UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported)
November 16, 2022

DIGITAL BRANDS GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

001-40400 (Commission File Number)	**46-1942864** (IRS Employer Identification No.)
1400 Lavaca Street, Austin, TX (Address of Principal Executive Offices)	**78701** (Zip Code)

(209) 651-0172
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value $0.0001	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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the 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. ☐

Item 8.01 Other Events.

As previously reported on October 18, 2022, Digital Brands Group, Inc., a Delaware corporation (the "Company" or "DBG") entered into a Second Amended and Restated Membership Interest Purchase Agreement (the "Agreement") on October 13, 2022 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").

In connection with the proposed Acquisition, the Company is filing this Current Report on Form 8-K to provide the following financial information with respect to Sundry and the Company:

(1) unaudited pro forma combined balance sheets of DBG and Sundry as of September 30, 2022 and unaudited pro forma combined statements of operations for the nine months ended September 30, 2022 and the year ended December 31, 2021; and

(2) unaudited balance sheets of Sundry as of September 30, 2022 and December 31, 2021, and statement of operations for the nine months ended September 30, 2022 and 2021, filed as Exhibit 99.1 and incorporated by reference herein.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF SUNNYSIDE, LLC ("SUNDRY")

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the historical financial statements of the relevant entities and the pro forma financial statements and the notes thereto included elsewhere in this Report. This discussion and analysis contains forward- looking statements that involve risks and uncertainties. Sundry's actual results may differ materially from those anticipated in these forward-looking statements.

Overview

Sundry captures coastal casual style with a certain French Chic. Sundry is primarily a wholesale brand that we intend to transition to a digital, direct-to-consumer brand.

Net Revenue

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

Cost of Net Revenue

Sundry's cost of net revenue includes the direct cost of purchased and manufactured merchandise; inventory shrinkage; inventory adjustments due to obsolescence including excess and slow-moving inventory and lower of cost and net realizable reserves; duties; and inbound freight.

Operating Expenses

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

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

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

Sales and Marketing

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

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Results of Operations

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

	Nine Months Ended September 30,	
	2022	**2021**
Net revenues	$ 11,868,420	$ 18,151,326
Cost of net revenues	7,230,186	10,890,796
Gross profit	4,638,234	7,260,530
Operating expenses	5,674,950	6,319,131
Operating income (loss)	(1,036,716)	941,399
Other income (expenses)	(43,876)	638,661
Income (loss) before provision for income taxes	(1,080,592)	1,580,060
Provision for income taxes	(800)	(800)
Net income (loss)	$ (1,081,392)	$ 1,579,260

Net Revenues

Revenue decreased by $6.3 million for the nine months ended September 30, 2022 compared to the same period in 2021. The decrease was due to less e-commerce and wholesales sales as consumers and companies were affected by macroeconomic conditions.

Gross Profit

Sundry's gross profit decreased by $2.6 million for the nine months ended September 30, 2022 compared to the same period in 2021. The decrease in gross profit was primarily due to the corresponding decreases in revenues.

Sundry's gross margin was 39.1% and 40.0 for the nine months ended September 30, 2022 and 2021, respectively.

Operating Expenses

Sundry's operating expenses decreased by $0.6 million for the nine months ended September 30, 2022 compared to the same period in 2021. The decrease was primarily due to lower sales and marketing expenses, partially offset by increased personnel costs in general and administrative departments.

Other Income / Expenses

Other expenses consist of interest expense. In 2021, the Company recorded other income pertaining to PPP forgiveness.

Net Income

Sundry had a net loss of $1.1 million in 2022 compared to a net income of $1.6 million in 2021. The decrease in net income was primarily due to lower gross profit and other income recorded in 2021.

Cash Flow Activities

The following table presents selected captions from Sundry's statement of cash flows for the nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities:		
Net income (loss)	$ (1,081,392)	$ 1,579,260
Non-cash adjustments	40,500	(638,903)
Change in operating assets and liabilities	1,949,582	90,770
Net cash provided by operating activities	908,690	1,031,127
Net cash provided by (used in) investing activities	18,982	(5,000)
Net cash used in financing activities	(582,300)	(1,334,363)
Net change in cash	$ 345,372	$ (308,236)

Cash Flows Provided By Operating Activities

Sundry's cash provided by operating activities was $0.9 million in 2022 compared to cash provided by $1.0 million in 2021. The decrease in net cash provided by operating activities was primarily driven by the net loss in 2022, partially offset by non-cash adjustments.

