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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2022**

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

For the transition period from _____ to _____

Commission file number: **001-40400**

DIGITAL BRANDS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**46-1942864**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 Lavaca Street
Austin, TX 78701
(Address of principal executive offices, including zip code)

Tel: (209) 651-0172
(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer	□	Accelerated filer	□
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

As of August 15, 2022 the Company had 52,874,188 shares of common stock, $0.0001 par value, issued and outstanding.

DIGITAL BRANDS GROUP, NC.
FORM 10-Q
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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 802,724	$ 528,394
Accounts receivable, net	190,056	89,394
Due from factor, net	929,989	985,288
Inventory	2,883,613	2,755,358
Prepaid expenses and other current assets	813,681	417,900
Total current assets	5,620,063	4,776,334
Deferred offering costs	367,696	367,696
Property, equipment and software, net	65,235	97,265
Goodwill	18,264,822	18,264,822
Intangible assets, net	11,765,688	12,841,313
Deposits	137,794	137,794
Right of use asset	201,681	—
Total assets	$ 36,422,979	$ 36,485,224
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 7,003,333	$ 6,562,690
Accrued expenses and other liabilities	3,698,717	2,237,145
Deferred revenue	221,363	276,397
Due to related parties	250,598	277,635
Contingent consideration liability	19,300,716	12,179,476
Convertible notes, current	100,000	100,000
Accrued interest payable	1,801,303	1,110,679
Note payable - related party	154,489	299,489
Venture debt, net of discount	6,251,755	6,001,755
Loan payable, current	1,489,335	2,502,000
Promissory note payable	3,500,000	3,500,000
Right of use liability, current portion	201,681	—
Total current liabilities	43,973,290	35,047,266
Convertible note payable, net	5,986,068	5,501,614
Loan payable	298,900	713,182
Derivative liability	1,044,939	2,294,720
Warrant liability	—	18,223
Total liabilities	51,303,197	43,575,005
Commitments and contingencies (Note 11)		
Stockholders' deficit:		
Undesignated preferred stock, $0.0001 par, 10,000,000 shares authorized, 0 shares issued and outstanding as of both June 30, 2022 and December 31, 2021	—	—
Common stock, $0.0001 par, 200,000,000 shares authorized, 52,874,188 and 13,001,690 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	5,287	1,300
Additional paid-in capital	68,185,315	58,612,873
Accumulated deficit	(83,070,820)	(65,703,954)
Total stockholders' deficit	(14,880,218)	(7,089,781)
Total liabilities and stockholders' deficit	$ 36,422,979	$ 36,485,224

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net revenues	3,739,001	1,003,529	$ 7,171,411	$ 1,411,934
Cost of net revenues	1,567,922	608,944	3,526,833	1,224,886
Gross profit	2,171,079	394,585	3,644,578	187,048
Operating expenses:				
General and administrative	4,990,232	7,192,460	9,601,467	9,099,978
Sales and marketing	1,705,291	923,283	2,745,863	1,094,103
Distribution	221,925	69,864	424,773	133,442
Change in fair value of contingent consideration	5,920,919	3,050,901	7,121,240	3,050,901
Total operating expenses	12,838,367	11,236,508	19,893,343	13,378,424
Loss from operations	(10,667,288)	(10,841,923)	(16,248,765)	(13,191,376)
Other income (expense):				
Interest expense	(2,203,599)	(897,920)	(3,771,476)	(1,572,964)
Other non-operating income (expenses)	3,336,963	(57,775)	2,653,375	(57,213)
Total other income (expense), net	1,133,364	(955,695)	(1,118,101)	(1,630,177)
Income tax benefit (provision)	—	1,100,120	—	1,100,120
Net loss	$ (9,533,924)	$ (10,697,498)	$ (17,366,866)	$ (13,721,433)
Weighted average common shares outstanding - basic and diluted	35,822,250	5,435,023	24,591,052	3,062,774
Net loss per common share - basic and diluted	$ (0.27)	$ (1.97)	$ (0.71)	$ (4.48)

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Series Seed Preferred Stock		Series A Preferred Stock		Series A-2 Preferred Stock		Series A-3 Preferred Stock		Series CF Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity (Deficit)
Balances at December 31, 2020	20,714,518	$ 2,071	5,654,072	$ 565	5,932,742	$ 593	9,032,330	$ 904	836,331	$ 83	20,754,717	$ 2,075	664,167	$ 66	$27,481,995	$(33,345,997)	$ (5,857,645)
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	36,976	—	36,976
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,023,935)	(3,023,935)
Balances at March 31, 2021	20,714,518	$ 2,071	5,654,072	$ 565	5,932,742	593	9,032,330	904	836,331	83	20,754,717	2,075	664,167	66	27,518,971	(36,369,932)	(8,844,604)
Conversion of preferred stock into common stock	(20,714,518)	(2,071)	(5,654,072)	(565)	(5,932,742)	(593)	(9,032,330)	(904)	(836,331)	(83)	(20,754,717)	(2,075)	4,027,181	403	5,888	—	—
Issuance of common stock in public offering	—	—	—	—	—	—	—	—	—	—	—	—	2,409,639	241	9,999,761	—	10,000,002
Offering costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,116,957)	—	(2,116,957)
Exercise of over-allotment option, net of offering costs	—	—	—	—	—	—	—	—	—	—	—	—	361,445	36	1,364,961	—	1,364,997
Conversion of debt into common stock	—	—	—	—	—	—	—	—	—	—	—	—	1,135,153	114	2,680,175	—	2,680,289
Conversion of related party notes and payables into common stock	—	—	—	—	—	—	—	—	—	—	—	—	152,357	15	257,500	—	257,515
Common stock and warrants issued in connection with note	—	—	—	—	—	—	—	—	—	—	—	—	20,000	2	73,956	—	73,958
Common stock issued in connection with business combination	—	—	—	—	—	—	—	—	—	—	—	—	2,192,771	219	8,025,323	—	8,025,542
Exercise of warrants	—	—	—	—	—	—	—	—	—	—	—	—	31,881	3	145,693	—	145,696
Common stock issued pursuant to consulting agreement	—	—	—	—	—	—	—	—	—	—	—	—	50,000	5	182,995	—	183,000
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3,801,553	—	3,801,553
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(10,697,498)	(10,697,498)
Balances at June 30, 2021	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	11,044,594	1,104	$51,939,819	$(47,067,430)	$ 4,873,493
Balances at December 31, 2021	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	13,001,690	$ 1,300	$58,612,873	$(65,703,954)	$ (7,089,781)
Conversion of notes and derivative liability into common stock	—	—	—	—	—	—	—	—	—	—	—	—	873,901	87	1,201,495	—	1,201,582
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	139,093	—	139,093
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(7,832,942)	(7,832,942)
Balances at March 31, 2022	—	—	—	—	—	—	—	—	—	—	—	—	13,875,591	1,387	59,953,461	(73,536,896)	(13,582,048)
Issuance of common stock in public offering	—	—	—	—	—	—	—	—	—	—	—	—	37,389,800	3,739	9,343,711	—	9,347,450
Offering costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,930,486)	—	(1,930,486)
Conversion of notes and derivative liability into common stock	—	—	—	—	—	—	—	—	—	—	—	—	1,608,797	161	600,629	—	600,790
Warrants issued in connection with note	—	—	—	—	—	—	—	—	—	—	—	—	—	—	98,241	—	98,241
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	119,759	—	119,759
Net loss															—	(9,533,924)	(9,533,924)
Balances at June 30, 2022	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	52,874,188	$ 5,287	$68,185,315	$(83,070,820)	$ (14,880,218)

