

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of HYLETE, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of HYLETE, Inc. (the “Company”) as of December 31, 2018 and 2017, the related statements of operations, stockholders’ deficit, and cash flows, for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a negative working capital, which raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ dbbmckennon

We have served as the Company's auditor since 2017.

San Diego, California

April 17, 2019

HYLETE, INC.
BALANCE SHEETS
AT JUNE 30, 2019 AND DECEMBER 31, 2018 AND 2017

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 428,561	\$ 1,470,436	\$ 616,262
Accounts receivable	96,376	123,194	75,319
Inventory	4,418,460	3,403,956	2,225,136
Vendor deposits	178,433	214,102	10,095
Other current assets	186,634	265,436	94,316
Total current assets	<u>5,308,464</u>	<u>5,477,124</u>	<u>3,021,128</u>
Non-Current Assets:			
Property and equipment, net	191,374	253,609	392,275
Intangible assets, net	388,236	539,697	114,977
Goodwill	426,059	426,059	—
Other non-current assets	480,525	28,219	—
Total non-current assets	<u>1,486,194</u>	<u>1,247,584</u>	<u>507,252</u>
TOTAL ASSETS	<u>\$ 6,794,658</u>	<u>\$ 6,724,708</u>	<u>\$ 3,528,380</u>
LIABILITIES & STOCKHOLDERS' DEFICIT			
Current Liabilities:			
Accounts payable	\$ 2,494,675	\$ 899,158	\$ 915,733
Accrued expenses	939,348	826,589	810,934
Bridge note, net of issuance costs	738,651	436,533	—
Bridge note- related party, net of issuance costs	607,972	400,884	200,000
Loan payable, net of issuance costs	5,161,470	3,912,508	—
Loan payable- related party, net of issuance costs	488,958	—	—
Capital lease obligations	980	9,436	21,510
Common stock warrant liability	826,801	675,294	—
Total current liabilities	<u>11,258,855</u>	<u>7,160,402</u>	<u>1,948,177</u>
Non-Current Liabilities:			
Capital lease obligations, net of current	—	—	9,436
Loan payable, net of current portion and issuance costs	—	240,625	2,996,920
Loan payable- related party, net of issuance costs	—	482,708	—
Bond, net of issuance costs	514,878	766,671	—
Convertible bonds	387,000	—	—
Preferred stock warrant liability	3,629,309	2,698,774	1,387,319
Total non-current liabilities	<u>4,531,187</u>	<u>4,188,778</u>	<u>4,393,675</u>
TOTAL LIABILITIES	<u>15,790,042</u>	<u>11,349,180</u>	<u>6,341,852</u>
Commitments and contingencies (Note 18)			
Redeemable Preferred Stock:			
Series A preferred stock, \$0.001 par value, 1,712,200 total shares authorized, 1,712,200 issued and outstanding at June 30, 2019 and December 31, 2018 and 2017 (liquidation preference of \$545,051)	541,510	518,517	472,524
Series A-1 preferred stock, \$0.001 par value, 5,970,300 total shares authorized, 5,970,300 issued and outstanding at June 30, 2019 and December 31, 2018 and 2017 (liquidation preference of \$3,033,773)	3,021,433	2,899,655	2,656,103
Series A-2 preferred stock, \$0.001 par value, 10,000,000 total shares authorized, 4,791,500 issued and outstanding at June 30, 2019 and December 31, 2018, and 4,721,500 at December 31, 2017 (liquidation preference of \$3,680,856)	3,666,371	3,500,516	3,088,671
Total redeemable preferred stock	<u>7,229,314</u>	<u>6,918,688</u>	<u>6,217,298</u>
Stockholders' Deficit:			

Class A common stock, par value \$0.001, 30,000,000 shares authorized, 7,859,600 issued and outstanding at June 30, 2019 and December 31, 2018, and 7,824,600 at December 31, 2017	7,860	7,860	7,825
Class B common stock, par value \$0.001, 6,000,000 shares authorized, 3,966,805 issued and outstanding at June 30, 2019, 3,958,532 at December 31, 2018, and 1,297,042 at December 31, 2017	3,967	3,959	1,297
Additional paid-in capital	3,917,854	4,151,537	1,178,680
Accumulated deficit	(20,154,379)	(15,706,516)	(10,218,572)
Total Stockholders' Deficit	(16,224,698)	(11,543,160)	(9,030,770)
TOTAL LIABILITIES & STOCKHOLDERS' DEFICIT	<u>\$ 6,794,658</u>	<u>\$ 6,724,708</u>	<u>\$ 3,528,380</u>

See accompanying notes to financial statements.

HYLETE, INC.
STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>June 30, 2019</u> (unaudited)	<u>June 30, 2018</u> (unaudited)	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Net Sales	\$ 5,760,008	\$ 5,133,738	\$ 11,689,200	\$ 8,773,025
Cost of Sales	<u>2,691,068</u>	<u>2,311,287</u>	<u>5,461,090</u>	<u>4,065,845</u>
Gross Profit	<u>3,068,940</u>	<u>2,822,451</u>	<u>6,228,110</u>	<u>4,707,180</u>
Operating Expenses:				
Selling and marketing	1,791,189	1,268,374	2,866,133	2,862,657
General and administrative	2,721,813	1,534,446	3,806,176	2,447,146
Shipping and distribution	1,149,002	969,568	2,182,554	1,236,572
Total Operating Expenses	<u>5,662,004</u>	<u>3,772,388</u>	<u>8,854,863</u>	<u>6,546,375</u>
Loss from Operations	(2,593,064)	(949,937)	(2,626,753)	(1,839,195)
Interest expense	1,486,750	588,293	1,365,426	836,845
Change in fair market value of Series A-2 warrant liability	<u>368,049</u>	<u>1,059,790</u>	<u>1,059,175</u>	<u>556,933</u>
Net Loss	<u>\$ (4,447,863)</u>	<u>\$ (2,598,020)</u>	<u>\$ (5,051,354)</u>	<u>\$ (3,232,973)</u>
Accrual of Preferred Stock Dividend and Discount Amortized	(310,626)	(299,317)	(600,838)	(599,593)
Net Loss Attributable to Common Stockholders	<u>\$ (4,758,489)</u>	<u>\$ (2,897,337)</u>	<u>\$ (5,652,192)</u>	<u>\$ (3,832,566)</u>
Basic and diluted loss per common share	<u>\$ (0.40)</u>	<u>\$ (0.30)</u>	<u>\$ (0.56)</u>	<u>\$ (0.45)</u>
Weighted average shares- basic and diluted	<u>11,826,550</u>	<u>9,744,998</u>	<u>10,151,347</u>	<u>8,556,634</u>

See accompanying notes to financial statements.

HYTELE, INC.
STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2019
AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance as of December 31, 2016	7,824,600	\$ 7,825	–	\$ –	\$ 108,933	\$ (6,402,392)	\$ (6,285,634)
Net Loss	–	–	–	–	–	(3,232,973)	(3,232,973)
Net proceeds from sale of Common Stock	–	–	1,297,042	1,297	1,069,747	–	1,071,044
Dividend accretion on Preferred Stock	–	–	–	–	(16,386)	(536,337)	(552,723)
Amortization of issuance costs on Preferred Stock	–	–	–	–	–	(46,870)	(46,870)
Stock-based compensation	–	–	–	–	16,386	–	16,386
Balance as of December 31, 2017	<u>7,824,600</u>	<u>7,825</u>	<u>1,297,042</u>	<u>1,297</u>	<u>1,178,680</u>	<u>(10,218,572)</u>	<u>(9,030,770)</u>
Net Loss	–	–	–	–	–	(5,051,354)	(5,051,354)
Net proceeds from sale of Common Stock	35,000	35	1,871,615	1,872	1,986,303	–	1,988,210
Common Stock issued for GRACEDBYGRIT assets	–	–	789,875	790	986,554	–	987,344
Dividend accretion on Preferred Stock	–	–	–	–	(164,247)	(389,248)	(553,495)
Amortization of issuance costs on Preferred Stock	–	–	–	–	–	(47,343)	(47,343)
Stock-based compensation	–	–	–	–	164,247	–	164,247
Balance as of December 31, 2018	<u>7,859,600</u>	<u>7,860</u>	<u>3,958,532</u>	<u>3,959</u>	<u>4,151,537</u>	<u>(15,706,516)</u>	<u>(11,543,160)</u>
Net Loss	–	–	–	–	–	(4,447,863)	(4,447,863)
Net proceeds from sale of Common Stock	–	–	8,273	8	12,677	–	12,685
Dividend accretion on Preferred Stock	–	–	–	–	(282,258)	–	(282,258)
Amortization of issuance costs on Preferred Stock	–	–	–	–	(28,367)	–	(28,367)
Stock-based compensation	–	–	–	–	64,265	–	64,265
Balance as of June 30, 2019 (unaudited)	<u>7,859,600</u>	<u>\$ 7,860</u>	<u>3,966,805</u>	<u>\$ 3,967</u>	<u>\$ 3,917,854</u>	<u>\$ (20,154,379)</u>	<u>\$ (16,224,698)</u>

See accompanying notes to financial statements.

HYLETE, INC.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	June 30, 2019 <u>(unaudited)</u>	June 30, 2018 <u>(unaudited)</u>	December 31, 2018	December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (4,447,863)	\$ (2,598,020)	\$ (5,051,354)	\$ (3,232,973)
Adjustments:				
Depreciation and amortization	254,230	118,731	333,938	195,358
Stock-based compensation	64,265	60,598	164,247	16,386
Amortization of debt discounts	926,994	276,522	629,376	337,426
Change in fair market value of Series A-2 warrant liability	368,049	1,059,790	1,059,175	556,933
Changes in:				
Accounts receivable	26,818	(36,548)	(47,875)	25,786
Inventory	(1,014,504)	(227,855)	(1,110,935)	(701,193)
Vendor deposits	35,669	(190,580)	(204,007)	167,209
Prepaid expenses	78,802	30,814	(171,118)	(37,581)
Accounts payable	1,595,517	(398,568)	(17,521)	436,500
Accrued expenses	112,759	(45,525)	3,405	423,169
Net Cash used in Operating Activities	<u>(1,999,264)</u>	<u>(1,950,641)</u>	<u>(4,412,669)</u>	<u>(1,812,980)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(27,528)	(59,722)	(85,628)	(291,524)
Purchases of intangibles	(13,006)	(10,535)	(40,965)	(15,706)
Other non-current assets	(452,306)	–	(28,219)	11,350
Net Cash used in Investing Activities	<u>(492,840)</u>	<u>(70,257)</u>	<u>(154,812)</u>	<u>(295,880)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings on loans payable	1,322,100	1,092,500	2,578,200	498,750
Borrowings on bonds payable	123,900	41,455	754,255	–
Payments on capital leases	(8,456)	(10,517)	(21,510)	(19,691)
Net proceeds from sale of common stock	12,685	1,291,830	1,988,210	1,071,044
Net proceeds from sale of preferred stock	–	–	122,500	–
Net Cash provided by Financing Activities	<u>1,450,229</u>	<u>2,415,268</u>	<u>5,421,655</u>	<u>1,550,103</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1,041,875)</u>	<u>394,370</u>	<u>854,174</u>	<u>(558,757)</u>
CASH AND CASH EQUIVALENTS, beginning of period	<u>1,470,436</u>	<u>616,262</u>	<u>616,262</u>	<u>1,175,019</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 428,561</u>	<u>\$ 1,010,632</u>	<u>\$ 1,470,436</u>	<u>\$ 616,262</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	<u>\$ 485,245</u>	<u>\$ 302,353</u>	<u>\$ 725,038</u>	<u>\$ 503,635</u>
Cash paid for income taxes	<u>\$ 1,000</u>	<u>\$ 800</u>	<u>\$ 800</u>	<u>\$ 800</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:				
Issuance of Series A-2 Preferred Stock warrant liability	<u>\$ 562,486</u>	<u>\$ 243,528</u>	<u>\$ 262,709</u>	<u>\$ 205,195</u>
Accretion of Preferred Stock dividends	<u>\$ 282,258</u>	<u>\$ 275,645</u>	<u>\$ 553,495</u>	<u>\$ 552,723</u>
Accretion of Preferred Stock discounts	<u>\$ 28,367</u>	<u>\$ 23,672</u>	<u>\$ 47,343</u>	<u>\$ 46,870</u>
Issuance of Common Stock warrant liability	<u>\$ 151,507</u>	<u>\$ –</u>	<u>\$ 675,294</u>	<u>\$ –</u>
Common stock issued for GRACEDBYGRIT assets	<u>\$ –</u>	<u>\$ 987,344</u>	<u>\$ 987,344</u>	<u>\$ –</u>
Exchange of bonds for convertible bonds	<u>\$ 387,000</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

See accompanying notes to financial statements.

HYLETE, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Nature of Business

HYLETE, LLC was organized under the laws of the State of California on March 26, 2012. In January 2015, the HYTELE, LLC was converted to a California corporation named HYTELE, Inc. (referred to as “HYLETE” or the “Company”). The Company reincorporated in Delaware in January 2019. The Company’s principal corporate office is located at 564 Stevens Avenue, Solana Beach, California 92075, and its telephone number is (858) 225-8998. Our website address is www.hylete.com. The Company was formed to design, develop, and distribute premium performance apparel primarily direct to consumers through its own website, events and affiliate marketing partners, as well as select third party ecommerce retailers.

GRACEDBYGRIT Asset Acquisition

On June 1, 2018, the Company purchased 100% of the net assets of GRACEDBYGRIT, Inc. (“GBG”) for 789,875 shares of the Company’s Class B Common Stock valued at \$987,344. The shares of Class B Common Stock were valued at the price to which the Company’s share were being sold to third parties at the time of the transactions. In addition, GBG’s majority shareholder is also a member of the Company’s board of directors. GBG was acquired to expand HYTELE’s women’s apparel line in accordance with the Company’s growth strategy.

The Company accounted for the transaction as a business acquisition. The acquired assets were recorded at estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of identifiable net assets resulted in the recognition of goodwill in the amount \$426,059 and is attributable to future growth opportunities due the addition additional women’s styles as well as the addition of employees to which have experience within the area and other factors. The goodwill is expected to be deductible for income tax purposes.