Cash Flows Provided By Investing Activities

In 2022, Sundry received proceeds funds from a deposit and proceeds from the sale of property.

Cash Flows Provided by Financing Activities

Sundry's cash used in financing activities was $0.6 million in 2022, consisting of $1.0 million factor repayments, $0.1 million in member distributions and $0.5 million in related party repayments, partially offset by $1.0 million in related party advances. Sundry's cash used in financing activities was $1.3 million in 2021, consisting of factor repayments of $0.2 million and distributions of $1.2 million partially offset b $0.6 million in proceeds from loans.

Year Ended December 31, 2021 compared to Year Ended December 31, 2020

The following table presents Sundry's results of operations for the year ended December 31, 2021 and 2020:

	Year Ended December 31,	
	2021	2020
Net revenues	$ 22,800,825	$ 19,897,696
Cost of net revenues	13,638,553	8,525,612
Gross profit	9,162,271	11,372,084
Operating expenses	8,657,442	7,625,335
Operating income	504,829	3,746,749
Other income (expense)	1,249,881	(45,527)
Income before provision for income taxes	1,754,710	3,701,222
Provision for income taxes	800	800
Net income	$ 1,753,911	$ 3,700,422

Net Revenues

Revenue increased by $2.9 million for the year ended December 31, 2021 compared to 2020. The increase was due to due to recovered customer demand after COVID-19.

Gross Profit

Sundry's gross profit decreased by $2.2 million for the year ended December 31, 2021 compared to 2020. The decrease in gross profit was primarily due to increased product and global shipping costs

Sundry's gross margin was 40.2% and 57.2% for the years ended December 31, 2021 and 2020, respectively.

Operating Expenses

Sundry's operating expenses increased by $1.4 million for the year ended December 31, 2021 compared to 2020. The increase was primarily due to increased headcount and personnel costs in all departments, including general and administrative and sales.

Other Expenses

Other expenses primarily consist of interest expense. In 2022, we recorded $1.3 million in other income pertaining to PPP forgiveness.

Net Loss

Sundry had net income of $1.8 million in 2021 compared to $3.7 million in 2022. The decrease of $1.9 million was primarily due to lower gross profit and increased general and administrative expenses, partially offset by other income in 2022.

Cash Flow Activities

The following table presents selected captions from Sundry's statement of cash flows for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021	2020
Net cash provided by operating activities:		
Net income	$ 1,753,911	$ 3,700,422
Non-cash adjustments	$ (1,255,981)	$ 149,618
Change in operating assets and liabilities	$ 421,928	$ (1,880,989)
Net cash provided by (used in) operating activities	$ 919,859	$ 1,969,051
Net cash used in investing activities	$ -	$ (11,430)
Net cash provided by (used in) financing activities	$ (1,236,063)	$ (1,429,829)
Net change in cash	$ (316,204)	$ 527,792

Cash Flows Provided By Operating Activities

Sundry's cash provided by operating activities was $0.9 million in 2021 compared to cash provided of $2.0 million in 2020. The decrease in net cash provided by operating activities was primarily driven by the lower net income and non-cash items, partially offset by cash provided by changes in operating assets and liabilities, partially offset by Sundry's net loss in 2022.

Cash Flows Provided By Investing Activities

In 2020, Sundry purchased a nominal amount of property and equipment.

Cash Flows Provided by Financing Activities

Sundry's cash used in financing activities was $1.2 million in 2021, consisting of $1.9 million in member distributions partially offset by loan proceeds of $0.4 million and factor advances of $0.1 million. Sundry's cash used in financing activities was $1.4 million in 2020, consisting of $2.0 million in member distributions and factor repayments of $0.3 million, partially offset by loan proceeds of $0.8 million.

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following unaudited pro forma combined financial information presents the unaudited pro forma combined balance sheet and statement of operations based upon the combined historical financial statements of DBG and Sundry after giving effect to the business combinations and adjustments described in the accompanying notes.

The unaudited pro forma combined balance sheets of DBG and Sundry as of September 30, 2022 has been prepared to reflect the effects of the acquisition as if it occurred on June 30, 2022. The unaudited pro forma combined statements of operations for the nine months ended September 30, 2022 combine the historical results and operations of DBG and Sundry giving effect to the transaction as if it occurred on January 1, 2022. The unaudited pro forma combined statements of operations for the year ended December 31, 2021 combine the historical results and operations of DBG, Harper & Jones, Stateside and Sundry giving effect to the transactions as if they occurred on January 1, 2021.