See the accompanying notes to the unaudited condensed consolidated financial statements

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

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	$ (17,366,866)	$ (13,721,433)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,113,188	291,661
Amortization of loan discount and fees	2,818,174	580,684
Stock-based compensation	258,852	4,021,529
Fees incurred in connection with debt financings	—	132,609
Change in fair value of warrant liability	(18,223)	72,445
Change in fair value of derivative liability	(880,388)	—
Change in fair value of contingent consideration	7,121,240	3,050,901
Forgiveness of Payroll Protection Program	(1,760,755)	—
Deferred income tax benefit	—	(1,100,120)
Change in credit reserve	(5,053)	9,748
Changes in operating assets and liabilities:		
Accounts receivable, net	(100,662)	(261,386)
Due from factor, net	202,787	139,629
Inventory	(128,255)	75,287
Prepaid expenses and other current assets	(395,781)	(688,893)
Accounts payable	435,110	575,513
Accrued expenses and other liabilities	1,461,572	262,019
Deferred revenue	(55,034)	(99,045)
Accrued compensation - related party	—	(88,550)
Accrued interest	690,624	151,465
Net cash used in operating activities	(6,609,470)	(6,595,937)
Cash flows from investing activities:		
Cash acquired (consideration) pursuant to business combination	—	(475,665)
Purchase of property, equipment and software	—	(10,276)
Deposits	—	(19,115)
Net cash used in investing activities	—	(505,056)
Cash flows from financing activities:		
Proceeds (repayments) from related party advances	(172,036)	—
Advances (repayments) from factor	(142,436)	53,795
Proceeds from venture debt	237,500	—
Issuance of loans payable	311,308	2,626,050
Repayments of convertible and promissory notes	(3,068,750)	(2,001,305)
Issuance of convertible notes payable	2,301,250	528,650
Issuance of common stock in public offering	9,347,450	10,000,002
Exercise of over-allotment option with public offering, net	—	1,364,997
Exercise of warrants	—	145,696
Offering costs	(1,930,486)	(2,116,957)
Net cash provided by financing activities	6,883,800	10,600,928
Net change in cash and cash equivalents	274,330	3,499,935
Cash and cash equivalents at beginning of period	528,394	575,986
Cash and cash equivalents at end of period	$ 802,724	$ 4,075,921
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ —	$ —
Cash paid for interest	$ 191,152	$ 460,179
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of notes and debt into common stock	$ 1,802,372	$ 2,680,289
Right of use asset	$ 201,681	$ —
Warrants issued in connection with note	$ 98,241	$ —
Conversion of preferred stock into common stock	$ —	$ 6,293
Conversion of related party notes and payables into common stock	$ —	$ 257,515
Contingent consideration liability issued in connection with acquisition	$ —	$ 3,421,516

See the accompanying notes to the unaudited condensed consolidated financial statements

NOTE 1: NATURE OF OPERATIONS

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

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

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

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

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

NOTE 2: GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has not generated profits since inception, has sustained net losses of $17,366,866 and $13,721,433 for the six months ended June 30, 2022 and 2021, respectively, and has incurred negative cash flows from operations during these periods. The Company has historically lacked liquidity to satisfy obligations as they come due and as of June 30, 2022, and the Company had a working capital deficit of $38,353,227. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company requires significant capital to fund operations and meet its obligations as demands are made. The Company expects to continue to generate operating losses for the foreseeable future. The accompanying consolidated financial statements do not include any adjustments as a result of this uncertainty.

Management Plans

In August 2021, the Company entered into an equity line of credit agreement which the investor is committed to purchase up to $17,500,000 of the Company's common stock. The Company plans to utilize multiple drawdowns on this agreement, however, it may be unable to execute on such drawdowns due to restrictions per the agreement.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated balance sheet as of June 30, 2022, the unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2022 and 2021 and of cash flows for the six months ended June 30, 2022 and 2021 have been prepared by the Company, pursuant to the rules and regulations of the SEC for the interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the consolidated results for the interim periods presented and of the consolidated financial condition as of the date of the interim consolidated balance sheet. The results of operations are not necessarily indicative of the results expected for the year ended December 31, 2022.

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2021 included in the Company's Annual Form 10-K filed with SEC on March 31, 2022.

Principles of Consolidation

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

Use of Estimates

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

Cash and Equivalents and Concentration of Credit Risk

The Company considers all highly liquid securities with an original maturity of less than three months to be cash equivalents. As of June 30, 2022 and December 31, 2021, the Company did not hold any cash equivalents. The Company's cash and cash equivalents in bank deposit accounts, at times, may exceed federally insured limits of $250,000.

Fair Value of Financial Instruments

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

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis and indicates the level of the fair value hierarchy used to determine such fair values:

	Fair Value Measurements as of June 30, 2022 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Warrant liability	$ —	$ —	$ —	$ —
Contingent consideration	—	—	19,300,716	19,300,716
Derivative liability	—	—	1,044,939	1,044,939
	$ —	$ —	$ 20,345,655	$ 20,345,655

	Fair Value Measurements as of December 31, 2021 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Warrant liability	$ —	$ 18,223	$ —	$ 18,223
Contingent consideration	—	—	12,179,476	12,179,476
Derivative liability	—	—	2,294,720	2,294,720
	$ —	$ 18,223	$ 14,474,196	$ 14,492,419

Contingent Consideration

Changes in acquisition-related contingent consideration liabilities during the six months ended June 30, 2022 are as follows:

	Contingent Consideration Liability
Outstanding as of December 31, 2021	$ 12,179,476
Change in fair value	7,121,240
Outstanding as of June 30, 2022	$ 19,300,716

The detail of contingent consideration by company is as follows:

Bailey	$ 10,698,475
Harper & Jones	8,602,241
	$ 19,300,716

The contingent consideration liabilities were revalued as of May 18, 2022, the anniversary date of the Company's initial public offering. As of the date of the issuance of these financial statements, the contingent consideration liabilities were not yet settled with shares. See Note 12 Subsequent Events for amendment to H&J.