The following table summarizes the fair value of the net assets acquired as of the acquisition date of June 1, 2018.

Inventory	\$	67,885
Product designs		493,400
Goodwill		426,059
	\$	<u>987,344</u>

Liability assumed under the asset acquisition agreement were immaterial.

The summarized unaudited pro forma results are not necessarily indicative of results which would have occurred if the acquisition had been in effect for the period presented. Further, the summarized unaudited pro forma results are not intended to be a projection of future results.

	2018	2017
Pro forma revenues	\$ 11,788,429	\$ 9,500,188
Pro forma net loss	(5,500,819)	(4,791,786)
Pro forma net loss per common share, basic and diluted	\$ (0.52)	\$ (0.58)

Note 2 – Going Concern

The accompanying 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 incurred losses from operations, has a working capital deficit of approximately \$1.7 and 6.0 million and has an accumulated deficit of approximately \$15.7 and 20.2 million as of December 31, 2018 and June 30, 2019, respectively. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

To fund operations, the Company is anticipating filing a registration statement for which additional shares of Class B common stock will be offered for purchase. Based on our business and development plans, the Company is dependent up raising a minimum of \$10 million to fund operations for a period in excess of one year from the date of this filing. Currently, we have capital to fund operations through December 2019. Our future capital requirements will depend on many factors, including: the costs and timing of future product and marketing activities, including product manufacturing, marketing, sales and distribution for any of our products; the expenses needed to attract and retain skilled personnel; and the timing and success of this offering. Until such time, if ever, as we can generate more substantial product revenues, we expect to finance our cash needs through a combination of equity or debt financings.

In order to meet these additional cash requirements, we may seek to sell additional equity or convertible securities that may result in dilution to our stockholders. If we raise additional funds through the issuance of convertible securities, these securities could have rights senior to those of our common stock and could contain covenants that restrict our operations. There can be no assurance that we will be able to obtain additional equity or debt financing on terms acceptable to us, if at all. If we raise additional funds through collaboration and licensing agreements with third parties, it may be necessary to relinquish valuable rights to our product candidates or future revenue streams or to grant licenses on terms that may not be favorable to us.

Note 3 – Summary of Significant Accounting Policies

Basis for presentation - These audited financial statements of HYLETE, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

We have prepared the accompanying interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These interim financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for 2019. Certain information and footnote disclosures normally included in interim financial statements prepared in accordance with US GAAP have been omitted in accordance with the rules and regulations of the SEC. These interim financial statements should be read in conjunction with the audited financial statements and accompanying notes.

Accounting estimates – The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Examples of our significant accounting estimates that may involve a higher degree of judgment and complexity than others include: the valuation of inventories; the valuation and assessment of the recoverability of goodwill and other indefinite-lived and long-lived assets; and the fair market value of the common and preferred stock warrant liabilities. Actual results could differ from those estimates.

Fair value of financial instruments – Accounting Standards Codification ("ASC") 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

The fair value hierarchy prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1

Observable inputs – unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2

Observable inputs – other than the quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data; and

Level 3

Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, vendor deposits, accounts payable, accrued expenses and current portion of capital lease obligations. The carrying value of these assets and liabilities is representative of their fair market value, due to the short maturity of these instruments. The carrying value of the long-term portions of the capital lease obligations and loan payable to stockholder represent fair value as the terms approximate those currently available for similar debt instruments.

The Company's common and preferred stock warrant liabilities are carried at fair value. The fair value of the Company's common and preferred stock warrant liabilities has been measured under the Level 3 hierarchy (Note 10). Changes in common and preferred stock warrant liabilities during the year ended December 31, 2018 and six months ended June 30, 2019 are as follows:

	Fair Value of Significant Unobservable Inputs Fair Value	
	Preferred Warrants	Common Warrants
Outstanding as of December 31, 2017	\$ 1,387,319	\$ —
Warrants granted	252,280	675,294
Change in fair value	1,059,175	—
Outstanding as of December 31, 2018	\$ 2,698,774	\$ 675,294
Warrants granted	562,486	151,507
Change in fair value	368,049	—
Outstanding as of June 30, 2019 (unaudited)	\$ 3,629,309	\$ 826,801

Cash and cash equivalents – Cash includes highly liquid short-term investments purchased with original maturities of ninety days or less.

Concentration of credit risk – Financial instruments that potentially subject the Company to credit risk consist principally of accounts receivable and cash. At various times throughout the period, the Company had cash deposits in a financial institution in excess of the amount insured by the Federal Deposit Insurance Corporation. Management considers the risk of loss to be minimal due to the credit worthiness of the financial institution. Concentrations of risk with respect to receivables are limited due to the diversity of the Company's customer base. Credit is extended based on an evaluation of the customer's financial condition and collateral generally is not required.

Accounts receivable – The Company carries its accounts receivable at invoiced amounts less allowances for customer credits, doubtful accounts and other deductions. The Company does not accrue interest on its 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. A reserve for doubtful accounts is maintained based on the length of time receivables are past due, historical collections or the status of a customer's financial position. The Company did not have a reserve recorded as of June 30, 2019, December 31, 2018 and 2017. Receivables are written off in the year deemed uncollectible after efforts to collect the receivables have proven unsuccessful. For the six months ended June 30, 2019, and the years ended December 31, 2018 and 2017, the Company wrote off approximately \$3,845, \$4,342, and \$3,100 of uncollectible accounts, respectively.

Inventory – Inventory is comprised of finished goods and is stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Vendor deposits – Vendor deposits represent amounts paid in advance to the Company's vendors for inventory purchases to be produced and received at a future date.

Property and equipment – Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized over the shorter of the lease term or their estimated useful lives.

Goodwill and intangible assets – Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Acquired intangible assets other than goodwill are amortized over their useful lives unless the lives are determined to be indefinite. For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. For intangible assets acquired in a non-monetary exchange, the estimated fair values of the assets transferred (or the estimated fair values of the assets received, if more clearly evident) are used to establish their recorded values, unless the values of neither the assets received nor the assets transferred are determinable within reasonable limits, in which case the assets received are measured based on the carrying values of the assets transferred. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value.

Product designs acquired from GRACEDBYGRIT were determined to have a useful life of 18 months and are being amortized using the straight-line method. During the six months ended June 30, 2019 and the year ended December 31, 2018, we amortized \$164,467 and \$109,644, respectively. As of the six months ended June 30, 2019 and the year ended December 31, 2018, \$219,289 and \$383,756, respectively, was remaining for which is expected to be amortized during the year ending December 31, 2019.

Impairment of Goodwill and long-lived assets – Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and in interim periods if events or changes in circumstances indicate that the assets may be impaired. If a qualitative assessment is used and we determine that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment test will be performed. If goodwill is quantitatively assessed for impairment and a reporting unit's carrying value exceeds its fair value, the difference is recorded as an impairment. Other indefinite-lived intangible assets are quantitatively assessed for impairment, if necessary, by comparing their estimated fair values to their carrying values. If the carrying value exceeds the fair value, the difference is recorded as an impairment. During the six months ended June 30, 2019 and the years ended December 31, 2018 and 2017 no impairments were needed.

Long-lived assets, such as property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Long-lived assets to be disposed of by sale are reported at the lower of their carrying amounts or their estimated fair values less costs to sell and are not depreciated. During the six months ended June 30, 2019 and the years ended December 31, 2018 and 2017 an impairment wasn't needed.

Accounting for preferred stock – ASC 480, Distinguishing Liabilities from Equity, includes standards for how an issuer of equity (including equity shares issued by consolidated entities) classifies and measures on its balance sheet certain financial instruments with characteristics of both liabilities and equity.

Management is required to determine the presentation for the preferred stock as a result of the redemption and conversion provisions, among other provisions in the agreement. Specifically, management is required to determine whether the embedded conversion feature in the preferred stock is clearly and closely related to the host instrument, and whether the bifurcation of the conversion feature is required and whether the conversion feature should be accounted for as a derivative instrument. If the host instrument and conversion feature are determined to be clearly and closely related (both more akin to equity), derivative liability accounting under ASC 815, Derivatives and Hedging, is not required. Management determined that the host contract of the preferred stock is more akin to equity, and accordingly, derivative liability accounting is not required by the Company. In addition, the Company has presented preferred stock outside of stockholders' deficit due to the potential redemption of the preferred stock being outside of the Company's control (Note 10).

Costs incurred directly for the issuance of the preferred stock are recorded as a reduction of gross proceeds received by the Company, resulting in a discount to the preferred stock. The discount is amortized to additional paid-in capital, over the period to redemption using the effective interest method of accounting. Dividends which are required to be paid upon redemption are accrued and recorded within preferred stock and additional paid-in capital.

Warrants to purchase preferred stock – The Company accounts for freestanding warrants related to preferred shares that are redeemable in accordance with ASC 480, Distinguishing Liabilities from Equity. Under ASC 480, freestanding warrants to purchase shares of redeemable preferred stock are classified as liabilities on the balance sheet at fair value because the warrants may conditionally obligate us to transfer assets at some point in the future. The Company estimated the fair value of these warrants using the Black-Scholes option-pricing model. See Note 10 for additional information.

Revenue recognition – Revenues are recognized when performance obligations are satisfied through the transfer of promised goods to the Company's customers. Control transfers upon shipment of product and when the title has been passed to the customers. This includes the transfer of legal title, physical possession, the risks and rewards of ownership, and customer acceptance. Revenue is recorded net of sales taxes collected from customers on behalf of taxing authorities, allowance for estimated returns, chargebacks, and markdowns based upon management's estimates and the Company's historical experience. The Company's liability for sales return refunds is recognized within other current liabilities, and an asset for the value of inventory which is expected to be returned is recognized within other current assets on the balance sheets. The Company generally allows a 60 day right of return to its customers. The Company had a reserve for returns of approximately \$124,975, \$95,030 and \$84,500 recorded within accrued expenses as of June 30, 2019, December 31, 2018 and 2017, respectively. Proceeds from the sale of gift cards are initially deferred and recognized within accrued expenses on the balance sheets and are recognized as revenue when tendered for payment. Based on historical experience, and to the extent there is no requirement to remit unclaimed card balances to government agencies, an estimate of the gift card balances that will never be redeemed is recognized as revenue in proportion to gift cards which have been redeemed. In addition, the Company records a liability for deposits for future products, credits provided to equity investors in connection with their investment, etc. The liability is relieved, and the revenue is recognized once the revenue recognition criteria is met. As of June 30, 2019, December 31, 2018 and 2017 deferred revenue of approximately \$253,000, \$269,000 and \$378,000 were present within accrued liabilities on the accompanying balance sheets, respectively. Of these amounts, approximately \$192,000, \$196,000 and \$138,000 related to credits provided to equity investors in connection with their investments as of June 30, 2019, December 31, 2018 and 2017, respectively.

During 2018 and 2017, the Company offered investors a store credit at HYLETE.com in the amount of 10% of their equity investment(s) for that year. When investors utilize their store credit the deferred revenue is recognized, and the liability associated with the store credit is removed from the balance sheet.

For the loyalty program, the Company increases or decreases the loyalty points liability based on point balance at the end of each month. The liability is recognized in accrued expenses on the balance sheet. The liability calculation is equal to the total points accrued multiplied by the cash value multiplied by the percentage of predicted use multiplied by the estimated cost of goods sold.

Cost of sales – Cost of sales consists primarily of inventory.

Merchandise risk – The Company's success is largely dependent upon its ability to gauge the fashion tastes of its targeted consumers and provide merchandise that satisfies consumer demand. Any inability to provide appropriate merchandise in sufficient quantities in a timely manner could have material adverse effect on the Company's business, operating results and financial condition.

Shipping and handling – The Company recognizes shipping and handling billed to customers as a component of net sales, and the cost of shipping and handling as a component of operating expenses. Total shipping and handling billed to customers as a component of net sales was approximately \$315,000, \$331,000, \$699,000 and \$608,000 for the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, respectively. Total shipping and handling costs included in operating expenses was approximately \$729,000, \$649,000, \$1,418,000 and \$734,000 for the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, respectively.

Advertising and promotion – Advertising and promotional costs are expensed as incurred. Advertising and promotional expense for the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017 amounted to approximately \$791,000, \$498,000, \$1,139,000 and \$1,281,000, respectively, which is included in selling and marketing expense.

Stock based compensation – The Company estimates the fair value of the stock warrants and options using the Black-Scholes option pricing model. The expected lives were determined using the simplified method. Key input assumptions used to estimate the fair value of stock warrants and options include the exercise price of the award, the expected term, the expected volatility of the Company's stock over the expected term, the risk-free interest rate over the term, the Company expected annual dividend yield and forfeiture rate. The Company's management believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in estimating the fair value of the Company's stock warrants and options granted. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. The Company had no data to support estimates of expected forfeitures.

Deferred offering costs – Costs associated with the offering of shares are capitalized as other assets. Upon successful issuance, these costs will reduce additional-paid-in capital or as a discount to related borrowings, or if unsuccessful, recognized as general and administrative expense.

Legal proceedings - If there is at least a reasonable possibility that a material loss may have been incurred associated with pending legal and regulatory proceedings, the Company discloses such fact, and if reasonably estimable, the Company provides an estimate of the possible loss or range of possible loss, if any. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. As additional information becomes available, the Company assess the potential liability related to pending legal and regulatory proceedings and revise our estimates and update our disclosures accordingly. The Company's legal costs associated with defending itself are recorded to expense as incurred.

Income taxes – The Company has elected to be taxed under the provisions of subchapter C of the Internal Revenue Code. Income taxes are therefore accounting for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized from future operations. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

Uncertain tax positions – The Company accounts for uncertain tax provisions in accordance with ASC 740-10. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as de-recognition, interest, penalties, and disclosures required. As of the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, the Company does not have any entity-level uncertain tax positions. The Company files U.S. federal and various state income tax returns, which are subject to examination by the taxing authorities for three to four years from filing of a tax return.

Sales tax – Taxes collected from the Company's customers are and have been recorded on a net basis. This obligation is included in accrued expenses in the accompanying balance sheets until the taxes are remitted to the appropriate taxing authorities.