The unaudited pro forma combined financial information should be read in conjunction with the audited and unaudited historical financial statements of each of DBG, Harper & Jones, Stateside and Sundry and the notes thereto. Additional information about the basis of presentation of this information is provided in Note 2 below.

The unaudited pro forma combined financial information was prepared in accordance with Article 11 of Regulation S-X. The unaudited pro forma adjustments reflecting the transaction have been prepared in accordance with business combination accounting guidance as provided in *Accounting Standards Codification Topic 805, Business Combinations* and reflect the preliminary allocation of the purchase price to the acquired assets and liabilities based upon the preliminary estimate of fair values, using the assumptions set forth in the notes to the unaudited pro forma combined financial information.

The unaudited pro forma combined financial information is provided for informational purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the transaction had been completed as of the dates set forth above, nor is it indicative of the future results or financial position of the combined company. In connection with the pro forma financial information, DBG allocated the purchase price using its best estimates of fair value. Accordingly, the pro forma acquisition price adjustments are preliminary and subject to further adjustments as additional information becomes available and as additional analyses are performed. The unaudited pro forma combined financial information also does not give effect to the potential impact of current financial conditions, any anticipated synergies, operating efficiencies or cost savings that may result from the transaction or any integration costs.

Furthermore, the unaudited pro forma combined statements of operations do not include certain nonrecurring charges and the related tax effects which result directly from the transaction as described in the notes to the unaudited pro forma combined financial information.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

	DBG	Sundry	Total	Pro Forma Adjustments	Pro Forma Combined
Net revenues	$ 10,595,933	$ 11,868,420	$ 22,464,353	$ -	$ 22,464,353
Cost of net revenues	5,298,011	7,230,186	12,528,197	-	12,528,197
Gross profit	5,297,922	4,638,234	9,936,156	-	9,936,156
Operating expenses:					
General and administrative	13,226,308	2,682,642	15,908,950	602,057(a)	16,511,007
Sales and marketing	3,971,280	2,260,763	6,232,043	-	6,232,043
Distribution	522,510	731,545	1,254,055	-	1,254,055
Change in fair value of contingent consideration	6,418,355	-	6,418,355	-	6,418,355
Total operating expenses	24,138,453	5,674,950	29,813,403	602,057	30,415,460
Loss from operations	(18,840,531)	(1,036,716)	(19,877,247)	(602,057)	(20,479,304)

Other income (expense):					
Interest expense	(6,050,492)	(43,876)	(6,094,368)	(110,000)(c)	(6,204,368)
Other non-operating income (expenses)	2,629,685	-	2,629,685	-	2,629,685
Total other income (expense), net	(3,420,807)	(43,876)	(3,464,683)	(110,000)	(3,574,683)
Income tax benefit (provision)	-	(800)	(800)	-	(800)
Net income (loss)	$ (22,261,338)	$ (1,081,392)	$ (23,342,730)	$ (712,057)	$ (24,054,787)

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2021

	DBG	H&J	Stateside	Sundry	Total	Pro Forma Adjustments	Pro Forma Combined
Net revenues	$ 7,584,859	$ 980,261	$ 3,269,481	$ 22,800,825	$ 34,635,426	$ -	$ 34,635,426
Cost of net revenues	4,689,200	350,004	1,194,693	13,638,553	19,872,450	-	19,872,450
Gross profit	2,895,659	630,257	2,074,788	9,162,271	14,762,976	-	14,762,976
Operating expenses:							
General and administrative	17,779,903	410,891	1,147,168	3,201,811	22,539,773	6,197,028(a)	28,736,800
Sales and marketing	3,810,583	349,338	514,742	4,374,667	9,049,330	-	9,049,330
Distribution	489,371	-	115,286	1,080,964	1,685,621	-	1,685,621
Impairment of intangible assets	3,400,000	-	-	-	3,400,000	-	3,400,000
Change in fair value of contingent consideration	8,764,460	-	-	-	8,764,460	-	8,764,460
Total operating expenses	34,244,317	760,229	1,777,195	8,657,442	45,439,184	6,197,028	51,636,212
Loss from operations	(31,348,658)	(129,972)	297,593	504,829	(30,676,207)	(6,197,028)	(36,873,235)
Other income (expense):							
Interest expense	(3,663,921)	(33,668)	-	(70,018)	(3,767,607)	(1,344,000)(b)	(5,111,607)
Other non-operating income (expenses)	1,554,502	-	(12,494)	1,319,899	2,861,907	(1,319,899)(c)	1,542,008
Total other income (expense), net	(2,109,419)	(33,668)	(12,494)	1,249,881	(905,699)	(2,663,899)	(3,569,598)
Income tax benefit (provision)	1,100,120	-	-	(800)	1,099,320	-	1,099,320
Net income (loss)	$ (32,357,957)	$ (163,640)	$ 285,099	$ 1,753,911	$ (30,482,587)	$ (8,860,927)	$ (39,343,514)