Derivative Liability

In connection with the Company's convertible notes with Oasis Capital, LLC ("Oasis") and FirstFire Global Opportunities Fund, LLC ("FirstFire"), the Company recorded a derivative liability (see Note 7). The estimated fair value of the derivative liability is recorded using significant unobservable measures and other fair value inputs and is therefore classified as a Level 3 financial instrument.

The fair value of the derivative liability is valued using a multinomial lattice model. The multinomial lattice inputs include the underlying stock price, volatility of common stock and remaining term of the convertible note. Changes in derivative liability during the three months ended June 30, 2022 are as follows:

	Derivative Liability
Outstanding as of December 31, 2021	$ 2,294,720
Conversion of underlying notes into common stock	(369,393)
Change in fair value	(880,388)
Outstanding as of June 30, 2022	$ 1,044,939

Inventory

Inventory is stated at the lower of cost or net realizable value and accounted for using the weighted average cost method for DSTLD and first-in, first-out method for Bailey and Stateside. The inventory balances as of June 30, 2022 and December 31, 2021 consist substantially of finished good products purchased or produced for resale, as well as any raw materials the Company purchased to modify the products and work in progress.

Inventory consisted of the following:

	June 30, 2022	December 31, 2021
Raw materials	$ 433,616	$ 292,167
Work in process	258,626	242,673
Finished goods	2,191,371	2,220,519
Inventory	$ 2,883,613	$ 2,755,358

Goodwill

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

Deferred Offering Costs

The Company complies with the requirements of ASC 340, Other Assets and Deferred Costs, with regards to offering costs. Prior to the completion of an offering, offering costs are capitalized. The deferred offering costs are charged to additional paid-in capital or as a discount to debt, as applicable, upon the completion of an offering or to expense if the offering is not completed As of June 30, 2022 and December 31, 2021, the Company capitalized $367,696 in deferred offering costs pertaining to its equity line of credit agreement with Oasis (Note 8). Management is currently reviewing the feasibility of drawdowns on the equity line of credit.

Net Loss per Share

Net earnings or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the period, excluding shares subject to redemption or forfeiture. The Company presents basic and diluted net earnings or loss per share. Diluted net earnings or loss per share reflect the actual weighted average of common shares issued and outstanding during the period, adjusted for potentially dilutive securities outstanding. Potentially dilutive securities are excluded from the computation of the diluted net loss per share if their inclusion would be anti-dilutive. As all potentially dilutive securities are anti-dilutive as of June 30, 2022 and 2021, diluted net loss per share is the same as basic net loss per share for each year. Potentially dilutive items outstanding as of June 30, 2022 and 2021 are as follows:

	June 30,	
	2022	2021
Convertible notes	46,240,766	—
Common stock warrants	6,333,392	3,946,348
Stock options	3,895,103	3,875,103
Total potentially dilutive shares	56,469,261	7,821,450

The stock options and warrants above are out-of-the-money as of June 30, 2022 net income.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02: Leases (Topic 842). The new guidance generally requires an entity to recognize on its balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The new standard requires a modified retrospective transition for existing leases to each prior reporting period presented. The Company has elected to utilize the extended adoption period available to the Company as an emerging growth company and has not currently adopted this standard. This standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2021. The Company has adopted ASU 2016-02 as of January 1, 2022. See Note 10.

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

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presents the Company's financial results as if the H&J and Stateside acquisitions had occurred as of January 1, 2021. The unaudited pro forma financial information is not necessarily indicative of what the financial results actually would have been had the acquisitions been completed on this date. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the Company's future financial results. The following unaudited pro forma financial information includes incremental property and equipment depreciation and intangible asset amortization as a result of the acquisitions. The pro forma information does not give effect to any estimated and potential cost savings or other operating efficiencies that could result from the acquisition:

	Six Months Ended June 30, 2021
Net revenues	$ 4,742,558
Net loss	$ (14,422,758)
Net loss per common share	$ (4.71)

NOTE 4: DUE FROM FACTOR

Due to/from factor consist of the following:

	June 30, 2022	December 31, 2021
Outstanding receivables:		
Without recourse	$ 517,994	$ 579,295
With recourse	220,098	361,584
Advances	264,053	121,617
Credits due customers	(72,156)	(77,208)
	$ 929,989	$ 985,288

NOTE 5: GOODWILL AND INTANGIBLE ASSETS

The Company recorded $6,479,218 in goodwill from the Bailey business combination in February 2020, $9,681,548 in goodwill from the H&J business combination in May 2021 and $2,104,056 in goodwill from the Stateside business combination in August 2021.

The following table summarizes information relating to the Company's identifiable intangible assets as of June 30, 2022:

	Gross Amount	Accumulated Amortization	Carrying Value
Amortized:			
Customer relationships	$ 6,453,750	$ (2,524,982)	$ 3,928,768
	6,453,750	(2,524,982)	3,928,768
Indefinite-lived:			
Brand name	$ 7,836,920	—	7,836,920
	$ 14,290,670	$ (2,524,982)	$ 11,765,688

The Company recorded amortization expense of $537,812 and $163,236 during the three months ended June 30, 2022 and 2021, and $1,075,625 and $254,903 during the six months ended June 30, 2022 and 2021, respectively, which is included in general and administrative expenses in the consolidated statements of operations.

NOTE 6: LIABILITIES AND DEBT

Accrued Expenses and Other Liabilities

The Company accrued expenses and other liabilities line in the consolidated balance sheets is comprised of the following as of June 30, 2022 and December 31,2021:

	June 30, 2022	December 31, 2021
Accrued expenses	$ 970,890	$ 213,740
Reserve for returns	25,000	33,933
Payroll related liabilities	2,303,321	1,204,665
Sales tax liability	268,804	268,723
Due to seller	—	396,320
Other liabilities	130,702	119,764
	$ 3,698,717	$ 2,237,145

Certain liabilities including sales tax and payroll related liabilities may be subject to interest and penalties. As of June 30, 2022 and December 31, 2021, payroll related labilities included approximately $262,000 in estimated penalties associated with accrued payroll taxes.

Venture Debt

In February 2022, the Company received $237,500 in proceeds, including loan fees of $12,500, from the existing venture debt lender under the same terms as the existing facility. As of June 30, 2022 and December 31, 2021, the gross loan balance was $6,251,755 and $6,001,755, respectively.

As of June 30, 2022, all payments have been deferred to the maturity date of the loan, December 31, 2022. As of the filing date, of these financial statements, all defaults were cured and there are no additional expected defaults.

For the six months ended June 30, 2022 and 2021, $12,500 and $147,389 of loan fees and discounts from warrants were amortized to interest expense, leaving unamortized balance of $0 as of June 30, 2022.

Interest expense and effective interest rate on this loan for the three months ended June 30, 2022 and 2021, was $191,152 and $202,041, and 12.2% and 13.4% all respectively. Interest expense was $382,304 and $402,027 for the six months ended June 30, 2022 and 2021, respectively.

