015, the Company, each of its subsidiaries, TCA and Logic Works (an existing senior secured creditor) entered into an Intercreditor Agreement whereby TCA and Logic Works agreed that their outstanding senior secured loans to the Company be secured on a pari passu basis with respect to all assets and property of the Company and its subsidiaries. As a result of the Intercreditor Agreement, all sums secured or owing to TCA and Logic Works shall be held by them on a pari passu and pro-rata basis between them, in proportion to such party's outstanding principal amount owing under their respective loan documents.

In addition, the Company, each of its subsidiaries, TCA and Jordan Scott and Andrew Gentile, respectively, each entered into Subordination Agreements dated July 9, 2015 whereby Scott and Gentile agreed to subordinate their existing 6% Senior Secured Convertible Notes, dated March 16, 2012, as amended, all of their indebtedness, obligations and security interests to TCA's security interests as more fully set forth in the Transaction Documents.

On July 9, 2015, Jordan Scott and Andrew Gentile each entered into Amendment Two of the Amended and Restated 6% Senior Secured Convertible Note which provide for an increase in the interest rate from 6% to 10% and the default interest rate from 12% to 20% on the 6% Senior Secured Convertible Notes for so long as the Company remains in technical default on said notes due to its delisting from its Primary Trading Market April 2014. The Company further agreed that said 20% default interest will be applied to the date of default on April 10, 2014 and continuing through the present.

On July 9, 2015, the Company valued the derivative liability of this senior secured convertible redeemable debenture at \$888,134 recorded a discount in the amount of \$700,000 and recorded interest expense of \$188,134. The discount is being amortized over the term of the note to interest expense.



### Committed Equity Facility Transaction with TCA Global Credit Master Fund LP

On August 6, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, whereby the Company agreed to sell and TCA agreed to purchase a \$100,000 senior secured convertible redeemable debenture and the Company agreed to issue and sell to TCA, from time to time, and TCA agreed to purchase from the Company up to \$3,000,000 of the Company's common stock pursuant to a Committed Equity Facility. The closing of the Transaction occurred on August 6, 2015.

In consideration for advisory services provided by Purchaser to the Company prior to the August 6, 2015, the Company paid to Purchaser a fee by issuing to Purchaser 5,000,000 shares of Common Stock at \$0.02 per share equal to \$100,000. The Advisory Fee Shares were valued at price equal to the lowest volume weighted average price for the Common Stock for the five (5) Business Days immediately prior to the issuance. The Advisory Fee Shares are subject to adjustment as provided in the Securities Purchase Agreement. If the Advisory Fee Shares are still in possession of the holder at twelve months, the holder may require the Company to redeem that number of shares for cash, not to exceed \$100,000. As the common stock is conditionally redeemable, the Company has recorded the common stock as mezzanine equity in the accompanying consolidated balance sheet at December 31, 2015. The Company also paid certain transaction, due diligence and document review and legal fees in connection with the Transaction.

The Company entered into a Debenture dated August 6, 2015 with TCA whereby TCA purchased \$100,000 in a senior secured, convertible, redeemable debenture from the Company in exchange for \$100,000. The Company promised to pay Purchaser, by no later than August 6, 2016 the outstanding principal together with interest on the outstanding principal amount under the Debenture, at the rate of 18% per annum simple interest. The Debenture is convertible only at the option of Purchaser upon an event of default at a conversion price of 90% of the lowest of the average daily volume weighted average price of the Company's Common Stock during the 5 trading days immediately prior to the conversion date.

In addition, the Company entered into a Committed Equity Facility, dated August 6, 2015, with TCA in which the Company agreed to issue and sell to TCA, from time to time, and TCA agreed to purchase from the Company up to \$3,000,000 of the Company's common stock. At any time during the duration of the agreement and after the Company has an effective registration statement outstanding, the Company can require TCA to purchase shares of its common stock which will be sold by Purchaser with the net proceeds provided to the Company, subject to the terms and conditions set forth in the Committed Equity Facility.

To facilitate the Committed Equity Facility, the Company has granted TCA certain registration rights pursuant to a Registration Rights Agreement dated August 6, 2015 whereby the Company filed a registration statement to facilitate the purchase and sale of the common stock under the Committed Equity Facility.

The Company's obligation to repay the Debenture disclosed herein as well as the Debenture entered into by and between the Company and Purchaser on July 9, 2015, are secured by security agreements, guaranty agreements and pledge agreements previously disclosed on the Company's Current Report on Form 8-K filed July 16, 2015 and incorporated herein by reference. The Company has additionally entered into an Authorization Agreement, dated August 6, 2015, with Purchaser whereby scheduled re-payments to TCA will be debited from the Company's account according to the payment schedule of both the Debenture disclosed herein and the Debenture previously entered into on July 9, 2015.

On August 6, 2015, the Company valued the derivative liability of this senior secured convertible redeemable debenture at \$66,668 and recorded a debt discount in the amount of \$66,668. The discount is being amortized over the term of the note to interest expense.

### Amended and Restated Securities Purchase Agreement with TCA Global Credit Master Fund LP

On October 27, 2015, the Company entered into an Amended and Restated Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP whereby we agreed to sell, and TCA agreed to purchase \$350,000 of senior secured convertible, redeemable debentures. The Company previously entered into a Securities Purchase Agreement dated as of April 30, 2015 and effective as of July 9, 2015 to purchase up to \$3,000,000 in Debentures. As of October 27, 2015, the Company sold \$1,050,000 in Debentures to TCA and up to \$1,950,000 in Debentures remains for sale by us. The closing of the transaction occurred on October 27, 2015. In addition, TCA has advanced the Company an additional \$100,000 for a total of \$1,250,000. Also, on October 21, 2015 the Company issued 150,000 Series B Preferred Stock at a stated value equal to \$10.00 per share to TCA that is convertible into the Company's common stock. On October 21, 2015, the Company also issued 51 shares of Series C Preferred Stock at \$0.0001 par value per share to TCA that is not convertible into the Company's common stock. In the event of a default under the Amended and Restated TCA Transaction Documents, TCA can exercise voting control over the Company's common stock with their Series C Preferred Stock voting rights

#### Amended and Restated Securities Purchase Agreement

As set forth above, the Company entered into the Amended and Restated Securities Purchase Agreement on October 27, 2015 with TCA whereby TCA agreed to purchase \$350,000 of the Debentures.

In addition, in consideration for advisory services provided by Purchaser to the Company prior to the closing (the “Second Closing Advisory Fee”), the Company paid to Purchaser a fee by issuing to Purchaser 150,000 Series B Preferred Stock valued at \$1,500,000 and convertible into common stock of the Company.

Purchaser was also granted 51 shares of Series C Preferred Stock as further security for the Company’s completion of post-closing obligations under the Amended and Restated Transaction Documents as further discussed below.

#### Series B Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series B Preferred Stock as provided in the Company’s Certificate of Incorporation, as amended.

The Series B Preferred Stock has authorized 150,000 shares with a stated value equal to \$10.00 per share. Dividends payable to other classes of stock are restricted until repayment of the aggregate value of Series B Preferred Stock. Upon liquidation or dissolution of the Company, Series B Preferred Stock has no priority or preference with respect to distributions of any assets of the Company. The Series B Preferred Stock is convertible into common stock by dividing the stated value of the shares being converted by 100% of the average of the five (5) lowest closing bid prices for the common stock during the ten (10) consecutive trading days immediately preceding the conversion date as quoted by Bloomberg, LP.

TCA was issued 150,000 shares of Series B Preferred Stock. However, in no event will Purchaser be entitled to hold in excess of 4.99% of the outstanding shares of common stock of the Company.

#### Series C Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series C Preferred Stock as provided in the Company’s Certificate of Incorporation, as amended, and the issuance of 51 shares of Series C Preferred Stock. These shares only have voting rights in the event of a default by the Company under the Amended and Restated Transaction Documents.

The Series C Preferred Stock Designation authorizes 51 shares of Series C Preferred Stock. Series C Preferred Stock is not entitled to dividend or liquidation rights and is not convertible into common stock of the Company.