UNAUDITED PRO FORMA COMBINED BALANCE SHEET AS OF SEPTEMBER 30, 2022

	DBG	Sundry	Total	Pro Forma Adjustments		Pro Forma Combined
ASSETS						
Current assets:						
Cash and cash equivalents	$ 195,399	$ 762,607	$ 958,006	$ -		$ 958,006
Accounts receivable, net	378,455	238,779	617,234	-		617,234
Due from factor, net	638,781	416,226	1,055,007	-		1,055,007
Inventory	2,655,352	4,003,153	6,658,505	-		6,658,505
Prepaid expenses and other current assets	940,334	170,602	1,110,936	-		1,110,936
Total current assets	4,808,321	5,591,367	10,399,688	-		10,399,688
Deferred offering costs	367,696	-	367,696	-		367,696
Property, equipment and software, net	46,454	112,602	159,056	-		159,056
Goodwill	18,264,822	-	18,264,822	254,689	(b)	18,519,511
Intangible assets, net	11,227,876	-	11,227,876	9,760,267	(a), (b)	20,988,143
Deposits	137,794	9,612	147,406	-		147,406
Right of use asset	152,387		152,387			152,387
Total assets	$ 35,005,350	$ 5,713,581	$ 40,718,931	$ 10,014,956		$ 50,733,887
LIABILITIES AND STOCKHOLDERS' DEFICIT						
Current liabilities:						
Accounts payable	$ 6,945,633	$ 1,345,197	$ 8,290,830	$ -		$ 8,290,830
Accrued expenses and other liabilities	3,952,366	490,396	4,442,762	-		4,442,762
Deferred revenue	396,374	-	396,374	-		396,374
Due to related parties	209,943	495,000	704,943	-		704,943
Contingent consideration liability	18,597,831	-	18,597,831	-		18,597,831
Convertible notes, current	8,075,872	-	8,075,872	-		8,075,872
Accrued interest payable	2,103,161	-	2,103,161	-		2,103,161
Note payable - related party	179,489	-	179,489	-		179,489
Loan payable, current	1,426,885	-	1,426,885	-		1,426,885
Promissory note payable, current	3,500,000	-	3,500,000	-		3,500,000
Right of use liability, current portion	152,387		152,387	-		152,387
Total current liabilities	45,539,941	2,330,593	47,870,535	-		47,870,535
Loan payable	298,900	-	298,900	5,500,000	(b)	5,798,900
Derivative liability	1,690,807	-	1,690,807	-		1,690,807
Total liabilities	47,529,648	2,330,593	49,860,242	5,500,000		55,360,242
Stockholders' equity (deficit):						
Preferred stock	1	-	1	-		1
Common stock	53	-	53	-		53
Additional paid-in capital	75,440,940	-	75,440,940	8,500,000	(b)	83,940,940

Members' equity	-	3,382,987	3,382,987	(3,382,987)	(b)	-
Accumulated deficit	(87,965,292)	-	(87,965,292)	(602,057)		(88,567,349)
Total stockholders' equity (deficit)	(12,524,298)	3,382,987	(9,141,310)	4,514,956		(4,626,354)
Total liabilities and stockholders' equity (deficit)	$ 35,005,350	$ 5,713,581	$ 40,718,931	$ 10,014,956		$ 50,733,887

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

1. Description of Transactions

On February 12, 2020, the Company 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.

Sundry

On October 13, 2022, Digital Brands Group, Inc., a Delaware corporation (the "Company" or "DBG"), entered into a Second 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").

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) $7.5 million in cash, of which (a) $2.5 million first shall be paid to each of George Levy and Matthieu Leblan (for a total of $5 million); (b) $900,000 will be used to pay off outstanding indebtedness of Sundry and (c) the remaining $1.6 million will be paid to each of the Sellers, Jenny Murphy and Elodie Crichi pro rata in accordance to the percentages set forth in the Agreement; (ii) $5.5 million in promissory notes issued by the Company to each of the Sellers, Jenny Murphy and Elodie Crichi pro rata in accordance to the percentage set forth in the Agreement; and (iii) $1 million paid in the Company's common stock, with a par value of $0.0001 per share (the "Buyer Shares"), at $0.11 per share, which is the per share closing price of the Buyer Shares on Nasdaq on October 13, 2022 (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. Each promissory note carries an initial per annual interest rate of eight percent (8%) and a maturity date of February 15, 2023.