Convertible Debt

2020 Regulation D Offering

As of June 30, 2022 and December 31, 2021, there was $100,000 remaining in outstanding principal that was not converted into equity.

Convertible Promissory Note

During the six months ended June 30, 2022, the Company converted an aggregate of $1,432,979 in outstanding principal into 2,482,698 shares of common stock.

On April 8, 2022, the Company and various purchasers executed a Securities Purchase Agreement whereby the investors purchased from the Company convertible promissory notes in the aggregate principal amount of $3,068,750, consisting of original issue discount of $613,750. The Company received net proceeds of $2,313,750 after the original issue discount and fees, resulting in a debt discount of $755,000. Upon the Company's public offering in May (see below), the Company repaid $3,068,750 to the investors and the debt discount was fully amortized.

In connection with the April notes, the Company issued an aggregate of 1,257,684 warrants to purchase common stock at an exercise price of $1.22 per share. The Company recognized $98,241 as a debt discount for the fair value of the warrants using the Black-Scholes option model, which was fully amortized upon the notes' repayment in May.

During the three and six months ended June 30, 2022, the Company amortized $1,724,591 and $2,783,174 of debt discount to interest expense.

As of June 30, 2022 and December 31, 2021, the outstanding principal was $8,032,021 and $9,465,000, respectively. The balance of the convertible notes, after unamortized debt discount of $2,904,803, was $5,671,267 as of June 30, 2022.

Loan Payable — PPP and SBA Loan

As of June 30, 2022 and December 31, 2021, H&J had an outstanding loan under the EIDL program of $148,900.

In April 2022, Bailey received notification of full forgiveness of its 2nd PPP Loan totaling $1,347,050 and partial forgiveness of its 1st PPP Loan totaling $413,705.

Note Payable – Related Party

As of June 30, 2022, H&J had an outstanding note payable of $227,637 owned by the H&J Seller. The note matures on September 10, 2022 and bears interest at 12% per annum.

Promissory Note Payable

As of June 30, 2022 and December 31, 2021, the outstanding principal on the note to the sellers of Bailey was $3,500,000. As of June 30, 2022, the lender agreed to defer all payments to the maturity date of the loan, December 31, 2022.

Interest expense was $105,000 and $120,000 for the three months ended June 30, 2022 and 2021 and $210,000 and $284,000 for the six months ended June 30, 2022 and 2021, all respectively, which was accrued and unpaid as of June 30, 2022.

Merchant Cash Advances

In March 2022, the Company obtained two short-term merchant advances, which totaled $500,000 and $250,000, respectively, from a single lender to fund operations. These advances included origination fees totaling $22,500 for net proceeds of $727,500. These advances are, for the most part, secured by expected future sales transactions of the Company with expected payments on a weekly basis The Company will repay an aggregate of $1,065,000 to the lender. These advances contain various financial and non-financial covenants. As of June 30, 2022, $255,219 remained outstanding. As of the date of these financial statements, the Company was in compliance with these covenants.

NOTE 7: STOCKHOLDERS' DEFICIT

During the six months ended June 30, 2022, $1,432,979 in outstanding principal of convertible notes were converted into 2,482,698 shares of common stock.

Underwriting Agreement and Public Offering

On May 5, 2022, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Alexander Capital, L.P., acting as representative (the "Representative") of the several underwriters named in the Underwriting Agreement (the "Underwriters"), relating to the Company's underwritten the offering (the "Offering") pursuant to which the Company agreed to issue and sell 37,389,800 shares (the "Firm Shares") of the Company's common stock. The Firm Shares were sold to the public at a combined public offering price of $0.25 per share and were purchased by the Underwriters from the Company at a price of $0.23 per share. The Company also granted the Underwriters a 45-day option to purchase up to an additional 5,608,470 shares of Common Stock at the same price.

The shares were sold in the Offering pursuant to a Registration Statement on Form S-1, as amended (File No. 333-264347) (the "Registration Statement"), a Registration Statement on Form S-1 pursuant to 462(b) of the Securities Act of 1933, as amended (File No. 333-264775), and a related prospectus filed with the Securities and Exchange Commission. The public offering closed on May 10, 2022 and the Company sold 37,389,800 shares of Common Stock for total gross proceeds of $9.3 million. The Company received net proceeds of $8.1 million after deducting underwriters discounts and commissions of $0.7 million and direct offering expenses of $0.5 million.

NOTE 8: RELATED PARTY TRANSACTIONS

Employee Backpay, Loans Receivable and Loans Payable

As of June 30, 2022 and December 31, 2021, due to related parties includes advances from the former officer, Mark Lynn, who also serves as a director, totaling $104,568, and accrued salary and expense reimbursements of $120,350 and $126,706, respectively, to current officers. As of June 30, 2022, due to related parties also included an advance of $25,000 from the CEO.

As of June 30, 2022, H&J had an outstanding note payable of $227,637 owned by the H&J Seller.

NOTE 9: SHARE-BASED PAYMENTS

Common Stock Warrants

In connection with the April note agreement, the Company granted warrants to acquire 1,257,684 shares of common stock at an exercise price of $1.22 per share expiring in April 2027.

On May 10, 2022, pursuant to the Underwriting Agreement, the Company issued the Underwriters' Warrants to purchase up to an aggregate of 1,495,592 shares of common stock. The Underwriters' Warrants may be exercised beginning on November 1, 2022 until May 5, 2027. The initial exercise price of each Underwriters' Warrant is $0.325 per share, which represents 130% of the public offering price.

The following is a summary of warrant activity:

	Common Stock Warrants	Weighted Average Exercise Price
Outstanding - December 31, 2021	3,580,116	$ 4.12
Granted	2,753,276	0.73
Exercised	—	—
Forfeited	—	—
Outstanding - June 30, 2022	6,333,392	$ 4.12
Exercisable at June 30, 2022	4,837,799	$ 3.37

Stock Options

As of June 30, 2022 and December 31, 2021, the Company had 3,895,103 stock options outstanding with a weighted average exercise price of $3.59 per share. As of June 30, 2022, there were 3,339,173 options exercisable.

Stock-based compensation expense of $119,759 and $3,568,370 was recognized for the three months ended June 30, 2022 and 2021, and $258,852 and $3,604,346 was recognized for the six months June 30, 2022 and 2021, respectively. During the six months ended June 30,2022 and 2021, $28,798 and $523,151 was recorded to sales and marketing expense, and all other stock compensation was included in general and administrative expense in the condensed consolidated statements of operations. Total unrecognized compensation cost related to non-vested stock option awards as of June 30, 2022 amounted to $798,184 and will be recognized over a weighted average period of 1.79 years.

NOTE 10: LEASE OBLIGATIONS

In April 2021, the Company entered into a lease agreement for operating space in Los Angeles, California. The lease expires in June 2023 and has monthly base rent payments of $17,257. The lease required a $19,500 deposit. The Company adopted ASC 842 on January 1, 2021 and recognized a right of use asset and liability of $250,244 using a discount rate of 6.0%.