Basic loss per common share – Basic loss per share is calculated by dividing the Company's net loss applicable to common shareholders by the weighted average number of common shares during the period. Diluted earnings per share is calculated by dividing the Company's net loss available to common shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted number of shares adjusted for any potentially dilutive debt or equity. The Company's common stock equivalents consist of common stock issuable upon the conversion of preferred stock, and exercise of options and warrants. As of the six months ended June 30, 2019, and 2018 and the years ended December 31, 2018, and 2017, the effect of dilutive securities was anti-dilutive and thus is not included. Basic and dilutive net loss per common share for the six months ended June 30, 2019, and 2018 and years ended December 31, 2018 and 2017, includes accrued preferred stock dividends of \$282,258, \$275,645, \$553,495 and \$552,723 and preferred stock discount accretion of \$28,367, \$23,672, \$47,343 and \$46,870, respectively, as an increase to net loss available for common shareholders.

Recently issued accounting pronouncements – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC 606") which supersedes the revenue recognition requirements in ASC 605 Revenue Recognition. This ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted ASC 606 on January 1, 2019 on a modified retrospective basis. There were no changes to the statement of operations as a result of the adoption, and the timing and amount of its revenue recognition remained substantially unchanged under this new guidance. Under the provisions of ASC 606, the Company is now required to present its provision for sales returns on a gross basis, rather than a net basis. The Company's liability for sales return refunds is recognized within other current liabilities, and the Company now presents an asset for the value of inventory which is expected to be returned within other current assets on the balance sheets. The effect of the change is an increase in other current assets from the originally reported amount of \$265,436 to \$352,487 and an increase in accrued expenses from the originally reported amount of \$826,586 to \$913,637. Under the modified retrospective approach, the comparative prior period information has not been restated for this change.

Note 4 – Property and Equipment

Property and equipment consisted of the following as of June 30, 2019, and December 31, 2018 and 2017:

	June 30, 2019 <u>(unaudited)</u>	December 31, 2018	December 31, 2017
Auto	\$ 109,358	\$ 109,358	\$ 105,772
Computer Hardware and Software	87,008	73,589	40,305
Office Furniture, Fixtures and Equipment	71,598	59,542	53,157
Leasehold Improvements	75,419	73,365	70,905
Website Development	252,529	252,529	212,618
Application Development	232,759	232,759	232,760
Production Molds	61,800	61,800	61,800
	<u>890,471</u>	<u>862,942</u>	<u>777,315</u>
Accumulated Depreciation	(699,097)	(609,333)	(385,040)
	<u>\$ 191,374</u>	<u>\$ 253,609</u>	<u>\$ 392,275</u>

Depreciation and amortization expense related to property and equipment amounted to approximately \$89,764, \$224,000 and \$195,000 for the six months ended June 30, 2019 and the years ended December 31, 2018 and 2017, respectively.

Note 5 – Bridge Note Payable, Related Party

On August 19, 2015, the Company received \$200,000 under a Senior Bridge Note agreement (the “Bridge Note”), with an initial maturity date of December 31, 2016. The Bridge Note holder is an investor and a member of the Company's board of directors. From August 19, 2015 through December 31, 2015, the Bridge Note accrued interest at 1% per month, paid on a monthly basis. No principal payments had been made on the Bridge Note through December 31, 2016. In November 2016, the Bridge Note maturity date was extended to December 31, 2017 and the accrued interest rate increased to 1.5% per month. In connection with the extension, the Company paid fees of \$10,000 for which were recorded as a discount to the Bridge Note. The discount was amortized using the straight-line method over the term of the Bridge Note. As of December 31, 2016, a discount of \$8,571 remained and was fully amortized during the year ending December 31, 2017. In October 2017, the Bridge Note maturity date was extended to December 31, 2018. In December 2018, the Bridge Note maturity date was extended to December 31, 2019. All other terms remain unchanged.

Note 6 – Loans Payable

On June 29, 2016, the Company entered into a senior credit agreement with a lender with principal due three years from the date of issuance on June 29, 2019. The lender had offered the Company up to \$3,150,000, which accrues interest at a rate equal to 12.50% per annum, compounded monthly. In July 2017, the Company amended the agreement to borrow up to an additional amount of \$1,000,000, raising the maximum available to be borrowed to \$4,150,000. In March 2018, the amounts borrowable under the senior credit agreement were increased by an additional \$500,000. In February 2019, the lender agreed to an additional \$1,725,000 to provide working capital to maintain and expand the operations. As of March 31, 2019, the lender distributed \$1,100,000 of the expected \$1,725,000. The proceeds were used for operations. The Company pays the interest on a monthly basis and, thus, does not have any interest accrued as of June 30, 2019, December 31, 2018 and 2017 related to this agreement. The agreement contains certain affirmative covenants related to the timely delivery of financial information to the lender, as well as certain customary negative covenants. The agreement also includes a financial covenant related to the Company's liquidity and requires a minimum cash balance of \$250,000 to be maintained.

As of June 30, 2019, December 31, 2018, and 2017, the Company was in compliance with all financial and non-financial covenants. The senior credit agreement is secured by substantially all of the Company's assets and shareholder shares in which have been pledged as additional collateral.

In conjunction with the senior credit agreement, the Company issued 360,170, 256,298 and 216,779 Series A-2 Preferred Stock warrants to the lender during the six months ended June 30, 2019 and the years ended December 31, 2018 and 2017. As of June 30, 2019, December 31, 2018, and 2017, the Company had outstanding borrowings of \$5,375,000, \$4,275,000 and \$3,675,000, respectively.

Fees and Series A-2 Preferred Stock warrants issued in connection with the senior credit agreement resulted in a discount to the senior credit agreement. During the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, the Company recorded debt discounts of approximately \$63,000, \$30,000, \$30,000 and \$26,000, respectively, related to costs for obtaining the senior credit agreement, and approximately \$562,000, \$244,000, \$244,000 and \$205,000, respectively, related to the fair value of the Series A-2 Preferred Stock warrants. During the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, discounts of approximately \$531,000, \$273,000, \$610,000 and \$328,000, respectively, had been amortized to interest expense in conjunction with these debt discounts. The Company is recording the debt amortization using the straight-line method due to the relatively short term of the senior credit agreement.

The remaining debt issuance of approximately \$457,000 will be expensed as interest expense during the year ending December 31, 2019.

Note 7 – Promissory Notes Payable

On April 6, 2018, the Company received \$100,000 under a promissory note agreement (the “Promissory Note”), with a maturity date of April 5, 2020. The proceeds were used for operations. The promissory note holder is the Company’s Chief Executive Officer. Interest accrues on the loan amount at a monthly rate of 1.5%. The Company paid fees of \$5,000, which was recorded as a discount to the Promissory Note. The discount is amortized using the straight-line method over the term of the Promissory Note, due to the short-term nature of the Promissory Note. During the year ended December 31, 2018, the Company amortized \$1,875 to interest expense. As of December 31, 2018, a discount of \$3,125 remained for which will be expensed over the remaining term. During the six months ended June 30, 2019, the Company amortized \$1,250 to interest expense. As of June 30, 2019, a discount of \$1,875 remained which will be expensed over the remaining term.

On May 31, 2018, the Company received \$400,000 under a promissory note agreement (the “May 2018 Promissory Note”), with a maturity date of May 31, 2020. The proceeds were used for operations. The holder is a member of the Company’s board of directors. Interest accrues on the loan amount at a monthly rate of 1.5%. The Company paid fees of \$20,000, which was recorded as a discount to the May 2018 Promissory Note. The discount is amortized using the straight-line method over the term of the May 2018 Promissory Note, due to the short-term nature of the note. During the year ended December 31, 2018, the Company amortized \$5,833 to interest expense. As of December 31, 2018, a discount of \$14,167 remained for which will be expensed over the remaining term. During the six months ended June 30, 2019 the Company amortized \$5,000 to interest expense. As of June 30, 2019, a discount of \$9,167 remained which will be expensed over the remaining term.

On June 26, 2018 the Company received \$50,000 under a promissory note agreement (the “June 2018 Promissory Note”), with a maturity date of June 25, 2020. The proceeds were used for operations. Interest accrues on the loan amount at a monthly rate of 1.5%. The Company paid fees of \$2,500, which was recorded as a discount to the June 2018 Promissory Note. The discount is amortized using the straight-line method over the term of the June 2018 Promissory Note, due to the short-term nature of the note. During the year ended December 31, 2018, the Company amortized \$625 to interest expense. As of December 31, 2018, a discount of \$1,875 remained for which will be expensed over the remaining term. During the six months ended June 30, 2019 the Company amortized \$625 to interest expense. As of June 30, 2019, a discount of \$1,250 remained which will be expensed over the remaining term.

On June 27, 2018 the Company received \$200,000 under a promissory note agreement (the “June 2018 Second Promissory Note”), with a maturity date of June 26, 2020. The proceeds were used for operations. Interest shall accrue on the loan amount at a monthly rate of 1.5%. The Company paid fees of \$10,000, which was recorded as a discount to the Promissory Note. The discount is amortized using the straight-line method over the term of the June 2018 Second Promissory Note, due to the short-term nature of the note. During the year ended December 31, 2018, the Company amortized \$2,500 to interest expense. As of December 31, 2018, a discount of \$7,500 remained for which will be expensed. During the six months ended June 30, 2019 the Company amortized \$2,500 to interest expense. As of June 30, 2019, a discount of \$5,000 remained which will be expensed over the remaining term.

Note 8 – Bonds Payable

On May 18, 2018, the Company commenced an offering under Regulation A under the Securities Act of 1933, as amended, of 5,000 Class A Bonds. The price per bond was \$1,000 with a minimum investment of \$5,000. The target offering was up to \$5,000,000. As of December 31, 2018, total Class A Bonds issued was \$821,000 which amount was used for operations. The Class A Bonds bear interest at 1% per month, or 12% per year. In connection with the Class A Bond offering, the Company paid fees of \$66,745, which were recorded as a discount to the bonds. The discount is amortized using the straight-line method over the term of the bonds (36 months), due to the short-term nature of the bonds. As of December 31, 2018, a discount of \$54,329 remained, for which expected amortization will be expensed through 2021. The Class A Bond offering was closed on December 31, 2018. In the first quarter of 2019, the Company received the remaining proceeds of \$125,000. The Company paid fees of \$1,100 for the remaining proceeds received, which were recorded as discounts to the bonds. As of June 30, 2019, the Company had amortized \$11,307 and a discount of \$44,122 remained, for which expected amortization will be expensed through 2021.

In June 2019, the Company offered its Class A Bond debt holders the opportunity to convert their existing debt (principal only) at an initial public offering of the company and listing on a major exchange at a 20% discount to the initial public offering share price. As of June 30, 2019, Class A Bond debt holders electing to convert represented \$387,000 of debt and has been reclassified to Convertible bonds on the balance sheet. This is an extinguishment of existing bonds and a beneficial conversion will be recorded upon the initial public offering, as it is contingent before conversion feature. See Note 19 for additional bond holders who've elected to convert subsequent June 30, 2019.

Note 9 – IPO Bridge Notes

In the fourth quarter of 2018, the Company issued \$1,315,000 of promissory notes (the "IPO Bridge Notes"), of which \$400,000 were issued to related parties which included \$300,000 issued to Steelpoint Co-Investment Fund (James Caccavo) and \$100,000 issued to Darren Yager. During the first quarter of 2019, the Company issued \$95,000 of additional IPO Bridge Notes. In the second quarter of 2019, the Company issued an additional \$200,000 of IPO Bridge Notes to a related party, Steelpoint Co-Investment Fund (James Caccavo). The proceeds will be used for operations and costs related to the Company's proposed registration statement. The IPO Bridge Notes have a maturity date of the earlier of: (i) the closing of the Company's initial public offering ("IPO") or any other type of direct prospectus or registered offering transaction that results in the Company or its successor becoming public and any class of its securities are quoted or traded in any exchange or quotation system in the United States of America; or (ii) December 31, 2019. Interest shall accrue on the loan amount at annual rate of 10.0% per annum. During the six months ended June 30, 2019 and the year ended December 31, 2018, the Company paid fees of \$12,900 and \$19,300, respectively, which was recorded as a discount to the IPO Bridge Notes.

In connection with the IPO Bridge Notes, the Company has the obligation to issue Class B Common Stock warrants equal to 1% of fully diluted equity ownership for \$1,000,000 of the loan amount, calculated as of the maturity date of the IPO Bridge Notes. As of the six months ended June 30, 2019 and the year ended December 31, 2018, the Company had the obligation to issue 476,346 and 389,063 warrants, respectively, based upon the amount of IPO Bridge Notes proceeds received at that date. The warrants will have an exercise price of \$0.001 per share and expire ten years after issuance. Since the Company is required to issue a variable amount of common stock for which there isn't a floor or ceiling to the amount of common stock warrants, the Company recorded the obligation to issue warrants as a liability. The warrants are measured to estimated fair market value at each reporting period using the Black-Scholes pricing model to estimate the fair market value of the warrants. The Company determined that the fair market value of the Class B Common Stock warrants granted as of June 30, 2019 and December 31, 2018, was approximately \$826,800 and \$675,294, respectively, which has been recorded as a liability and as an additional discount to the IPO Bridge Notes, see Note 13. The discount is amortized using the straight-line method over the term of the IPO Bridge Notes, due to the short-term nature of the IPO Bridge Notes for which \$378,615 and \$17,011 was amortized to interest expense during the six months ended June 30, 2019 and year ended December 31, 2018, respectively. As of June 30, 2019 and December 31, 2018, a discount of \$463,377 and \$677,583, respectively, remained for which will be amortized in 2019.

The warrants do not meet the condition "contract contains an explicit share limit" and thus require liability accounting. Accordingly, the estimated fair value of the warrants require bifurcation and accounted for as liabilities from issuance, with changes in estimated fair value recorded in the statement of operations at each reporting period and immediately prior to conversion.

As of December 31, 2018, the following is a schedule of principal amount maturities for all bridge loans, loans, promissory notes, bonds and IPO Bridge Notes payable:

<u>Year Ending December 31,</u>	<u>Third Party</u>	<u>Related Party</u>
2019	\$ 5,190,000	\$ 600,000
2020	250,000	500,000
2021	821,000	–
	<u>\$ 6,261,000</u>	<u>\$ 1,100,000</u>

Note 10 – Preferred Stock Warrant Liability

During the six months ended June 30, 2019 and the years ended December 31, 2018 and 2017, the Company issued 360,170, 256,298 and 216,779, respectively, Series A-2 Preferred Stock warrants in conjunction with a debt agreement. The Series A-2 Preferred Stock is contingently redeemable and, accordingly, the related warrants have been presented as a liability in accordance with ASC 480. Warrants that are treated as a liability are measured to estimated fair value at each reporting period. The warrants have an exercise price of \$0.001 per share and expire ten years after issuance.