In the event of a default under the Amended and Restated Transaction Documents, each share of Series C Preferred Stock shall have voting votes equal to  $0.019607$  multiplied by the total issued and outstanding common stock and preferred stock eligible to vote divided by  $.49$  minus the numerator. For example, if the total issued and outstanding common stock eligible to vote is 5,000,000, the voting rights of one share of Series C Preferred Stock shall be equal to 102,036 (e.g.  $((0.019607 \times 5,000,000 / 0.49) - (0.019607 \times 5,000,000)) = 102,036$ ).

#### Amended and Restated Senior Secured, Convertible, Redeemable Debenture

In connection with the Amended and Restated Securities Purchase Agreement, the Company, on October 27, 2015, also entered into the Amended and Restated Debenture which was amended to increase the balance of the original Debenture from \$700,000 to \$1,050,000 as a result of the additional \$350,000 advanced.

During the year ended December 31, 2015, the Company recorded interest expense of \$68,510 and \$552,139 of non-cash interest expense related to the amortization of the debt discount associated with the senior secured convertible redeemable debentures, respectively. As of December 31, 2015, the Company had borrowed \$1,150,000 under the senior secured convertible redeemable debentures, accrued interest was \$68,510 and the unamortized debt

credit was \$552,139, which results in a net amount of \$666,371.

During the three months March 31, 2016, the Company recorded interest expense of \$10,225 and \$60,233 of non-cash interest expense related to the amortization of the debt discount associated with the senior secured convertible redeemable debentures, respectively. As of March 31, 2016, the Company has borrowed \$1,150,000 under the senior secured convertible redeemable debentures, accrued interest was \$78,735 and the unamortized debt credit was \$491,906, which results in a net balance of \$736,829.

Effective as of May 4, 2016, the Company, its subsidiaries and TCA entered into a First Amendment to Amended and Restated Securities Purchase Agreement as discussed in Note 13, Subsequent Events, whereby the parties agreed to amend the terms of their existing purchase agreement in exchange for forbearance on existing defaults by the Company.

Due to the Company being in default on its repayment obligations under the Purchase Agreement and related documents, the parties agreed to restructure the Purchase Agreement whereby TCA agreed to forbear from enforcement of the Company defaults and to restructure a payment schedule for repayment of TCA under the Purchase Agreement.

F-47

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## NOTE 8 – DERIVATIVE LIABILITY

In April 2008, the FASB issued a pronouncement that provides guidance on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in the pronouncement on accounting for derivatives. This pronouncement was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of these requirements can affect the accounting for warrants and many convertible instruments with provisions that protect holders from a decline in the stock price (or “down-round” provisions). For example, warrants or conversion features with such provisions are no longer recorded in equity. Down-round provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price.

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

Financial Instruments	Fair Value Measurements Using			Carrying
	Level 1	Level 2	Level 3	Amount at March 31, 2016
Liabilities:				
Derivative Instruments	\$ -	\$ 3,845,467	\$ -	\$ 3,845,467
Total	\$ -	\$ 3,845,467	\$ -	\$ 3,845,467

For three months ended March 31, 2016, the Company recorded non-cash expense of \$2,468,292 related to the “change in fair value of derivative” expense related to its 6%, 7% and 18% convertible notes.

Derivative liability as of December 31, 2015 is as follows:

Financial Instruments	Fair Value Measurements			Carrying
	Level 1	Level 2	Level 3	Amount at December 31, 2015
Liabilities:				
Derivative Instruments	\$ -	\$ 1,377,175	\$ -	\$ 1,377,175
Total	\$ -	\$ 1,377,175	\$ -	\$ 1,377,175

For the year ended December 31, 2015, the Company recorded non-cash income of \$723,740 related to the “change in fair value of derivative” expense related to its 6%, 7% and 18% convertible notes.

The risk-free rate of return reflects the interest rate for the United States Treasury Note with similar time-to-maturity to that of the warrants.

## 7% Convertible Notes

As of December 31, 2015, the Company had outstanding 7% convertible notes for \$500,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$105,515 using the Black-Scholes-Merton option pricing model, which

approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 133.2%; (iii) risk free rate of .001%, (iv) stock price of \$.005, (v) per share conversion price of \$0.007, and (vi) expected term of .25 years, as the Company estimates that these notes will be converted by March 31, 2016.

As March 31, 2016, the Company had outstanding 7% convertible notes with a remaining balance of \$268,573 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$993,124 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 143.0%; (iii) risk free rate of .001%, (iv) stock price of \$.020, (v) per share conversion price of \$0.007, and (vi) expected term of .25 years, as the Company estimates that these notes will be converted by June 30, 2016.

F-48

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## 6% Convertible Notes

As of December 31, 2015, the Company had outstanding unsecured 6% convertible notes for \$350,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$54,377 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 133.2%; (iii) risk free rate of 0.34%, (iv) stock price of \$.005, (v) per share conversion price of \$0.007, and (vi) expected term of .56 years.

As of March 31, 2016, the Company had outstanding unsecured 6% convertible notes for \$350,000 that the Company determined were a derivative liability due to the “reset” clause associated with the note’s conversion price. The Company valued the derivative liability of these notes at \$716,629 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 143.0%; (iii) risk free rate of .34%, (iv) stock price of \$.020, (v) per share conversion price of \$0.007, and (vi) expected term of .31 years, as the Company estimates that these notes will be converted by July 10, 2016.

## Transactions with TCA Global Credit Master Fund LP

### Secured Convertible Debenture Transaction with TCA Global Credit Master Fund LP

On July 9, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, an accredited investor, whereby the Company agreed to sell and TCA agreed to purchase up to \$3,000,000 of senior secured convertible redeemable debentures, of which \$700,000 was purchased on July 9, 2015 and up to \$2,300,000 may be purchased in additional closings. The closing of the Transaction occurred on July 9, 2015.

On July 9, 2015, the Company valued the conversion feature as a derivative liability of this senior secured convertible redeemable debenture at \$888,134 and discounted debt by \$700,000 and recorded interest expense of \$188,134. The Company valued the derivative liability of this debenture at \$888,134 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 160.0%; (iii) risk free rate of 0.25%, (iv) stock price of \$0.02, (v) per share conversion price of \$0.011, and (vi) expected term of 1.0 years.

See the Amended and Restated Securities Purchase Agreement that closed October 27, 2015.

### Committed Equity Facility Transaction with TCA Global Credit Master Fund LP

On August 6, 2015, the Company closed a Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP, whereby the Company agreed to sell and TCA agreed to purchase a \$100,000 senior secured convertible redeemable debenture and the Company agreed to issue and sell to TCA, from time to time, and TCA agreed to purchase from the Company up to \$3,000,000 of the Company’s common stock pursuant to a Committed Equity Facility. The closing of the Transaction occurred on August 6, 2015.

On August 6 2015, the Company valued the conversion feature as a derivative liability of this senior secured convertible redeemable debenture at \$66,668 and discounted debt by \$66,668. The Company valued the derivative liability of this debenture at \$66,668 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 160.0%; (iii) risk free rate of 0.25%, (iv) stock price of \$0.02, (v) per share conversion price of \$0.018, and (vi) expected term of 1.0 years.

As of March 31, 2016, the Company valued the derivative liability of this debenture at \$185,714 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 143.0%; (iii) risk free rate of .001%, (iv) stock price of \$.020, (v) per share conversion price of \$0.007, and (vi) expected term of .25 years, as the Company estimates that these notes will be converted by June 30, 2016.

#### Amended and Restated Securities Purchase Agreement with TCA Global Credit Master Fund LP

On October 27, 2015, the Company entered into an Amended and Restated Securities Purchase Agreement and related agreements with TCA Global Credit Master Fund LP whereby we agreed to sell, and TCA agreed to purchase \$350,000 of senior secured convertible, redeemable debentures. The Company and TCA previously entered into a Securities Purchase Agreement dated as of April 30, 2015 and effective as of July 9, 2015 to purchase up to \$3,000,000 in Debentures. To date, the Company has sold \$1,050,000 in Debentures to TCA and up to \$1,950,000 in Debentures remains for sale by the Company. The closing of the transaction occurred on October 27, 2015.