2. Basis of Presentation

The historical financial information has been adjusted to give pro forma effect to events that are directly attributable to the transaction, (ii) factually supportable, and (iii) with respect to the unaudited pro forma combined balance sheets and unaudited pro forma combined statements of operations, expected to have a continuing impact on the combined results.

The transactions were accounted for as a business acquisition whereas Harper & Jones, Stateside and Sundry are the accounting acquirees and DBG is the accounting acquirer.

3. Consideration Transferred – Sundry

Cash	$ 7,500,000
Promissory note payable	5,500,000
Common stock	1,000,000
Purchase price consideration	$ 14,000,000

As a result of the acquisition, DBG recorded pro forma intangible assets of $10,362,323, including $3,137,643 attributable to brand name and $7,224,680 attributable to customer relationships. DBG recorded $254,689 in pro forma goodwill representing the remaining excess purchase price of the fair value of net assets acquired and liabilities assumed.

The following table shows the preliminary allocation of the purchase price for Sundry to the acquired net identifiable assets and pro forma goodwill:

Assets acquired	$ 5,713,581
Goodwill	254,689
Intangible assets	10,362,323
Liabilities assumed	(2,330,593)
Purchase price consideration	$ 14,000,000

(a) To recognize amortization on the intangible assets recorded as a result of the acquisition.

(b) To record the purchase price allocation of the Sundry pro forma acquisition, including the recognition of goodwill and intangible assets, purchase price consideration by DBG, and elimination of Sundry's equity.

(c) To record interest expense on the note issued in the acquisition.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description

99.1	Unaudited balance sheets of Sunnyside, LLC as of September 30, 2022 and December 31, 2021, and statements of operations for the nine months ended September 30, 2022 and September 30, 2021
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to 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 hereunto duly authorized.

DIGITAL BRANDS GROUP, INC.

Date: November 14, 2022.

By: /s/ John Hilburn Davis IV
Name: John Hilburn Davis IV
Title: President and Chief Executive Officer

SUNNYSIDE, LLC, dba Sundry

UNAUDITED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2022 AND 2021

Sunnyside, LLC, dba Sundry

Index to the Financial Statements

As of September 30, 2022

Sunnyside, LLC, dba Sundry

BALANCE SHEETS

UNAUDITED

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash	$ 762,607	$ 417,235
Accounts receivable, net of allowance	238,779	124,342
Due from factor	416,226	590,022
Inventory	4,003,153	4,917,128
Prepaid expenses and other current assets	170,602	219,902
Total current assets	5,591,367	6,268,628
Fixed assets, net	112,602	161,954
Deposits	9,612	19,742
Total assets	$ 5,713,581	$ 6,450,324
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,345,197	$ 1,142,671
Accrued liabilities	490,396	773,274
Loan payable, related party	495,000	-
Total liabilities	2,330,593	1,915,945
Commitments and contingencies (Note 7)		
Members' equity	3,382,987	4,534,379
Total members' equity	3,382,987	4,534,379
Total liabilities and members' equity	$ 5,713,581	$ 6,450,324

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

Sunnyside, LLC, dba Sundry

STATEMENTS OF OPERATIONS

UNAUDITED

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net revenues	$ 11,868,420	$ 18,151,326
Cost of goods sold	7,230,186	10,890,796
Gross profit	4,638,234	7,260,530

Operating expenses:		
General and administrative	2,682,642	2,286,956
Distribution	731,545	863,185
Sales and marketing	2,260,763	3,168,990
Total operating expenses	5,674,950	6,319,131
Income (loss) from operations	(1,036,716)	941,399
Other income (expense), net		
Other income	-	689,171
Interest expense	(43,876)	(50,510)
Total other income (expense), net	(43,876)	638,661
Provision for income taxes	800	800
Net income (loss)	$ (1,081,392)	$ 1,579,260

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

Sunnyside, LLC, dba Sundry

STATEMENTS OF MEMBERS' EQUITY

UNAUDITED

	Members' Equity
Balances at December 31, 2020	$ 4,630,468
Distributions	(1,780,000)
Net income	1,579,260
Balances at Sep 30, 2021	$ 4,429,728
Balances at December 31, 2021	$ 4,534,379
Distributions	(70,000)
Net loss	(1,081,392)
Balances at Sep 30, 2022	$ 3,382,987

