

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2024

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: **001-40400**

DIGITAL BRANDS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-1942864

(I.R.S. Employer
Identification No.)

**1400 Lavaca Street
Austin, TX 78701**

(Address of principal executive offices, including zip code)

Tel: (209) 651-0172

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, par value \$0.0001 per share | DBGI | The Nasdaq Stock Market LLC |
| Warrants, each exercisable to purchase one share of common stock | DBGIW | The Nasdaq Stock Market LLC |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input checked="" type="checkbox"/> |

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

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

As of August 19, 2024, the Company had 2,617,027 shares of common stock, \$0.0001 par value, issued and outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Except for historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which involve risks and uncertainties. These forward-looking statements can be identified by the use of forward- looking terminology, including the terms "believe," "estimate," "project," "aim," "anticipate," "expect," "seek," "predict," "contemplate," "continue," "possible," "intend," "may," "plan," "forecast," "future," "might," "will," "could," "would" or "should" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth strategies, the industry in which we operate and potential acquisitions. We derive many of our forward- looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this Quarterly Report on Form 10-Q.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. 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 stability of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause our results to vary from expectations include those discussed in "Risk Factors" in our most recent Annual Report on Form 10-K, as the same may be updated from time to time.

Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors.

PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

DIGITAL BRANDS GROUP, INC. CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | June 30, 2024 | December 31, 2023 |
|---|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 92,794 | \$ 20,773 |
| Accounts receivable, net | 285,652 | 74,833 |
| Due from factor, net | 742,764 | 337,811 |
| Inventory | 5,061,446 | 4,849,600 |
| Prepaid expenses and other current assets | 377,959 | 276,670 |
| Total current assets | 6,560,615 | 5,559,687 |

| | | |
|--|----------------------|----------------------|
| Property, equipment and software, net | 79,309 | 55,509 |
| Goodwill | 8,973,501 | 8,973,501 |
| Intangible assets, net | 8,543,123 | 9,982,217 |
| Deposits | 152,711 | 75,431 |
| Right of use asset | 633,755 | 689,688 |
| Total assets | <u>\$ 24,943,014</u> | <u>\$ 25,336,033</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,119,604 | \$ 7,538,902 |
| Accrued expenses and other liabilities | 4,957,132 | 4,758,492 |
| Due to related parties | 426,921 | 400,012 |
| Convertible note payable, net | 100,000 | 100,000 |
| Accrued interest payable | 1,944,362 | 1,996,753 |
| Loan payable, current | 2,110,188 | 2,325,842 |
| Promissory note payable, net | 4,730,740 | 4,884,592 |
| Right of use liability, current portion | 1,031,261 | 1,210,814 |
| Total current liabilities | 21,420,208 | 23,215,407 |
| Loan payable | 150,000 | 150,000 |
| Right of use liability, non current portion | 276,432 | - |
| Deferred tax liability | 368,034 | 368,034 |
| Total liabilities | <u>22,214,674</u> | <u>23,733,441</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Undesignated preferred stock, \$0.0001 par, 10,000,000 shares authorized, 0 shares issued and outstanding as of both June 30, 2024 and December 31, 2023 | | - |
| Series A convertible preferred stock, \$0.0001 par, 6,300 shares designated, 6,300 shares issued and outstanding as of both June 30, 2024 and December 31, 2023 | 1 | 1 |
| Series C convertible preferred stock, \$0.0001 par, 1,744 and 4,786 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively | 1 | 1 |
| Common stock, \$0.0001 par, 1,000,000,000 shares authorized, 2,282,332 and 1,114,359 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively | 226 | 110 |
| Additional paid-in capital | 120,916,777 | 115,596,929 |
| Accumulated deficit | (118,188,665) | (113,994,449) |
| Total stockholders' equity | <u>2,728,340</u> | <u>1,602,592</u> |
| Total liabilities and stockholders' equity | <u>\$ 24,943,014</u> | <u>\$ 25,336,033</u> |

See the accompanying notes to the unaudited condensed consolidated financial statements.

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**DIGITAL BRANDS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

| | Three Months Ended June, 30 | | Six Month Ended June, 30 | |
|--|--------------------------------|---------------------|-----------------------------|-----------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Net revenues | \$ 3,396,069 | \$ 4,493,424 | 6,972,656 | \$ 8,869,803 |
| Cost of net revenues | 1,837,392 | 2,157,349 | 3,693,243 | 4,540,488 |
| Gross profit | 1,558,677 | 2,336,075 | 3,279,413 | 4,329,315 |
| Operating expenses: | | | | |
| General and administrative | 2,946,688 | 4,074,051 | 3,918,420 | 8,380,063 |
| Sales and marketing | 615,190 | 1,097,326 | 1,323,340 | 2,036,677 |
| Distribution | 299,034 | 242,214 | 564,533 | 512,399 |
| Change in fair value of contingent consideration | - | (10,698,475) | - | (10,698,475) |
| Total operating expenses | 3,860,912 | (5,284,884) | 5,806,293 | 230,664 |
| Income (loss) from operations | (2,302,235) | 7,620,959 | (2,526,880) | 4,098,651 |
| Other income (expense): | | | | |
| Interest expense | (1,239,624) | (1,086,888) | (1,744,615) | (2,951,487) |
| Other non-operating income (expenses) | 31,379 | 2,240 | 77,280 | (676,749) |
| Total other income (expense), net | (1,208,245) | (1,084,648) | (1,667,335) | (3,628,236) |
| Income tax benefit (provision) | - | - | - | - |
| Net income (loss) from continuing operations | (3,510,480) | 6,536,311 | (4,194,215) | 470,415 |
| Income from discontinued operations, net of tax | - | (1,492,050) | - | (1,562,503) |
| Net income (loss) | <u>\$ (3,510,480)</u> | <u>\$ 5,044,261</u> | <u>(4,194,215)</u> | <u>\$ (1,092,088)</u> |
| Weighted average common shares outstanding - | | | | |
| Basic | 1,684,801 | 6,170,227 | 1,703,645 | 5,920,596 |
| Diluted | 1,684,801 | 20,865,111 | 1,703,645 | 20,615,480 |
| Net income (loss) per common share - basic | <u>\$ (2.08)</u> | <u>\$ 1.06</u> | <u>\$ (2.46)</u> | <u>\$ 0.08</u> |
| Net income (loss) per common share - diluted | <u>\$ (2.08)</u> | <u>\$ 0.31</u> | <u>\$ (2.46)</u> | <u>\$ 0.02</u> |

See the accompanying notes to the unaudited condensed consolidated financial statements.

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DIGITAL BRANDS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)

| | Series A Convertible Preferred Stock | | Series C Convertible Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|--|--|-------------|--|-------------|------------------|---------------|----------------------------------|------------------------|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balances at December 31, 2022 | 6,300 | \$ 1 | | | 178,758 | \$ 18 | \$ 96,293,694 | \$(103,747,316) | \$ (7,453,174) |
| Issuance of common stock pursuant to private placement | - | - | - | - | 51,086 | 5 | 4,999,875 | - | 5,000,003 |
| Offering costs | - | - | - | - | - | - | (536,927) | - | (536,927) |
| Shares issued for services | - | - | - | - | 4,756 | - | 499,326 | - | 499,338 |
| Shares and warrants issued with notes | - | - | - | - | 4,400 | - | 658,483 | - | 658,483 |
| Stock-based compensation | - | - | - | - | - | - | 105,594 | - | 105,594 |
| Net loss | - | - | - | - | - | - | - | (6,136,349) | (6,136,349) |
| Balances at March 31, 2023 | 6,300 | 1 | - | \$ - | 239,000 | \$ 23 | \$102,020,045 | \$(109,883,665) | \$ (7,863,021) |
| Cancellation of notes and issuance of preferred stock | - | - | 5,761 | 1 | - | - | 5,759,177 | - | 5,759,177 |
| Issuance of Series B preferred stock | - | - | - | - | - | - | 25,000 | - | 25,000 |
| Issuance of common stock pursuant to disposition | - | - | - | - | 78,103 | 8 | 1,356,848 | - | 1,357,043 |
| Stock-based compensation | - | - | - | - | - | - | 101,500 | - | 101,500 |
| Net income | - | - | - | - | - | - | - | 5,044,261 | 5,044,261 |
| Balances at June 30, 2023 | <u>6,300</u> | <u>\$ 1</u> | <u>5,761</u> | <u>\$ 1</u> | <u>317,103</u> | <u>\$ 31</u> | <u>\$109,262,570</u> | <u>\$(104,839,404)</u> | <u>\$ 4,423,960</u> |
| Balances at December 31, 2023 | 6,300 | \$ 1 | 4,786 | \$ 1 | 1,114,359 | \$ 110 | \$115,596,929 | \$(113,994,449) | \$ 1,602,592 |
| Common shares issued for cash | - | - | - | - | 444,909 | 44 | 1,736,162 | - | 1,736,206 |
| Shares issued for services | - | - | - | - | 68,583 | 7 | 224,258 | - | 224,265 |
| Conversion of preferred shares into common stock | - | - | (1,547) | - | 86,306 | 9 | (9) | - | - |
| Stock-based compensation | - | - | - | - | - | - | 100,299 | - | 100,299 |
| Net loss | - | - | - | - | - | - | - | (683,735) | (683,735) |
| Balances at March 31, 2024 | 6,300 | \$ 1 | 3,239 | 1 | 1,714,157 | 169 | 117,657,641 | (114,678,185) | 2,979,628 |
| Common shares issued for cash | - | - | - | - | 378,750 | 37 | 2,877,437 | - | 2,877,474 |
| Conversion of loan into common stock | - | - | - | - | 106,020 | 11 | 313,806 | - | 313,817 |
| Conversion of preferred shares into common stock | - | - | (1,495) | - | 83,405 | 8 | (8) | - | - |
| Stock-based compensation | - | - | - | - | - | - | 67,901 | - | 67,901 |
| Net loss | - | - | - | - | - | - | - | (3,510,480) | (3,510,480) |
| Balances at June 30, 2024 | <u>6,300</u> | <u>\$ 1</u> | <u>1,744</u> | <u>\$ 1</u> | <u>2,282,332</u> | <u>\$ 226</u> | <u>\$120,916,777</u> | <u>\$(118,188,665)</u> | <u>\$ 2,728,340</u> |

See the accompanying notes to the unaudited condensed consolidated financial statements.

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DIGITAL BRANDS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended June 30, | |
|---|------------------------------|----------------|
| | 2024 | 2023 |
| Cash flows from operating activities: | | |
| Net loss | \$ (4,194,215) | \$ (1,092,088) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,439,094 | 1,765,619 |
| Amortization of loan discount and fees | 1,582,887 | 1,611,433 |
| Loss on extinguishment of debt | - | 689,100 |
| Loss on disposition of business | - | 1,523,940 |
| Stock-based compensation | 168,200 | 207,094 |
| Shares issued for services | 224,265 | 499,338 |
| Change in credit reserve | (151,611) | 344,140 |
| Change in fair value of contingent consideration | - | (10,698,475) |
| Discontinued operations | - | 7,666 |
| Non-cash lease expense | 530,312 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (210,819) | 375,685 |

| | | |
|--|---------------|------------------|
| Due from factor | (253,342) | (96,955) |
| Inventory | (211,846) | 454,011 |
| Prepaid expenses and other current assets | (101,289) | (44,213) |
| Accounts payable | (1,419,297) | 92,494 |
| Accrued expenses and other liabilities | 198,640 | 1,346,068 |
| Deferred revenue | - | (183,782) |
| Accrued interest payable | (2,039) | 217,479 |
| Due to related parties | 26,909 | - |
| Lease liabilities | (377,500) | - |
| Net cash used in operating activities | (2,751,652) | (2,981,446) |
| Cash flows from investing activities: | | |
| Purchase of property, equipment and software | (23,800) | (27,855) |
| Deposits | (77,280) | 87,378 |
| Net cash provided by (used in) investing activities | (101,080) | 59,523 |
| Cash flows from financing activities: | | |
| Repayments from related party advances | - | (57,427) |
| Advances from factor | - | 154,073 |
| Issuance of loans and note payable | 490,977 | 4,194,799 |
| Repayments of convertible notes and loan payable | (2,179,906) | (6,604,552) |
| Insurance for common stock for cash | 4,613,681 | - |
| Issuance of common stock in public offering | - | 5,000,003 |
| Offering costs | - | (686,927) |
| Net cash provided by financing activities | 2,924,752 | 1,999,969 |
| Net change in cash and cash equivalents | 72,020 | (921,954) |
| Cash and cash equivalents at beginning of period | 20,773 | 1,275,616 |
| Cash and cash equivalents at end of period | \$ 92,794 | \$ 353,662 |
| Less : Cash of discontinued operations | - | (18,192) |
| | <u>92,794</u> | <u>335,470</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | \$ - | - |
| Cash paid for interest | \$ 2,039 | \$ 686,071 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Right of use asset | \$ 425,634 | \$ 467,738 |
| Shares issued for services and conversion of accounts payable | \$ 313,816 | \$ - |
| Conversion of preferred shares into common stock | \$ 17 | \$ - |
| Cancellation of notes and issuance of preferred stock | \$ - | \$ 5,759,177 |

See the accompanying notes to the unaudited condensed consolidated financial statements.