The Company valued the conversion feature as a derivative liability at \$340,924 and discounted debt by \$340,924. The company value the derivative liability of this debenture using the Black-Scholes-Merton option pricing model which approximates the Monte Carlo and other binomial valuation techniques, with the following assumption (i) dividend yield of 0%, (ii) expected volatility of 160.0%; (iii) risk free rate of 0.25%, (iv) stock price of \$0.007, (v) per share conversion price of \$0.0065, and (vi) expected term of 1.0 years.

F-49

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As of March 31, 2016, the Company valued the derivative liability of this debenture at \$1,950,000 using the Black-Scholes-Merton option pricing model, which approximates the Monte Carlo and other binomial valuation techniques, with the following assumptions (i) dividend yield of 0%; (ii) expected volatility of 143.0%; (iii) risk free rate of .001%, (iv) stock price of \$.020, (v) per share conversion price of \$0.007, and (vi) expected term of .25 years, as the Company estimates that these notes will be converted by June 30, 2016.

#### NOTE 9 – RELATED PARTY TRANSACTIONS

Since January 1, 2015, we have engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

##### Certain Relationships

Please see the transactions with CANX, LLC and Logic Works in Note 5 and TCA Global Credit Master Fund LP as discussed in Note 7, 8, 10 and 13.

##### Transactions with an Entity Controlled by Marco Hegyi

An entity controlled by Mr. Hegyi received a warrant to purchase up to twenty five million shares of our common stock at an exercise price of \$0.08 per share was reduced to \$0.01 per share on December 18, 2015.

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

##### Transactions with an Entity Controlled by Mark E. Scott

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

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

#### NOTE 10– EQUITY

##### Authorized Capital Stock

The Company has voting common stock of 3,000,000,000 shares at \$0.0001 par value and 10,000,000 shares of non-voting preferred stock with a par value of \$0.0001 as authorized by the shareholders.

In addition, on October 21, 2015 the Company issued 150,000 Series B Preferred Stock at a stated value equal to \$10.00 per share and convertible into our common stock. On October 21, 2015, the Company also issued 51 shares of Series C Preferred Stock at \$0.0001 par value per share that have certain voting rights but are not convertible into our common stock

##### 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 its 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 the Company no present plans to issue any shares of preferred stock.

F-50

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### Series B Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series B Preferred Stock as provided in our Certificate of Incorporation, as amended.

The Series B Preferred Stock has authorized 150,000 shares with a stated value equal to \$10.00 per share. Dividends payable to other classes of stock are restricted until repayment of the aggregate value of Series B Preferred Stock. Upon our liquidation or dissolution, Series B Preferred Stock has no priority or preference with respect to distributions of any assets by us. The Series B Preferred Stock is convertible into common stock by dividing the stated value of the shares being converted by 100% of the average of the five lowest closing bid prices for the common stock during the ten consecutive trading days immediately preceding the conversion date as quoted by Bloomberg, LP.

TCA was issued 150,000 shares of Series B Preferred Stock. However, in no event will Purchaser be entitled to hold in excess of 4.99% of the outstanding shares of common stock of the Company.

Effective as of May 4, 2016, the Company, its subsidiaries and TCA entered into a First Amendment to Amended and Restated Securities Purchase Agreement as discussed in Note 13, Subsequent Events, whereby the parties agreed to amend the terms of their existing purchase agreement in exchange for forbearance on existing defaults by the Company.

Due to the Company being in default on its repayment obligations under the Purchase Agreement and related documents, the parties agreed to restructure the Purchase Agreement whereby TCA agreed to forbear from enforcement of the Company defaults and to restructure a payment schedule for repayment of TCA under the Purchase Agreement. Also, TCA is also surrendering its Series B Preferred Stock in exchange for the \$1,500,000 balance evidenced by said preferred stock being added to the Second Replacement Debenture.

### Series C Preferred Stock Designation

In connection with the Amended and Restated Securities Purchase Agreement, the Board of Directors, on October 21, 2015, approved the authorization of a Series C Preferred Stock as provided in our Certificate of Incorporation, as amended, and the issuance of 51 shares of Series C Preferred Stock. These shares only have voting rights in the event of a default by us under the Amended and Restated Transaction Documents. The Series C Preferred Stock is cancelled with the repayment of the TCA debt.

The Series C Preferred Stock Designation authorizes 51 shares of Series C Preferred Stock. Series C Preferred Stock is not entitled to dividend or liquidation rights and is not convertible into our common stock.

In the event of a default under the Amended and Restated Transaction Documents, each share of Series C Preferred Stock shall have voting votes equal to 0.019607 multiplied by the total issued and outstanding common stock and preferred stock eligible to vote divided by .49 minus the numerator. For example, if the total issued and outstanding common stock eligible to vote is 5,000,000, the voting rights of one share of Series C Preferred Stock shall be equal to 102,036 (e.g.  $((0.019607 \times 5,000,000 / 0.49) - (0.019607 \times 5,000,000)) = 102,036$ ).

### 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 three months ended March 31, 2016, the Company had had the following sales of unregistered of equity securities to accredited investors unless otherwise indicated:

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

On January 16, 2016, the Company issued 1,400,000 shares of its common stock to an unaccredited former consultant pursuant a conversion of debt for \$40,000. The shares were valued at the fair market price of \$0.01 per share.

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

F-51

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During March 2016, Holders of the Company's Convertible Notes Payables, converted principal and accrued interest of \$608,905 into 86,986,437 shares of the Company's common stock at a per share conversion price of \$0.007.

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

#### Warrants

The Company did not issue any warrants during the three months ended March 31, 2016.

A summary of the warrants issued as of March 31, 2016 is as follows:

	March 31, 2016	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	565,000,000	\$ 0.032
Issued	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at end of period	565,000,000	\$ 0.032
Exerciseable at end of period	565,000,000	

A summary of the status of the warrants outstanding as of March 31, 2016 is presented below:

March 31, 2016				
Number of Warrants	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares Exerciseable	Weighted Average Exercise Price
540,000,000	3.06	\$ 0.033	540,000,000	\$ 0.033
25,000,000	2.94	0.010	25,000,000	0.010
565,000,000	3.05	\$ 0.032	565,000,000	\$ 0.032

Warrants totaling 565,000,000 shares of common stock have an intrinsic value of \$250,000 as of March 31, 2016.

#### NOTE 11 – STOCK OPTIONS

##### Description of Stock Option Plan

In fiscal year 2011, the Company authorized a Stock Incentive Plan whereby a maximum of 18,870,184 shares of the Company's common stock could be granted in the form of Non-Qualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards. On April 18,

2013, the Company's Board of Directors voted to increase to 35,000,000 the maximum allowable shares of the Company's common stock allocated to the 2011 Stock Incentive Plan. The Company has outstanding unexercised stock option grants totaling 29,020,000 shares as of March 31, 2016. All grants are non-qualified as the plan was not approved by the shareholders within one year of its adoption.

F-52

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## 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 three months ended March 31, 2016, the Company had no stock option activity:

As of March 31, 2016, there are 29,020,000 options to purchase common stock at an average exercise price of \$0.028 per share outstanding under the 2011 Stock Incentive Plan. The Company recorded \$32,520 and \$50,617 of compensation expense, net of related tax effects, relative to stock options for the three months ended March 31, 2016 and 2015, respectively, in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.00). As of March 31, 2016, there is \$211,491 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 3.60 years.

Stock option activity for the three months ended March 31, 2016 and the years ended December 31, 2015 and 2014 is as follows:

	Weighted Average		
	Options	Exercise Price	\$
Granted	49,720,000	\$ 0.075	\$ 3,706,000
Exercised	(5,126,187 )	(0.133 )	(682,922 )
Forfeitures	(44,725,000 )	(0.092 )	(4,132,751 )
Outstanding as of December 31, 2014	40,720,000	0.058	2,356,000
Granted	-	-	(960,000 )
Exercised	-	-	-
Forfeitures	(11,700,000 )	(0.050 )	(585,000 )
Outstanding as of December 31, 2015	29,020,000	0.028	811,000
Granted	-	-	-
Exercised	-	-	-
Forfeitures	-	-	-
Outstanding as of March 31, 2016	29,020,000	\$ 0.028	\$ 811,000

The following table summarizes information about stock options outstanding and exercisable at March 31, 2016:

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Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exerciseable	Number Exerciseable	Weighted Average Exercise Price Exerciseable
\$ 0.05	13,020,000	4.00	\$ 0.050	7,625,000	\$ 0.050
0.01	16,000,000	3.52	0.010	10,666,667	0.010
	29,020,000	3.60	\$ 0.028	18,291,667	\$ 0.041

Stock option grants totaling 16,000,000 shares of common stock have an intrinsic value of \$106,667 as of March 31, 2016.