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

Sunnyside, LLC, dba Sundry

STATEMENTS OF CHANGES IN CASH FLOWS

UNAUDITED

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash flows from operating activities:		
Net income (loss)	$ (1,081,392)	$ 1,579,260
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	40,500	43,200
Bad debt	-	7,068
Other income - PPP forgiveness	-	(689,171)
Changes in operating assets and liabilities:		
Accounts receivable	(114,438)	(140,037)
Due from factor	1,181,097	721,984
Inventory	913,975	938,206
Prepaid expenses and other current assets	49,300	(109,952)
Accounts payable	202,526	(690,300)
Accrued liabilities	(282,878)	(629,131)
Net cash provided by operating activities	908,690	1,031,127
Cash flows from investing activities:		
Purchase of property and equipment	-	(5,000)
Proceeds from sale of property and equipment	8,852	-
Deposits	10,130	-
Net cash provided by (used in) investing activities	18,982	(5,000)
Cash flows from financing activities:		
Proceeds from loans payable	-	630,637
Proceeds from loan payable, related party	995,000	-

Repayments to loan payable, related party	(500,000)	-
Factor advances (repayments), net	(1,007,300)	(185,000)
Distributions	(70,000)	(1,780,000)
Net cash used in financing activities	(582,300)	(1,334,363)
Net change in cash and cash equivalents	345,372	(308,236)
Cash at beginning of period	417,235	733,440
Cash at end of period	$ 762,607	$ 425,204
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 800	$ 800
Cash paid for interest	$ 43,876	$ 50,510

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

Sunnyside, LLC, dba Sundry

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

NOTE 1 — NATURE OF OPERATIONS

Sunnyside, LLC, dba Sundry, (the “Company”) was formed on January 1, 2014, in the State of California.

The Company is headquartered in Los Angeles and its principal business activity is the design and manufacture of coastal casual women’s apparel. The Company sells predominantly to department and specialty stores located throughout the United States of America and internationally. The Company also sells directly to the consumer through its website.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Unaudited Interim Financial Information

The accompanying financial statements for the nine months ended September 30, 2022 and the related note disclosures are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in our opinion, reflect all adjustments, consisting of only normal recurring adjustments, necessary to present fairly our financial position as of September 30, 2022 and results of operations, and cash flows for the nine months ended September 30, 2022 and 2021. The results for the nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or for any other periods. These unaudited financial statements should be read in conjuncture with the annual financial statements filed in the Digital Brands Group, Inc. prospectus on Form 424B4 on May 9, 2022.

Use of Estimates

Preparation of the financial statements in conformity with U.S. GAAP requires us to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could ultimately differ from these estimates. It is reasonably possible that changes in estimates may occur in the near term.

Risks and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. While the majority of pandemic related restrictions have been lifted, the Company expects to continue to have periodic issues in 2022 and potentially beyond, that may be a result of lingering pandemic related issues, including but not limited to: supply chain delays, human capital hiring and retention, and remaining restrictions in geographical locations where we source products and services from.

Fair Value of Financial Instruments

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

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

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

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

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

Fair-value estimates discussed herein are based upon certain market assumptions and pertinent information available to us as of September 30, 2022 and December 31, 2021. Fair values of the Company's financial instruments were assumed to approximate carrying values because of the instruments' short-term nature.

Cash

The Company maintains its cash in various commercial banks in the United States ("U.S."). Accounts at U.S. banks are insured by the Federal Deposit Insurance Corporation up to $250,000. While the Company's accounts at these institutions, at times, may exceed the federally insured limits, management believes that the risk of loss is not significant and the Company has not experienced any losses in such accounts to date.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and are non-interest-bearing. An allowance for doubtful accounts is maintained based on the length of time receivables are past due, the status of a customers' financial position, and other factors. As of September 30, 2022 and December 31, 2021, there was an allowance for doubtful accounts of $19,000.

Inventory

Inventory consists of raw materials purchased from the Company's suppliers, work in progress and finished goods. Inventory is valued at the lower of first-in, first-out, cost, or net realizable value. As of September 30, 2022 and December 31, 2021, there was an allowance for obsolescence of $100,000.