In October and November of 2018, the Company issued 7,000 Series A-2 Preferred Stock warrants to individuals in conjunction with the purchase agreements of Series A-2 Preferred Stock (see Note 11). The Series A-2 Preferred Stock is contingently redeemable and, accordingly, the related warrants have been presented as a liability in accordance with ASC 480. Warrants that are treated as a liability are measured to estimated fair value at each reporting period. The warrants have an exercise price of \$1.75 per share and expire ten years after issuance.

Management determined that the fair market value of the Series A-2 Preferred Stock warrants granted as of June 30, 2019, December 31, 2018, and 2017, was approximately \$3,629,309, \$2,699,000 and \$1,387,000, respectively, which has been recorded as a liability. See Note 13 for additional information related to the valuation.

Note 11 – Preferred Stock

At December 31, 2014, there were 7,682,500 Class A units outstanding. In conjunction with the Company's conversion into a C-Corporation in January 2015, these units were converted into 1,712,200 shares of Series A Preferred Stock and 5,970,300 shares of Series A-1 Preferred Stock at a conversion price of \$0.1917 and \$0.3078, respectively. The terms of the Series A and Series A-1 Preferred Stock were similar to those of the Class A units and thus modification and/or extinguishment accounting did not apply.

During the year ended December 31, 2015, the Company entered into various Series A-2 Preferred Stock purchase agreements that authorized the sale and issuance of 2,916,900 shares of Series A-2 Preferred Stock at a purchase price of \$0.5143 per share for total gross proceeds of \$1,500,000.

In June 2016, approximately \$928,000 of convertible debt principal, including accrued interest, was converted into 1,804,600 shares of Series A-2 Preferred Stock.

On August 7, 2017, the Company amended its Third Amended and Restated Articles of Incorporation to authorize an additional 412,620 shares of Series A-2 Preferred stock.

During the year ended December 31, 2018, the Company entered into various Series A-2 Preferred Stock purchase agreements that authorized the sale and issuance of 70,000 Series A-2 Preferred Stock at a purchase price of \$1.75 per share for total gross proceeds of \$122,500.

On March 29, 2019, the Company amended its certificate of incorporation to increase the number of authorized shares of Series A-2 Preferred Stock from 6,383,620 to 10,000,000.

Conversion rights – Each share of preferred stock outstanding is convertible at any time, at the option of the holder, into the number of common stock shares that results from dividing the original issue price (Series A initially equal to \$0.1917 per share, Series A-1 initially equal to \$0.3078 per share and Series A-2 initially equal to \$0.5143 per share) by the applicable conversion price in effect at the time of such conversion. The initial conversion price may be adjusted from time to time.

Dividend rights – The holders of Series A Preferred Stock, Series A-1 Preferred Stock, and Series A-2 Preferred Stock shall be entitled to receive, when and if declared by the Board of Directors, dividends in an amount equal to 12% of the original issue price (Series A initially equal to \$0.1917 per share, Series A-1 initially equal to \$0.3078 per share and Series A-2 initially equal to \$0.5143 per share).

In the event of liquidation, cumulative preferred dividends accrue from the issuance date, whether or not such dividends are declared or paid. Preferred dividends accrue at 12% per annum. Accrued dividends accrete directly to additional paid-in capital. For the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, the Company recorded accretion of \$282,258, \$275,645, \$553,495 and \$552,723, respectively. No dividends have been declared or paid to date.

The Company shall not pay or declare any dividend, whether in cash or property, with respect to common stock until all dividends on the preferred stock have been paid or declared and set apart.

Liquidation rights: Upon a liquidating event, before any distribution or payment shall be made to the holders of any common stock, the holders of Series A Preferred Stock, Series A-1 Preferred Stock and Series A-2 Preferred Stock shall, on an equal basis, be entitled to be paid out of the assets of the Company legally available for distribution, in an amount per share equal to the original issue price of such Series A Preferred Stock, Series A-1 Preferred Stock, and Series A-2 Preferred stock plus all unpaid dividends on the Series A Preferred Stock, Series A-1 Preferred Stock and Series A-2 Preferred Stock, respectively. If, upon any such liquidation, dissolution, or winding up, the assets of the Company shall be insufficient to make payment in full to all holders of preferred stock, then such assets shall be distributed among the holders of Series A Preferred Stock, Series A-1 Preferred Stock and Series A-2 Preferred stock at the time outstanding, ratably in proportion to the full amounts to which they would otherwise be entitled to.

After the payment of the full liquidation preference of the preferred stock, the remaining assets of the Company legally available for distribution, if any, shall be distributed ratably to the holders of the common stock in proportion to the number of shares of common stock held by each such holder.

Voting rights: The holders of preferred stock shall have the right to one vote for each share of common stock into which such preferred stock could then be converted with the same voting rights and powers of common shareholders, except with respect to the election of directors.

Redemption rights: The holders of at least 75% of the then outstanding shares of preferred stock, voting together on an as-if-converted basis, may require the Company to redeem the preferred stock at any time on or after the fifth anniversary of the most recent issuance of convertible securities, currently January 13, 2020. The redemption date shall be at least 180 days after the date of such notice from preferred stock holders and shall be brought into effect from the Company by paying cash in exchange for the shares of preferred stock in a sum equal to the original issue price per share of the preferred stock (Series A initially equal to \$0.1917 per share, Series A-1 initially equal to \$0.3078 per share and Series A-2 initially equal to \$0.5143 per share) plus unpaid dividends with respect to such shares, whether or not declared by the Board of Directors. Due to the potential redemption of the Series A, Series A-1 and Series A-2 being outside of the Company's control, the preferred stock has been presented outside of stockholders' deficit on the accompanying balance sheets.

Drag along rights: If the holders of at least 75% of the then outstanding common stock (collectively, the "Selling Founders") approve to sell units representing more than 50% of the then-outstanding units of the Company, then the Dragging Stockholders shall have the right to cause a "Drag Along Sale" by the other Stockholders (the "Dragged Stockholders") pursuant to the voting agreement. In the event of a drag-along sale, each Dragged Stockholder shall sell all of its units on the terms and conditions of the drag-along sale as determined by the Dragging Stockholders and other specified criteria as stated in the voting agreement.

Summary of Preferred Stock Transactions

During the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, the Company amortized discounts on preferred stock to additional paid-in capital of \$28,367, \$23,672, \$47,343 and \$46,870, respectively. The discounts were the result of placement fees paid in connection with the issuance of the preferred stock.

As of December 31, 2018, future annual accretion of preferred stock to the potential redemption value is as follows:

<u>Year Ending December 31,</u>	
2019	\$ 74,658
2020	6,277
	<u>\$ 80,935</u>

As of December 31, 2018, the future amount to be potentially redeemed on January 13, 2020 is as follows:

Series-A	\$ 563,745
Series A-1	3,144,502
Series A-2	3,844,231
	<u>\$ 7,552,478</u>

Note 12 – Common Stock

On January 31, 2017, the Company filed its Third Amended and Restated Articles of Incorporation to create and authorize 6,000,000 shares of a new class of non-voting common stock called Class B Common.

On January 31, 2017, the Company participated in a 1-for-700 forward stock split. The financial statements have been retroactively restated to reflect this forward stock split.

During the year ended December 31, 2017, the Company sold 1,297,042 shares of Class B common stock for net proceeds of \$1,071,044 in offerings conducted pursuant to Regulation Crowdfunding and Regulation A of the Securities Act.

During the year ended December 31, 2018, the Company sold 1,871,615 shares of Class B common stock for net proceeds of \$1,988,210 in an offering conducted pursuant to Regulation A of the Securities Act.

In the first quarter of 2019, the Company sold 8,273 shares of Class B common stock for net proceeds of \$12,685 in an offering conducted pursuant to Regulation A of the Securities Act.

On December 12, 2018, the Company filed a Certificate of Incorporation in the state of Delaware effective January 1, 2019. Subsequent to December 31, 2018, the Delaware corporation became the parent Company of the Company. The par value of each class of stock is \$0.001 per share. The total number of shares which the corporation is authorized to issue is 50,066,120 shares. The number of shares of common stock authorized to be issued is 36,000,000 shares. The number of preferred stock authorized to be issued is 14,066,120. The Company reflected the addition of the \$0.001 par value to the Class A and B common stock for all periods presented.

Note 13 – Stock Warrants

At various times during 2017, the Company issued 216,779 Series A-2 Preferred Stock warrants in connection with the loan payable (Note 6). The warrants have an exercise price of \$0.0143 per share and expire ten years after issuance.

At various times during 2018, the Company issued 263,298 Series A-2 Preferred Stock warrants in conjunction with the loan payable (Note 6) and Series A-2 preferred stock purchase agreements (see Note 11). The warrants have an exercise price of \$0.0143 and \$1.75 per share, respectively, and expire ten years after issuance.

In the first quarter of 2019, the Company issued 360,170 Series A-2 Preferred Stock warrants in conjunction with the loan payable (Note 6). The warrants have an exercise price of \$0.0143 and expire in ten years after issuance.

In the fourth quarter of 2018, the Company issued common stock warrants in conjunction with IPO Bridge Notes. The warrants are measured at fair market value at each reporting period. The Company uses the Black-Scholes pricing model to determine the estimated fair price of the warrants. For the six months ended June 30, 2019 and for the period ended December 31, 2018 the Company recognized a liability of \$826,801 and \$675,294, respectively, which represents the estimated fair market value of the warrants (see Note 9).

The Company calculated the estimated fair value of each Series A-2 Preferred Stock and common stock warrants on the date of grant and at December 31, 2018 and 2017 using the following assumptions for the years ended December 31, 2018 and 2017.

Weighted average variables in accordance with the Series A-2 Preferred Stock warrants:

	<u>December 31</u> <u>2018</u>	<u>December 31</u> <u>2017</u>
Expected life of preferred stock warrants	3.19	3.00
Expected stock price volatility	47.00%	40.00%
Annual rate of quarterly dividends	0.00%	0.00%
Risk free rate	2.35%	0.86%

Weighted average variables in accordance with the common stock warrants:

	December 31, 2018
Expected life of common stock warrants	1.18
Expected stock price volatility	40.00%
Annual rate of quarterly dividends	0.00%
Risk free rate	0.86%

The following table summarizes warrant activity:

	Number of Warrants	Weighted Avg Exercise Price	Weighted Avg Remaining Years
Outstanding as of December 31, 2016	2,377,900	\$ 0.17	8.97
Granted	216,779	0.01	
Outstanding as of December 31, 2017	2,594,679	0.16	8.47
Granted	263,298	0.06	
Outstanding as of December 31, 2018	2,857,977	\$ 0.15	8.55

Note 14– Stock Option Plan

The Company’s 2015 Equity Incentive Plan (the “Incentive Plan”) permits the grant of incentive and nonqualified stock options for up to 1,746,500 shares of common stock. As of December 31, 2018, and 2017, there were 231,330 and 481,430 shares, respectively, available for issuance under the Incentive Plan. Key employees, defined as employees, directors, non-employee directors and consultants, are eligible to be granted awards under the Incentive Plan. The Company believes that such awards promote the long-term success of the Company.

In the first quarter of 2019 and during 2018 and 2017, the Company issued 105,000, 505,000 and 248,000, respectively, stock options to the board of directors, employees and consultants, which have various vesting terms. For the year ended December 31, 2018 and 2017, the Company recognized approximately \$145,876 and \$16,386, respectively, of stock compensation expense related to stock options. During 2019 the stock compensation expense related to stock options is expected to be \$108,797, which will be recognized in sales and marketing expenses and general and administrative expenses in the amount of \$24,935 and \$83,862, respectively.

On May 15, 2018, the Company issued 75,000 options to third party in connection with their consulting agreement. Options are priced at 110% of the Company’s common stock price at the date of the agreement and have a 7-year term. The options shall vest on a monthly basis over a period of 12 months. During the year ended December 31, 2018, the Company recognized \$18,371 of stock compensation expense related to the options. Remaining stock compensation of \$9,185 will be expensed during the year ending December 31, 2019.

For the year ended December 31, 2018, \$164,247 of total stock-based compensation was recognized in sales and marketing expenses and general and administrative expenses in the amount of \$24,935 and \$139,312 respectively.

For the six months ended June 30, 2019 and 2018, the Company recognized approximately \$64,265 and \$60,598, respectively, of stock compensation expense related to stock options. The total stock-based compensation was recognized in sales and marketing expenses in the amounts of \$12,468 and \$8,762, respectively, and general and administrative expenses in the amount of \$51,797 and \$51,836, respectively.

The Company calculated the estimated fair value of each stock option on the date of grant using the following weighted average assumptions for the years ended December 31, 2018 and 2017:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Expected life of options	5.57	3.00
Expected stock price volatility	47.00%	40.00%
Annual rate of quarterly dividends	0.00%	0.00%
Risk free rate	2.25%	0.86%

The Company estimated the fair value of the options using the Black-Scholes option-pricing model. Expected lives were determined using the simplified method, except non-employee options.

The following table summarized option activity:

	<u>Number of Options</u>	<u>Weighted Avg Exercise Price</u>	<u>Weighted Avg Remaining Years</u>
Outstanding as of December 31, 2016	<u>1,726,200</u>	<u>\$0.22</u>	<u>8.77</u>
Forfeited	(66,530)	0.02	
Granted	248,000	1.13	
Outstanding as of December 31, 2017	<u>1,907,670</u>	<u>0.35</u>	<u>8.05</u>
Forfeited	(144,900)	0.02	
Exercised	(35,000)	0.02	
Granted	505,000	1.25	
Outstanding as of December 31, 2018	<u><u>2,232,770</u></u>	<u><u>0.58</u></u>	<u><u>8.60</u></u>
Outstanding as of December 31, 2018, vested	<u><u>1,140,598</u></u>	<u><u>\$0.32</u></u>	<u><u>8.58</u></u>

Note 15 – Retirement Plan

The Company has a 401(k) Plan (the “Plan”) covering employees who meet eligibility requirements. Employees are eligible to contribute any amount of their earnings, up to the annual federal maximum allowed by law. The employer contributions to the 401(k) plan are determined on a yearly basis at the discretion of Management. The Company contributed approximately \$56,000, \$32,000, \$81,000 and \$53,000 to the Plan during the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017, respectively.