H&J leases office and showroom facilities in Dallas and Houston, Texas, and New Orleans, Louisiana. The leases expire at various dates through June 2022 with base rents ranging from $3,400 to $6,500.

Stateside leases office and showroom facilities in Los Angeles, California. The leases expire at various dates through November 2022 with base rents ranging from $3,100 to $9,000.

Total rent expense for the three months ended June 30, 2022 and 2021 was $195,060 and $173,052, and $469,482 and $305,841 for the six months end June 30, 2022 and 2021, respectively.

NOTE 11: CONTINGENCIES

On March 25, 2020, a Bailey's product vendor filed a lawsuit against Bailey for non-payment of trade payables totaling $492,390. Approximately the same amount was held in accounts payable for this vendor in the accompanying consolidated balance sheets and the Company does not believe it is probable that losses in excess of such trade payables will be incurred. The Company and product vendor have entered into a settlement, which will require the Company make ten monthly payments of approximately $37,000, starting in May 2021. Upon completion of the payment schedule, any remaining amounts will be forgiven. The payment schedule was completed in 2022.

On December 21, 2020, a Company investor filed a lawsuit against DBG for reimbursement of their investment totaling $100,000. Claimed amounts are included in short-term convertible note payable in the accompanying consolidated balance sheets and the Company

does not believe it is probable that losses in excess of such short-term note payable will be incurred. The Company is actively working to resolve this matter.

In August 2020 and March 2021, two lawsuits were filed against Bailey's by third-party's related to prior services rendered. The claims (including fines, fees, and legal expenses) total an aggregate of $96,900. One matter was settled in February 2022 and the other matter is being actively worked on to achieve settlement.

On September 24, 2020 a Bailey's product vendor filed a lawsuit against Bailey's non-payment of trade payables totaling approximately $481,000 and additional damages of approximately $296,000. Claimed amounts for trade payables are included in accounts payable in the accompanying consolidated balance sheets, net of payments made. In December 2021, the Company reached a settlement; however, the settlement terms were not met and a judgement was entered against the Company in the amount of $469,000.

All claims above, to the extent management believes it will be liable, have been included in accounts payable and accrued expenses and other liabilities in the consolidated balance sheet as of June 30, 2022.

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

Entry into a Material Definitive Agreement

On June 17, 2022, the Company entered into an Amended and Restated Membership Interest Purchase Agreement (the "Agreement") with Moise Emquies, George Levy, Matthieu Leblan and Carol Ann Emquies ("Sellers"), Sunnyside, LLC, a California limited liability company ("Sundry"), and George Levy as the Sellers' representative (the "Sellers' Representative"), pursuant to which the Company will acquire all of the issued and outstanding membership interests of Sundry (such transaction, the "Acquisition"). Sellers and DBG are sometimes collectively referred to herein as the "Parties" and individually as a "Party."

Pursuant to the Agreement, Sellers, as the holders of all of the outstanding membership interests of Sundry, will exchange all of such membership interests for (i) $5 million in cash, which will be paid at Closing (as defined below), of which $2.5 million is paid to each of George Levy and Matthieu Leblan; (ii) at the Sellers' option at Closing, either (a) $7 million dollars paid in the Company's common stock, with a par value of $0.0001 per share (the "Buyer Shares"), at $0.19 per share, which is the per share closing price of the Buyer Shares on Nasdaq on June 17, 2022 (the "Issuance Price"); or (b) $7 million in cash, to each of the Sellers, Jenny Murphy and Elodie Crichi pro rata in accordance to the percentage set forth in the Agreement; and (iii) $20 million paid in Buyer Shares at a per share price equal to the Issuance Price issued to each of the Sellers, Jenny Murphy and Elodie Crichi pro rata in accordance to the percentage set forth in the Agreement.

The obligations of each Party to consummate the transactions contemplated by this Agreement are subject to certain closing conditions, including, but not limited to, (i) no governmental entity has issued an order or taken any other action that making the transactions contemplated by the Agreement illegal; (ii) no governmental entity has issued an order or taken any other action restraining or otherwise prohibiting the transactions contemplated by the Agreement; (iii) DBG shall have initiated a proxy solicitation for a shareholder vote to approve the issuance of Buyer Shares and the employment offer letters to George Levy and Matthew Leblan; and (iv) DBG shall have cash or rights under existing borrowing facilities that together are sufficient to pay the cash payable at Closing pursuant to the terms of the Agreement.

NOTE 12: SUBSEQUENT EVENTS

Management's Evaluation

On July 22, 2022, the Company and various purchasers (the "July Investors") executed a Securities Purchase Agreement (the "July SPA") whereby the Investors purchased from the Company 20% Original Issue Discount (the "OID") promissory notes (the "July Notes") in the aggregate principal amount of $1,250,000 (with an aggregate subscription amount of $1,000,000).

The July Notes are due and payable on October 31, 2022 (the "Maturity Date"). The Company will also have the option to prepay the July Notes with no penalties at any time prior to the Maturity Date. If the Company or any subsidiary of the Company completes a debt or equity financing of less than $4,000,000, the Company is required to repay 50% of the remaining balance of the July Notes.

Following such 50% repayment, the Company must also use any proceeds from any subsequent debt or equity financing to repay the July Notes. Upon the closing of any debt or equity financing of $4,000,000 or greater, the Company is required to repay 100% of the July Notes with no penalties. If the July Notes are not repaid in full by the Maturity Date or if any other event of default occurs, (1) the face value of the July Notes will be automatically increased to 120%; (2) the July Notes will begin generating an annual interest rate of 20%, which will be paid in cash monthly until the default is cured; and (3) if such default continues for 14 or more calendar days, at the Investors' discretion, the July Notes shall become convertible at the option of the Investors into shares of the Company's common stock at a conversion price equal to the Nasdaq closing price of the Company's common stock on the date of the note conversion.

On July 28, 2022, the Company, the existing investors and a new investor executed an Amendment to the July SPA (the "Amendment SPA"), whereby the new investor purchased from the Company a 20% original issue discount promissory note in the aggregate principal amount of $1,875,000 (with an aggregate subscription amount of $1,500,000) in substantially the same form as issued to the existing investors under the July SPA dated July 22, 2022. Pursuant to the Amendment SPA, the Company will also issue warrants to the new investor in substantially the same form as issued to the existing investors on July 22, 2022.

In connection with the July SPA, the Company issued to the Investors an aggregate of 4,112,500 five-year warrants exercisable for shares of common stock at an exercise price equal to $0.152.