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NOTE 1: NATURE OF OPERATIONS

Digital Brands Group, Inc. (the "Company" or "DBG"), was organized on September 17, 2012 under the laws of Delaware as a limited liability company under the name Denim.LA LLC. The Company converted to a Delaware corporation on January 30, 2013 and changed its name to Denim.LA, Inc. Effective December 31, 2020, the Company changed its name to Digital Brands Group, Inc. (DBG).

The Company is a curated collection of lifestyle brands, including Bailey 44, DSTLD, Harper & Jones, Stateside and ACE Studios, that offers a variety of apparel products through direct-to-consumer and wholesale distribution.

On February 12, 2020, Denim.LA, Inc. entered into an Agreement and Plan of Merger with Bailey 44, LLC ("Bailey"), a Delaware limited liability company. On the acquisition date, Bailey 44, LLC became a wholly owned subsidiary of the Company.

On May 18, 2021, the Company closed its acquisition of Harper & Jones, LLC ("H&J") pursuant to its Membership Interest Stock Purchase Agreement with D. Jones Tailored Collection, Ltd. to purchase 100% of the issued and outstanding equity of Harper & Jones, LLC. On the acquisition date, H&J became a wholly owned subsidiary of the Company.

On August 30, 2021, the Company closed its acquisition of Mosbest, LLC dba Stateside ("Stateside") pursuant to its Membership Interest Purchase Agreement with Moise Emquies to purchase 100% of the issued and outstanding equity of Stateside. On the acquisition date, Stateside became a wholly owned subsidiary of the Company.

On December 30, 2022, the Company closed its previously announced acquisition of Sunnyside, LLC dba Sundry ("Sundry") pursuant to its Second Amended and Restated Membership Interest Purchase Agreement with Moise Emquies to purchase 100% of the issued and outstanding equity of Sundry. On the acquisition date, Sundry became a wholly owned subsidiary of the Company.

On June 21, 2023, the Company and the former owners of H&J executed a Settlement Agreement and Release (the "Settlement Agreement") whereby contemporaneously with the parties' execution of the Settlement Agreement (i) the Company agreed to make an aggregate cash payment of \$229,000 to D. Jones Tailored Collection, Ltd. ("D. Jones"), (ii) the Company issued 1,952,580 shares of common stock to D. Jones, and (iii) the Company assigned and transferred one hundred percent (100%) of the Company's membership interest in H&J to D. Jones. The H&J Settlement was accounted for a business disposition.

NOTE 2: GOING CONCERN

The accompanying condensed 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 has not generated profits since inception, has sustained net losses of \$4,194,216 and \$1,092,088 for the six months ended June 30, 2024 and 2023, respectively, and has incurred negative cash flows from operations for the six months ended June 30, 2024 and 2023. The Company has historically lacked liquidity to satisfy obligations as they come due and as of June 30, 2024, and the Company had a working capital deficit of \$14,859,593. These factors, among others, arise substantial doubt about the Company's ability to continue as a going concern. The Company expects to continue to generate operating losses for the foreseeable future. The accompanying consolidated financial statements do not include any adjustments as a result of this uncertainty.

The Company's ability to continue as a going concern for the next 12 months from the date the financial statements were available to be issued is

dependent upon its ability to generate sufficient cash flows from operations to meet its obligations, which it has not been able to accomplish to date, and/or to obtain additional capital financing. Through the date the financial statements were available to be issued, the Company has been primarily financed through the issuance of capital stock and debt. In the event that the Company cannot generate sufficient revenue to sustain its operations, the Company will need to reduce expenses or obtain financing through the sale of debt and/or equity securities. The issuance of additional equity would result in dilution to existing shareholders. If the Company is unable to obtain additional funds when they are needed or if such funds cannot be obtained on terms acceptable to the Company, the Company would be unable to execute upon the business plan or pay costs and expenses as they are incurred, which would have a material, adverse effect on the business, financial condition and results of operations. No assurance can be given that the Company will be successful in these efforts.

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NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP").

Reverse Stock Split

On August 21, 2023, the Board of Directors approved a one-for-25 reverse stock split of its issued and outstanding shares of common stock and a proportional adjustment to the existing conversion ratios for each series of the Company's preferred stock. The reverse stock split became effective as of August 22, 2023. Accordingly, all share and per share amounts for all periods presented in the accompanying consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratios.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated balance sheet as of June 30, 2024, the unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2024, and 2023 and of cash flows for the six months ended June 30, 2024 and 2023 have been prepared by the Company, pursuant to the rules and regulations of the SEC for the interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the consolidated results for the interim periods presented and of the consolidated financial condition as of the date of the interim consolidated balance sheet. The results of operations are not necessarily indicative of the results expected for the year ended December 31, 2024.

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2023 included in the Company's Annual Form 10-K filed with SEC on April 15, 2024.

Principles of Consolidation

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Bailey, and Stateside from the dates of acquisition. All inter-company transactions and balances have been eliminated on consolidation.

Discontinued Operations

Certain prior year accounts have been reclassified to conform with current year presentation regarding income (loss) from discontinued operations.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, inventory, impairment of long-lived assets, contingent consideration and derivative liabilities. The Company bases its estimates on historical experience, known trends and other market-specific or other relevant factors that it believes to be reasonable under the circumstances. On an ongoing basis, management evaluates its estimates when there are changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

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Cash and Equivalents and Concentration of Credit Risk

The Company considers all highly liquid securities with an original maturity of less than six months to be cash equivalents. As of June 30, 2023, and December 31, 2023, the Company did not hold any cash equivalents. The Company's cash and cash equivalents in bank deposit accounts, at times, may exceed federally insured limits of \$250,000.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, prepaid expenses, accounts payable, accrued expenses, due to related parties, related party note payable, and convertible debt. The carrying value of these assets and liabilities is representative of their fair market value, due to the short maturity of these instruments.

Accounts Receivable and Expected Credit Loss

We carry our accounts receivable at invoiced amounts less allowances for customer credit losses and other deductions to present the net amount expected to be collected on the financial asset. All receivables are expected to be collected within one year of the consolidated balance sheet. We do not accrue interest on the trade receivables. Management evaluates the ability to collect accounts receivable based on a combination of factors. Receivables are determined to be past due based on individual credit terms. An allowance for credit losses is maintained based on the length of time receivables are past due, historical collections, or the status of a customer's financial position. Receivables are written off in the year deemed uncollectible after efforts to collect the receivables have proven unsuccessful. We do not have any off-balance sheet credit exposure related to our customers.

We periodically review accounts receivable, estimate an allowance for bad debts, and simultaneously record the appropriate expense in the statement of operations. Such estimates are based on general economic conditions, the financial conditions of customers, and the amount and age of past due accounts. Past due accounts are written off against that allowance only after all collection attempts have been exhausted and the prospects for

recovery are remote. Recoveries of accounts receivable previously written off are recorded as income when received. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk.

As of June 30, 2024, and December 31, 2023, the Company determined an allowance for credit losses of \$ 65,913 and \$41,854, respectively.

Inventory

Inventory is stated at the lower of cost or net realizable value and accounted for using the weighted average cost method for DSTLD and first-in, first-out method for Bailey, Stateside and Sundry. The inventory balances as of June 30, 2024 and December 31, 2023 consist substantially of finished good products purchased or produced for resale, as well as any raw materials the Company purchased to modify the products and work in progress.

Inventory consisted of the following:

| | June 30, 2024 | December 31, 2023 |
|-----------------|------------------|----------------------|
| Raw materials | \$ 725,965 | \$ 695,580 |
| Work in process | 610,959 | 585,387 |
| Finished goods | 3,724,522 | 3,568,633 |
| Inventory | \$ 5,061,446 | \$ 4,849,600 |

Goodwill

Goodwill and identifiable intangible assets that have indefinite useful lives are not amortized, but instead are tested annually for impairment and upon the occurrence of certain events or substantive changes in circumstances. The annual goodwill impairment test allows for the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit and proceed directly to step one of the quantitative impairment test. If it is determined, on the basis of qualitative factors, that the fair value of a reporting unit is, more likely than not, less than its carrying value, the quantitative impairment test is required.

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Annual Impairment

At December 31, 2023, management determined that certain events and circumstances occurred that indicated that the carrying value of the Company's brand name assets, and the carrying amount of the reporting units, pertaining to Bailey44, Stateside and Sundry may not be recoverable. The qualitative assessment was primarily due to reduced or stagnant revenues of both entities as compared to the Company's initial projections at the time of each respective acquisition, as well as the entities' liabilities in excess of assets. Upon the quantitative analysis performed, the Company determined that the fair value of the intangible assets and reporting units were greater than the respective carrying values. As such, no impairment was recorded. The Company utilized the enterprise value approach in the impairment tests of each reporting unit in 2023.

Net Loss per Share

Net earnings or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the period, excluding shares subject to redemption or forfeiture. The Company presents basic and diluted net earnings or loss per share. Diluted net earnings or loss per share reflect the actual weighted average of common shares issued and outstanding during the period, adjusted for potentially dilutive securities outstanding. Potentially dilutive securities are excluded from the computation of the diluted net loss per share if their inclusion would be anti-dilutive. As all potentially dilutive securities are anti-dilutive as of June 30, 2024 and 2023, diluted net loss per share is the same as basic net loss per share for each year. Potentially dilutive items outstanding as of June 30, 2024 and 2023 are as follows:

| | June 30, 2024 | 2023 |
|--------------------------------------|------------------|------------|
| Series A convertible preferred stock | 27,097 | 677,419 |
| Series C convertible preferred stock | 97,294 | 8,034,868 |
| Common stock warrants | 2,934,051 | 5,943,646 |
| Stock options | 1,566 | 38,951 |
| Total potentially dilutive shares | 3,060,008 | 14,694,884 |

The stock options and warrants above are out-of-the-money as of June 30, 2024 and 2023.

Recent Accounting Pronouncements

In January 2024, the Company adopted ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*: Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This ASU addresses the complexity of certain guidance for convertible instruments and contracts in an entity's own equity. The ASU is effective for public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the ASU will be effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The ASU did not have a material impact on the consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, the Company will adopt those that are applicable under the circumstances.

The following accounting pronouncements have been issued as of May 20, 2024 but are not yet effective and may affect the future financial reporting by the Company:

- *ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*: The ASU is intended to clarify the guidance when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of the security. For public business entities, the amendments in ASU 2022- 03 are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years.