Note 16 – Major Suppliers and Customers

During the year ended December 31, 2018, purchases from three suppliers represented approximately 41% of total vendor purchases. As of December 31, 2018, approximately \$222,000, or 38% of accounts payable was due to these suppliers. As of December 31, 2017, purchases from four suppliers represented approximately 44% of total vendor purchases. As of December 31, 2017, approximately \$512,000, or 54% of accounts payable was due to these suppliers. The loss of one or more of these suppliers would not have a material impact on the Company’s operations.

During the six months ended June 30, 2019, purchases from three suppliers represented approximately 46% of total vendor purchases and approximately \$1,418,000 or 57% of accounts payable was due to these suppliers. The loss of one or more of these suppliers would not have a material impact on the Company's operations.

The Company is not subject to customer concentration as a majority of its revenue is derived from website sales (direct-to-consumer).

Note 17 – Income Taxes

The Company's current tax liability consists of minimum amounts payable of \$800 to the state of California and are included within general and administrative expense on the statements of operations.

The Company's net deferred tax assets at December 31, 2018 and 2017 is approximately \$2,924,000 and \$2,176,000, respectively, which primarily consists of net operating loss carry forwards and various accruals. As of December 31, 2018, and 2017, the Company provided a 100% valuation allowance against the net deferred tax assets, which management could not determine, would more likely than not be realized. During the years ended December 31, 2018 and 2017, the Company valuation allowance increased by approximately \$748,000 and \$399,000, respectively.

At December 31, 2018, the Company had federal net operating loss carry forwards of approximately \$8,945,000 and state net operating loss carry forwards of \$8,945,000. The federal and California net operating losses expire on various dates through 2036.

The difference between the effective tax rate and the stated tax rate is primarily due to a full valuation allowance on the net deferred tax assets.

Federal income tax laws limit a company's ability to utilize certain net operating loss carry forwards in the event of a cumulative change in ownership in excess of 50%, as defined under Internal Revenue Code Section 382. The Company has completed numerous financing transactions that have resulted in changes in the Company's ownership structure. The utilization of net operating loss and tax credit carry forwards may be limited due to these ownership changes.

At December 31, 2017, the applicable federal and state rates used in calculating the deferred tax provision was 21% and 8.84%, respectively. The Tax Cuts and Jobs Act reduced the federal corporate tax rate used in calculating the deferred income tax liability from 35% to 21%, as a result the Company has adjusted its deferred income tax liabilities for this reduction. This resulted in a one-time reduction of approximately \$478,000 to the net deferred tax assets and corresponding valuation for the year ended December 31, 2017.

The Company is subject to tax in the United States ("U.S.") and files tax returns in the U.S. Federal jurisdiction and California state jurisdiction. The Company is subject to U.S. Federal, state and local income tax examinations by tax authorities for all periods starting in 2014. The Company currently is not under examination by any tax authorities.

Note 18 – Commitments and Contingencies

Operating leases – The Company leases its office facility for a monthly rent of approximately \$10,000. Total rent expense for the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018 and 2017 was approximately \$62,604, \$59,904, \$126,000 and \$125,000, respectively. On March 21, 2019, the lease was renewed through March 31, 2020.

Capital leases – In April and August 2015, the Company entered into two leases for vehicles. The leases were considered to be capital leases, thus \$78,156 representing the cost of vehicles, was recorded as an asset. The leases are payable in monthly payments ranging from \$958 to \$988 and have imputed interest rates ranging from 7.99% to 9.79% and are secured by the equipment being leased. The leases expire at dates ranging from March 2019 to July 2019. As of the six months ended June 30, 2019 and the years ended December 31, 2018, and 2017, the balance outstanding was \$980, \$9,436 and \$30,946, respectively.

Warranty – Our product warranties are expensed as incurred. Due to their immateriality we do not maintain a warranty reserve. We continue to monitor our warranty cost and their impact on our business.

Contingencies – As a manufacturer of consumer products, the Company has exposure to California Proposition 65, which regulates substances officially listed by California as causing cancer, birth defects, or other reproductive harm. The regulatory arm of Proposition 65 that relates to the Company prohibits businesses from knowingly exposing individuals to listed substances without providing a clear and reasonable warning. All Companies in California are subject to potential claims based on the content of their products sold. The Company is not currently subject to litigation matters related to the proposition. While there is currently not an accrual recorded for this potential contingency, in the opinion of management, the amount of ultimate loss with respect to these actions will not materially affect the financial position or results of operations of the Company.

The apparel industry is subject to laws and regulations of federal, state and local governments. Management believes that the Company is in compliance with these laws. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future review and interpretation, as well as regulatory actions unknown or asserted at this time.

From time to time, the Company is involved in a variety of legal matters that arise in the normal course of business. Based on information available, the Company evaluates the likelihood of potential outcomes. The Company records the appropriate liability when the amount is deemed probable and reasonably estimable. No allowance for loss or settlement has been recorded at June 30, 2019 and December 31, 2018 and 2017.

In response to the opposition to our application to register the Company’s original icon logo bearing Serial No. 85837045 (the “Logo”), the Trademark Trial and Appeal Board (“TTAB”) determined that the Logo could potentially cause confusion in the marketplace with another mark; and as a result, determined that the U.S. Patent and Trademark Office (“USPTO”) should reject registration of the Logo. The Company filed an appeal to the TTAB decision with the Federal Circuit Court of Appeals, which was ultimately granted after our filing of a motion for reconsideration. On February 20, 2018, the Company filed its principal brief with the Federal Circuit Court of Appeals and on April 16, 2018 filed the reply to the opposer’s answer to our brief. Oral arguments were held at the United States Court of Appeals for the Federal Circuit on January 7, 2019. On August 1, 2019 the Federal Circuit Court of Appeals affirmed the TTAB ruling. Although the Company no longer utilizes this icon logo mark, the Company and its attorneys are evaluating a petition for a rehearing, rehearing en banc, or filing a writ of certiorari in the U.S. Supreme Court. The Company remains committed to aggressively defend all of its intellectual property.

The opposing party, Hybrid Athletics, LLC (“HA”), has also filed a civil action in the U.S. District Court for the District of Connecticut, seeking damages and alleging, among other claims, federal and common law trademark infringement, false designation of origin and unfair competition, unfair competition under the Connecticut Unfair Trade Practices Act, and unjust enrichment. A motion to dismiss the action as to certain individual defendants on the grounds that the statute of limitations has lapsed, or, in the alternative, to transfer venue to the Federal District Court in California, remains pending.

On May 10, 2019, the Company also filed a motion for leave to file an amended answer and cross-complaint, which will seek declaratory judgment of our ownership in its trademarks, and its non-infringement of the HA marks at issue, as well as cancellation of HA’s marks on various grounds, false advertising, commercial disparagement and defamation, violation of the Connecticut Unfair Trade Practices Act, and tortious interference with business expectancies. This cross-complaint, in part, incorporates the arguments made in the Company’s petition for cancellation of HA’s registered word mark in International Class 025 and bearing Registration No. 4,609,469, which was filed with the TTAB on July 13, 2018 but has been suspended pending resolution of the U.S. District Court matter.

The Company’s motion to dismiss and motion for leave have yet to be ruled upon. Preliminary discovery with respect to the U.S. District Court case commenced in March 2018 and is expected to continue through early 2020; unless the case is resolved through motions or settlement prior to such time. However, the majority of discovery relevant to the claims and defenses already at issue has been completed. As such, management estimates the potential loss, once the strength of our counterclaims is measured against the weakness in HA’s original claims, would not be material to the Company’s continued operations.

The Company carries insurance to cover such litigation costs to defend itself from suits of this nature. The Company tendered the U.S. District Court claims to its carrier within days of its commencement of the original proceeding. Although the carrier indicated an initial willingness to settle, the Company was not able to come to a negotiated resolution that it deemed fair. As a result, the Company filed a complaint May 16, 2019, in the San Diego County District Court against the insurance carrier, seeking a declaratory judgment regarding the carrier’s duty to defend, as well as claims for breach of contract, specific performance and bad faith.

The Company entered into an engagement letter calling for the execution of an underwriting agreement for an anticipated initial public offering. The Company agreed to grant the underwriters an option, exercisable within 45 days after the closing of the anticipated offering, to acquire up to an additional 15% of the total number of shares to be offered in the anticipated offering on the same terms as the other shares publicly offered. The shares will be purchased at a discount of 7% of the public offering price. In addition, the Company agreed to reimburse the underwriters for accountable legal expenses incurred by it in connection with this transaction in the amount of \$125,000. As of December 31, 2018, the Company has paid \$70,000 for which has been treated as deferred offering costs. In addition, the Company agreed to reimburse the underwriters for 1% of the gross proceeds from this offering in non-accountable expenses. As of December 31, 2018, no options have been granted under the agreement.

Note 19 – Subsequent Events

IPO Bridge Notes

Subsequent to June 30, 2019, the Company issued \$500,000 of additional promissory notes to its senior secured lender (Black Oak) as part of a reduction of its senior note from \$5,375,000 to \$5,000,000 and an additional funding of \$125,000 under the terms of the IPO Bridge Notes. The new maturity date is December 31, 2020 and the terms of repayment upon the IPO are (a) \$1 million of principal balance of the loans if gross proceeds of the IPO are less than \$20 million; (b) \$2 million of principal balance of the loans if gross proceeds of the IPO are at least \$20 million but less than \$25 million; and (c) all of the loans if gross proceeds of the IPO are at least \$25 million. The Company also received an additional \$600,000 of promissory notes from other investors. The \$1,100,000 of IPO Bridge Notes received subsequent June 30, 2019 have elected to convert at the IPO. See Note 9- IPO Bridge Notes.

Debt Conversions

Subsequent to June 30, 2019, the Company offered its debt holders the opportunity to convert their existing debt (principal only) at an IPO and listing on a major exchange at a 20% to the IPO share price. As of August 23, 2019, debt holders representing \$2,339,000 of aggregate debt, including \$684,000 of Class A Bonds and \$1,100,000 of IPO Bridge Notes received subsequent June 30, 2019, have elected to convert at the IPO.

Promissory Notes

On August 20, 2019, the Company received \$300,000 under a promissory note from a related party, Steelpoint Co-Investment Fund (James Caccavo). The maturity date is the earlier of the Company IPO or December 31, 2019. Interest accrues on the loan amount at an annual rate of 20% per annum calculated on a 365-day basis. If the repayment date is within (30 days of the maturity date, the entire principal sum, less any payments made hereunder, shall become due and payable, unless otherwise mutually agreed upon by both the Company and Steelpoint. This promissory note will not convert at the IPO.

Reorganization

Immediately prior to the effective date of the Company's anticipated public offering it will effect a reorganization (the "Reorganization") pursuant to which it will (i) amend and restate its certificate of incorporation and consummate a share exchange to effect the authorization of Class C Common Stock, which will be identical in all respects to the Company's currently outstanding Class A Common Stock but are entitled to 10 votes per share and are convertible at any time on a one-for-one basis into shares of Class A Common Stock, (ii) reclassify all shares of Class A Common Stock owned by Ron L. Wilson, II, the Company's President and Chief Executive Officer, and Matthew Paulson, the Company's Vice President of Business (Messrs. Wilson and Paulson are referred to collectively as the "Founders") into shares of Class C Common Stock, (iii) convert all outstanding shares of the Company's preferred stock and all outstanding shares of the Company's Class B Common Stock into shares of Class A Common Stock, and (iv) effect a reverse stock split (assuming an expected aggregate of 3,496,081 of Class A Common Stock and 1,364,000 shares of Class C Common Stock to be outstanding immediately prior to this offering, the current anticipated reverse stock split will be approximately 1-for-5). The effects of such have not been reflected within these financial statements.

The Company has evaluated subsequent events that occurred after June 30, 2019 through the issuance date of these financial statements. There have been no other events or transactions during this time that would have a material effect on these financial statements, other than those disclosed above.

GRACEDBYGRIT, INC.
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 and 2016
AND
AS OF AND FOR THE THREE MONTHS ENDED
MARCH 31, 2018 and 2017
(UNAUDITED)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of HYLETE, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of GRACEDBYGRIT, Inc. (the “Company”) as of December 31, 2017 and 2016, the related statements of operations, stockholders’ deficit, and cash flows, for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and subsequently sold all of its revenue producing assets, which raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ dbbmckennon

We have served as the Company's auditor since 2019.