On July 29, 2022, the Company entered into an amendment to the May 2021 purchase agreement with the H&J Seller based on the ultimate settlement of the H&J contingent consideration. Pursuant to the amendment, on May 18, 2023, the Company shall deliver to the H&J Seller additional shares of common stock. The number of shares of common stock to be delivered to H&J Seller shall be calculated as follows: $7,899,356 minus any cash payments received by Seller from any capital raises, divided by the average common stock closing price per share based on the thirty-day trading period preceding May 19, 2023.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited financial statements and related notes for the year ended December 31, 2021 included in Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC on March 31, 2022.

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

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

Business Overview

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

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

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

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

- Harper & Jones (H&J) was built with the goal of inspiring men to dress with intention. It offers hand- crafted custom fit suits for those looking for a premium experience. Harper & Jones is primarily a direct-to-consumer brand using its own showrooms.

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

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

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

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

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

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

Material Trends, Events and Uncertainties

COVID-19

After the impact of COVID-19, we have implemented cost controls to reduce discretionary spending to help mitigate the loss of sales and to conserve cash while continuing to support employees. We are also assessing our forward inventory purchase commitments to ensure proper matching of supply and demand, which will result in an overall reduction in future commitments. As we continue to actively monitor the situation, we may take further actions that affect our operations.

Supply Chain Disruptions

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

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

- Increased cost per kilo to ship via sea or air, which has increased from 25% to 300% depending on the time of year and from the country we are shipping from;
- Increased transit time via sea or air, which have increased by two weeks to two months; and
- Increased labor costs for producing the finished goods, which have increased 5% to 25% depending on the country and the labor skill required to produce the goods.

Seasonality

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

Components of Our Results of Operations

Net Revenue

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

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

H&J sells its products directly to customers through their showrooms and sales reps.

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

Cost of Net Revenue

DSTLD, Bailey and Stateside's cost of net revenue include direct cost of purchased merchandise; inventory shrinkage; inventory adjustments due to obsolescence, including excess and slow-moving inventory and lower of cost and net realizable reserves, duties; and inbound freight.

H&J's cost of net revenue sold is associated with procuring fabric and custom tailoring each garment.

Operating Expenses

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

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

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

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

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

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

Interest Expense

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

Results of Operations

Three Months Ended June 30, 2022 compared to Three Months Ended June 30, 2021

The following table presents our results of operations for the three months ended June 30, 2022 and 2021:

	Three Months Ended June 30,	
	2022	2021
Net revenues	$ 3,739,001	$ 1,003,529
Cost of net revenues	1,567,922	608,944
Gross profit	2,171,079	394,585
General and administrative	4,990,232	7,192,460
Sales and marketing	1,705,291	923,283
Other operating expenses	6,142,844	3,120,765
Operating loss	(10,667,288)	(10,841,923)
Other income (expenses)	1,133,364	(955,695)
Loss before provision for income taxes	(9,533,924)	(11,797,618)
Provision for income taxes	—	1,100,120
Net loss	$ (9,533,924)	$ (10,697,498)

Net Revenues

Revenues increased by $2.7 million to $3.7 million for the three months ended June 30, 2022, compared to $1.0 million in the corresponding fiscal period in 2021. The increase was primarily due to full results in 2022 pertaining to the acquisition of H&J in May 2021 and Stateside in August 2021.

Gross Profit

Our gross profit increased by $1.8 million for the three months ended June 30, 2022 to $2.2 million from a gross profit of $0.4 million for the corresponding fiscal period in 2021. The increase in gross margin was primarily attributable to increased revenue in the three months ended June 30, 2022 and the gross profit achieved by H&J and Stateside since the acquisitions.

Our gross margin was 58.1% for three months ended June 30, 2022 compared to 39.3% for the three months ended June 30, 2021. The increase in the gross margin was due to H&J and Stateside's margins in 2021, as well as discounting and liquidation measures by both DBG and Bailey to sell aged inventory in 2021.

Operating Expenses

Our operating expenses increased by $1.6 million for the three months ended June 30, 2022 to $12.8 million compared to $11.2 million for the corresponding fiscal period in 2021. The increase in operating expenses was primarily due to the change in fair value of contingent consideration of $5.9 million and increased marketing expenses, partially offset by lower general and administrative expenses due to the Company's stock-based compensation expense in the quarter ended June 30, 2021. We expect operating expenses to increase in total dollars and as a percentage of revenues as our revenue base increases.

Other Income (Expenses)

Other income/expenses increased by $2.1 million to a $1.1 million income in the three months ended June 30, 2022 compared to other expenses of $0.1 million in the corresponding fiscal period in 2021. The increase in other income in 2022 was primarily due to the change in fair value of derivative liability and PPP forgiveness.

Net Loss

Our net loss decreased by $1.2 million to a loss of $9.5 million for the three months ended June 30, 2022 compared to a loss of $10.7 million for the corresponding fiscal period in 2021 primarily due to the higher gross profit and other income in 2022, partially offset by the increase in the change in fair value of contingent consideration and other operating expenses.

Six Months Ended June 30, 2022 compared to Three Months Ended June 30, 2021

The following table presents our results of operations for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,	
	2022	2021
Net revenues	$ 7,171,411	$ 1,411,934
Cost of net revenues	3,526,833	1,224,886
Gross profit	3,644,578	187,048
General and administrative	9,601,467	9,099,978
Sales and marketing	2,745,863	1,094,103
Other operating expenses	7,546,013	3,184,343
Operating loss	(16,248,765)	(13,191,376)
Other income (expenses)	(1,118,101)	(1,630,177)
Loss before provision for income taxes	(17,366,866)	(14,821,553)
Provision for income taxes	—	1,100,120
Net loss	$ (17,366,866)	$ (13,721,433)

Net Revenues

Revenues increased by $5.8 million to $7.2 million for the six months ended June 30, 2022, compared to $1.4 million in the corresponding fiscal period in 2021. The increase was primarily due to full results in 2022 pertaining to the acquisition of H&J in May 2021 and Stateside in August 2021.

Gross Profit

Our gross profit increased by $3.5 million for the six months ended June 30, 2022 to $3.6 million from a gross profit of $0.2 million for the corresponding fiscal period in 2021. The increase in gross margin was primarily attributable to increased revenue in the six months ended June 30, 2022 and the gross profit achieved by H&J and Stateside since the acquisitions, as well as discounting and liquidation measures by both DBG and Bailey to sell aged inventory in 2021.

Our gross margin was 50.8% for six months ended June 30, 2022 compared to 13.2% for the six months ended June 30, 2021. The increase in the gross margin was due to H&J and Stateside's margins in 2021, as well as discounting and liquidation measures by both DBG and Bailey to sell aged inventory in 2021.

Operating Expenses

Our operating expenses increased by $6.5 million for the six months ended June 30, 2022 to $19.9 million compared to $13.4 million for the corresponding fiscal period in 2021. The increase in operating expenses was primarily due to the change in fair value of contingent consideration of $7.1 million and increased marketing expenses due to full scale operations of all subsidiaries in 2022.