NOTE 4: DUE FROM FACTOR

Due to/from factor consist of the following:

| | June 30, 2024 | December 31, 2023 |
|----------------------------|-------------------|----------------------|
| Outstanding receivables: | | |
| Without recourse | \$ 1,530,580 | \$ 808,233 |
| With recourse | 21,256 | 99,055 |
| Matured funds and deposits | 48,108 | 65,321 |
| Advances | (857,180) | (483,187) |
| Credits due customers | — | (151,611) |
| | <u>\$ 742,764</u> | <u>\$ 337,811</u> |

NOTE 5: GOODWILL AND INTANGIBLE ASSETS

The following is a summary of goodwill attributable to each business combination:

| | June 30, 2024 | December 31, 2023 |
|-----------|---------------------|----------------------|
| Bailey | \$ 3,158,123 | \$ 3,158,123 |
| Stateside | 2,104,056 | 2,104,056 |
| Sundry | 3,711,322 | 3,711,322 |
| | <u>\$ 8,973,501</u> | <u>\$ 8,973,501</u> |

The following table summarizes information relating to the Company's identifiable intangible assets as of June 30, 2024:

| | Gross Amount | Accumulated Amortization | Carrying Value |
|--------------------------|----------------------|-----------------------------|---------------------|
| Amortized: | | | |
| Customer relationships | \$ 8,634,560 | \$ (5,933,317) | \$ 2,701,243 |
| | <u>\$ 8,634,560</u> | <u>\$ (5,933,317)</u> | <u>\$ 2,701,243</u> |
| Indefinite-lived: | | | |
| Brand name | 5,841,880 | — | 5,841,880 |
| | <u>\$ 14,476,440</u> | <u>\$ (5,933,317)</u> | <u>\$ 8,543,123</u> |

The Company recorded amortization expense of \$ 719,547 and \$804,924 during the three months ended June 30, 2024 and 2023, and \$ 1,439,094 and \$1,759,277 during the six months ended June 30, 2024 and 2023, respectively, which is included in general and administrative expenses in the consolidated statements of operations.

NOTE 6: LIABILITIES AND DEBT
Accrued Expenses and Other Liabilities

The Company accrued expenses and other liabilities line in the consolidated balance sheets is comprised of the following as of June 30, 2024, and December 31, 2023:

| | June 30, 2024 | December 31, 2023 |
|-----------------------------|---------------------|----------------------|
| Accrued expenses | \$ 703,161 | \$ 617,374 |
| Payroll related liabilities | 3,983,504 | 3,895,640 |
| Sales tax liability | 171,114 | 145,545 |
| Other liabilities | 99,353 | 99,933 |
| | <u>\$ 4,957,132</u> | <u>\$ 4,758,492</u> |

Convertible Debt

As of June 30, 2024 and December 31, 2023 there was \$ 100,000 remaining in outstanding principal that was not converted into equity.

Target Capital Convertible Promissory Note

On April 30, 2024, the Company issued a convertible promissory note in the original principal amount of \$ 250,000 (the "Note") to Target Capital 1 LLC, an Arizona limited liability company (the "Note Holder"), with a maturity date of April 30, 2025 (the "Maturity Date"). Pursuant to the terms of the Note, the Company agreed to pay the principal sum and a one-time interest charge of \$50,000 to the Note Holder. In May 2024, the Company fully repaid the Note Holder \$300,000, including the principal and interest. The Company also will issue 50,000 shares of common stock to the Note Holder as commitment shares. As the shares have not been issued as of June 30, 2024, the fair value of \$141,000 is included in accrued liabilities on the consolidated balance sheet.

Loan Payable — PPP and SBA Loan

In April 2022, there was a partial forgiveness of Bailey's first PPP Loan totaling \$ 413,705. As of June 30, 2024 and December 31, 2023, Bailey had an outstanding PPP Loan balance of \$933,295, which matures in 2026.

Merchant Advances
Future Sales Receipts

In 2022 and 2023, the Company obtained several merchant advances. These advances are, for the most part, secured by expected future sales transactions of the Company with expected payments on a weekly basis. The Company made total cash repayments, pertaining to principal and interest, of \$870,890 for the six months ending June 30, 2024.

The following is a summary of the merchant advances as of June 30, 2024, and December 31, 2023:

| | June 30, 2024 | December 31, 2023 |
|---------------------------------|------------------|----------------------|
| Principal | \$ 2,090,056 | \$ 2,960,946 |
| Less: unamortized debt discount | (940,026) | (1,966,881) |
| Merchant cash advances, net | \$ 1,150,030 | \$ 994,065 |

The unamortized debt discount of \$940,026 will be amortized to interest expense over the expected remaining terms of the agreements through the fourth quarter of 2024. During the six months ended June 30, 2024, the Company recorded \$1,026,855 in interest expense pertaining to these advances.

Other

The Company has outstanding merchant advances with Shopify Capital. During the six months ending June 2024, the Company made repayments of \$133,216. As of June 30, 2024, the remaining principal outstanding was \$ 16,682. These advances are, for the most part, secured by expected future sales transactions of the Company with expected payments on a daily basis.

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The Company also had outstanding merchant advances with Gynger, Inc. In May 2024, the Company converted the outstanding principal and accrued interest of \$313,816 owed to Gynger for 106,020 shares of common stock.

Promissory Note Payable

As of June 30, 2024, and December 31, 2023, the outstanding principal on the note to the sellers of Bailey was \$ 3,500,000. On July 5, 2023, the parties agreed to extend the maturity date to June 30, 2024. Interest expense was \$105,000 and \$105,000 for the three months ended June 30, 2024 and 2023 and \$210,000 and \$210,000 for the six months ended June 30, 2024 and 2023, all respectively, which was accrued and unpaid as of June 30, 2024.

In March 2023, the Company and various purchasers executed a Securities Purchase Agreement ("March 2023 Notes") whereby the investors purchased from the Company promissory notes in the aggregate principal amount of \$2,458,750, consisting of original issue discount of \$ 608,750. The Company received net proceeds of \$1,850,000 after additional fees. The March 2023 Notes are due and payable on September 30, 2023 (the "Maturity Date"). If the Company completes a debt or equity financing of less than \$7,500,000, the Company is required to repay 50% of the remaining balance of the March 2023 Notes. Following such 50% repayment, the Company must also use any proceeds from any subsequent debt or equity financing to repay the March 2023 Notes. Upon the closing of any debt or equity financing of \$7,500,000 or greater, the Company is required to repay 100% of the Notes with no penalties. There is no additional interest after the 20% original interest discount. Upon the Company's equity financing in September 2023, the Company repaid an aggregate \$1,247,232 principal to the respective noteholders. The Company recognized a debt discount of \$608,750, which was fully amortized through December 31, 2023. The notes contain certain conversion provisions upon an event of default.

The parties are currently working on an extension to the Maturity Date and have acknowledged that the default provisions have not been triggered. The Maturity Date has currently been extended to September 30, 2023. It is expected that the March 2023 Notes will be fully repaid by the end of the third quarter of 2024. In May 2024, the Company repaid \$500,000 of these notes. During the six months ended June 30, 2024, the Company fully amortized debt discount pertaining to these notes .

The following is a summary of promissory notes payable, net:

| | June 30, 2024 | December 31, 2023 |
|--|------------------|----------------------|
| Bailey Note | \$ 3,500,000 | \$ 3,500,000 |
| March 2023 Notes – principal | 1,230,740 | 1,730,740 |
| March 2023 Notes - unamortized debt discount | - | (346,148) |
| Promissory note payable, net | \$ 4,730,740 | \$ 4,884,592 |

NOTE 7: STOCKHOLDERS' DEFICIT

Amendments to Certificate of Incorporation

On August 21, 2023, the Board of Directors approved a one-for-25 reverse stock split of its issued and outstanding shares of common stock and a proportional adjustment to the existing conversion ratios for each series of the Company's preferred stock. The reverse stock split became effective as of August 22, 2023. Accordingly, all share and per share amounts for all periods presented in the accompanying consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratios.

Common Stock

The Company had 1,000,000,000 shares of common stock authorized with a par value of \$ 0.0001 as of June 30, 2024.

Common stockholders have voting rights of one vote per share. The voting, dividend, and liquidation rights of the holders of common stock are subject to and qualified by the rights, powers, and preferences of preferred stockholders.

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2024 Transactions

During the six months ended June 30, 2024, the Company issued 444,909 shares of common stock pursuant to an At-The-Market Offering Agreement for an at-the-market offering (the "ATM Agreement") with H.C. Wainwright & Co., LLC, as sales agent ("Wainwright"). The Company received net proceeds of \$1,736,206 pursuant to the ATM Agreement.

During the six months ended June 30, 2024, the Company issued an aggregate of 68,583 shares of common stock pursuant to services and conversion of accounts payable totaling a fair value of \$224,265.

In February 2024, the Company issued an aggregate of 52,994 shares of common stock to a marketing vendor for services. The fair value of \$173,290 or \$3.27 per share as determined by the agreements, was included in sales and marketing expenses in the consolidated statements of operations.

In February 2024, the Company issued an aggregate of 15,589 shares of common stock to a vendor as conversion of accounts payable for a total value of \$50,975.

During the six months ended June 30, 2024 3,042 shares of Series C Convertible Preferred Stock converted into 169,711 shares of common stock.

As previously reported, the Company entered into a securities purchase agreement with an accredited investor (the "Investor"), pursuant to which the Company issued on September 5, 2023 those certain Series A warrants to purchase 513,875 shares of common stock and Series B warrants to purchase 513,875 shares of common stock (collectively, the "Existing Warrants"), amongst other securities.

On May 3, 2024, the Company entered into that certain inducement offer to exercise common stock purchase warrants with the Investor (the "Inducement Agreement"), pursuant to which (i) the Company agreed to lower the exercise price of the Existing Warrants to \$3.13 per share and (ii) the Investor agreed to exercise the Existing Warrants into 1,027,750 shares of common stock (the "Exercise Shares") by payment of the aggregate exercise price of \$3,216,857. The closing occurred on May 7, 2024.

Through June 30, 2024, the Company had exercised 378,750 of the 1,027,750 warrants at the amended exercise price of \$3.13 per share. The Company received the entire gross proceeds of \$3,216,857 in May 2024, which represents the exercise of the entire 1,027,750 warrants at the \$3.13 exercise price. The Company received net proceeds of \$2,877,475 after placement agent fees and expenses.

In May 2024, the Company converted the outstanding principal and accrued interest of \$ 313,816 owed to Gynger for 106,020 shares of common stock.

Series A Convertible Preferred Stock

On September 29, 2022, the Company filed the Certificate of Designation designating up to 6,800 shares out of the authorized but unissued shares of its preferred stock as Series A Convertible Preferred Stock.

Except for stock dividends or distributions for which adjustments are to be made pursuant to the Certificate of Designation, the holders of the Series A Preferred Stock (the "Holders") shall be entitled to receive, and the Company shall pay, dividends on shares of the Series A Preferred Stock equal (on an as-if-converted-to-Common-Stock basis) to and in the same form as dividends actually paid on shares of the Common Stock when, as and if such dividends are paid on shares of the Common Stock. No other dividends shall be paid on shares of the Series A Preferred Stock.

With respect to any vote with the class of Common Stock, each share of the Series A Preferred Stock shall entitle the Holder thereof to cast that number of votes per share as is equal to the number of shares of Common Stock into which it is then convertible.

The Series A Preferred Stock shall rank (i) senior to all of the Common Stock; (ii) senior to any class or series of capital stock of the Company hereafter created specifically ranking by its terms junior to any Preferred Stock ("Junior Securities"); (iii) on parity with any class or series of capital stock of the Corporation created specifically ranking by its terms on parity with the Preferred Stock ("Parity Securities"); and (iv) junior to any class or series of capital stock of the Company hereafter created specifically ranking by its terms senior to any Preferred Stock ("Senior Securities"), in each case, as to dividends or distributions of assets upon liquidation, dissolution or winding up of the Company, whether voluntarily or involuntarily.