Fixed Assets, Net

Fixed assets are stated at cost less accumulated depreciation. The Company's fixed assets are depreciated using the straight-line method over the estimated useful life of three (3) to seven (7) years. Leasehold improvements are depreciated over the lesser of the term of the respective lease or estimated useful economic life. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets in accordance with Accounting Standards Codification ("ASC") 360-10-35,*Impairment or Disposal of Long-Lived Assets*. Under that directive, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Such group is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such factors and circumstances exist, the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives are compared against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. For the nine months ended September 30, 2022 and 2021, there were no impairment charges.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606 - *Revenue from Contracts with Customers* (ASC 606). The Company determines revenue recognition through the following steps:

- Identification of a contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the performance obligations are satisfied.

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between customer payment and the transfer of goods or services is expected to be one year or less.

In accordance with ASC 606, the Company recognizes revenue via the sale of the Company's merchandise to its customers. Sales contracts (purchase orders) generally have a single performance obligation, which is satisfied upon shipment of merchandise at a point in time. Revenue is measured based on the consideration stated on an invoice, net of estimated returns, chargebacks, and allowances for other deductions based upon management's estimates and the Company's historical experience. The Company accepts product returns from customers in line with the Company's return policy, with each return depending on the underlying reason for and timing of the returned merchandise.

Wholesale revenues are recognized upon shipment of product to the customer. Revenues are recorded, net of expected returns, discounts and allowances. The Company reviews and refines these estimates using historical trends, seasonal results and current economic and market conditions.

E-commerce revenues of products ordered through the Company's website are recognized upon shipment to the customers. E-commerce revenues are also reduced by expected returns and discounts.

The Company evaluates the allowance for sales returns and allowances based on historical percentages, utilizing a multiple-month lookback period. As part of its evaluation, the Company considers actual returns and allowances to date that are in process and its actual sales within the past months that may result in returns and allowances in the future. The allowance for sales returns is recorded within accrued expenses and amounted to approximately $66,000 and $73,000 at September 30, 2022 and December 31, 2021, respectively. Under ASC 606, the Company also records an asset on the balance sheet within prepaid expenses and other current assets for the cost of the estimated returns of inventory, which amounted to approximately $29,700 and $30,000 at September 30, 2022 and December 31, 2021, respectively.

Utilizing the practical expedient provided for under ASC 606, the Company has elected to expense sales commissions related to product sales as incurred as the amortization period is generally one year or less for the time between customer purchase and utilization. These fees are recorded within sales and marketing expenses on the statement of operations.

Cost of Goods Sold

Cost of goods sold consist of the costs of inventory sold and inbound freight. The Company includes outbound freight associated with shipping goods to customers as a component of distribution expenses as noted below.

Shipping and Handling Fees and Costs

The Company includes shipping and handling fees billed to customers within revenues. The costs associated with shipping goods to customers are recorded within distribution expenses and amounted to approximately $449,000 and $580,000 for the nine months ended September 30, 2022 and 2021, respectively.

Advertising

The Company expenses advertising costs as incurred. Advertising costs expensed were approximately $318,000 and $594,000 for the nine months ended September 30, 2022 and 2021, respectively.

Income Taxes

The Company is a limited liability company (LLC) classified as a partnership for federal income tax purposes, which provides for profits and losses to be reported at the individual member level for income tax purposes. The Company pays the necessary amount of distributions in order to satisfy the member's estimated personal income tax liabilities arising from the Company's profits. The state of California imposes an annual fee on the LLC based on the level of gross revenue of the LLC. As of December 31, 2021 and 2020, the Company does not have any entity-level uncertain tax positions. The Company files income tax returns in the U.S. federal and California state jurisdictions. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three to four years from the filing of a tax return.

Concentration of Credit Risk

Concentrations — The Company had one customer which accounted for 61% of accounts receivable as September 30, 2022. During the nine months ended September 30, 2022, one customer accounted for 25% of the Company's revenues.

Suppliers — The Company relies on a small number of vendors for raw materials and inventory purchases. Management believes that the loss of one or more of these vendors would have a material impact on the Company's financial position, results of operations and cash flows. Purchases from two suppliers amounted to approximately 23% of total purchases for the nine months ended September 30, 2022. The Company had two suppliers which accounted for 23% of accounts payable as of September 30, 2022.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability, measured on a discounted basis, the balance sheet for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of operations. A modified retrospective transition approach is required for capital and operating leases existing at the date of adoption, with certain practical expedients available. The Company adopted the new guidance on January 1, 2022, but did not have any impact on its financial statements as the Company had no applicable leases.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. Several amendments to this new guidance have also been issued by the FASB between 2016 and 2020. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. The Company is evaluating the impact of this guidance, which is effective for the Company beginning on January 1, 2023, although early adoption is permitted.