NOTE 12 – COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Legal Proceedings

The Company is involved in the disputes and legal proceedings described below. In addition, as a public company, the Company is 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. The Company accrues any contingent liabilities that are likely.



### Class Actions Alleging Violations of Federal Securities Laws

Beginning on April 18, 2014, three class action lawsuits alleging violations of federal securities laws were filed against the Company in United States District Court, Central District of California (the “Court”). At a hearing held on July 21, 2014, the three class action lawsuits were consolidated into one case with Lawrence Rosen as the lead plaintiff (the “Consolidated Class Action,” styled Romero et al. vs. GrowLife et al.). On May 15, 2014 and August 4, 2014, respectively two shareholder derivative lawsuits were filed against the Company with the Court (the “Derivative Actions”). On October 20, 2014, AmTrust North America, the Company’s insurer, filed a lawsuit contesting insurance coverage on the above legal proceedings. The Company made a general appearance in this action. On January 20, 2015, the Court ordered all of the above actions stayed pending completion of mediation of the dispute. On April 27, 2015, the Court preliminarily approved the proposed settlement of the Consolidated Class Action. On June 1, 2015, the Court preliminarily approved the proposed settlement of the Derivative Actions pursuant to a proposed stipulated settlement agreement. On August 3, 2015, the Court entered a Final Order and Judgment resolving the Consolidated Class Action litigation in its entirety. The Consolidated Class Action was thereby dismissed in its entirety with prejudice and without costs. On August 10, 2015, pursuant to a settlement by and between the Company and AmTrust North America, AmTrust’s lawsuit contesting insurance coverage of the Consolidated Class Action and Derivative Actions was dismissed in its entirety with prejudice pursuant to a Stipulation for Dismissal of Entire Action with Prejudice executed by and between AmTrust and the Company. On August 17, 2015, the Court entered a Final Order and Judgment resolving the Derivative Actions in their entirety. The Derivative Actions were thereby dismissed in their entirety with prejudice.

As a result of the foregoing, all litigation discussed herein is resolved in full at this time. The Company issued \$2 million in common stock or 115,141,048 shares of the Company’s common stock on April 6, 2016 pursuant to the settlement of the Consolidated Class Action and Derivative Action lawsuits alleging violations of federal securities laws that were filed against the Company in United States District Court, Central District of California. The Company accrued \$2,000,000 as loss on class action lawsuits and contingent liabilities during the year ending December 31, 2015.

### Sales and Payroll Tax Liabilities

As of March 31, 2016, the Company owes approximately \$110,000 in sales tax and \$19,000 in payroll taxes. The Company currently negotiating or operating under payment plans on these liabilities.

### Potential Convertible Note Defaults

Several of the Company’s convertible promissory notes remain outstanding beyond their respective maturity dates. This may trigger an event of default under the respective agreements. The Company is working with these noteholders to convert their notes into common stock and intends to resolve these outstanding issues as soon as practicable.

### Other Legal Proceedings

The Company is in default on our Portland, Maine, Boulder, Colorado and Plaistow, New Hampshire store leases for non-payment of lease payments and the Company is negotiating with the landlords. The Company is currently subject to legal actions with various vendors and a former officer.

It is possible that additional lawsuits may be filed and served on the Company.

### Operating Leases

Upon the Company's acquisition of Rocky Mountain Hydroponics, LLC and Evergreen Garden Center, LLC, the Company assumed the lease for the RMH/EGC retail hydroponics store located in Portland, Maine. The lease commencement date was May 1, 2013 with an expiration date of April 30, 2016. The monthly rent for year one of the lease was \$4,917, with monthly rent of \$5,065 in year two, and monthly rent of \$5,217 in year three of the lease. The Company has an option to extend the lease for two three year terms as long it is not in default under the lease. The Company is currently operating its store under this lease.

On October 21, 2013, the Company entered into a lease agreement for retail space for its hydroponics store in Avon (Vail), Colorado. The lease expires on September 30, 2018. Monthly rent for year one of the lease is \$2,606 and increases 3.5% per year thereafter through the end of the lease. The Company does not have an option to extend the lease.

On June 18, 2014, the Company rented space at 500 Union Street, Suite 810, Seattle, Washington for its corporate office. The Company rents the space on a month to month basis for \$1,700 per month.

F-54

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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 March 31,	Total
2017	\$ 71,829
2018	34,675
2019	19,990
2020	0
2021	-
Beyond	-
Total	\$ 126,493

## Employment and Consulting Agreements

### Employment Agreement with Marco Hegyi

On December 4, 2013, the Company entered into an Employment Agreement with Marco Hegyi pursuant to which the Company engaged Mr. Hegyi as its President from December 4, 2013 through December 4, 2016 to provide consulting and management services. Per the terms of the Hegyi Agreement, Mr. Hegyi established an office in Seattle, Washington while also maintaining operations in the Southern California area. Mr. Hegyi's annual compensation is \$150,000 for the first year of the Hegyi Agreement; \$250,000 for the second year; and \$250,000 for the third year. 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 (i.e., by January 31st) following the end of each calendar year. Mr. Hegyi's first annual bonus will be calculated based on the Company's EBITDA for calendar year 2014, with such bonus payable on or before January 31, 2015. If Mr. Hegyi's employment is terminated for any reason prior to the expiration of the Term, as applicable, his annual bonus will be prorated for that year based on the number of days worked in that year. At the commencement of Mr. Hegyi's employment, an entity affiliated with Mr. Hegyi received a Warrant to purchase up to 25,000,000 shares of common stock of the Company at an exercise price of \$0.08 per share. The Hegyi Warrant is exercisable for five years. On June 20, 2014, the Company and Mr. Hegyi reduced the warrant life from ten to five years. On January 25, 2016, the Company reduced the warrant exercise price to \$0.01 per share effective December 18, 2015.

Mr. Hegyi was 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 to purchase and maintain during the Term a "key manager" insurance policy on Mr. Hegyi's life in the amount of \$4,000,000, paid as \$2,000,000 payable to Mr. Hegyi's named heirs or estate as the beneficiary, and \$2,000,000 payable to the Company. The Company and Mr. Hegyi waived this \$2,000,000 key manager insurance. If, prior to the expiration of the Term, the Company terminates Mr. Hegyi's employment for "Cause", or if Mr. Hegyi voluntarily terminates his employment without "Good Reason", or if Mr. Hegyi's employment is terminated by reason of his death, then all of the Company's obligations hereunder shall cease immediately, and Mr. Hegyi will not be entitled to any further compensation beyond any pro-rated base salary due and bonus amounts earned through the effective date of termination. Mr. Hegyi will also be reimbursed for any expenses incurred prior to the date of termination for which he was not previously reimbursed.

If the Company terminates Mr. Hegyi's employment at any time prior to the expiration of the Term without Cause, 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, which bonus amount shall be equal to the greater of (A) the annual bonus amount for the immediately preceding year, or (B) the bonus amount that would have been earned for the year of termination, absent such termination. If there has been a "Change in Control" and the Company (or its successor or the surviving

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

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

On July 31, 2014, the Company entered into a Consulting Chief Financial Officer Letter with an entity controlled by Mark E. Scott pursuant to which the Company engaged Mr. Scott as its Consulting CFO from July 1, 2014 through September 30, 2014, and continuing thereafter until either party provides sixty day notice to terminate the Letter or Mr. Scott enters into a full-time employment agreement.