San Diego, California

April 17, 2019

GRACEDBYGRIT, INC.
BALANCE SHEETS
AT MARCH 31, 2018, DECEMBER 31, 2017 AND 2016

	<u>March 31,</u> <u>2018</u> (unaudited)	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets			
Current assets:			
Cash	\$ 33,613	\$ 44,136	\$ 38,762
Accounts receivable	6,218	33,352	7,576
Inventory	151,347	189,968	278,267
Prepays and other current assets	2,652	9,916	11,782
Current assets	<u>193,830</u>	<u>277,372</u>	<u>336,387</u>
Property and equipment, net	2,156	11,961	69,021
Other assets	7,352	7,352	8,352
Total assets	<u>\$ 203,338</u>	<u>\$ 296,685</u>	<u>\$ 413,760</u>
Liabilities and Stockholders' Deficit			
Current liabilities:			
Accounts payable	\$ 60,843	\$ 231,446	\$ 198,452
Accrued liabilities	27,818	24,184	29,427
Line of credit	—	750,000	632,292
Promissory note and accrued interest- related party	1,737,817	632,553	—
Convertible notes payable and accrued interest	154,202	152,327	—
Current liabilities	<u>1,980,680</u>	<u>1,790,510</u>	<u>860,171</u>
Commitments & Contingencies (Note 5)			
Stockholders' Deficit:			
Series A Preferred Stock, par value \$0.0001 per Share, 16,226,000 shares authorized, 16,226,000 shares issued and outstanding at March 31, 2018, December 31, 2017 and 2016	649,040	649,040	649,040
Series B Preferred Stock, par value \$0.0001 per Share, 42,152,355 shares authorized, 10,902,354 shares issued and outstanding at March 31, 2018, December 31, 2017 and 2016	1,744,376	1,744,376	1,744,376
Common Stock, Class A, par value \$0.0001 per Share, 75,000,000 shares authorized, 13,337,000, 13,337,000, and 13,327,000 shares issued and outstanding at March 31, 2018, December 31, 2017 and 2016, respectively	1,334	1,334	1,333
Common Stock, Class B, par value \$0.0001 per Share, 15,000,000 shares authorized, 1,439,425 shares issued and outstanding at March 31, 2018 and December 31, 2017	144	144	—
Additional paid in capital	275,099	273,618	34,724
Accumulated deficit	(4,447,335)	(4,162,337)	(2,875,884)
Total Stockholders' Deficit	<u>(1,777,342)</u>	<u>(1,493,825)</u>	<u>(446,411)</u>
Total liabilities and Stockholders' Deficit	<u>\$ 203,338</u>	<u>\$ 296,685</u>	<u>\$ 413,760</u>

The accompanying notes are an integral part of these financial statements

GRACEDBYGRIT, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017
AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>March 31,</u> <u>2018</u> <u>(unaudited)</u>	<u>March 31,</u> <u>2017</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Sales	\$ 99,229	\$ 196,736	\$ 727,163	\$ 741,720
Cost of goods sold	<u>67,077</u>	<u>100,949</u>	<u>474,256</u>	<u>444,708</u>
Gross profit	32,152	95,787	252,907	297,012
Operating expenses:				
Research and development	5,870	9,140	22,973	15,740
Sales and marketing	174,839	209,416	821,564	806,908
General and administrative	131,579	138,973	639,403	614,505
Total operating expenses	<u>312,288</u>	<u>357,529</u>	<u>1,483,940</u>	<u>1,437,153</u>
Operating loss	(280,136)	(261,742)	(1,231,033)	(1,140,141)
Other (income) expense:				
Interest expense	14,200	12,045	56,573	35,573
Other (income) expense, net	<u>(10,138)</u>	<u>(1,391)</u>	<u>(1,953)</u>	<u>(48)</u>
Total other expense	4,062	10,654	54,620	35,525
Loss before provision for income taxes	(284,198)	(272,396)	(1,285,653)	(1,175,666)
Provision for income taxes	800	800	800	800
Net Loss	<u>\$ (284,998)</u>	<u>\$ (273,196)</u>	<u>\$ (1,286,453)</u>	<u>\$ (1,176,466)</u>
Loss per common share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding - basic and diluted	<u>14,776,425</u>	<u>13,327,000</u>	<u>13,569,821</u>	<u>13,301,444</u>

The accompanying notes are an integral part of these financial statements

GRACEDBYGRIT, INC.
STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

	Series A Preferred Stock		Series B Preferred Stock		Common Stock, Class A		Common Stock, Class B		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance - December 31, 2015	<u>16,226,000</u>	<u>\$ 649,040</u>	<u>—</u>	<u>—</u>	<u>13,127,000</u>	<u>\$ 1,333</u>	<u>—</u>	<u>—</u>	<u>\$ 11,656</u>	<u>\$ (1,699,418)</u>	<u>\$ (1,037,389)</u>
Issuance of Series B Preferred Stock	—	—	10,902,354	1,744,376	—	—	—	—	—	—	1,744,376
Stock based compensation	—	—	—	—	200,000	—	—	—	23,068	—	23,068
Net loss	—	—	—	—	—	—	—	—	—	(1,176,466)	(1,176,466)
Balance - December 31, 2016	<u>16,226,000</u>	<u>649,040</u>	<u>10,902,354</u>	<u>1,744,376</u>	<u>13,327,000</u>	<u>1,333</u>	<u>—</u>	<u>—</u>	<u>34,724</u>	<u>(2,875,884)</u>	<u>(446,411)</u>
Exercise of Class A stock options	—	—	—	—	10,000	1	—	—	399	—	400
Issuance of Class B Common Stock for cash	—	—	—	—	—	—	1,439,425	144	230,164	—	230,308
Stock based compensation	—	—	—	—	—	—	—	—	8,331	—	8,331
Net loss	—	—	—	—	—	—	—	—	—	(1,286,453)	(1,286,453)
Balance - December 31, 2017	<u>16,226,000</u>	<u>649,040</u>	<u>10,902,354</u>	<u>1,744,376</u>	<u>13,337,000</u>	<u>1,334</u>	<u>1,439,425</u>	<u>144</u>	<u>273,618</u>	<u>(4,162,337)</u>	<u>(1,493,825)</u>
Stock based compensation	—	—	—	—	—	—	—	—	1,481	—	1,481
Net loss	—	—	—	—	—	—	—	—	—	(284,998)	(284,998)
Balance - March 31, 2018 (unaudited)	<u>16,226,000</u>	<u>\$ 649,040</u>	<u>10,902,354</u>	<u>\$ 1,744,376</u>	<u>13,337,000</u>	<u>\$ 1,334</u>	<u>1,439,425</u>	<u>\$ 144</u>	<u>\$ 275,099</u>	<u>\$ (4,447,335)</u>	<u>\$ (1,777,342)</u>

The accompanying notes are an integral part of these financial statements

GRACEDBYGRIT, INC.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017
AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Three months ended March 31, 2018 <u>(unaudited)</u>	Three months ended March 31, 2017 <u>(unaudited)</u>	December 31, 2017 <u></u>	December 31 2016 <u></u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (284,998)	\$ (273,196)	\$ (1,286,453)	\$ (1,176,466)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation expense	9,805	6,109	57,060	56,567
Stock-based compensation	1,481	2,082	8,331	23,068
Changes in operating assets and liabilities:				
Accounts receivable	27,134	1,048	(25,776)	(4,936)
Inventories	38,621	(63,044)	88,299	249,283
Prepaid expenses and other current assets	7,264	8,704	1,866	(11,782)
Accounts payable	(170,603)	63,195	32,994	35,060
Accrued liabilities	10,773	2,161	4,637	(40,158)
Net cash used in operating activities	<u>(360,523)</u>	<u>(252,941)</u>	<u>(1,119,042)</u>	<u>(869,364)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Other assets	-	-	1,000	(1,000)
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>(1,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from convertible notes payable	-	-	150,000	(850,000)
Proceeds from promissory note payable - related party	1,100,000	200,000	625,000	-
Net proceeds (payments) on line of credit	(750,000)	117,708	117,708	(120,552)
Proceeds from sale of Series B Preferred Stock	-	-	-	1,744,376
Proceeds from sale of Reg CF Common Stock, Class B	-	-	230,308	-
Proceeds from exercise of stock options	-	-	400	-
Net cash provided by financing activities	<u>350,000</u>	<u>317,708</u>	<u>1,123,416</u>	<u>773,824</u>
Increase (decrease) in cash and cash equivalents	(10,523)	64,767	5,374	(96,540)
Cash and cash equivalents, beginning of period	44,136	38,761	38,762	135,302
Cash and cash equivalents, end of period	<u>\$ 33,613</u>	<u>\$ 103,528</u>	<u>\$ 44,136</u>	<u>\$ 38,762</u>
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	\$ 7,057	\$ 8,589	\$ 40,208	\$ 17,534
Cash paid for taxes	\$ 800	\$ 800	\$ 800	\$ 800
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Convertible notes payable - related party and accrued interest converted into Series B preferred stock	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 894,367</u>

The accompanying notes are an integral part of these financial statements

GRACEDBYGRIT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017 (UNAUDITED)
AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 – NATURE OF OPERATIONS

GRACEDBYGRIT, Inc. was formed on January 18, 2013 (“Inception”) in the State of Delaware. The financial statements of **GRACEDBYGRIT, Inc.** (which may be referred to as the “Company”, “we,” “us,” or “our”) are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Company’s headquarters are located in Solana Beach, California.

The Company designed, manufactured and sold premium women’s athletic apparel direct to consumers mainly in the United States through our website, store and fit shops. All products were made with luxurious Italian fabrics. The colors are vibrant, the pieces are designed to maximize athletic performance while looking and feeling great and are durable lasting many years of wash and wear. All products have sun protection built into the technical fiber and the styles incorporate safety elements: a whistle and phone pocket. Many styles are designed for land and sea, drying quickly after water sports for wear on land.

On June 1, 2018, **GRACEDBYGRIT, Inc.** sold its intellectual property, designs, inventory and fixed assets to HYLETE, Inc., a creator of premium performance apparel and accessories. See subsequent events, Note 9 for additional information.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Managements’ Plans

Revenues have not been sufficient to fund operations. The Company successfully completed a Regulation Crowdfunding sale of Class B non-voting Common Stock to raise additional capital to fund operations and raised \$230,308 during the campaign that ended October 31, 2017. In addition, the Company extended the current Series B Preferred Stock offering to raise funds into 2018. As part of the Series B Preferred stock offering the Company received \$150,000 in convertible loans in the months of August 2017 and October 2017. The Company has received cash infusions in the form of promissory notes from our primary investor. During 2017 and through April 30, 2018, the Company's majority shareholder provided loans totaling \$1,035,000 for which the proceeds were primarily used for inventory, operations and the Regulation CF filing. In February 2018, the Company's majority shareholder loaned the Company \$750,000 to pay off the Company’s Line of Credit. Currently, the Company does not have any commitments or assurances for additional capital, other than disclosed above, nor can the Company provide assurance that such financing will be available to it on favorable terms, or at all. Thus, this raises substantial doubt regarding the Company’s ability to continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amount of expenses during the reporting periods. Actual results could materially differ from these estimates. It is reasonably possible that changes in estimates will occur in the near term.

Unaudited Interim Financial Information

We have prepared the accompanying interim financial statements as of March 31, 2018 and the three months ended March 31, 2018 and 2017 pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our balance sheet, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for 2018 due to seasonal and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. These financial statements should be read in conjunction with the audited financial statements and accompanying notes included herein.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability. There are three levels of inputs that may be used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active market

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair-value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2018, December 31, 2017 and 2016. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values.

Cash and Cash Equivalents

For purpose of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and are non-interest-bearing. Accounts receivable primarily consists of trade receivables. The Company maintains an allowance for doubtful accounts to reserve for potential uncollectible receivables. The Company makes judgments as to its ability to collect outstanding receivables and records allowances against receivables if collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding receivable balances. The Company's estimates of these allowances ultimately may not be reflective of actual collection results. As of March 31, 2018, December 31, 2017 and 2016, no reserve was needed.

Inventories

Inventories consist of raw materials on hand, including fabric, zippers and thread, goods in production, and finished good products ready for sale. Inventories are recorded using first in, first out ("FIFO").

Property and Equipment

Property and equipment are stated at cost. The Company's fixed assets are depreciated using the straight-line method over the estimated useful life of three (3) to six (6) years. Leasehold improvements are depreciated over the shorter of the useful life or term of the lease. Maintenance and repairs are charged to operations as incurred. Significant renewals and betterments are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Impairment of Long-Lived Assets

The long-lived assets held and used by the Company are reviewed for impairment no less frequently than annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability is performed. There can be no assurance, however, that market conditions will not change or demand for the Company's products and services will continue, which could result in impairment of long-lived assets in the future.

Accounting for Preferred Stock

ASC 480, Distinguishing Liabilities from Equity, includes standards for how an issuer of equity (including equity shares issued by consolidated entities) classifies and measures on its balance sheet certain financial instruments with characteristics of both liabilities and equity.

Management is required to determine the presentation for the preferred stock as a result of the redemption and conversion provisions, among other provisions in the agreement. Specifically, management is required to determine whether the embedded conversion feature in the preferred stock is clearly and closely related to the host instrument, and whether the bifurcation of the conversion feature is required and whether the conversion feature should be accounted for as a derivative instrument. If the host instrument and conversion feature are determined to be clearly and closely related (both more akin to equity), derivative liability accounting under ASC 815, Derivatives and Hedging, is not required. Management determined that the host contract of the preferred stock is more akin to equity, and accordingly, the Company does not require derivative liability accounting. In addition, the Company has presented preferred stock within stockholders' equity due to the exemptions allowed for private companies.

Revenue Recognition

The Company recognizes revenue related to sales of its products and services when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the customer, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

Revenue is recognized from the Company's in-store sales when the customer receives and pays for the merchandise at the register. For e-commerce sales, the Company recognizes revenue at the time the merchandise is shipped from our facility. Customers typically receive goods within four days of shipment. Amounts related to shipping and handling that are billed to customers are reflected in revenues, and the related costs are reflected in sales and marketing expense. Shipping and handling costs included in sales and marketing expense were \$5,798 and \$7,777 for the three months ended March 31, 2018 and 2017, respectively, and \$43,841 and \$42,231 for the years ended December 31, 2017 and 2016, respectively. Taxes collected from customers and remitted to governmental authorities are presented in the statements of operations on a net basis. In addition, the Company records revenues net of an estimated sales returns allowance. As of March 31, 2018, December 31, 2017 and 2016, the Company sales return allowance was not material to the financial statements.

Cost of Goods Sold

The cost of manufactured merchandise, which includes acquisition and production costs including raw material and labor, as applicable; the cost of purchased finished goods merchandise from wholesalers; the cost incurred to deliver inventory, including raw materials and finished goods to the Company's distribution center including in-bound freight, non-refundable taxes, duty and other landing costs, and fulfillment costs.

Research and Development

We incur research and development costs during the process of developing our products and styles. Our research and development costs consist primarily of materials and services. We expense these costs as incurred.

Advertising

The Company expenses advertising costs as incurred. Advertising expenses were approximately \$38,000 and \$23,000, for the three months ended March 31, 2018 and 2017, respectively, and \$161,000 and \$53,000 for the years ended December 31, 2017 and 2016, respectively.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with ASC 718, Compensation- Stock Compensation. The Company accounts for all stock-based compensation using a fair-value method on the grant date and recognizes the fair value of each award as an expense over the requisite vesting period.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505 Equity. The fair value of the option issued or committed to be issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance is contracted. The fair value of the equity instrument is charged directly to stock-based compensation expense over the requisite service period.