Each share of the Series A Preferred Stock shall be convertible, at any time and from time to time from and after September 29, 2022 at the option of the Holder thereof, into that number of shares of Common Stock determined by dividing the Stated Value of such share of the Series A Preferred Stock (\$1,000 as of September 29, 2022) by the Conversion Price. The conversion price for each share of the Series A Preferred Stock is the closing price of the Common Stock on September 29, 2022, which was \$9.30.

As of June 30, 2024 and December 31, 2023, there were 6,300 shares of Series A Convertible Preferred Stock issued and outstanding.

Series C Convertible Preferred Stock

On June 21, 2023, the Company, on the one hand, and Moise Emquies, George Levy, Matthieu Leblan, Carol Ann Emquies, Jenny Murphy and Elodie Crichi (collectively, the "Sundry Investors"), on the other hand, executed a Securities Purchase Agreement (the "Sundry SPA") whereby the Company issued 5,761 shares of Series C Convertible Preferred Stock, par value \$ 0.0001 per share (the "Series C Preferred Stock") to the Sundry Investors at a purchase price of \$1,000 per share. The Series C Preferred Stock is convertible into a number of shares of the Company's Common Stock equal to \$1,000 divided by an initial conversion price of \$ 0.717 which represents the lower of (i) the closing price per share of the Common Stock as reported on the Nasdaq on June 20, 2023, and (ii) the average closing price per share of Common Stock as reported on the Nasdaq for the five trading days preceding June 21, 2023. The shares of Series C Preferred Stock were issued in consideration for the cancellation of certain promissory notes issued by the Company to the Sundry Investors dated December 30, 2022 (the "Sundry Loan Documents"). The following is a summary of the rights and preferences of the Series C Convertible Preferred Stock.

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On June 21, 2023, the Company filed the Certificate of Designation with the Secretary of State for the State of Delaware designating up to 5,761 shares out of the authorized but unissued shares of its preferred stock as Series C Convertible Preferred Stock. The following is a summary of the principal terms of the Series C Preferred Stock.

Except for stock dividends or distributions for which adjustments are to be made pursuant to the Certificate of Designation, the holders of the Series C Preferred Stock (the "Series C Holders") shall be entitled to receive, and the Company shall pay, dividends on shares of the Series C Preferred Stock equal (on an as-if-converted-to-Common-Stock basis) to and in the same form as dividends actually paid on shares of the Common Stock when, as and if such dividends are paid on shares of the Common Stock. No other dividends shall be paid on shares of the Series C Preferred Stock.

The Series C Holders are entitled to vote as a class as expressly provided in the Certificate of Designation. The Series C Holders are also entitled to vote with the holders of shares of Common Stock, voting together as one class, on all matters in which the Series C Holders are permitted to vote with the class of shares of Common Stock.

With respect to any vote with the class of Common Stock, each share of the Series C Preferred Stock shall entitle the Holder thereof to cast that number of votes per share as is equal to the number of shares of Common Stock into which it is then convertible (subject to the ownership limitations specified in the Certificate of Designation) using the record date for determining the stockholders of the Company eligible to vote on such matters as the date as of which the conversion price is calculated.

The Series C Preferred Stock shall rank (i) senior to all of the Common Stock; (ii) senior to Junior Securities; (iii) on parity with Parity Securities; and (iv) junior to Senior Securities, in each case, as to dividends or distributions of assets upon liquidation, dissolution or winding up of the Company, whether voluntarily or involuntarily. Subject to any superior liquidation rights of the holders of any Senior Securities of the Company and the rights of the Company's existing and future creditors, upon a Liquidation, each Holder shall be entitled to be paid out of the assets of the Company legally available for distribution to stockholders, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Common Stock and Junior Securities and pari passu with any distribution to the holders of Parity Securities, an amount equal to the Stated Value (as defined in the Certificate of Designation) for each share of the Series C Preferred Stock held by such Holder and an amount equal to any accrued and unpaid dividends thereon, and thereafter the Series C Holders shall be entitled to receive out of the assets, whether capital or surplus, of the Company the same amount that a holder of Common Stock would receive if the Series C Preferred Stock were fully converted (disregarding for such purposes any conversion limitations hereunder) to Common Stock which amounts shall be paid pari passu with all holders of Common Stock.

Each share of the Series C Preferred Stock shall be convertible, at any time and from time to time from and after June 21, 2023 at the option of the Holder thereof, into that number of shares of Common Stock determined by dividing the Stated Value of such share of the Series C Preferred Stock (\$1,000 as of June 21, 2023) by the Conversion Price. The conversion price for each share of the Series C Preferred Stock is \$ 0.717, which is the lower of (a) the closing price per share of the Common Stock as reported on the NasdaqCM on June 20, 2023 (the trading day before the date of the Sundry SPA), and (b) the average closing price per share of Common Stock as reported on the NasdaqCM for the five trading days preceding the date of the Sundry SPA, subject to adjustment herein (the "Series C Conversion Price").

The Company has the option to redeem any or all of the then outstanding Series C Preferred Stock at 112% of the then Stated Value any time after June 21, 2023 and so long as there is an effective Registration Statement covering the shares issuable upon conversion of the Series C Preferred Stock.

In October 2023, 975 shares of Series C Convertible Preferred Stock converted into 54,394 shares of common stock.

During the six months ended June 30, 2024, 3,042 shares of Series C Convertible Preferred Stock converted into 169,711 shares of common stock.

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NOTE 8: RELATED PARTY TRANSACTIONS

As of June 30, 2024 and December 31, 2023, amounts due to related parties were \$ 426,921 and \$400,012, respectively. The advances are unsecured, non-interest bearing and due on demand. Amounts due to related parties consist of current and former executives, and a board member. The related party balances are with a former officer, current director and the Chief Executive Officer.

NOTE 9: SHARE-BASED PAYMENTS

Common Stock Warrants

A summary of information related to common stock warrants for the six ended June 30, 2024 is as follows:

| | Common Stock Warrants | Weighted Average Exercise Price |
|----------------------------------|--------------------------------------|--|
| Outstanding - December 31, 2023 | 1,180,220 | \$ 25.40 |
| Granted | 2,132,581 | 2.92 |
| Exercised | (378,750) | 3.13 |
| Forfeited | - | - |
| Outstanding - June 30, 2024 | 2,934,051 | \$ 25.40 |
| Exercisable at December 31, 2023 | 1,180,220 | \$ 25.40 |
| Exercisable at June 30, 2024 | 2,934,051 | \$ 10.73 |

Stock Options

As of June 30, 2024 and December 31, 2023, the Company had 1,558 stock options outstanding with a weighted average exercise price of \$ 9,050 per share.

Stock-based compensation expense of \$67,901 and \$101,500 was recognized for the three months ended June 30, 2024 and 2023, respectively and \$168,200 and \$207,094 was recognized for the six months ended June 30, 2024 and 2023. During the six months ended June 30, 2024 and 2023, \$23,998 and \$28,798 was recorded to sales and marketing expense, and all other stock compensation was included in general and administrative expense in the condensed consolidated statements of operations. Total unrecognized compensation cost related to non-vested stock option awards as of June 30, 2024 amounted to \$1,410 and will be recognized over a weighted average period of 0.11 years.

NOTE 10: LEASE OBLIGATIONS

Rent is classified by function on the consolidated statements of operations either as general and administrative, sales and marketing, or cost of revenue.

The Company determines whether an arrangement is or contains a lease at inception by evaluating potential lease agreements including services and operating agreements to determine whether an identified asset exists that the Company controls over the term of the arrangement. Lease commencement is determined to be when the lessor provides access to, and the right to control, the identified asset.

The rental payments for the Company's leases are typically structured as either fixed or variable payments. Fixed rent payments include stated minimum rent and stated minimum rent with stated increases. The Company considers lease payments that cannot be predicted with reasonable certainty upon lease commencement to be variable lease payments, which are recorded as incurred each period and are excluded from the calculation of lease liabilities.

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Management uses judgment in determining lease classification, including determination of the economic life and the fair market value of the identified asset. The fair market value of the identified asset is generally estimated based on comparable market data provided by third-party sources.

In January 2023, the Company entered into a lease agreement extension for its corporate office and distribution center in Vernon, California that

expires on January 31, 2025. The lease has monthly base rent payments of \$12,000. The Company recognized a right of use asset of \$ 31,597 and lease liability of \$170,002 using a discount rate of 10.0%.

In September 2023, the Company entered into a lease agreement extension for a showroom space in Los Angeles, California that commences in March 2023 and expires in September 2024. The lease has a monthly base rent of \$25,000. The Company recognized a right of use asset of \$ 658,091 and lease liability of \$1,040,812 using a discount rate of 10.0%.

In April 2024, the Company entered into a lease agreement extension for a retail outlet space in Allen, Texas that commences in April 2024 and expires in April 2027. The lease has a monthly base rent of \$13,261. The Company recognized a right of use asset of \$ 425,634 and lease liability of \$425,634, using a discount rate of 10.0%.

The following is a summary of operating lease assets and liabilities:

| Operating leases | June 30, 2024 | December 31, 2023 |
|---|------------------|----------------------|
| Assets | | |
| ROU operating lease assets | \$ 633,755 | \$ 689,688 |
| Liabilities | | |
| Current portion of operating lease | 1,031,261 | 1,210,814 |
| Non-current portion of lease liability | 276,432 | - |
| Total operating lease liabilities | \$ 1,307,693 | \$ 1,210,814 |
| Operating leases | | |
| Weighted average remaining lease term (years) | 0.75 | 1.00 |
| Weighted average discount rate | 10.00% | 10.00% |
| Future minimum payments | | |
| | | June 30, 2024 |
| Future minimum payments | | \$ 1,395,475 |
| Less imputed interest | | (87,782) |
| Total lease obligations | | \$ 1,307,693 |

NOTE 11: CONTINGENCIES

We are currently involved in, and may in the future be involved in, legal proceedings, claims, and government investigations in the ordinary course of business. These include proceedings, claims, and investigations relating to, among other things, regulatory matters, commercial matters, intellectual property, competition, tax, employment, pricing, discrimination, consumer rights, personal injury, and property rights. These matters also include the following:

On March 21, 2023, a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$ 43,501. Such amounts include interest due, and are included in accounts payable, net of payments made to date, in the accompanying consolidated balance sheets. The Company does not believe it is probable that the losses in excess of such trade payables will be incurred.

On February 7, 2023, a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$ 182,400. Such amounts include interest due, and are included in accounts payable, net of payments made to date, in the accompanying consolidated balance sheets. The Company does not believe it is probable that the losses in excess of such trade payables will be incurred.

On November 9, 2022, a vendor filed a lawsuit against Digital Brand's Group related to prior services rendered. The claims (including fines, fees, and legal expenses) total an aggregate of \$50,190. The matter was settled in January 2023 and are on payment plans which will be paid off in the second quarter of 2024.

In August 2020 and March 2021, two lawsuits were filed against Bailey's by third-party's related to prior services rendered. The claims (including fines, fees, and legal expenses) total an aggregate of \$96,900. Both matters were settled in February 2022 and are on payment plans which will be paid off in the second quarter of 2024.

On December 21, 2020, a Company investor filed a lawsuit against DBG for reimbursement of their investment totaling \$ 100,000. Claimed amounts are included in short-term convertible note payable in the accompanying consolidated balance sheets and the Company does not believe it is probable that losses in excess of such short-term note payable will be incurred. The Company is actively working to resolve this matter.

On November 16, 2023 a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$ 345,384, which represents past due fees and late fees. Such amounts are included in the accompanying balance sheets. The Company does not believe it is probable that the losses in excess of such pay trade payables will be incurred.

On November 15, 2023 a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$ 582,208, which represents "double damages. The amount due to the vendor is \$292,604. Such amounts are included in the accompanying balance sheets. The Company does not believe it is probable that the losses in excess of such pay trade payables will be incurred.