Per the terms of the Scott Agreement, Mr. Scott's compensation is \$150,000 on an annual basis for the first year of the Scott Agreement. Mr. Scott is also entitled to receive an annual bonus equal to two percent of the Company's EBITDA for that year. The Company's Board of Directors granted Mr. Scott an option to purchase sixteen million shares of the Company's Common Stock under the Company's 2011 Stock Incentive Plan at an exercise price of \$0.07 per share, the fair market price on July 31, 2014. On December 18, 2015, the Company reduced the exercise price to \$0.01 per share. The shares vest (i) two million shares vest immediately upon securing a market maker with an approved 15c2-11 resulting in the Company's relisting on OTCBB (earned as of February 18, 2016); (ii) two million shares vest immediately upon the successful approval and effectiveness of the Company's S-1 (not earned as of March 31, 2016); (iii) two million shares vest immediately upon the Company's resolution of the class action lawsuits (earned as of August 17, 2015); and (iv) ten million shares will vest on a monthly basis over a period of three years beginning on the July 1, 2014.

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 Stock Incentive Plan, including vesting requirements. In the event that Mr. Scott's continuous status as consultant 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 Stock Incentive Plan except for CANX USA, LLC, then 100% of the total number of shares shall immediately become vested.

Mr. Scott 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 is required to purchase and maintain an insurance policy on Mr. Scott's life in the amount of \$2,000,000 payable to Mr. Scott's named heirs or estate as the beneficiary. Finally, Mr. Scott is entitled to twenty days of vacation annually and also has certain insurance and travel employment benefits.

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

### Promotion Letter with Joseph Barnes

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

Per the terms of the Barnes Agreement, Mr. Barnes's compensation is \$90,000 on an annual basis. Mr. Barnes received a bonus of \$6,500 and is also entitled to receive a quarterly bonus based on growth of the Company's growth margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Barnes was granted an option to purchase eight million shares of the Company's common stock under the Company's 2011 Stock Incentive Plan at an exercise

price on the date of grant. The shares vest (i) two million shares vested immediately; and (ii) six million shares vest on a monthly basis over a period of three years beginning on the date of grants.

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 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 Stock Incentive, then 100% of the total number of shares shall immediately become vested.

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

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

#### Agreements with Robert Hunt

On June 7, 2013, the Company entered into an Executive Services Agreement with Robert Hunt, pursuant to which the Company engaged Mr. Hunt, from June 8, 2013 through June 7, 2015 to provide consulting and management services as the President of GrowLife Hydroponics, Inc.

On May 30, 2014, the Company announced the resignation of Robert Hunt effective May 23, 2014 as Executive Vice President of GrowLife, Inc., President of GrowLife Hydroponics. On June 3, 2014, the Board of Directors accepted the resignation of Robert Hunt effective June 2, 2014 as a Director of the Company. On October 17, 2014, the Company entered into a Settlement Agreement and Release with Mr. Robert Hunt, whereby the Parties cancelled the Executive Services Agreement ("ESA") dated June 7, 2013 and his stock option grant for 12,000,000 shares. The Company agreed to issue 6,000,000 shares of restricted common stock under certain conditions that have not been met (issuance not considered triggered by the Company as of March 31, 2016). The Parties are negotiating if this issuance has been triggered.

#### Promotion Letter with Jeremy Belmont

On October 10, 2014, the Company entered into a Promotion Letter with Jeremy Belmont which was effective October 1, 2014 pursuant to which the Company engaged Mr. Belmont as Vice President of Sales from October 1, 2014 on an at will basis. This Promotion Letter superseded and canceled the Manager Services Agreement with Mr. Belmont dated October 1, 2013.

Per the terms of the Belmont Agreement, Mr. Belmont's compensation was \$72,000 on an annual basis. Mr. Belmont received a bonus of \$6,500 and is also entitled to receive a quarterly bonus based on growth of the Company's growth margin dollars. No quarterly bonuses were earned under this Promotion Letter. Mr. Belmont was granted an option to purchase five million shares of the Company's common stock under the Company's 2011 Stock Incentive Plan. Mr. Belmont resigned January 13, 2016 and the option to purchase five million shares of the Company's common stock expired on April 13, 2016.

#### NOTE 13 – SUBSEQUENT EVENTS

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

Subsequent to March 31, 2016, the following material transactions occurred:

#### Equity Issuances

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

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

#### Dissolution of Certain Non-Operating Subsidiaries

The Company determined that certain wholly-owned subsidiaries were unnecessary for the ongoing operations of the Company's business and elected to dissolve these entities and/or surrender their foreign status in certain jurisdictions for the purpose of reducing unnecessary compliance costs.

The Company is dissolving SG Technologies Corp., a Nevada corporation, and is surrendering its qualification to do business in California due to the fact that the Company no longer operates any business under this wholly-owned subsidiary.

The Company is dissolving Phototron, Inc. and GrowLife Productions, Inc., all California corporations, due to the fact that the Company no longer operates any business under these wholly-owned subsidiaries.

The Company is dissolving Business Bloom, Inc., a California corporation, and is withdrawing its foreign entity status in Colorado due to the fact that the Company no longer operates any business under this wholly-owned subsidiary.

F-57

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The Company is surrendering its qualification to do business in California due to the fact that the Company has moved its headquarters to Seattle, Washington and will no longer be required to register as a foreign entity in California.

#### Potential Convertible Note Defaults

Several of the Company's convertible promissory notes remain outstanding beyond their respective maturity dates. This may trigger an event of default under the respective agreements. The Company is working with these noteholders to convert their notes into common stock and intends to resolve these outstanding issues as soon as practicable.

#### Employment and Consulting Agreements Defaults

The Company owes Marco Hegyi approximately \$53,287 in payroll and expenses and is in default under the Employment Agreement with Mr. Hegyi.

The Company owes Mark Scott approximately \$53,537 in payroll and expenses and is in default under the Consulting Agreement with Mr. Scott.

#### Stock Option Grants

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

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

#### Entry into Securities Purchase Agreement with Chicago Venture Partners, L.P.

On April 5, 2016, the Company closed a Securities Purchase Agreement and related agreements with Chicago Venture Partners, L.P., an accredited investor whereby the Company agreed to sell, and Chicago Venture Partners agreed to purchase an unsecured convertible promissory note in the original principal amount of \$2,755,000.

In connection with the Transaction, the Company was provided \$350,000 in cash as well as a series of twelve Secured Investor Notes for a total Purchase Price of \$2,500,000. The Note carries an Original Issue Discount ("OID") of \$250,000 and the Company agreed to pay \$5,000 to cover Purchaser's legal fees, accounting costs and other transaction expenses.

The Secured Investor Notes are payable as follows: (i) \$50,000 upon filing of a Registration Statement on Form S-1 (the "Registration Statement"); (ii) \$100,000 upon effectiveness of the Registration Statement; (iii) up to \$200,000 per month over the 10 months following effectiveness at the sole discretion of the Company, subject to certain conditions. The Company filed the Registration Statement within forty-five (45) days of the Closing and agreed to register shares of its common stock for the benefit of Chicago Venture Partners in exchange for the payments under the Secured Investor Notes.

Chicago Venture Partners has the option to convert the Note at 65% of the average of the three (3) lowest volume weighted average prices in the twenty (20) Trading Days immediately preceding the applicable conversion (the "Conversion Price"). However, in no event will the Conversion Price be less than \$0.02 or greater than \$0.09. In addition, beginning on the date that is the earlier of six (6) months or five (5) days after the Registration Statement becomes effective, and on the same day of each month thereafter, the Company will re-pay the Note in monthly installments in cash, or, subject to certain equity conditions, in the Company's common stock at 65% of the average of the three (3) lowest volume weighted average prices in the twenty (20) Trading Days immediately preceding the applicable conversion.

Amended Transactions TCA Global Credit Master Fund LP

Previously, the Company, its subsidiaries and TCA had entered into a Securities Purchase Agreement dated as of April 30, 2015, but made effective as of July 9, 2015, a Supplemental Securities Purchase Agreement effective as of August 6, 2015, and an Amended and Restated Securities Purchase Agreement dated as of October 27, 2015 whereby the Company agreed to sell and TCA agreed to purchase an aggregate of \$1,050,000 in original face amount of Senior, Secured, Convertible Redeemable Debentures.