Net Income (Loss) per Share

Basic net loss per share is calculated by dividing the net loss for the period by the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing income for the period by the weighted-average number of common shares outstanding during the period, increased by potentially dilutive common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include stock options and warrants granted, convertible debt and convertible preferred stock.

Common stock equivalents are included in the diluted income per share calculation only when option exercise prices are lower than the average market price of the common shares for the period presented. Options, warrants, and convertible debt, were not included in the calculation of net loss per common share for the three months ended March 31, 2018 and 2017 and the years ended December 31, 2017 and 2016, respectively, because their effect would be anti-dilutive.

Income Taxes

The Company applies ASC 740 Income Taxes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their consolidated financial statement reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax expense for the period, if any, and the change during the period in deferred tax assets and liabilities.

ASC 740 also provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position is recognized only if it is "more likely than not" that the position is sustainable upon examination by the relevant taxing authority based on its technical merit.

Concentrations of Credit Risk

The Company maintains its cash with a major financial institution located in the United States of America which it believes to be creditworthy. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the Company may maintain balances in excess of the federally insured limits.

During the three months ended March 31, 2018 and 2017, purchases from two and three vendors represented 75% and 71% of total purchases, respectively. During the years ended December 31, 2017 and 2016, purchases from three and four vendors represented 75% and 73% of total purchases respectively. The loss of one or more of these vendors would not have a significant impact on the Company's operations.

Recently issued accounting pronouncements

In 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. Under ASU 2014-09, revenue is recognized when (or as) each performance obligation is satisfied by the entity, which is defined as when control of the underlying goods or services is transferred to the customer. The pronouncement is effective for the Company for annual periods beginning after December 15, 2018, and as such, it will not be applicable until January 1, 2019. The Company doesn't expect this pronouncement to have an impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. For public business entities, the standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all entities. The Company is currently evaluating the effect of this accounting pronouncement. The Company doesn't expect this pronouncement to have an impact on its financial statements.

NOTE 3 – DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Inventory consisted of the following at March 31, 2018, December 31, 2017 and 2016:

	March 31, 2018 <u>(unaudited)</u>	December 31, 2017	December 31, 2016
Finished goods	\$ 95,559	\$ 102,382	\$ 171,445
Work in progress	3,977	10,018	42,767
Raw materials	51,811	77,568	64,055
	<u>\$ 151,347</u>	<u>\$ 189,968</u>	<u>\$ 278,267</u>

Property and equipment consisted of the following at March 31, 2018, December 31, 2017 and 2016:

	March 31, 2018 <u>(unaudited)</u>	December 31, 2017	December 31, 2016
Leasehold improvements	\$ 129,788	\$ 129,789	\$ 129,789
Other	12,412	12,412	12,412
	<u>142,200</u>	<u>142,201</u>	<u>142,201</u>
Less - accumulated depreciation	(140,044)	(130,240)	(73,180)
Total	<u>\$ 2,156</u>	<u>\$ 11,961</u>	<u>\$ 69,021</u>

Depreciation expense for the three months ended March 31, 2018 and 2017 was \$9,805 and \$6,109, respectively. Depreciation expense for the years ended December 31, 2017 and 2016 was \$57,060 and \$56,567, respectively.

NOTE 4 – NOTES PAYABLE AND LINE OF CREDIT

Related Party Notes Payable

Since Inception, the Company received capital from the Company's majority shareholder and related entities for working capital for which were memorialized as notes payable. The notes payable incur interest at 2% per annum with principal and interest due two years from the date of the note payable. Default provisions provide for increase of 8% per annum. If the Company raises additional equity of (or greater than) \$5,000,000, the notes payable and any accrued but unpaid interest must be repaid upon the Company's receipt of additional equity. The notes payable do not have prepayment penalties. Proceeds received from notes payable during the three months ended March 31, 2018 was \$1,100,000. \$350,000 of these proceeds was primarily used for inventory and operations. On February 23, 2018, \$750,000 was used to pay off the Company's Plaza Bank Line of Credit. Therefore, the Company no longer has a Line of Credit as of the issuance date of these financial statements. Proceeds received from notes payable during the years ended December 31, 2017 and 2016 were \$625,000 and \$0, respectively. As of March 31, 2018, total amounts payable in connection with the note payable were \$1,737,817, which included accrued interest of \$12,817.

On February 23, 2016, principal of \$850,000 and accrued interest of \$44,377 was converted into 5,589,854 shares of Series B Preferred Stock. The conversion price was that of other shares sold within the Series B Preferred stock offering as discussed below.

See Note 9, for a subsequent borrowing from the majority shareholder.

Convertible Notes Payable

In August and October 2017, the Company entered into three convertible notes payable for a total of \$150,000 for which the proceeds were used for operations. The convertible notes payable incur interest at 5% per annum and are due one year after issuance. The convertible notes payable will automatically convert into the next qualified financing over \$500,000. If the qualified financing isn't completed prior to the maturity date, the convertible notes payable are automatically converted into Series B Preferred Stock at a price of \$0.16 per share. A beneficial conversion feature wasn't recorded in connection with the transaction. Subsequent to March 31, 2018, the convertible notes payable were automatically converted into 984,375 shares of Series B Preferred Stock. Accrued interest at March 31, 2018 and December 31, 2017 was \$4,202 and \$2,327, respectively.

Line of Credit

In 2014, the Company initially entered into a \$750,000 revolving line of credit from a bank for which is renewed on an annual basis. Under the terms of the agreement, interest is incurred at the bank's prime plus 1.0% (4.5% and 4.5% at December 31, 2017 and 2016, respectively). On March 3, 2017, the line of credit was extended to March 5, 2018. The line of credit is reflected as a current liability on the accompanying December 31, 2017 and 2016 balance sheets. The line of credit was secured by primarily all of the Company's assets and guaranteed by the Company's majority shareholders. In addition, the line of credit had various financial and non-financial covenants. As of December 31, 2017, and 2016, the Company was in compliance with these covenants. In February 2018, the Company's majority shareholder loaned the Company \$750,000 to pay off the Line of Credit.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The Company had obligations for its Solana Beach retail store location and office space lease until August 31, 2018.

Rent expense for the three months ended March 31, 2018 and 2017 was \$21,071 and \$22,186, and for years ended December 31, 2017 and 2016 was \$88,354 and \$80,563, respectively.

NOTE 6 – STOCKHOLDERS' DEFICIT

Preferred Stock Designations

Series A Preferred Stock

The Company has authorized and issued 16,226,000 shares of Series A Preferred Stock ("Series A") with a par value of \$0.0001 on May 14, 2014. Original proceeds under this offering were \$649,040, which consisted of a \$632,000 convertible note and \$17,040 of accrued interest. The Series A has liquidation and redemption priority over common stock. The Series A votes on an as converted basis. The Series A is convertible by the holder at any time after issuance on a one to one basis for common stock. The Series A is automatically converted into common stock upon a Qualified Public Offering which nets greater than \$25 million in proceeds or upon a written consent of the holders of a majority of the Preferred Stock of the Company. In addition, the Series A has various anti-dilution provisions which take into account future sales and issuances of common stock and other dilutive instruments. The Series A receive dividends at 8.75% per annum, or \$0.0032 per share, and are only accrued upon the event of a redemption. As of March 31, 2018, and December 31, 2017, the liquidation value of the Series A was \$837,813.

Series B Preferred Stock

The Company has authorized 42,152,355 shares and issued 10,902,354 shares of Series B Preferred Stock ("Series B") with a par value of \$0.0001 on February 23, 2016. Original proceeds under this offering were \$1,744,377, which consisted of a \$850,000 convertible note with \$44,377 of accrued interest and \$850,000 cash, \$150,000 from the Series A shareholder and \$700,000 from new unrelated investors. The Series B have liquidation and redemption priority over the Series A and common stock. The Series B votes on an as converted basis. The Series B is convertible by the holder at any time after issuance on a one to one basis for common stock. The Series B is automatically converted into common stock upon a Qualified Public Offering which nets greater than \$25 million in proceeds or upon a written consent of the holders of a majority of the Preferred Stock of the Company. In addition, the Series B has various anti-dilution provisions which take into account future sales and issuances of common stock and other dilutive instruments. The Series B receive dividends at 8.0% per annum, or \$0.0128 per share, and are only accrued upon the event of a redemption. As of March 31, 2018, and December 31, 2017, the liquidation value of the Series B was \$2,003,214. See Note 4 for additional issuances subsequent to March 31, 2018.

Common Stock

On June 20, 2017, the Company's Board of Directors approved an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock to 90,000,000 and create two classes of common stock. Class A voting, 75,000,000 shares and Class B non-voting 15,000,000 shares. The Company filed the amendment with the State of Delaware on June 20, 2017. The common stock Class A and Class B are fully described below and have been reflected as being authorized for both periods for financial statement presentation purposes.

Class A Common Stock

On February 20, 2017, the Company authorized the increase to 60,000,000 shares of Class A common stock. As of March 31, 2018, December 31, 2017 and 2016 the Company has issued and outstanding 13,337,000, 13,337,000 and 13,327,000, respectively, shares of Class A common stock with par value of \$0.0001. Class A common stock has one vote for each Class A common stock share held.

Class B Common Stock

As of As of March 31, 2018, December 31, 2017 and 2016 the Company has issued and outstanding 1,439,425, 1,439,425 and 0, respectively, shares of Class B common stock with par value of \$0.0001. During the year ended December 31, 2017, the Company received net proceeds of \$230,309. Class B Common Stock has no voting rights.

Restricted Stock Units

In May 2014 and February 2016, the Company issued 1,125,000 and 200,000 shares of common stock restricted stock awards to the Company's Chief Executive Officer in lieu of compensation, respectively. The restricted stock units vested over periods ranging from 11 – 20 months. The Company determined the fair market value of restricted stock units on the grant date and expensed over the vesting period for which is also the service period. During the years ended December 31, 2017 and 2016, the Company expensed \$0 and \$8,000, respectively, as compensation expense included within general and administrative expenses on the accompanying statements of operations. As of December 31, 2016, all restricted stock grants were vested and no additional compensation is required.

Warrants

On February 22, 2013, a warrant to purchase 396,000 shares of common stock was issued in connection with a related party note payable. The warrant vested immediately, is exercisable at \$0.01 per share expiring on February 12, 2023.

Stock Options

In May 2014, our Board of Directors adopted the 2014 Equity Incentive Plan of **GRACEDBYGRIT** (the "2014 Plan"). The 2014 Plan provides for the grant of proprietary interest in the Company to officers, employees, directors, consultants, and other key persons. Up to 2,197,000 shares of our common stock may be issued pursuant to awards granted under the 2014 Plan. The 2014 Plan is administered by our Board of Directors and expires ten years after the grant date, unless terminated earlier by the Board. As of December 31, 2017, there are 300,000 shares remaining in the 2014 Plan stock pool.

Option activity for the year ended December 31, 2017 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Life Remaining
Balance, December 31, 2016	459,000	\$ 0.02	8.01
Granted	125,000	0.08	9.81
Exercised	(10,000)	0.04	–
Expired	–	–	–
Balance, December 31, 2017	<u>574,000</u>	<u>\$ 0.04</u>	<u>8.40</u>
Balance, December 31, 2017 - Vested	<u>422,000</u>	<u>\$ 0.02</u>	<u>7.17</u>

The total grant date fair value of stock options vested during the years ended December 31, 2017 and 2016 was not material. 125,000 options were granted and 10,000 options were exercised during the year ended December 31, 2017. No options have been granted or exercised subsequent to December 31, 2017.

Since the Company stock is not publicly traded, the Company determined the expected volatility based on price fluctuations of comparable public companies. In addition, the fair market value of the Company's common stock in 2017 was based upon the expected sales price in connection with the Company's Regulation CF campaign.

The fair value of each option award is estimated using the Black-Scholes valuation model. Assumptions used in calculating the fair value during the year ended December 31, 2016 were as follows: \$0.16 fair market value of common stock; 10.0 year life; 20.0% volatility; 1.5% treasury rate and no dividends. During the three months ended March 31, 2018 and March 2017 compensation expense of \$2,082 and \$1,481, respectively, was recorded in general and administrative. During the years ended December 31, 2017 and December 31, 2016, compensation expense of \$8,331 and \$7,068 respectively was recorded in general and administrative. As of March 31, 2018, future compensation expense of \$15,232 is expected to be recorded during the years ending December 31, 2018 to 2020.

NOTE 7 – INCOME TAXES

The following table presents the current and estimated deferred tax provision for federal and state income taxes for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Current:		
Federal	\$ –	\$ –
State	800	800
	<u>800</u>	<u>800</u>
Deferred		
Federal	103,238	(390,229)
State	(73,856)	(67,011)
	<u>29,382</u>	<u>(457,240)</u>
Valuation allowance	(29,382)	457,240
Total	<u>\$ 800</u>	<u>\$ 800</u>

The Company's net deferred tax assets at December 31, 2017 and 2016 is approximately \$1,101,000 and \$1,098,000, respectively, which primarily consists of net operating loss carry forwards and various accruals. As of December 31, 2017, and 2016, the Company provided a 100% valuation allowance against the net deferred tax assets, which management could not determine, would more likely than not be realized. During the years ended December 31, 2017 and 2016, the Company valuation allowance decreased by approximately \$29,000 and increased approximately \$457,000, respectively.

At December 31, 2017, the Company had net operating loss carry forwards of approximately \$3,731,000 that may be offset against future taxable income through 2033. The difference between the Company's tax rate and the statutory rate is due to a full valuation allowance on the deferred tax assets.

At December 31, 2017, the applicable federal and state rates used in calculating the deferred tax provision was 21% and 8.84%, respectively. The Tax Cuts and Jobs Act reduced the federal corporate tax rate used in calculating the deferred income tax liability from 35% to 21%, as a result the Company has adjusted its deferred income tax liabilities for this reduction. This resulted in a one-time reduction of approximately \$369,000 to the net deferred tax assets and corresponding valuation for the year ended December 31, 2017.

The Company is subject to tax in the United States ("U.S.") and files tax returns in the U.S. Federal jurisdiction and California state jurisdiction. The Company is subject to U.S. Federal, state and local income tax examinations by tax authorities for all periods starting in 2014. The Company currently is not under examination by any tax authorities.