On December 21, 2023, a former employee from over two years ago filed a wrongful termination lawsuit against the Company. The Company is disputing this claim. To this point, this same law firm recently sent a demand letter for another wrongful termination of a temporary worker we used from a third party placement agency. This person was not a Company employee at any time.

In December 2023, a vendor filed a lawsuit against Bailey 44 related to a retail store lease in the amount of \$ 1.5 million. The Company is disputing the claim for damages and the matter is ongoing. The vendor has recently updated the claim to now be \$450,968 after signing a long-term lease with another brand for this location. The Company is disputing this new amount after review of the lease.

All claims above, to the extent management believes it will be liable, have been included in accounts payable and accrued expenses and other

liabilities in the accompanying consolidated balance sheet as of June 30, 2024.

Depending on the nature of the proceeding, claim, or investigation, we may be subject to monetary damage awards, fines, penalties, or injunctive orders. Furthermore, the outcome of these matters could materially adversely affect our business, results of operations, and financial condition. The outcomes of legal proceedings, claims, and government investigations are inherently unpredictable and subject to significant judgment to determine the likelihood and amount of loss related to such matters. While it is not possible to determine the outcomes, we believe based on our current knowledge that the resolution of all such pending matters will not, either individually or in the aggregate, have a material adverse effect on our business, results of operations, cash flows, or financial condition.

Except as may be set forth above the Company is not a party to any legal proceedings, and the Company is not aware of any claims or actions pending or threatened against us. In the future, the Company might from time to time become involved in litigation relating to claims arising from its ordinary course of business, the resolution of which the Company does not anticipate would have a material adverse impact on our financial position, results of operations or cash flows.

NOTE 12: SUBSEQUENT EVENTS

Through the issuance date of these consolidated financial statements, the Company has issued an additional 90,940 shares of common stock pursuant to warrant exercises in connection with the May 2024 Inducement Agreement.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the historical financial statements of the relevant entities and the pro forma financial statements and the notes thereto included elsewhere in this Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

Unless otherwise indicated by the context, references to "DBG" refer to Digital Brands Group, Inc. solely, and references to the "Company," "our," "we," "us" and similar terms refer to Digital Brands Group, Inc., together with its wholly-owned subsidiaries Bailey 44, LLC ("Bailey"), MOSBEST, LLC ("Stateside") and Sunnyside ("Sundry").

Some of the statements contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. The following information and any forward-looking statements should be considered in light of factors discussed elsewhere in this Quarterly Report on Form 10-Q, particularly including those risks identified in Part II-Item 1A "Risk Factors" and our other filings with the SEC.

Our actual results and timing of certain events may differ materially from the results discussed, projected, anticipated, or indicated in any forward-looking statements. 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 Quarterly Report on Form 10-Q. Statements made herein are as of the date of the filing of this Form 10-Q with the SEC and should not be relied upon as of any subsequent date. 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 Quarterly Report on Form 10-Q, they may not be predictive of results or developments in future periods. We disclaim any obligation, except as specifically required by law and the rules of the SEC, to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements

Business Overview

Recent Developments

Retail Store

We entered into a retail store sublease for approximately 3.5 years at the Simon Premium Outlet in Allen, TX, a suburb of Dallas. We opened the store in mid April 2024. We expect the store to generate meaningful cash flow as we already have excess product that we can sell, which means we will not have to use cash to create inventory for sale. We expect the store to generate over \$1.5 million in annual revenue and over \$500,000 in free cash flow on an annual basis.

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Nasdaq Listing

On May 23, 2023, The Nasdaq Stock Market LLC ("Nasdaq") notified the Company that it had determined to delist the Company's shares as the Company no longer satisfied the \$35,000,000 market value of listed securities requirement, or the alternative \$2,500,000 stockholders' equity requirement, as set forth in Listing Rule 5550(b) (the "Equity Rule"), for continued listing on The Nasdaq Capital Market. On May 30, 2023, the Company requested a hearing before a Nasdaq Hearings Panel (the "Panel"). On June 28, 2023, Nasdaq issued an additional delist determination based upon the Company's non-compliance with the minimum bid price requirement. The hearing was held on July 13, 2023, and by decision dated July 27, 2023, the Panel granted the Company's request for an extension to evidence compliance with all applicable continued listing criteria, through September 15, 2023.

On September 20, 2023, the Company was formally notified by Nasdaq that it had evidenced full compliance with all requirements for continued listing on The Nasdaq Capital Market, including the bid price requirement and the Equity Rule.

The Company remained subject to a "Panel Monitor" as that term is defined under Nasdaq Listing Rule 5815(d)(4)(A), through September 20, 2024. Under the terms of the Panel Monitor, in the event the Company fails to satisfy any requirement for continued listing on The Nasdaq Capital Market during the monitoring period, the Company will be required to request a hearing before the Panel in order to maintain its listing rather than taking the interim step of submitting a compliance plan for the Listing Qualifications Staff's review or receiving any otherwise applicable grace period.

In the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on April 15, 2024, the Company reported stockholders' equity of \$1,602,592 and, therefore, no longer complied with the Equity Rule. On April 22, 2024, Nasdaq notified the Company that, given the Panel Monitor, unless the Company timely requests a hearing before a Panel, the Company's securities would be subject to delisting from Nasdaq. The Company timely requested a hearing before the Panel. The hearing request automatically stayed any suspension or delisting action pending

the hearing and the expiration of any additional extension period granted by the Panel following the hearing. In that regard, pursuant to the Listing Rules, the Panel has the authority to grant an additional extension period not to exceed October 21, 2024.

Notwithstanding the foregoing, there can be no assurance that the Panel will grant the Company a further extension or that the Company will ultimately regain compliance with all applicable requirements for continued listing.

Our Company

Digital Brands Group is a curated collection of lifestyle brands, including Bailey 44, DSTLD, Stateside, Sundry and ACE Studios, that offers a variety of apparel products through direct-to-consumer and wholesale distribution. Our complementary brand portfolio provides us with the unique opportunity to cross merchandise our brands. We aim for our customers to wear our brands head to toe and to capture what we call "closet share" by gaining insight into their preferences to create targeted and personalized content specific to their cohort. Operating our brands under one portfolio provides us with the ability to better utilize our technological, human capital and operational capabilities across all brands. As a result, we have been able to realize operational efficiencies and continue to identify additional cost saving opportunities to scale our brands and overall portfolio.

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Our portfolio consists of four significant brands that leverage our three channels: our websites, wholesale and our own stores.

- **Bailey 44** combines beautiful, luxe fabrics and on-trend designs to create sophisticated ready-to-wear capsules for women on-the-go. Designing for real life, this brand focuses on feeling and comfort rather than how it looks on a runway. Bailey 44 is primarily a wholesale brand, which we are transitioning to a digital, direct-to-consumer brand.

- **DSTLD** offers stylish high-quality garments without the luxury retail markup valuing customer experience over labels. DSTLD is primarily a digital direct-to-consumer brand, to which we recently added select wholesale retailers to generate brand awareness.

- **Stateside** is an elevated, America first brand with all knitting, dyeing, cutting and sewing sourced and manufactured locally in Los Angeles. The collection is influenced by the evolution of the classic T-shirt offering a simple yet elegant look. Stateside is primarily a wholesale brand that we will be transitioning to a digital, direct-to-consumer brand.

- **Sundry** offers distinct collections of women's clothing, including dresses, shirts, sweaters, skirts, shorts, athleisure bottoms and other accessory products. Sundry's products are coastal casual and consist of soft, relaxed and colorful designs that feature a distinct French chic, resembling the spirits of the French Mediterranean and the energy of Venice Beach in Southern California. Sundry is primarily a wholesale brand that we will be transitioning to a digital, direct-to-consumer brand.

We believe that successful apparel brands sell in all revenue channels. However, each channel offers different margin structures and requires different customer acquisition and retention strategies. We were founded as a digital-first retailer that has strategically expanded into select wholesale and direct retail channels. We strive to strategically create omnichannel strategies for each of our brands that blend physical and online channels to engage consumers in the channel of their choosing. Our products are sold direct-to-consumers principally through our websites and our own showrooms, but also through our wholesale channel, primarily in specialty stores and select department stores. With the continued expansion of our wholesale distribution, we believe developing an omnichannel solution further strengthens our ability to efficiently acquire and retain customers while also driving high customer lifetime value.

We believe that by leveraging a physical footprint to acquire customers and increase brand awareness, we can use digital marketing to focus on retention and a very tight, disciplined high value new customer acquisition strategy, especially targeting potential customers lower in the sales funnel. Building a direct relationship with the customer as the customer transacts directly with us allows us to better understand our customer's preferences and shopping habits. Our substantial experience as a company originally founded as a digitally native-first retailer gives us the ability to strategically review and analyze the customer's data, including contact information, browsing and shopping cart data, purchase history and style preferences. This in turn has the effect of lowering our inventory risk and cash needs since we can order and replenish product based on the data from our online sales history, replenish specific inventory by size, color and SKU based on real time sales data, and control our mark-down and promotional strategies versus being told what mark downs and promotions we have to offer by the department stores and boutique retailers.

We define "closet share" as the percentage ("share") of a customer's clothing units that ("of closet") she or he owns in her or his closet and the amount of those units that go to the brands that are selling these units. For example, if a customer buys 20 units of clothing a year and the brands that we own represent 10 of those units purchased, then our closet share is 50% of that customer's closet, or 10 of our branded units divided by 20 units they purchased in entirety. Closet share is a similar concept to the widely used term wallet share, it is just specific to the customer's closet. The higher our closet share, the higher our revenue as higher closet share suggests the customer is purchasing more of our brands than our competitors.

We have strategically expanded into an omnichannel brand offering these styles and content not only on-line but at selected wholesale and retail storefronts. We believe this approach allows us opportunities to successfully drive Lifetime Value ("LTV") while increasing new customer growth. We define Lifetime Value or LTV as an estimate of the average revenue that a customer will generate throughout their lifespan as our customer. This value/revenue of a customer helps us determine many economic decisions, such as marketing budgets per marketing channel, retention versus acquisition decisions, unit level economics, profitability and revenue forecasting.

We acquired Bailey in February 2020, Stateside in August 2021 and Sundry in December 2022. We agreed on the consideration that we paid in each acquisition in the course of arm's length negotiations with the holders of the membership interests in each of Bailey, H&J, Stateside and Sundry. In determining and negotiating this consideration, we relied on the experience and judgment of our management and our evaluation of the potential synergies that could be achieved in combining the operations of Bailey, Stateside and Sundry. We did not obtain independent valuations, appraisals or fairness opinions to support the consideration that we paid/agreed to pay.

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Material Trends, Events and Uncertainties

Supply Chain Disruptions

We are subject to global supply chain disruptions, which may include longer lead times for raw fabrics, inbound shipping and longer production times. Supply chain issues have specifically impacted the following for our brands:

- Increased costs in raw materials from fabric prices, which have increased 10% to 100% depending on the fabric, the time of year, and the origin of the fabric, as well as where the fabric is being shipped;

- Increased cost per kilo to ship via sea or air, which has increased from 25% to 300% depending on the time of year and from the country we are shipping from;

- Increased transit time via sea or air, which have increased by two weeks to two months; and

- Increased labor costs for producing the finished goods, which have increased 5% to 25% depending on the country and the labor skill required to produce the goods. We have been able to pass along some of these increased costs and also offset some of these increased costs with higher gross margin online revenue

Seasonality

Our quarterly operating results vary due to the seasonality of our individual brands and are historically stronger in the second half of the calendar year.