First Amendment to Amended and Restated Securities Purchase Agreement

Effective as of May 4, 2016, the Company, its subsidiaries and TCA entered into a First Amendment to Amended and Restated Securities Purchase Agreement whereby the parties agreed to amend the terms of their existing purchase agreement in exchange for forbearance on existing defaults by the Company.

F-58

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Due to the Company being in default on its repayment obligations under the Purchase Agreement and related documents, the parties agreed to restructure the Purchase Agreement whereby TCA agreed to forbear from enforcement of the Company defaults and to restructure a payment schedule for repayment of TCA under the Purchase Agreement.

Specifically, the First Amendment to Amended and Restated Securities Purchase Agreement made the following material modifications to the existing Purchase Agreement:

The existing Debentures were modified as described in more detail below.

Payments on the Debentures are expected to be made by (i) certain debt purchase agreement(s) to be entered into by TCA; (ii) under the parties S-1 transaction with Chicago Venture Partners, LP; or (iii) by the Company directly.

The maturity date was extended to April 28, 2018.

TCA agreed that it shall not enforce and shall forbear from pursuing enforcement of any existing defaults by the Company unless and until a future Company default occurs.

#### Second Replacement Debentures A and B

In connection with the First Amendment to Amended and Restated Securities Purchase Agreement, the parties also agreed upon amended terms related to their outstanding Debentures.

Effective as of May 4, 2016, the Company issued Second Replacement Debenture A in the principal amount of \$150,000 and Second Replacement Debenture B in the principal amount of \$2,681,209.82 (collectively, the "Second Replacement Debentures").

Per the First Amendment to Amended and Restated Securities Purchase Agreement, the Second Replacement Debentures were combined, and apportioned into two separate replacement debentures. The Second Replacement Debentures were intended to act in substitution for and to supersede the Debentures in their entirety. It was the intent of the Company and TCA that while the Second Replacement Debentures replace and supersede the Debentures, in their entirety, they were not in payment or satisfaction of the Debentures, but rather were the substitute of one evidence of debt for another without any intent to extinguish the old.

The Second Replacement Debentures contemplate TCA entering into debt purchase agreement(s) with third parties whereby TCA may, at its election, sever, split, divide or apportion the Second Replacement Debentures to accomplish the repayment of the balanced owed to TCA by Company.

The Second Replacement Debenture are convertible at 85% of the lowest daily volume weighted average price ("VWAP") of the Company's common stock during the five (5) business days immediately prior to a conversion date.

In connection with the above agreements, the parties acknowledged and agreed that certain advisory fees previously paid to TCA as provided in the Purchase Agreement in the amount of \$1,500,000 have been added and included within the principal balance of the Second Replacement Debentures. The conversion price discount on the Second Replacement Debentures will not apply to the amount of advisory fees added to the Second Replacement Debentures. TCA is also surrendering its Series B Preferred Stock in exchange for the \$1,500,000 balance evidenced by said preferred stock being added to the Second Replacement Debenture.

## PART II—INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The expenses payable by us in connection with the issuance and distribution of the securities being registered are set forth below. Each item listed is estimated as follows:

Securities and Exchange Commission registration fee	\$ 400
Accounting fees and expenses	15,000
Legal fees and expenses	30,000
Registrar and transfer agent fees and expenses	1,000
Miscellaneous	3,600
<b>Total expenses</b>	<b>\$ 50,000</b>

## ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Under Delaware law, a corporation may include in its certificate of incorporation (“Certificate”) a provision that eliminates or limits the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, but no such provision may eliminate or limit the liability of a director (a) for any breach of duty of loyalty, (b) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the Delaware General Corporation Law (the “DGCL”) (dealing with illegal redemptions and stock repurchases), or (d) for any transaction from which the director derived an improper personal benefit. Our Certificate limits personal liability of directors to the fullest extent permitted by Delaware law.

The Certificate also provides that we shall, to the fullest extent permitted by Section 145 of the DGCL, as amended, indemnify all persons whom it may indemnify thereto, provided that if such indemnified person initiates a proceeding, he or she shall be indemnified only if our board of directors approved such action. Section 145 of the DGCL permits indemnification against expenses, fines, judgments and settlements incurred by any director, officer or employee of a Company in the event of pending or threatened civil, criminal, administrative or investigative proceedings, if such person was, or was threatened to be made, a party by reason of the fact that he or she is or was a director, officer or employee of the Company. Section 145 and our Certificate also provide that the indemnification provided for therein shall not be deemed exclusive of any other rights to which those seeking indemnification may otherwise be entitled.

We have a directors’ and officers’ liability insurance policy in place pursuant to which its directors and officers are insured against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended and the Securities and Exchange Act of 1934, as amended.

## ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Subsequent to July, 2013

On October 14, 2013, we issued 9,000,000 shares of our common stock related to the cashless exercise of warrants by Gemini Master Fund.

During 2013, we sold 36,981,862 shares of our common stock at \$0.035 per share for aggregate proceeds of \$1,294,365. The securities above were offered and sold to accredited investors pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did

not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof. The sale of the foregoing securities was made without any form of general solicitation or advertising and all of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

During 2013, we issued 262,595,733 shares of common stock relating to the conversion of Notes. The securities above were offered and sold to an accredited investor pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof. The sale of the foregoing securities was made without any form of general solicitation or advertising and all of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

During 2013, we issued 3,680,773 shares of common stock for a cashless exercise of options. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

During 2013, we issued 470,237 shares of our common stock related to the exercise of a stock option grant. We received \$9,000 or \$0.019 per share.

During 2013, we issued 45,404,359 shares of our common stock to consultants, employees and directors for services. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

## 2014

During 2014, we issued 102,507,839 shares of common stock relating to the conversion of Notes. The securities above were offered and sold to an accredited investor pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof. The sale of the foregoing securities was made without any form of general solicitation or advertising and all of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

During 2014, we issued 3,570,455 shares of common stock for a cashless exercise of options. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

During 2014, we issued 2,351,187 shares of our common stock related to the exercise of a stock option grant. We received \$44,438 or \$0.019 per share.

During 2014, we issued 15,219,420 shares of our common stock to consultants, employees and directors for services. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

## 2015

On June 16, 2015, we issued 7,772,725 shares of our common stock to Horwitz + Armstrong LLP pursuant a conversion of debt for \$171,000. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did

not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

On July 9, 2015, we issued 10,000,000 shares of our common stock to TCA Global Credit Master Fund LP, an accredited investor, under an Advisory Agreement related to a Securities Purchase Agreement which closed July 9, 2015. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

On August 6, 2015, we issued 5,000,000 shares of our common stock to TCA Global Credit Master Fund LP, an accredited investor, under an Advisory Agreement related to a Committed Equity Facility which closed on August 6, 2015. The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

On December 18, 2015, we issued 2,000,000 shares each to two of our former independent Board Directors. We valued the 4,000,000 shares at \$0.01 per share or \$40,000.

TCA was issued 150,000 shares of Series B Preferred Stock.

TCA was issued 51 shares of Series C Preferred Stock.

Subsequent to December 31, 2015

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

On January 16, 2016, we issued 1,400,000 shares of its common stock to a former consultant pursuant a conversion of debt for \$14,000. The shares were valued at the fair market price of \$0.01 per share.

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

During March 2016, Holders of our Convertible Notes Payables, converted principal and accrued interest of \$608,905 into 86,986,437 shares of our common stock at a per share conversion price of \$0.007.

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

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

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



On June 14, 2016, Old Main Capital LLC converted principal of \$25,000 into 3,846,154 shares of our common stock at a per share conversion price of \$0.007.

On June 23, 2016, Old Main Capital LLC converted principal of \$25,000 into 3,846,154 shares of our common stock at a per share conversion price of \$0.007.

On June 29, 2016, Old Main Capital LLC converted principal of \$25,000 into 3,846,154 shares of our common stock at a per share conversion price of \$0.007.

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.

No "participating members" (as such term is defined in FINRA Rule 5110(a)(4)) provided any services to us or acquired any of our securities in connection with the foregoing transactions.

#### ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The exhibits to the Registration Statement are listed in the Exhibit Index attached hereto and incorporated by reference herein.

#### ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that, in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(5) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(6) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

GROWLIFE, INC.

By: /s/ Marco Hegyi  
Marco Hegyi  
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities held on the dates indicated.

SIGNATURES	TITLE	DATE
/s/ Marco Hegyi Marco Hegyi	Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)	July 8, 2016
/s/ Mark E. Scott Mark E. Scott	Consulting Chief Financial Officer (Principal Financial/Accounting Officer)	July 8, 2016
/s/ Michael E. Fasci Michael E. Fasci	Secretary Director	July 8, 2016

## Exhibit Index

Exhibit No.	Description
3.1	Certificate of Incorporation. Filed as an exhibit to the Company's Form 10-SB General Form for Registration of Securities of Small Business Issuers filed with the SEC on December 7, 2007, and hereby incorporated by reference.
3.2	Amended and Restated Bylaws. Filed as an exhibit to the Company's Form 8-K filed with the SEC on June 9, 2014, and hereby incorporated by reference.
3.3	Second Amended and Restated Bylaws of GrowLife, Inc. dated October 16, 2015. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.
3.4	Certificate of Designation for Series B Preferred Stock. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 29, 2015, and hereby incorporated by reference.
3.5	Certificate of Designation for Series C Preferred Stock. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 29, 2015, and hereby incorporated by reference.
4.1	GrowLife, Inc. 2011 Stock Incentive Plan filed as an exhibit to the Company's Registration Statement on Form S-1 filed with the SEC on June 9, 2011, and hereby incorporated by reference.
5.1	Opinion of Horwitz + Armstrong, LLP, regarding the legality of the securities being registered. (filed herewith)
10.1	Agreement and Plan of Merger dated March 21, 2012, by and between Phototron Holdings, Inc., SGT Merger Corporation, SG Technologies Corp, Sterling C. Scott and W-Net Fund I, L.P. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 22, 2012, and hereby incorporated by reference.
10.2	Securities Purchase and Exchange Agreement, dated March 16, 2012, by and between Phototron Holdings, Inc., W-Net Fund I, L.P., and Europa International Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 22, 2012, and hereby incorporated by reference.
10.3	Security Agreement, dated March 16, 2012, by and between Phototron Holdings, Inc., W-Net Fund I, L.P., Europa International Inc., GrowLife, Inc., and Phototron, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 22, 2012, and hereby incorporated by reference.
10.4	Intellectual Property Security Agreement, dated March 16, 2012, by and between Phototron Holdings, Inc., W-Net Fund I, L.P., Europa International Inc., GrowLife, Inc., and Phototron, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 22, 2012, and hereby incorporated by reference.
10.5	Form of 6% Senior Secured Convertible Note. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on March 22, 2012, and hereby incorporated by reference.

- 10.6 Form of 7% Convertible Note. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 11, 2013, and hereby incorporated by reference.
- 10.7 Securities Purchase Agreement dated June 7, 2013, by and between GrowLife, Inc., GrowLife Hydroponics, Inc., Sequoia, LLC, Pressure Drop Holdings, LLC and Sachin Karia. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 7, 2013, and hereby incorporated by reference.
- 10.8 Revolving Promissory Note dated June 7, 2013 issued by GrowLife, Inc. in favor of W-Net Fund I, L.P. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 7, 2013, and hereby incorporated by reference.

10.9	Form of 12% Senior Secured Convertible Note. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 7, 2013, and hereby incorporated by reference.
10.10	Security Agreement dated June 7, 2013, by and between GrowLife, Inc., Sequoia, LLC, Pressure Drop Holdings, LLC, Sachin Karia and Robert E. Hunt. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 7, 2013, and hereby incorporated by reference.
10.11	Joint Venture Agreement dated November 19, 2013 by and between GrowLife, Inc. and CANX USA LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 21, 2013, and hereby incorporated by reference.
10.12	Warrant Agreement by and between GrowLife, Inc. and CANX USA LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 21, 2013, and hereby incorporated by reference.
10.13	7% Convertible Note by and between GrowLife, Inc. and CANX USA LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 21, 2013, and hereby incorporated by reference.
10.14	Registration Rights Agreement by and between GrowLife, Inc. and CANX USA LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on November 21, 2013, and hereby incorporated by reference.
10.15	Commercial Lease Agreement dated March 8, 2013 by and between Evergreen Garden Center LLC and William C. Rowell Family Limited Partnership for our Portland, Maine store. Filed as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and incorporated by reference.
10.16	Lease dated October 21, 2013 by and between GrowLife Hydroponics, Inc. and Stone Creek Business Center Ltd. for our Avon (Vail), Colorado store. Filed as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and incorporated by reference.
10.17	Retail Lease Agreement dated October 21, 2013 by and between GrowLife Hydroponics, Inc. and W-ADP Meadows VII LLC for our Boulder, Colorado store. Filed as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and incorporated by reference.
10.18	Amended and Restated 6% Senior Secured Convertible Note dated September 10, 2014 by and between GrowLife, Inc. and Andrew J. Gentile. Filed as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and incorporated by reference.
10.19	Amended and Restated 6% Senior Secured Convertible Note dated September 10, 2014 by and between GrowLife, Inc. and Jordan W. Scott. Filed as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and incorporated by reference.
10.20	Warrant related to CANX USA LLC Joint Development Agreement dated November 19, 2013. Filed as an exhibit to the Company's Form 10-K and filed with the SEC on November 21, 2014, and hereby incorporated by reference.



10.21 Executive Services Agreement dated June 7, 2013 by and between GrowLife, Inc. and Robert Hunt. Filed as an exhibit to the Company's Form 8-K/A2 dated June 7, 2013 and filed with the SEC on June 25, 2014, and hereby incorporated by reference.

10.22 NonCompetition, NonSolicitation and NonDisclosure Agreement dated June 7, 2013 with Robert Hunt. Filed as an exhibit to the Company's Form 8-K/A2 dated June 7, 2013 and filed with the SEC on June 25, 2014, and hereby incorporated by reference.

10.23	Executive Employment Agreement dated November 3, 2013 by and between GrowLife, Inc. and Sterling Scott. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on June 25, 2014, and hereby incorporated by reference.
10.24	Executive Employment Agreement dated November 3, 2013 by and between GrowLife, Inc. and John Genesi. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on June 25, 2014, and hereby incorporated by reference.
10.25	Employment Agreement for Marco Hegyi dated December 4, 2013. Attached as an exhibit to the Company's Form 8-K/A and filed with the SEC on June 20, 2014, and hereby incorporated by reference.
10.26	Amended Employment Agreement for Marco Hegyi dated June 20, 2014. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on June 20, 2014, and hereby incorporated by reference.
10.27	Restricted Stock Cancellation Agreement, dated April 25, 2014, by and between the Company and Eric Shevin. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on April 30, 2014, and hereby incorporated by reference.
10.28	Restricted Stock Cancellation Agreement, dated April 25, 2014, by and between the Company and Alan Hammer. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on April 30, 2014, and hereby incorporated by reference.
10.29	Restricted Stock Cancellation Agreement, dated April 25, 2014, by and between the Company and Tony Ciabattoni. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on April 30, 2014, and hereby incorporated by reference.
10.30	Consulting Letter by and between GrowLife, Inc. and Mark Scott Consulting Letter dated July 31, 2014. Filed as an exhibit to the Company's Form 8-K filed with the SEC on August 6, 2014, and hereby incorporated by reference.
10.31	Waiver and Modification Agreement dated June 25, 2014 by and between GrowLife, Inc. and Logic Works LLC. Filed as an Exhibit to the Company's Form 8-K/A and filed with the SEC on August 18, 2014, and hereby incorporated by reference.
10.32	Amended and Restated Joint Venture Agreement dated July 1, 2013 by and between GrowLife, Inc. and CANX USA LLC. Filed as an Exhibit to the Company's Form 8-K/A and filed with the SEC on August 18, 2014, and hereby incorporated by reference.
10.33	Secured Credit Facility and Secured Convertible Note dated June 25, 2014 by and between GrowLife, Inc. and Logic Works LLC. Filed as an Exhibit to the Company's Form 8-K/A and filed with the SEC on August 18, 2014, and hereby incorporated by reference.
10.34	Closing Certificate dated July 10, 2014 by and between GrowLife, Inc. and CANX USA LLC and Logic Works LLC. Filed as an Exhibit to the Company's Form 8-K/A and filed with the SEC on August 18, 2014, and hereby incorporated by reference.
10.35	Form of Warrant by and between GrowLife, Inc. and CANX USA LLC. Filed as an exhibit to the Company's Form 8-K/A and filed with the SEC on August 18, 2014, and hereby incorporated by reference.