NOTE 8 – RELATED PARTY TRANSACTIONS

See Notes 4, 6 and 9 for disclosure of related party transactions.

Of the 13,337,000 shares of Class A voting common stock outstanding related parties own 99%. In addition, related parties make up 100% of the holders of Series A Preferred Stock and 6,527,354 or 60% of the 10,902,354 shares of outstanding Series B Preferred Stock.

NOTE 9 – SUBSEQUENT EVENTS

Related Party Notes Payable

Subsequent to March 31, 2018, the Company received additional cash infusions from the Company's related party majority shareholder. Total of all promissory notes payable to the Company's majority shareholder including accrued interest totals \$1,863,625 as of the issuance date of these financial statements. Currently all promissory notes payable to the Company's related party majority shareholder incur interest at 2.0% per annum with principal and interest due two years from the date of the note payable. Default provisions provide for increase of 8% per annum. If the company raises additional equity of (or greater than) \$5,000,000, Five million dollars and no cents, the Notes and any accrued but unpaid interest must be repaid upon the Company's receipt of additional equity. These Notes do not have prepayment penalties.

On June 1, 2018, the Company sold all inventory, leasehold improvements, furniture, fixtures and equipment to HYLETE, a creator of premium performance apparel and accessories that is mainly sold online at www.hylete.com. In addition, HYLETE assumed the lease relieving the Company from its lease commitment for the period June 1, 2018 to August 31, 2018. Payment for the Company's assets was made by HYLETE in the form of 789,875 shares of HYLETE Class B non-voting Common Stock.

During 2018, Convertible Note debts automatically converted into 984,375 shares of Series B Preferred Stock as of each note's maturity date, at a per share price equal to \$0.16. Total outstanding Convertible Note debt at maturity including accrued interest was \$157,500 and converted into 984,375 shares thereby increasing the number of Series B Preferred Stock from 10,902,354 shares issued or outstanding on December 31, 2017, to 11,886,729 shares on December 31, 2018.

The Company has evaluated subsequent events that occurred after March 31, 2018 through the issuance date of these financial statements. There have been no other events or transactions during this time that would have a material effect on these financial statements, other than those disclosed above.

**Shares of
Class A Common Stock**

HYLETE

PROSPECTUS

Maxim Group LLC

Westpark Capital, Inc.

Through and including _____, 2019 (the 25th day after the date of this offering), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Information not required in Prospectus

Item 13. Other expenses of issuance and distribution.

The following table sets forth the fees and expenses, other than underwriting discounts and commissions, payable in connection with the registration of the common stock hereunder. All amounts are estimates except the SEC registration fee.

	<u>Amount to be Paid</u>
SEC registration fee	\$ 2,121
FINRA filing fee	
NYSE listing fee	*
Printing and mailing	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees and expenses	*
Miscellaneous	*
Total	<u>\$</u> *

* To be filed by amendment.

Item 14. Indemnification of directors and officers.

Section 145 of the Delaware General Corporation Law, or the DGCL, authorizes a corporation to indemnify its directors and officers against liabilities arising out of actions, suits and proceedings to which they are made or threatened to be made a party by reason of the fact that they have served or are currently serving as a director or officer to a corporation. The indemnity may cover expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by the director or officer in connection with any such action, suit or proceeding. Section 145 permits corporations to pay expenses (including attorneys' fees) incurred by directors and officers in advance of the final disposition of such action, suit or proceeding. In addition, Section 145 provides that a corporation has the power to purchase and maintain insurance on behalf of its directors and officers against any liability asserted against them and incurred by them in their capacity as a director or officer, or arising out of their status as such, whether or not the corporation would have the power to indemnify the director or officer against such liability under Section 145.

We have adopted provisions in our certificate of incorporation and bylaws that limit or eliminate the personal liability of our directors to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock purchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission.

In addition, our bylaws provide that:

- we will indemnify our directors, officers and, in the discretion of our board of directors, certain employees to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended; and
- we will advance reasonable expenses, including attorneys' fees, to our directors and, in the discretion of our board of directors, to our officers and certain employees, in connection with legal proceedings relating to their service for or on behalf of us, subject to limited exceptions.

We have entered into indemnification agreements with each of our directors and intend to enter into such agreements with certain of our executive officers. These agreements provide that we will indemnify each of our directors, certain of our executive officers and, at times, their affiliates to the fullest extent permitted by Delaware law. We will advance expenses, including attorneys' fees (but excluding judgments, fines and settlement amounts), to each indemnified director, executive officer or affiliate in connection with any proceeding in which indemnification is available and we will indemnify our directors and officers for any action or proceeding arising out of that person's services as a director or officer brought on behalf of us or in furtherance of our rights. Additionally, certain of our directors or officers may have certain rights to indemnification, advancement of expenses or insurance provided by their affiliates or other third parties, which indemnification relates to and might apply to the same proceedings arising out of such director's or officer's services as a director referenced herein. Nonetheless, we have agreed in the indemnification agreements that our obligations to those same directors or officers are primary and any obligation of such affiliates or other third parties to advance expenses or to provide indemnification for the expenses or liabilities incurred by those directors are secondary.

We also maintain general liability insurance which covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers, including liabilities under the Securities Act of 1933, as amended, or the Securities Act.

The underwriting agreement filed as Exhibit 1.1 to this registration statement provides for indemnification of us and our directors and officers by the underwriters against certain liabilities under the Securities Act and the Securities Exchange Act of 1934.

Item 15. Recent sales of unregistered securities.

The following list sets forth information regarding all unregistered securities sold by us in the past three years.

1. From December 2015 to December 2018, we issued and sold an aggregate of 4,791,500 shares of our Series A-2 preferred stock to 17 investors at a per share purchase price of \$0.51 to 15 investors, \$1.50 to one investor and \$1.75 to two investors for aggregate gross consideration of \$2.55 million; we offered and sold the shares in reliance on the exemption from registration pursuant to Rule 506(c) of Regulation D of the Securities Act – all of the investors were accredited investors.
2. From December 2015 to December 2018, we issued and sold an aggregate of 3,958,532 shares of our Class B Common Stock to 3,998 investors at a per share purchase prices of \$1.00, \$1.25 and \$1.75 for aggregate gross consideration of \$3.96 million; we offered and sold the shares in reliance on the exemption from registration pursuant to Regulation CF and Regulation A of the Securities Act
3. From December 2015 to December 2018, we issued an aggregate of 1,203,400 warrants to purchase shares of our Class A Common Stock at a weighted average exercise price of \$0.41 to certain investors in connection with shareholder agreements; all of the issues were accredited investors. The grant of the warrants and the shares of Class A Common Stock underlying the warrants is and will be exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act. The securities were issued pursuant to Rule 506 of Regulation D promulgated under the Securities and/or Section 4(a)(2) of the Securities Act, as all of the issues are "accredited investors" as such term is defined in Regulation D.
4. From December 2015 to May 2019, we issued an aggregate of 2,089,747 warrants to purchase shares of our Series A-2 Preferred Stock at a weighted average exercise price of \$0.10 to certain lenders in connection with the granting of loans and the extension of existing loans; all of the issues were accredited investors. The grant of the warrants and the shares of Series A-2 Preferred Stock underlying the warrants is and will be exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act. The securities were issued pursuant to Rule 506 of Regulation D promulgated under the Securities and/or Section 4(a)(2) of the Securities Act, as all of the issues are "accredited investors" as such term is defined in Regulation D.

5. Since December 2015, we have issued to certain of our employees, consultants and board members options to purchase an aggregate of 2,157,770 shares of our Class A Common Stock in exchange for their services to us. The grant of the options and the issuance of the shares of Class A Common Stock underlying the options is and will be exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act.

All certificates representing the securities issued in the transactions described in this Item 15 included appropriate legends setting forth that the securities had not been offered or sold pursuant to a registration statement and describing the applicable restrictions on transfer of the securities. There were no underwriters employed in connection with any of the transactions set forth in this Item 15.

Item 16. Exhibits and Financial Statement Schedules.**EXHIBIT INDEX**

Exhibit Number	Description
1.1*	Form of Underwriting Agreement
3.1*	Form of Amended and Restated Certificate of Incorporation
3.2*	Form of Amended and Restated Bylaws
4.1*	Form of IPO Bridge Warrant issued November 2018
4.2*	Form of Underwriters' Warrant
4.3*	Form of Series A-2 Preferred Stock Warrants issued to Black Oak-HYLETE-Senior-Debt, LLC
5.1*	Opinion of Manatt, Phelps & Phillips, LLP
10.1	First Amended and Restated Senior Credit Agreement, dated July 28, 2017 between HYLETE, Inc., certain stockholders of HYLETE, Inc., Black Oak-HYLETE-Senior-Debt, LLC and HYLETE-Senior Debt, LLC (incorporated by reference to Exhibit 6.1 of the Registrant's Form 1-A filed with the SEC on September 1, 2017)
10.1(a)	Amendment No. 1 to First Amended and Restated Senior Credit Agreement, dated March 28, 2018, among HYLETE, Inc., Black Oak-HYLETE-Senior Debt, LLC, HYLETE-Senior-Debt, LLC and Black Oak-HYLETE-Senior Debt 2, LLC (incorporated by reference to Exhibit 6.2 of the Registrant's Form 1-K filed with the SEC on April 23, 2018)
10.2	Employment Agreement dated July 29, 2016 between HYLETE, Inc. and Matthew Paulson (incorporated by reference to Exhibit 6.5 of the Registrant's Form 1-A filed with the SEC on September 1, 2017)
10.3	Employment Agreement dated July 29, 2016 by and between HYLETE, Inc. and Ronald Wilson (incorporated by reference to Exhibit 6.4 of the Registrant's Form 1-A filed with the SEC on September 1, 2017)
10.4	Lease between Solana Partners, L.P. and HYLETE, Inc., dated November 13, 2013, as amended (incorporated by reference to Exhibit 6.8 of the Registrant's Form 1-K filed with the SEC on April 23, 2018)
10.5	Asset Purchase Agreement dated May 31, 2018, between GRACEDEBYGRIT, Inc. and HYLETE, Inc. (incorporated by reference to Exhibit 6.1 of the Registrant's Form 1-U filed with the SEC on June 8, 2018)
10.6	Investor Rights Agreement dated as of July 16, 2015 (incorporated by reference to Exhibit 3.1 of the Registrant's Form 1-A filed with the SEC on September 1, 2017)
10.7	Voting Agreement dated as of July 16, 2015 (incorporated by reference to Exhibit 3.2 of the Registrant's Form 1-A filed with the SEC on September 1, 2017)
10.8	Right of First Refusal and Co-Sale Agreement dated as of July 16, 2015, as amended June 14, 2017 (incorporated by reference to Exhibit 3.3 of the Registrant's Form 1-A filed with the SEC on September 1, 2017)
10.9*	2015 Omnibus Incentive Plan
10.9(a)*	Form of Option Award Notice and Agreement
10.9(b)*	Form of Restricted Stock Award Notice and Agreement
10.10	2015 Equity Incentive Plan (incorporated by reference to Exhibit 6.7 of the Registrant's Form 1-A filed with the SEC on September 1, 2017)
10.10(a)*	Form of Option Award Agreement
10.11	Form of IPO Bridge Promissory Note (10% interest per annum) issued November 2018 (incorporated by reference to Exhibit 6.13 of the Registrant's Form 1-K filed with the SEC on April 23, 2019)
10.12	Form of Promissory Note payable to Ron Wilson due April 5, 2020 (incorporated by reference to Exhibit 6.9 of the Registrant's Form 1-K filed with the SEC on April 23, 2019)
10.13	Promissory Note payable to the Chung Family Trust due December 31, 2019 (incorporated by reference to Exhibit 6.14 of the Registrant's Form 1-K filed with the SEC on April 30, 2019)
10.14	Promissory Note payable to Steelpoint due May 31, 2020 (incorporated by reference to Exhibit 6.15 of the Registrant's Form 1-K filed with the SEC on April 30, 2019)
10.15	Form of Class A Bond (incorporated by reference to Exhibit 3.1 of the Registrant's Form 1-A filed with the SEC on March 12, 2018)
10.15(a)*	Form of Class A Bond Amendment
23.1+	Consent of dbbmckennon
23.2*	Consent of Manatt, Phelps & Phillips, LLP (included in Exhibit 12.1)
99.1**	Consent of Suzanne Price, Director Nominee
99.2**	Consent of Tracy Tuens, Director Nominee
99.3**	Consent of Michael Buckley, Director Nominee
99.4**	Consent of Kelly Anderson, Director Nominee
99.5**	Consent of Adam Colton, Executive Officer Nominee

+ Filed herewith

* To be filed by amendment

** Previously filed

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Act, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that:

(a)(2) For the purpose of determining any liability under the Securities Act of 1933, as amended (the "Securities Act"), each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(a)(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(a)(6) For the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§ 230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(i)(1) For purposes of determining any liability under the Securities Act, the information omitted from a form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act, shall be deemed to be part of this registration statement as of the time it was declared effective.

(i)(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Solana Beach, State of California, on the 28th day of August, 2019.

HYLETE, INC.

By: /s/ Ron L. Wilson, II
Ron L. Wilson, II
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed on August 28, 2019 by the following person in the capacities indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ron L. Wilson, II</u> Ron L. Wilson, II	President, Chief Executive Officer, Interim Chief Financial Officer and Director <i>(Principal Executive Officer and Principal Financial and Accounting Officer)</i>	
<u>*</u> Matthew Paulson	Vice President, Business Development and Director	
<u>*</u> James Caccavo	Director	
<u>*</u> Kevin Park	Director	
<u>*</u> Darren Yager	Director	

*By /s/ Ron L. Wilson, II
Ron L. Wilson, II
Attorney-in-fact

Consent of Independent Registered Public Accounting Firm

We consent to the use, in this Registration Statement on Form S-1, of our report dated April 17, 2019 related to the financial statements of Hylete, Inc. as of December 31, 2018 and 2017 and for the years then ended, which includes an explanatory paragraph regarding the substantial doubt about Hylete, Inc.'s ability to continue as a going concern. We also consent to the reference to us in the "Experts" section of the Registration Statement.

Very truly yours,

/s/ dbbmckennon

San Diego, California

August 28, 2019