NOTE 3 - DUE FROM FACTOR

Pursuant to the terms of a continuing agreement between the Company and a factor, the Company sells a significant portion of its trade accounts receivable to a factor on a pre-approved, non-recourse basis. The price at which the accounts are sold is the invoice amount reduced by the factor commission and all selling discounts. For accounts sold to the factor without recourse, the factor is responsible for collection, assumes all credit risk and obtains all of the rights and remedies against the Company's customers. For such accounts, payment is due from the factor upon the earlier of the payment of the receivable to the factor by the customer, or the maturity of the receivable. Certain receivables are subject to recourse in the event of non-payment by the customer.

The Company may request advances prior to the collection of accounts receivable. Advances are granted at the sole discretion of the factor and are payable upon demand. The factor charges interest on advances at the higher of the prime rate plus 2.00% or 4.00% per annum. The factoring agreement is collateralized by substantially all of the Company's assets.

Due from factor consists of the following:

	September 30, 2022	December 31, 2021
Outstanding receivables		
Without recourse	$ 702,432	$ 1,886,591
With recourse	580	11,000
	703,012	1,897,591
Advances	(202,000)	(1,209,300)
Credits due customers	(84,787)	(98,269)
Due from factor	$ 416,226	$ 590,022

NOTE 4 — INVENTORY

The Company had inventories consisting of the following:

	September 30, 2022	December 31, 2021
Raw materials	$ 1,422,049	$ 1,746,722

Work in progress	1,588,803	1,951,549
Finished goods	992,301	1,218,857
Inventory	$ 4,003,153	$ 4,917,128

NOTE 5 — FIXED ASSETS, NET

Fixed assets, net, are comprised of the following:

	September 30, 2022	December 31, 2021
Leasehold improvements and showrooms	$ 198,658	$ 198,658
Furniture and equipment	174,005	183,005
Automobiles	34,220	34,072
	406,883	415,735
Less: accumulated depreciation and amortization	(294,281)	(253,781)
Fixed assets, net	$ 112,602	$ 161,954

Depreciation and amortization expense was $40,500 and $43,200 for the nine months ended September 30, 2022 and 2021, respectively.

NOTE 6 — DEBT

On February 23, 2021, the Company received a second draw PPP loan for approximately $631,000. The loan bore interest at 1% per annum and was to be repaid in full no later than five years from the disbursement date. The monthly payments were to be an amount equal to the amount necessary to fully amortize the then-outstanding principal balance at the specified interest rate and continue through maturity, if required. The second draw PPP was subject to the same forgiveness provisions as the first loan received in May 2020.

On June 28, 2021, the Company received full forgiveness of the Company's first PPP loan from the SBA, and on December 6, 2021, the Company received full forgiveness of the second draw PPP loan from the SBA. Accordingly, the Company recorded a gain of approximately $689,000 during the nine months ended September 30, 2022.

See Note 9 for related party loan.

NOTE 7 — COMMITMENTS AND CONTINGENCIES

Litigation

The Company is not currently involved with, and does not know of any, pending or threatened litigation against the Company or any of its officers.

Leases

The Company leases its office and showroom facilities in Los Angeles, California. The leases expire at various dates through April 2022 with base rents ranging from $4,000 to $15,000. One of the lease agreements is guaranteed by a member of the Company. As of September 30, 2022, all leases are month-to-month and there are no future commitments.

Total rent expense for the nine months ended September 30, 2022 and 2021 amounted to approximately $241,000 and $274,000, respectively.

NOTE 8 — MEMBERS' EQUITY

During the nine months ended September 30, 2022 and 2021, member distributions totaled $70,000 and $1,780,000, respectively.

The debts, obligations, and liabilities of the Company, whether arising in contract, tort, or otherwise, are solely the debts, obligations, and liabilities of the Company, and no member of the Company is obligated personally for any such debt, obligation, or liability.

NOTE 9 — RELATED PARTY TRANSACATIONS

During the nine months ended September 30, 2022, two members advanced the Company an aggregate of $995,000, of which $500,000 was repaid and $495,000 remained outstanding as of September 30, 2022. The loans are unsecured, non-interest bearing, and are due on demand.

During the nine months ended September 30, 2022, the Company paid $338,115 to a vendor that is owned by a Member of the Company for inventory production.

NOTE 10 — SUBSEQUENT EVENTS

The Company has evaluated subsequent events that occurred through November 16, 2022, the issuance date of these financial statements.