Substantial Indebtedness

As of June 30, 2024, we had an aggregate principal amount of debt outstanding of approximately \$8.7 million. We believe this is an amount of indebtedness which may be considered significant for a company of our size and current revenue base. Our substantial debt could have important consequences to us. For example, it could:

- make it more difficult for us to satisfy our obligations to the holders of our outstanding debt, resulting in possible defaults on and acceleration of such indebtedness;
- require us to dedicate a substantial portion of our cash flows from operations to make payments on our debt, which would reduce the availability of our cash flows from operations to fund working capital, capital expenditures or other general corporate purposes;
- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations;
- place us at a competitive disadvantage to our competitors with proportionately less debt for their size;
- limit our ability to refinance our existing indebtedness or borrow additional funds in the future;
- limit our flexibility in planning for, or reacting to, changing conditions in our business; and
- limit our ability to react to competitive pressures or make it difficult for us to carry out capital spending that is necessary or important to our growth strategy.

Any of the foregoing impacts of our substantial indebtedness could have a material adverse effect on our business, financial condition and results of operations.

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We currently have \$3.5 million in notes outstanding pursuant to our Bailey acquisition. We are currently unable to repay or refinance borrowings so any such action by these lenders could force us into bankruptcy or liquidation.

In addition, our ability to make scheduled payments on our indebtedness or to refinance our obligations under our debt agreements, will depend on our financial and operating performance, which, in turn, will be subject to prevailing economic and competitive conditions and to the financial and business risk factors we face as described in this section, many of which may be beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures or planned growth objectives, seek to obtain additional equity capital or restructure our indebtedness. In the future, our cash flows and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet scheduled debt service obligations. In addition, the recent worldwide credit crisis could make it more difficult for us to refinance our indebtedness on favorable terms, or at all.

In the absence of such operating results and resources, we may be required to dispose of material assets to meet our debt service obligations. We may not be able to consummate those sales, or, if we do, we will not control the timing of the sales or whether the proceeds that we realize will be adequate to meet debt service obligations when due.

Performance Factors

We believe that our future performance will depend on many factors, including the following:

Ability to Increase Our Customer Base in both Online and Traditional Wholesale Distribution Channels

We are currently growing our customer base through both paid and organic online channels, as well as by expanding our presence in a variety of physical retail distribution channels. Online customer acquisitions typically occur at our direct websites for each brand. Our online customer acquisition strategies include paid and unpaid social media, search, display and traditional media. Our products for Bailey, DSTLD and Stateside are also sold through a growing number of physical retail channels, including specialty stores, department stores and online multi-brand platforms.

Ability to Acquire Customers at a Reasonable Cost

We believe an ability to consistently acquire customers at a reasonable cost relative to customer retention rates, contribution margins and projected life-time value will be a key factor affecting future performance. To accomplish this goal, we intend to balance advertising spend between online and offline channels, as well as cross marketing and cross merchandising our portfolio brands and their respective products. We believe the ability to cross merchandise products and cross market brands, will decrease our customer acquisition costs while increasing the customer's lifetime value and contribution margin. We will also balance marketing spend with advertising focused on creating emotional brand recognition, which we believe will represent a lower percentage of our spend.

Ability to Drive Repeat Purchases and Customer Retention

We accrue substantial economic value and margin expansion from customer cohort retention and repeat purchases of our products on an annual basis. Our revenue growth rate and operating margin expansion will be affected by our customer cohort retention rates and the cohorts annual spend for both existing and newly acquired customers.

Ability to Expand Our Product Lines

Our goal is to expand our product lines over time to increase our growth opportunity. Our customer's annual spend and brand relevance will be driven by the cadence and success of new product launches.

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Ability to Expand Gross Margins

Our overall profitability will be impacted by our ability to expand gross margins through effective sourcing and leveraging buying power of finished goods and shipping costs, as well as pricing power over time.

Ability to Expand Operating Margins

Our ability to expand operating margins will be impacted by our ability to leverage (1) fixed general and administrative costs, (2) variable sales and marketing costs, (3) elimination of redundant costs as we acquire and integrate brands, (4) cross marketing and cross merchandising brands in our portfolio, and (4) drive customer retention and customer lifetime value. Our ability to expand operating margins will result from increasing revenue growth above our operating expense growth, as well as increasing gross margins. For example, we anticipate that our operating expenses will increase substantially in the foreseeable future as we undertake the acquisition and integration of different brands, incur expenses associated with maintaining compliance as a public company, and increased marketing and sales efforts to increase our customer base. While we anticipate that the operating expenses in absolute dollars will increase, we do not anticipate that the operating expenses as a percentage of revenue will increase. We anticipate that the operating expenses as a percentage of revenue will decrease as we eliminate duplicative costs across brands including a reduction in similar labor roles, contracts for technologies and operating systems and creating lower costs from higher purchasing power from shipping expenses to purchase orders of products. This reduction of expenses and lower cost per unit due to purchasing power should create meaningful savings in both dollars and as a percentage of revenue.

As an example, we were able to eliminate several million in expenses within six months of acquiring Bailey. Examples of these savings include eliminating several Bailey teams, which our teams took over.

We merged over half of the technology contracts and operating systems contracts from two brands into one brand contract at significant savings. We also eliminated our office space and rent and moved everyone into the Bailey office space. Finally, we eliminated DSTLD's third-party logistics company and started using Bailey's internal logistics. This resulted in an increase in our operating expenses in absolute dollars as there were now two brands versus one brand. However, the operating expenses as a percentage of pre-COVID revenue declined meaningfully and as we increase revenue for each brand, we expect to experience higher margins.

Ability to Create Free Cash Flow

Our goal is to achieve near term free cash flow through cash flow positive acquisitions, elimination of redundant expenses in acquired companies, increasing customer annual spend and lowering customer acquisition costs through cross merchandising across our brand portfolio.

Components of Our Results of Operations

Bailey

Net Revenue

Bailey sells its products directly to customers. Bailey also sells its products indirectly through wholesale channels that include third-party online channels and physical channels such as specialty retailers and department stores.

Cost of Net Revenue

Bailey's cost of net revenue includes the direct cost of purchased and manufactured merchandise; inventory shrinkage; inventory adjustments due to obsolescence including excess and slow-moving inventory and lower of cost and net realizable reserves; duties; and inbound freight. Cost of net revenue also includes direct labor to production activities such as pattern makers, cutters and sewers. Cost of net revenue includes an allocation of overhead costs such as rent, utilities and commercial insurance pertaining to direct inventory activities.

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Operating Expenses

Bailey's operating expenses include all operating costs not included in cost of net revenues and sales and marketing. These costs consist of general and administrative, fulfillment and shipping expense to the customer.

General and administrative expenses consist primarily of all payroll and payroll-related expenses, professional fees, insurance, software costs, occupancy expenses related to Bailey's operations at its headquarters, including utilities, depreciation and amortization, and other costs related to the administration of its business.

Bailey's fulfillment and shipping expenses include the cost to operate its warehouse including occupancy and labor costs to pick and pack customer orders and any return orders; packaging; and shipping costs to the customer from the warehouse and any returns from the customer to the warehouse.

Sales & Marketing

Bailey's sales and marketing expense primarily includes digital advertising; photo shoots for wholesale and direct-to-consumer communications, including email, social media and digital advertisements; and commission expenses associated with sales representatives.

Interest Expense

Bailey's interest expense consists primarily of interest related to its outstanding debt to our senior lender.

DBG

Net Revenue

We sell our products to our customers directly through our website. In those cases, sales, net represents total sales less returns, promotions and discounts.

Cost of Net Revenue

Cost of net revenue include direct cost of purchased merchandise; inventory shrinkage; inventory adjustments due to obsolescence, including excess and slow-moving inventory and lower of cost and net realizable reserves.

Operating Expenses

Our operating expenses include all operating costs not included in cost of net revenues. These costs consist of general and administrative, sales and marketing, and fulfillment and shipping expense to the customer.

General and administrative expenses consist primarily of all payroll and payroll-related expenses, professional fees, insurance, software costs, and expenses related to our operations at our headquarters, including utilities, depreciation and amortization, and other costs related to the administration of our business.

We expect to continue to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC and higher expenses for insurance, investor relations and professional services. We expect these costs will increase our operating costs.

Fulfillment and shipping expenses include the cost to operate our warehouse — or prior to Bailey 44 acquisition, costs paid to our third-party logistics provider — including occupancy and labor costs to pick and pack customer orders and any return orders; packaging; and shipping costs to the customer from the warehouse and any returns from the customer to the warehouse.

In addition, going forward, the amortization of the identifiable intangibles acquired in the acquisitions will be included in operating expenses.

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Interest Expense

Interest expense consists primarily of interest related to our debt outstanding to our senior lender, convertible debt, and other interest bearing liabilities.

Stateside

Net Revenue

Stateside sells its products directly to customers. Stateside also sells its products indirectly through wholesale channels that include third-party online channels and physical channels such as specialty retailers and department stores.

Cost of Net Revenue

Stateside's cost of net revenue includes the direct cost of purchased and manufactured merchandise; inventory shrinkage; inventory adjustments due to obsolescence including excess and slow-moving inventory and lower of cost and net realizable reserves; duties; and inbound freight. Cost of net revenue also includes direct labor to production activities such as pattern makers, cutters and sewers. Cost of net revenue includes an allocation of overhead costs such as rent, utilities and commercial insurance pertaining to direct inventory activities.

Operating Expenses

Stateside's operating expenses include all operating costs not included in cost of net revenues and sales and marketing. These costs consist of general and administrative, fulfillment and shipping expense to the customer.

General and administrative expenses consist primarily of all payroll and payroll-related expenses, professional fees, insurance, software costs, occupancy expenses related to Stateside's stores and to Stateside's operations at its headquarters, including utilities, depreciation and amortization, and other costs related to the administration of its business.

Stateside's fulfillment and shipping expenses include the cost to operate its warehouse including occupancy and labor costs to pick and pack customer orders and any return orders; packaging; and shipping costs to the customer from the warehouse and any returns from the customer to the warehouse.

Sales & Marketing

Stateside's sales and marketing expense primarily includes digital advertising; photo shoots for wholesale and direct-to-consumer communications, including email, social media and digital advertisements; and commission expenses associated with sales representatives.

Sundry

Net Revenue

Sundry sells its products directly to customers. Sundry also sells its products indirectly through wholesale channels that include third-party online channels and physical channels such as specialty retailers and department stores.

Cost of Net Revenue

Sundry's cost of net revenue includes the direct cost of purchased and manufactured merchandise; inventory shrinkage; inventory adjustments due to obsolescence including excess and slow-moving inventory and lower of cost and net realizable reserves; duties; and inbound freight. Cost of net revenue also includes direct labor to production activities such as pattern makers, cutters and sewers. Cost of net revenue includes an allocation of overhead costs such as rent, utilities and commercial insurance pertaining to direct inventory activities.

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Operating Expenses

Our operating expenses include all operating costs not included in cost of net revenues. These costs consist of general and administrative, sales and marketing, and fulfillment and shipping expense to the customer.

General and administrative expenses consist primarily of all payroll and payroll-related expenses, stock-based compensation, professional fees, insurance, software costs, and expenses related to our operations at our headquarters, including utilities, depreciation and amortization, and other costs related to the administration of our business.

Sales and marketing expense primarily includes digital advertising; photo shoots for wholesale and direct-to-consumer communications, including email, social media and digital advertisements; and commission expenses associated with sales representatives.

We expect to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC and higher expenses for insurance, investor relations and professional services. We expect these costs will increase our operating costs.

Distribution expenses includes costs paid to our third-party logistics provider, packaging and shipping costs to the customer from the warehouse and any returns from the customer to the warehouse.

At each reporting period, we estimate changes in the fair value of contingent consideration and recognize any change in fair in our consolidated statement of operations, which is included in operating expenses. Additionally, amortization of the identifiable intangibles acquired in the acquisitions is also included in operating expenses.