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

10.37	Severance Agreement dated July 15, 2014 by and between GrowLife, Inc. and John Genesi. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 18, 2014, and hereby incorporated by reference.
10.38	Joseph Barnes Promotion Letter dated October 10, 2014. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 14, 2014, and hereby incorporated by reference.
10.39	Settlement Agreement and Release dated October 17, 2014 by and between GrowLife, Inc. and Robert Hunt. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 21, 2014, and hereby incorporated by reference.
10.40	Notice of Settlement Agreement dated February 9, 2015. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on February 12, 2015, and hereby incorporated by reference.
10.41	Amendment 1 to Amended and Restated 6% Senior Secured Convertible Note with Andrew J. Gentile. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 8, 2015, and hereby incorporated by reference.
10.42	Amendment 1 to Amended and Restated 6% Senior Secured Convertible Note with Jordan W. Scott. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 8, 2015, and hereby incorporated by reference.
10.43	Stipulation and Agreement of Compromise, Settlement and Release of the Derivative Actions dated April 6, 2015. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 17, 2015, and hereby incorporated by reference.
10.44	Securities Purchase Agreement, dated July 9, 2015, entered into by and between GrowLife, Inc., its subsidiaries and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.
10.45	Senior Secured, Convertible, Redeemable Debenture entered into by and between GrowLife, Inc. and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.
10.46	Form of Security Agreement entered into by and between GrowLife, Inc. and its subsidiaries, respectively, and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.
10.47	Form of Guaranty Agreement entered into by and between GrowLife, Inc.'s subsidiaries, respectively, and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.
10.48	Form of Pledge Agreement entered into by and between GrowLife, Inc. and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.
10.49	Intercreditor Agreement, dated July 9, 2015, entered into by and between GrowLife, Inc., its subsidiaries, Logic Works LLC and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.

10.50 Form of Subordination Agreement, dated July 9, 2015, entered into by and between GrowLife, Inc., its subsidiaries, TCA Global Credit Master Fund LP and Jordan Scott and Andrew Gentile, respectively. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.

10.51 Form of Amendment No. 2 to 6% Senior Secured Convertible Note, dated July 9, 2015, entered into by and between GrowLife, Inc. and Jordan Scott and Andrew Gentile, respectively. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on July 16, 2015, and hereby incorporated by reference.

10.52	Investment Banking Letter dated August 27, 2014 by and between GrowLife, Inc. and D. Weckstein & Co. Inc. Filed as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and incorporated by reference.
10.53	Securities Purchase Agreement dated August 6, 2015 and entered into by and between GrowLife, Inc., its subsidiaries and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 12, 2015, and hereby incorporated by reference.
10.54	Senior Secured Convertible Redeemable Debenture dated August 6, 2015 and entered into by and between GrowLife, Inc., its subsidiaries and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 12, 2015, and hereby incorporated by reference.
10.55	Committed Equity Facility dated August 6, 2015 entered into by and between GrowLife, Inc. and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 12, 2015, and hereby incorporated by reference.
10.56	Registration Rights Agreement dated August 6, 2015 entered into by and between GrowLife, Inc. and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 12, 2015, and hereby incorporated by reference.
10.57	Authorization Agreement dated August 6, 2015 entered into by and between GrowLife, Inc., its subsidiaries and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on August 12, 2015, and hereby incorporated by reference.
10.58	Amended and Restated Securities Purchase Agreement, dated October 27, 2015, entered into by and among GrowLife, Inc., its subsidiaries, and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 29, 2015, and hereby incorporated by reference.
10.59	Amended and Restated Senior Secured, Convertible, Redeemable Debenture, dated October 27, 2015, entered into by and between GrowLife, Inc. and Purchaser. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on October 29, 2015, and hereby incorporated by reference.
10.60	Amendment to Employment Agreement by and between GrowLife Inc. and Marco Hegyi dated January 25, 2016 but effective December 18, 2015.
10.61	Securities Purchase Agreement, dated April 5, 2016, entered into by and among GrowLife, Inc., and Chicago Venture Partners, LP Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 11, 2016, and hereby incorporated by reference.
10.62	Convertible Promissory Note, dated April 5, 2016, entered into by and between GrowLife, Inc. and Chicago Venture Partners, LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 11, 2016, and hereby incorporated by reference.
10.63	Form of Secured Investor Note, dated April 5, 2016, entered into by and between GrowLife, Inc. and Chicago Venture Partners, LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on April 11, 2016, and hereby incorporated by reference.

10.64 Waiver Agreement, dated April 11, 2016, by and between GrowLife, Inc. and TCA Global Credit Master Fund, LP (filed herewith).

10.65	First Amendment to Securities Purchase Agreement, effective as of May 4, 2016, entered into by and among GrowLife, Inc., its subsidiaries, and TCA Global Credit Master Fund LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on May 9, 2016, and hereby incorporated by reference.
10.66	Second Replacement Debenture A, dated May 4, 2016, entered into by and between GrowLife, Inc. and TCA Global Credit Master Fund, LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on May 9, 2016, and hereby incorporated by reference.
10.67	Second Replacement Debenture B, dated May 4, 2016, entered into by and between GrowLife, Inc. and TCA Global Credit Master Fund, LP. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on May 9, 2016, and hereby incorporated by reference.
10.68	Debt Purchase Agreement, dated June 9, 2016, entered into by and between TCA Global Credit Master Fund, LP, Old Main Capital, LLC and GrowLife, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 16, 2016, and hereby incorporated by reference.
10.69	Exchange Agreement, dated June 9, 2016, entered into by and among Old Main Capital, LLC and GrowLife, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 16, 2016, and hereby incorporated by reference.
10.70	10% Senior Convertible Promissory Note, dated June 9, 2016, entered into by and among Old Main Capital, LLC and GrowLife, Inc. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 16, 2016, and hereby incorporated by reference.
10.71	Option Agreement, dated June 8, 2016, entered into by and among TCA Global Credit Master Fund, LP and Old Main Capital, LLC. Filed as an exhibit to the Company's Form 8-K and filed with the SEC on June 16, 2016, and hereby incorporated by reference.
10.72*	Advisory Services Agreement, dated September 27, 2015, entered into by and GrowLife, Inc. and TCA Global Credit Master Fund, LP. Filed herewith.
10.73*	Amendment to Advisory Services Agreement, dated October 27, 2015, entered into by and GrowLife, Inc. and TCA Global Credit Master Fund, LP. 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 as an exhibit to the Company's Form 10-K dated December 31, 2014 and filed with the SEC on September 30, 2015, and hereby incorporated by reference.
23.1	Consent of PMB Helin Donovan LLP, independent registered public accounting firm (filed herewith)
23.3	Consent of Horwitz + Armstrong, A Professional Law Corporation (included in Exhibit 5.1) (filed herewith)
24.1	Power of Attorney (included on the signature page of this registration statement).
99.1	Amended and Restated Audit Committee Charter, dated October 16, 2015. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by



reference.

99.2 Compensation Committee Charter dated May 15, 2014. Attached as an exhibit to the Company's Form 8-K dated June 3, 2014 and filed with the SEC on June 9, 2014, and hereby incorporated by reference.

99.3 Amended and Restated Nominations and Governance Charter, dated October 16, 2015. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.

99.4 Amended and Restated Insider Trading Policy, dated October 16, 2015. Attached as an exhibit to the Company's Form 8-K and filed with the SEC on October 26, 2015, and hereby incorporated by reference.

\*Previously filed.