Other Income (Expenses)

Other expenses decreased by $0.5 million to $1.1 million in the six months ended June 30, 2022 compared to other expenses of $1.6 million in the corresponding fiscal period in 2021. The increase in other expenses in 2022 was primarily due to amortization of debt discount and related interest expense, partially offset by the change in fair value of derivative liability and PPP forgiveness.

Net Loss

Our net loss increased by $3.6 million to a loss of $17.4 million for the six months ended June 30, 2022 compared to a loss of $13.7 million for the corresponding fiscal period in 2021 primarily due to increased operating expenses driven by the change in fair value of contingent consideration partially offset by the higher gross profit.

Liquidity and Capital Resources

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

As of June 30, 2022, we had cash of $802,724, but we had a working capital deficit of $38.4 million. The Company requires significant capital to meet its obligations as they become due. These factors raise substantial doubt about our Company's ability to continue as a going concern. Throughout the next twelve months, the Company plans to continue to fund its capital funding needs through a combination of public or private equity offerings, debt financings or other sources. There can be no assurance as to the availability or terms upon which such financing and capital might be available in the future. If the Company is unable to secure additional funding, it may be forced to curtail its business plans or file for bankruptcy protection.

On May 10, 2022, the Company sold 37,389,800 shares of its common stock pursuant to a Registration Statement on Form S-1 and related prospectus at a public offering price of $0.25 per share. The net proceeds from the offering, after deducting underwriting discounts and commissions and other offering expenses payable by the Company, was $8.1 million.

Cash Flow Activities

The following table presents selected captions from our condensed statement of cash flows for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,	
	2022	2021
Net loss	$ (17,366,866)	$ (13,721,433)
Non-cash adjustments	$ 8,647,035	$ 7,059,457
Change in operating assets and liabilities	$ 2,110,361	$ 66,038
Net cash used in operating activities	$ (6,609,470)	$ (6,595,937)
Net cash used in investing activities	$ —	$ (505,056)
Net cash provided by financing activities	$ 6,883,800	$ 10,600,928
Net change in cash	$ 274,330	$ 3,499,935

Cash Flows Used In Operating Activities

Our cash used by operating activities was $6.6 million for the six months ended June 30, 2022 and 2021. Cash used in operating activities was primarily driven by our net loss, partially offset by non-cash charges and cash provided by changes in operating assets and liabilities.

Cash Flows Provided By Investing Activities

Our cash used in investing activities was $0.5 million in 2021, which was primarily related to the cash consideration in the H&J acquisition.

Cash Flows Provided by Financing Activities

Cash provided by financing activities was $6.9 million for the six months ended June 30, 2022, compared to $10.6 million for the corresponding fiscal period in 2021. Cash inflows in the three months ended June 30, 2022 were primarily related to $7.3 million in equity proceeds after offering costs, $2.9 million from convertible notes and loans, partially offset by note repayments of $3.1 million. Cash inflows in the six months ended June 30, 2021 were primarily related to $8.6 million in net proceeds from the IPO after deducting underwriting discounts and commissions and offering expenses, as well as $1.4 million in net proceeds from the underwriter's exercise of their over-allotment option. Cash was also generated in 2021 from proceeds from loan payables of $2.6 million and proceeds from convertible notes payable of $0.5 million, partially offset by loan and note repayments of $2.0 million.

Contractual Obligations and Commitments

In March 2017, we entered into a senior credit agreement with an outside lender for up to $4,000,000, dependent upon the achievement of certain milestones. The initial close amount was a minimum of $1,345,000. The loan bears interest at 12.5% per annum, compounded monthly, including fees. A 5% closing fee is due upon each closing, legal and accounting fees of up to $40,000, and management fees of $4,167-$5,000 per month. As of June 30, 2022, we owed our senior secured lender approximately $6.3 million that is due on the scheduled maturity date of December 31, 2022.

We have $8.0 million in outstanding principal pertaining to our convertible notes which mature in various dates through 2023.

Critical Accounting Policies and Estimates

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

Emerging Growth Company Status

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

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

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, who serve as our principal executive officer and principal financial and accounting officer, respectively, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2022. In making this evaluation, our management considered the material weakness in our internal control over financial reporting described below. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of such date.

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

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

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

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

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

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

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must

be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently involved in, and may in the future be involved in, legal proceedings, claims, and government investigations in the ordinary course of business. These include proceedings, claims, and investigations relating to, among other things, regulatory matters, commercial matters, intellectual property, competition, tax, employment, pricing, discrimination, consumer rights, personal injury, and property rights. See Note 11 in the accompanying condensed consolidated financial statements for a complete listing of legal proceedings, which include:

- On March 25, 2020, a Bailey's product vendor filed a lawsuit against Bailey for non-payment of trade payables totaling $492,390. Approximately the same amount was held in accounts payable for this vendor in the accompanying consolidated balance sheets and the Company does not believe it is probable that losses in excess of such trade payables will be incurred. The Company and product vendor have entered into a settlement, which will require the Company make ten monthly payments of approximately $37,000, starting in May 2021. Upon completion of the payment schedule, any remaining amounts will be forgiven. If the Company fails to meet its obligations based on the prescribed time frame, the full amount will be due with interest, less payments made. The payment schedule was completed in 2022.

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

- In August 2020 and March 2021, two lawsuits were filed against Bailey's by third-party's related to prior services rendered. The claims (including fines, fees, and legal expenses) total an aggregate of $96,900. One matter was settled in February 2022 and the other matter is being actively worked on to achieve settlement.

- On September 24, 2020 a Bailey's product vendor filed a lawsuit against Bailey's non-payment of trade payables totaling approximately $481,000 and additional damages of approximately $296,000. Claimed amounts for trade payables are included in accounts payable in the accompanying consolidated balance sheets, net of payments made. In December 2021, the Company reached a settlement; however, the settlement terms were not met and a judgement was entered against the Company in the amount of $469,000.

- All claims above, to the extent management believes it will be liable, have been included in accounts payable and accrued expenses and other liabilities in the consolidated balance sheet as of June 30, 2022.

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

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Before investing in our common stock, you should consider carefully the risks described in our Report on Form 8-K filed on August 2, 2022, together with the other information contained in this Quarterly Report on Form 10-Q, including our financial statements and the related notes and in our other filings with the Securities and Exchange Commission. If any of the risks occur, our business, financial condition, results of operations and prospects could be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

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

Recent Sales of Unregistered Securities

During the six months ended June 30, 2022, the Company converted an aggregate of $1,432,979 in outstanding principal of convertible notes into 2,482,698 shares of common stock.

On April 8, 2022, the Company and various purchasers (the "Investors") executed a Securities Purchase Agreement (the "SPA") whereby the Investors purchased from the Company promissory notes (the "Notes") in the aggregate principal amount of $3,068,750.

In connection with the issuance of the Notes further to the SPA , the Company issued warrants to acquire 1,257,684 shares of its common stock at an exercise price of $1.22 per share expiring in April 2027.