Interest Expense

Interest expense consists primarily of interest related to our debt outstanding to promissory notes, convertible debt, and other interest bearing liabilities

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Results of Operations

Three Months Ended June 30, 2024 compared to Three Months Ended June 30 , 2023

The following table presents our results of operations for the Three months ended June 30, 2024 and 2023:

| | Three Months Ended June 30, | |
|--|--------------------------------|--------------|
| | 2024 | 2023 |
| Net revenues | \$ 3,396,069 | \$ 4,493,424 |
| Cost of net revenues | 1,837,392 | 2,157,349 |
| Gross profit | 1,558,677 | 2,336,075 |
| General and administrative | 2,946,668 | 4,074,051 |
| Sales and marketing | 615,190 | 1,097,326 |
| Other operating (income) / expenses | 299,034 | (10,456,261) |
| Operating (loss) /income | (2,302,235) | 7,620,959 |
| Other expenses | (1,208,245) | (1,084,648) |
| Loss before provision for income taxes | (3,510,480) | 6,536,311 |
| Provision for income taxes | - | - |
| Net income/(loss) from continuing operations | \$ (3,510,480) | \$ 6,536,311 |

Net Revenues

Revenues decreased by \$1.1 million to \$3.4 million for the three months ended June 30, 2024, compared to \$4.5 million in the corresponding fiscal period in 2023. The decrease was primarily due to a delay in wholesale shipments in April 2024, and lower ecommerce revenues across each brand due to less digital advertising spend.

Gross Profit

Our gross profit decreased by \$0.7 million for the three months ended June 30, 2024 to \$1.6 million from a gross profit of \$2.3 million for the corresponding fiscal period in 2023. The decrease in gross margin was primarily attributable to a decrease in sales.

Our gross margin was 46% for three months ended June 30, 2024, compared to 52% for the three months ended June 30, 2023. The decrease in gross margin was due to corresponding decrease in the ecommerce revenue.

Operating Expenses/(Income)

Our operating expenses increased by \$9.1 million for the three months ended June 30, 2024 to \$3.8 million compared to \$(5.2) million for the corresponding fiscal period in 2023. General and administrative expenses decreased by \$1.1 million, and sales and marketing expenses decreased by \$0.5 million. The decreases were primarily due to cost cutting measures and synergies from the Sundry acquisition including the elimination of its warehouse, office, fulfillment and redundancies in headcount. Other operating expenses included a gain of \$10.7 million in 2023 due to the change in fair value of contingent consideration.

Other Income (Expenses)

Other expenses were \$1.2 million while other expense was \$1.1 million for the three months ended June 30, 2024 and 2023, respectively, primarily consisting of interest expense.

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Net Loss from Continuing Operations

Our net loss from continuing operations decreased by \$10.0 million to a net loss from continuing operations of \$3.5 million for the three months ended June 30, 2024 compared to income from continuing operations of \$6.5 million for the corresponding fiscal period in 2023, primarily due to the change in fair value of contingent consideration in 2023 and lower gross profit in 2024, partially offset by lower general and administrative and sales and marketing expenses.

Six Months Ended June 30, 2024 compared to Six Months Ended June 30, 2023

The following table presents our results of operations for the six months ended June 30, 2024 and 2023:

| | Six Months Ended June 30, | |
|--|------------------------------|--------------|
| | 2024 | 2023 |
| Net revenues | \$ 6,972,656 | \$ 8,869,803 |
| Cost of net revenues | 3,693,243 | 4,540,488 |
| Gross profit | 3,279,413 | 4,329,315 |
| General and administrative | 3,918,420 | 8,380,063 |
| Sales and marketing | 1,323,340 | 2,036,677 |
| Other operating expenses/(income) | 564,533 | (10,186,076) |
| Operating (loss)/income | (2,526,880) | 4,098,651 |
| Other expenses | (1,667,335) | (3,628,236) |
| Loss before provision for income taxes | (4,194,216) | 470,415 |
| Provision for income taxes | - | - |
| Net income/(loss) from continuing operations | \$ (4,194,215) | \$ 470,415 |

Net Revenues

Revenues decreased by \$1.9 million to \$7.0 million for the six months ended June 30, 2024, compared to \$8.9 million in the corresponding fiscal period in 2023. The decrease was primarily due to a delay in wholesale shipments in April 2024, and lower ecommerce revenues across each brand due to less digital advertising spend.

Gross Profit

Our gross profit decreased by \$1.0 million for the six months ended June 30, 2024 to \$3.3 million from a gross profit of \$4.3 million for the corresponding fiscal period in 2023. The decrease in gross margin was primarily attributable to a decrease in sales.

Our gross margin was 47% for six months ended June 30, 2024, compared to 49% for the six months ended June 30, 2023. The decrease in gross margin was due to corresponding decrease in the ecommerce revenue.

Operating Expenses

Our operating expenses increased by \$5.6 million for the six months ended June 30, 2024 to \$5.8 million compared to \$0.2 million for the corresponding fiscal period in 2023. General and administrative expenses decreased by \$4.5 million, and sales and marketing expenses decreased by \$0.7 million. The decreases were primarily due to cost cutting measures and synergies from the Sundry acquisition including the elimination of its warehouse, office, fulfillment and redundancies in headcount. Other operating expenses included a gain of \$10.7 million in 2023 due to the change in fair value of contingent consideration.

Other Income (Expenses)

Other expenses were \$1.7 million while other expense was \$3.6 million for the six months ended June 30, 2024 and 2023, respectively. Interest expense in 2024 decreased due to less merchant advances and lower principal on outstanding loans.

Net Loss from Continuing Operations

Our net loss from continuing operations increased by \$4.7 million to a net loss from continuing operations of \$4.2 million for the six months ended June 30, 2024 compared to income from continuing operations of \$0.5 million for the corresponding fiscal period in 2023, primarily due to the change in fair value of contingent consideration in 2023 and lower gross profit in 2024, partially offset by lower general and administrative and sales and marketing expenses.

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Liquidity and Capital Resources

Each of DBG, Bailey, Stateside and Sundry has historically satisfied our liquidity needs and funded operations with borrowings capital raises and internally generated cash flow. Changes in working capital, most notably accounts receivable, are driven primarily by levels of business activity. Historically each of DBG, Bailey, Stateside and Sundry has maintained credit line facilities to support such working capital needs and makes repayments on that facility with excess cash flow from operations.

As of June 30, 2024, we had cash of \$92,794, but we had a working capital deficit of \$14.9 million. The Company requires significant capital to meet its obligations as they become due. These factors raise substantial doubt about our Company's ability to continue as a going concern. Throughout the next twelve months, the Company intends to fund its operations primarily from the funds raised through the equity line of credit agreement. The Company may pursue secondary offerings or debt financings to provide working capital and satisfy debt obligations. There can be no assurance as to the availability or terms upon which such financing and capital might be available in the future. If the Company is unable to secure additional funding, it may be forced to curtail or suspend its business plans.

Cash Flow Activities

The following table presents selected captions from our condensed statement of cash flows for the six months ended June 30, 2024 and 2023:

| | Six Months Ended June 30, | |
|---|------------------------------|----------------|
| | 2024 | 2023 |
| Net cash provided by operating activities: | | |
| Net loss | \$ (4,194,216) | \$ (1,092,088) |
| Non-cash adjustments | \$ 3,793,147 | \$ (4,050,146) |
| Change in operating assets and liabilities | \$ (2,350,584) | \$ 2,160,788 |
| Net cash used in operating activities | \$ (2,751,651) | \$ (2,981,446) |
| Net cash provided by (used in) investing activities | \$ (101,080) | \$ 41,331 |
| Net cash provided by financing activities | \$ 2,924,752 | \$ 1,999,969 |

| | | | | |
|--------------------|----|--------|----|-----------|
| Net change in cash | \$ | 72,020 | \$ | (940,146) |
|--------------------|----|--------|----|-----------|

Cash Flows Used In Operating Activities

Our cash used by operating activities decreased by \$0.2 million to cash used of \$2.8 million for the six months ended June 30, 2024, as compared to cash used of \$3.0 million for the corresponding fiscal period in 2023. The decrease in net cash used in operating activities was primarily driven by non-cash charges in 2024, partially offset by our net loss and cash used in operating assets and liabilities.

Cash Flows Provided By (Used in) Investing Activities

Our cash used investing activities was \$101,080 in the six months ended June 30, 2024, primarily due to purchase of property, equipment & software and deposits on leases.

Our cash provided by investing activities was \$41,331 in 2023 primarily due to a reduction of deposits, partially offset by purchase of property and cash sold in the H&J disposition.

Cash Flows Provided by Financing Activities

Cash provided by financing activities was \$2.9 million for the six months ended June 30, 2024. Cash inflows included \$4.6 million in net proceeds from the issuance from the common stock for cash and \$0.5 million in proceeds from loans and notes. Cash outflows are primarily due to \$2.2 million in repayments of notes.

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Cash provided by financing activities was \$2.0 million for the six months ended June 30, 2023. Cash inflows included \$5.0 million in net proceeds from the January Private Transaction, \$4.19 million in proceeds from loans and promissory notes and \$0.2 million in advances from the factor.

Contractual Obligations and Commitments

As of June 30, 2024, we had \$8.7 million in outstanding principal on debt, primarily our promissory notes due to the Bailey44 Sellers, the March 2023 Notes, PPP and merchant advances. Aside from our remaining non-current SBA obligations, all outstanding loans have maturity dates through 2024.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of our consolidated financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, costs and expenses and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

Emerging Growth Company Status

We are an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012 and, as such, have elected to comply with certain reduced public company reporting requirements.

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may, therefore, not be comparable to those of companies that comply with such new or revised accounting standards.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures" as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, who serve as our principal executive officer and principal financial and accounting officer, respectively, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2024. In making this evaluation, our management considered the material weakness in our internal control over financial reporting described below. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of such date.

We have initiated various remediation efforts, including the hiring of additional financial personnel/consultants with the appropriate public company and technical accounting expertise and other actions that are more fully described below. As such remediation efforts are still ongoing, we have concluded that the material weaknesses have not been fully remediated. Our remediation efforts to date have included the following:

- We have made an assessment of the basis of accounting, revenue recognition policies and accounting period cutoff procedures. In some cases, we made the necessary adjustments to convert the basis of accounting from cash basis to accrual basis. In all cases we have done the required analytical work to ensure the proper cutoff of the financial position and results of operations for the presented accounting periods.

- We have made an assessment of the current accounting personnel, financial reporting and information system environments and capabilities. Based on our preliminary findings, we have found these resources and systems lacking and have concluded that these resources and systems will need to be supplemented and/or upgraded. We are in the process of identifying a single, unified accounting and reporting system that can be used by the Company and Bailey, with the goal of ensuring consistency and timeliness in reporting, real time access to data while also ensuring ongoing data integrity, backup and cyber security procedures and processes.

- We engaged external consultants with public company and technical accounting experience to facilitate accurate and timely accounting closes and to accurately prepare and review the financial statements and related footnote disclosures. We plan to retain these financial consultants until such time that the internal resources of the Company have been upgraded and the required financial controls have been fully implemented.

- We have made an assessment on significant judgments and estimates, including impairment of long-lived assets and inventory valuation. We plan to take the steps as noted above to have the proper resources to conduct proper analyses on areas requiring judgments and estimates.

The actions that have been taken are subject to continued review, implementation and testing by management, as well as audit committee oversight. While we have implemented a variety of steps to remediate these weaknesses, we cannot assure you that we will be able to fully remediate them, which could impair our ability to accurately and timely meet our public company reporting requirements.

Notwithstanding the assessment that our internal controls over financial reporting are not effective and that material weaknesses exist, we believe that we have employed supplementary procedures to ensure that the financial statements contained in this filing fairly present our financial position, results of operations and cash flows for the reporting periods covered herein in all material respects.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management believes that the material weakness set forth above did not have an effect on our financial results.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended June 30, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently involved in, and may in the future be involved in, legal proceedings, claims, and government investigations in the ordinary course of business. These include proceedings, claims, and investigations relating to, among other things, regulatory matters, commercial matters, intellectual property, competition, tax, employment, pricing, discrimination, consumer rights, personal injury, and property rights. These matters also include the following:

On March 21, 2023, a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$43,501. Such amounts include interest due, and are included in accounts payable, net of payments made to date, in the accompanying consolidated balance sheets. The Company does not believe it is probable that the losses in excess of such trade payables will be incurred.

On February 7, 2023, a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$182,400. Such amounts include interest due, and are included in accounts payable, net of payments made to date, in the accompanying consolidated balance sheets. The Company does not believe it is probable that the losses in excess of such trade payables will be incurred.

On November 9, 2022, a vendor filed a lawsuit against Digital Brand's Group related to prior services rendered. The claims (including fines, fees, and legal expenses) total an aggregate of \$50,190. The matter was settled in January 2023 and are on payment plans which will be paid off in the second quarter of 2024.

In August 2020 and March 2021, two lawsuits were filed against Bailey's by third-party's related to prior services rendered. The claims (including fines, fees, and legal expenses) total an aggregate of \$96,900. Both matters were settled in February 2022 and are on payment plans which will be paid off in the second quarter of 2024.

On December 21, 2020, a Company investor filed a lawsuit against DBG for reimbursement of their investment totaling \$100,000. Claimed amounts are included in short-term convertible note payable in the accompanying consolidated balance sheets and the Company does not believe it is probable that losses in excess of such short-term note payable will be incurred. The Company is actively working to resolve this matter.

On November 16, 2023 a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$345,384 , which represents past due fees and late fees. Such amounts are included in the accompanying balance sheets. The Company does not believe it is probable that the losses in excess of such pay trade payables will be incurred.

On November 15, 2023 a vendor filed a lawsuit against Digital Brands Group related to trade payables totaling approximately \$582,208, which represents "double damages. The amount due to the vendor is \$292,604. Such amounts are included in the accompanying balance sheets. The Company does not believe it is probable that the losses in excess of such pay trade payables will be incurred.

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On December 21, 2023, a former employee from over two years ago filed a wrongful termination lawsuit against the Company. The Company is disputing this claim. To this point, this same law firm recently sent a demand letter for another wrongful termination of a temporary worker we used from a third party placement agency. This person was not a Company employee at any time.

A vendor filed a lawsuit against Bailey 44 related to a retail store lease in the amount of \$1.5 million. The Company is disputing the claim for damages and the matter is ongoing. The vendor has recently updated the claim to now be \$450,968 after signing a long-term lease with another brand for this location. The Company is disputing this new amount after review of the lease.

All claims above, to the extent management believes it will be liable, have been included in accounts payable and accrued expenses and other liabilities in the accompanying consolidated balance sheet as of June 30, 2024.

Depending on the nature of the proceeding, claim, or investigation, we may be subject to monetary damage awards, fines, penalties, or injunctive orders. Furthermore, the outcome of these matters could materially adversely affect our business, results of operations, and financial condition. The outcomes of legal proceedings, claims, and government investigations are inherently unpredictable and subject to significant judgment to determine the likelihood and amount of loss related to such matters. While it is not possible to determine the outcomes, we believe based on our current knowledge that the resolution of all such pending matters will not, either individually or in the aggregate, have a material adverse effect on our business, results of operations, cash flows, or financial condition.

ITEM 1A. RISK FACTORS

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the six months ended June 30, 3,042 shares of Series C Convertible Preferred Stock converted into 169,711 shares of common stock.

As previously reported, the Company entered into a securities purchase agreement with an accredited investor (the "Investor"), pursuant to which the Company issued on September 5, 2023 those certain Series A warrants to purchase 513,875 shares of common stock and Series B warrants to purchase 513,875 shares of common stock (collectively, the "Existing Warrants"), amongst other securities.

On May 3, 2024, the Company entered into that certain inducement offer to exercise common stock purchase warrants with the Investor (the "Inducement Agreement"), pursuant to which (i) the Company agreed to lower the exercise price of the Existing Warrants to \$3.13 per share and (ii) the Investor agreed to exercise the Existing Warrants into 1,027,750 shares of common stock (the "Exercise Shares") by payment of the aggregate exercise price of \$3,216,857. The closing occurred on May 7, 2024.

Through June 30, 2024, the Company had exercised 378,750 of the 1,027,750 warrants at the amended exercise price of \$3.13 per share. The Company received the entire gross proceeds of \$3,216,857 in May 2024, which represents the exercise of the entire 1,027,750 warrants at the \$3.13 exercise price. The Company received net proceeds of \$2,877,475 after placement agent fees and expenses.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors since the Company last provided disclosure in response to the requirements of Item 407(c)(3) of Regulation S-K.

(c) During the quarter ended June 30, 2024, no director or officer of the Company adopted or terminated a contract, instruction or written plan for the purchase or sale of securities of the Company intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) and/or a non-Rule 10b5-1 trading arrangement.

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ITEM 6. EXHIBITS

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Sixth Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.3 of Digital Brands Group Inc.'s Registration Statement on Form S-1/A (Reg. No. 333-261865), filed with the SEC on January 6, 2022). |
| 3.2 | Certificate of Amendment of Certificate of Incorporation of Digital Brands Group, Inc. dated October 13, 2022 (incorporated by reference to Exhibit 3.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on October 18, 2022). |
| 3.3 | Certificate of Amendment of Certificate of Incorporation of Digital Brands Group, Inc. dated October 21, 2022 (incorporated by reference to Exhibit 3.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on October 26, 2022). |
| 3.4 | Certificate of Amendment of Certificate of Incorporation of Digital Brands Group, Inc. dated August 21, 2023 (incorporated by reference to Exhibit 3.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on August 23, 2023). |

| | |
|------|---|
| 3.54 | Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.5 of Digital Brands Group Inc.'s Registration Statement on Form S-1/A (Reg. No. 333-261865), filed with the SEC on January 6, 2022). |
| 3.65 | Amendment No. 1 to the Amended and Restated Bylaws of Digital Brands Group, Inc., as amended (incorporated by reference to Exhibit 3.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on August 12, 2022). |
| 3.76 | Amendment No. 2 to the Amended and Restated Bylaws of Digital Brands Group, Inc., as amended (incorporated by reference to Exhibit 3.2 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on August 31, 2022). |
| 3.87 | Certificate of Designation of Series B Preferred Stock, dated May 30, 2023 (incorporated by reference to Exhibit 3.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on June 1, 2023). |
| 3.98 | Certificate of Designation of Series C Convertible Preferred Stock, dated June 21, 2023 (incorporated by reference to Exhibit 3.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on June 27, 2023). |
| 3.10 | Series A Preferred Stock Certificate of Cancellation filed on September 13, 2023 (incorporated by reference to Exhibit 3.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on September 14, 2023). |
| 3.11 | Series B Preferred Stock Certificate of Cancellation filed on September 13, 2023 (incorporated by reference to Exhibit 3.2 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on September 14, 2023). |
| 4.1 | Fourth Amendment to Promissory Note, dated as of July 5, 2023, by Digital Brands Group, Inc. in favor of Norwest Venture Partners XI, LP and Norwest Venture Partners XII, LP (incorporated by reference to Exhibit 10.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on July 7, 2023). |
| 4.21 | Form of Series A Warrant Form of Promissory Note, dated April 7, 2023, by Digital Brands Group, Inc. in favor each Investor (incorporated by reference to Exhibit 4.110.2 of Digital Brands Group Inc.'s Form 8-K/A filed with the SEC on September 5 April 18, 2023). |
| 4.32 | Form of Series B Warrant Fourth Amendment to Promissory Note, dated as of July 5, 2023, by Digital Brands Group, Inc. in favor of Norwest Venture Partners XI, LP and Norwest Venture Partners XII, LP (incorporated by reference to Exhibit 104.21 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on September 5 July 7, 2023). |
| 4.43 | Form of Pre-Funded Warrant Form of Placement Agent Warrants (incorporated by reference to Exhibit 4.3 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on September 5, 2023) (incorporated by reference to Exhibit 4.30 of Digital Brands Group Inc.'s Registration Statement on Form S-1/A (Reg. No. 333-272965), filed with the SEC on August 4, 2023). |
| 4.54 | Form of Warrant Amendment (incorporated by reference to Exhibit 4.4 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on September 5, 2023) Form of Pre-Funded Warrant (incorporated by reference to Exhibit 4.31 of Digital Brands Group Inc.'s Registration Statement on Form S-1/A (Reg. No. 333-272965), filed with the SEC on August 4, 2023). |
| 4.65 | Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.5 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on September 5, 2023) Form of Warrant Agency Agreement (incorporated by reference to Exhibit 4.32 of Digital Brands Group Inc.'s Registration Statement on Form S-1/A (Reg. No. 333-272965), filed with the SEC on August 4, 2023). |
| 10.1 | Fourth Amendment to Promissory Note, dated as of July 5, 2023 (incorporated by reference to Exhibit 10.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on July 7, 2023). Form of Securities Purchase Agreement, dated April 7, 2023, by and among Digital Brands Group, Inc. and the Investors (incorporated by reference to Exhibit 10.1 of Digital Brands Group Inc.'s Form 8-K/A filed with the SEC on April 18, 2023). |

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| | |
|----------|--|
| 10.2 | Form of Securities Purchase Agreement, dated as of August 31, 2023, by and among the Company and the purchasers party thereto Subscription and Investment Representation Agreement, dated May 30, 2023, by and between Digital Brands Group, Inc. and the purchaser signatory thereto (incorporated by reference to Exhibit 10.1 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on June September 5, 2023). |
| 10.3 | Form of Registration Rights Agreement, dated as of August 31, 2023, by and among the Company and the purchasers party thereto Settlement Agreement and Release, dated June 21, 2023, by and among Drew Jones, D. Jones Tailored Collection, Ltd., Harper & Jones, LLC, Digital Brands Group, Inc., and John Hilburn Davis IV (incorporated by reference to Exhibit 10.21 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on September 5, 2023). |
| 10.4 | Waiver and Amendment Agreement, dated June 21, 2023, by and among Digital Brands Group, Inc. and the investors thereto (incorporated by reference to Exhibit 10.2 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on June 27, 2023). |
| 10.5 | Securities Purchase Agreement, dated June 21, 2023, by and among Digital Brands Group, Inc. and the investors thereto (incorporated by reference to Exhibit 10.3 of Digital Brands Group Inc.'s Form 8-K filed with the SEC on June 27, 2023). |
| 10.6 | Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.53 of Digital Brands Group Inc.'s Registration Statement on Form S-1/A (Reg. No. 333-272965), filed with the SEC on August 4, 2023). |
| 31.1* | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) |
| 31.2* | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) |
| 32.1** | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 |
| 32.2** | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 |
| 101.INS* | Inline XBRL Instance |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation |
| 101.LAB* | Inline XBRL Taxonomy Extension Labels |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101) |

* Filed herewith.

** Furnished herewith

Indicates management contract or compensatory plan or arrangement.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGITAL BRANDS GROUP, INC.

August 19, 2024

By: /s/ John Hilburn Davis, IV
John Hilburn Davis, IV, Chief Executive Officer

August 19, 2024

By: /s/ Reid Yeoman
Reid Yeoman, Chief Financial Officer

CERTIFICATIONS

I, John Hilburn Davis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Digital Brands Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2024

By: /s/ John Hilburn Davis

John Hilburn Davis
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Reid Yeoman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Digital Brands Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2024

By: /s/ Reid Yeoman

Reid Yeoman
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Digital Brands Group, Inc. (the "Company") on Form 10-Q, for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Hilburn Davis IV, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 19, 2024

By: /s/ John Hilburn Davis IV

John Hilburn Davis IV
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Digital Brands Group, Inc. (the "Company") on Form 10-Q, for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Reid Yeoman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 19, 2024

By: /s/ Reid Yeoman

Reid Yeoman
Chief Financial Officer
(Principal Financial Officer)