On July 22, 2022, the Company and various purchasers (the "July Investors") executed a Securities Purchase Agreement (the "July SPA") whereby the Investors purchased from the Company 20% Original Issue Discount (the "OID") promissory notes (the "July Notes") in the aggregate principal amount of $1,250,000 (with an aggregate subscription amount of $1,000,000).

Use of Proceeds from Public Offering of Common Stock

The net proceeds the Company received from the sale of 37,389,800 shares of its common stock in the offering, after deducting underwriter discounts and commissions, the non-accountable expense, the underwriters' expense reimbursement and estimated offering expenses, was $8,051,285 based on a public offering price of $0.25 per share.

None of the underwriting discounts and commissions or offering expenses were paid directly or indirectly to any directors or officers of ours or their associates or to persons owning 10% or more of any class of equity securities or to any affiliates of ours.

We used the net proceeds to us from the IPO for general corporate purposes, including working capital, marketing initiatives and capital expenditures. Specifically, we used a portion of the net proceeds from the offering to repay the April 2022 Notes.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
2.1	Membership Interest Purchase Agreement dated October 14, 2020 among D. Jones Tailored Collection, LTD and Digital Brands Group (formerly known as Denim.LA, Inc.) (incorporated by reference to our Current Report on Form 1-U (File No. 24R-00032), filed with the Commission on November 18, 2020)
2.2	First Amendment to Membership Interest Purchase Agreement dated December 31, 2020 among D. Jones Tailored Collection, LTD and Digital Brands Group (formerly known as Denim.LA, Inc) (incorporated by reference to Exhibit 2.2 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 13, 2021)
2.3	Agreement and Plan of Merger with Bailey 44, LLC dated February 11, 2020 among Bailey 44, LLC, Norwest Venture Partners XI, and Norwest Venture Partners XII, LP and Digital Brands Group (formerly known as Denim.LA, Inc) (incorporated by reference to exhibit 7.1 of our Current Report on Form 1-U, filed with the Commission on February 13, 2020)
2.4	Second Amendment to Membership Interest Purchase Agreement Dated May 10, 2021 among D. Jones Tailored Collection, LTD and Digital Brands Group (formerly known as Denim. LA, Inc.) (incorporated by reference to Exhibit 2.4 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 11, 2021)
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to exhibit 2.1 of our Regulation A Offering Statement on Form 1-A (Commission File No. 024-10535), filed with the Commission on March 23, 2016)
3.2	Amendment to Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 13, 2021)
3.3	Form of Sixth Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.3 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 12, 2021)
3.4	Bylaws of the Registrant (incorporated by reference to exhibit 2.2 of our Regulation A Offering Statement on Form 1-A (Commission File No. 024-10535), filed with the Commission on March 23, 2016)
3.5	Form of Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.5 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 12, 2021)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 27, 2021)
4.2	Form of Warrant Agency Agreement, including Form of Warrant Certificate (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 27, 2021)
4.3	Form of Underwriter's Warrants (incorporated by reference to Exhibit 1.1 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 11, 2021)
4.4	Form of Lender's Warrants (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 27, 2021)
4.5	Form of Series Seed Preferred Stock Purchase Agreement (incorporated by reference to Exhibit 4.5 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 13, 2021)
4.6	Form of Series A Preferred Stock Subscription Agreement (incorporated by reference to exhibit 4 of our Form 1-A/A (Commission File No. 024-10718), filed with the Commission on March 23, 2016)
4.7	Form of Series A-2 Preferred Stock Subscription Agreement (incorporated by reference to exhibit 4.1 of our Form 1-A/A (Commission File No. 024-10718), filed with the Commission on August 8, 2017)
4.8	Form of Series A-3 Preferred Stock Subscription Agreement (incorporated by reference to exhibit 4 of our Form 1-A/A (Commission File No. 024-10718), filed with the Commission on September 13, 2018)

4.9	Form of Series CF Preferred Stock Purchase Agreement (incorporated by reference to Exhibit 4.9 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 13, 2021)
4.10	Form of 2019 Regulation D Convertible Note (incorporated by reference to Exhibit 4.10 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 11, 2021)
4.11	Form of 2020 Regulation D Convertible Note (incorporated by reference to Exhibit 4.11 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 11, 2021)
10.1	Form of Indemnification Agreement between the Registrant and each of its directors and officers (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 13, 2021)
10.2	Form of Option Agreement with each of John "Hil" Davis, Laura Dowling and Reid Yeoman (incorporated by reference to Exhibit 10.5 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 11, 2021)
10.3	Amendment No. 7 to Senior Credit Agreement, dated as of April 1, 2021 between bocm3-DSTLD-Senior Debt, LLC, bocm3-DSTLD-Senior Debt 2, LLC, Stockholders and Digital Brands Group (formerly known as Denim.LA, Inc) (incorporated by reference to Exhibit 10.15 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 27, 2021)
10.4	Form of Board of Directors Agreement, entered into by each of the Director Nominees (incorporated by reference to Exhibit 10.27 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on April 13, 2021)
10.5	Original Issue Discount Promissory Note by Digital Brands Group, Inc. in favor of Target Capital 2, LLC in the aggregate amount of $1,000,000 dated as of April 8, 2021 (incorporated by reference to Exhibit 10.29 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 11, 2021)
10.6	Consulting Agreement dated as of April 8, 2021 between Alchemy Advisory LLC and Digital Brands Group, Inc. (incorporated by reference to Exhibit 10.30 to our Registration Statement on Form S-1/A (Commission File No. 333-255193), filed with the Commission on May 11, 2021)
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 104	The cover page from this Quarterly Report on Form 10-Q, formatted in Inline XBRL.

* This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

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

DIGITAL BRANDS GROUP, INC.

August 15, 2022 By: */s/ John Hilburn Davi, IV*
John Hilburn Davis, IV, Chief Executive Officer

August 15, 2022 By: */s/ Reid Yeoman*
Reid Yeoman, Chief Financial Officer

EXHIBIT 31.1

Certification of Principal Executive Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, John Hilburn Davis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Digital Brands Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2022

By: */s/ John Hilburn Davis*
John Hilburn Davis
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Principal Financial Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Reid Yeoman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Digital Brands Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2022

By: */s/ Reid Yeoman*
Reid Yeoman
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report of Digital Brands Group, Inc. (the "Company") on Form 10-Q, for the fiscal quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Hilburn Davis, Chief Executive Officer of Digital Brands Group, Inc., certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: August 15, 2022

By: */s/ John Hilburn Davis*
John Hilburn Davis
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

In connection with the Quarterly Report of Digital Brands Group, Inc. (the "Company") on Form 10-Q, for the fiscal quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Reid Yeoman, Chief Financial Officer of Digital Brands Group, Inc., certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: August 15, 2022

By: */s/ Reid Yeoman*
Reid Yeoman
Chief Financial Officer
(Principal Financial Officer)