HYLETE, INC.

UNAUDITED FINANCIAL STATEMENTS

AS OF AND FOR THE PERIOD ENDED

JUNE 30, 2017

HYLETE, INC.
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HYLETE, INC.
BALANCE SHEETS
AS OF JUNE 30, 2017 (UNAUDITED) AND DECEMBER 31, 2016 (AUDITED)

	June 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,105,593	$ 1,175,019
Accounts receivable	27,937	101,105
Inventory	1,274,242	1,523,943
Vendor deposits	149,146	177,304
Other current assets	53,792	56,735
Total current assets	2,610,710	3,034,107
Non-Current Assets:		
Property & equipment, net	352,870	296,109
Intangible assets	107,668	99,271
Other non-current assets	-	11,350
Total non-current assets	460,538	406,731
TOTAL ASSETS	$ 3,071,248	$ 3,440,838
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 320,058	$ 477,360
Accrued expenses	520,294	387,765
Bridge note, net of issuance costs	195,714	191,429
Capital lease obligations, current portion	20,579	19,689
Total current liabilities	1,056,645	1,076,242
Non-Current Liabilities:		
Capital lease obligations, net of current	20,431	30,948
Loan payable, net of debt issuance costs	2,526,117	2,376,385
Preferred stock warrant liability	625,191	625,191
Total non-current liabilities	3,171,740	3,032,525
Total liabilities	4,228,385	4,108,767
Preferred Stock:		
Series A preferred stock, no par value, 1,712,200 total shares authorized, 1,712,200 issued and outstanding at December 31, 2016 and June 30, 2017 (liquidation preference of $466,064 as of June 30, 2017)	449,314	380,480
Series A-1 preferred stock, no par value, 5,970,300 total shares authorized, 5,970,300 issued and outstanding at December 31, 2016 and June 30, 2017 (liquidation preference of $2,591,757 as of June 30, 2017)	2,533,354	2,168,569
Series A-2 preferred stock, no par value, 5,971,000 total shares authorized, 4,721,500 issued and outstanding at December 31, 2016 and June 30, 2017 (liquidation preference of $2,980,205 as of June 30, 2017)	2,935,786	3,068,655
Total preferred stock	5,918,454	5,617,704
Stockholders' Deficit:		
Class A Common Stock, no par value, 30,000,000 shares authorized, 7,824,600 issued and outstanding at December 31, 2016 and June 30, 2017	116,758	116,758
Class B Common Stock, no par value, 6,000,000 shares authorized, 1,000,000 issued and outstanding at June 30, 2017	764,130	-
Accumulated deficit	(7,956,480)	(6,402,392)
Total stockholders' equity (deficit)	(7,075,591)	(6,285,634)
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)	$ 3,071,248	$ 3,440,838

See Accompanying Notes to Financial Statements.

HYLETE, INC.
STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017	June 30, 2016
	Amount	**Amount**
Net Sales	$ 3,965,211	$ 3,022,427
Cost of Sales	1,845,265	1,461,890
Gross Profit	2,119,946	1,560,536
Operating Expenses:		
Selling and marketing	1,222,047	934,234
General and administrative	1,179,819	866,462
Shipping and distribution	575,467	505,906
Intangible asset impairment	-	-
Total Operating Expenses	2,977,333	2,306,603
Loss from Operations	(857,387)	(746,066)
Interest Expense	395,951	118,687
Net Loss	$ (1,253,338)	$ (864,753)
Basic and diluted loss per common share	$ (0.14)	$ (0.11)
Weighted average shares - basic and diluted	8,824,600	7,824,600

See Accompanying Notes to Financial Statements.

HYLETE, INC.
STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE PERIODS ENDED JUNE 30, 2017 (UNAUDITED) AND
DECEMBER 31, 2016 AND 2015 (AUDITED)

	Common Stock		Additional	Accumulated	Stockholders'
	Shares	Amount	Paid in Capital	Deficit	Deficit
Balance as of December 31, 2015	7,824,600	116,758	-	(3,783,990)	(3,667,232)
Net Loss	-	-	-	(2,093,802)	(2,093,802)
Dividend accretion of Preferred Stock	-	-	(7,456)	(477,436)	(484,892)
Amortization of issuance costs on Preferred Stock	-	-	-	(47,164)	(47,164)
Stock-based compensation	-	-	7,456	-	7,456
Balance as of December 31, 2016	7,824,600	$ 116,758	$ -	$ (6,402,392)	$ (6,285,634)
Net Loss	-	-	-	(1,253,338)	(1,253,338)
Issuance of Class B Common stock	-	-	-	764,130	764,130
Dividend accretion of Preferred Stock	-	-	-	(277,078)	(277,078)
Amortization of issuance costs on Preferred Stock	-	-	-	(23,672)	(23,672)
Balance as of June 30, 2016	7,824,600	$ 116,758	$ -	$ (7,192,350)	$ (7,075,591)

See Accompanying Notes to Financial Statements.

HYLETE, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,253,338)	$ (864,753)
Adjustments:		
Depreciation & amortization	97,477	79,912
Amortization of debt discount	149,732	39,477
Changes in:		
Accounts receivable	73,168	36,929
Inventory	249,702	899,311
Vendor deposits	28,157	3,939
Prepaid expenses	2,943	46,370
Other non current assets	11,350	-
Accounts payable	(157,302)	(334,432)
Accrued expenses	132,529	62,735
Other	-	(97)
Net Cash from Operating Activities	(665,582)	(30,611)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property & equipment	(154,237)	(2,328)
Purchases of intangible assets	(8,397)	(50,802)
Net Cash from Investing Activities	(162,634)	(53,130)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings/(payments) on line of credit	-	(402,034)
Net borrowings/(payments) on capital leases	(9,627)	(5,813)
Proceeds from the issuance of Class B Common stock	764,130	-
Financing costs related to bridge note	4,286	-
Net Cash from Financing Activities	758,789	(407,847)
NET INCREASE/(DECREASE) IN CASH & EQUIVALENTS	(69,427)	(491,588)
CASH & CASH EQUIVALENTS, beginning of year	1,175,019	671,617
CASH & CASH EQUIVALENTS, end of year	$ 1,105,593	$ 180,029
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES		
Issuance of Series A-2 Preferred Stock Warrant Liability	$ -	$ 625,191
Accretion of Preferred Stock Dividends	$ 277,078	$ 484,892
Accretion of Preferred Stock Discount	$ 23,672	$ -

See Accompanying Notes to Financial Statements.

Note 1 – Nature of Business

Hylete, LLC (the "LLC") was organized under the laws of the State of California on March 26, 2012. The LLC was formed to design, develop, and distribute premium performance apparel primarily direct to consumers through its own website, events, and affiliate marketing partners, as well as select third party ecommerce retailers. The LLC was converted to a C-Corporation effective January 2015.

Hylete, Inc. (the "Company") was organized under the laws of the State of California in January 2015, upon conversion from the LLC. There was no change in operations as a result of the conversion. The original members' capital contributions were converted into preferred and common stock.

Note 2 – Summary of Significant Accounting Policies

Basis for Presentation - These unaudited financial statements of Hylete, Inc. have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America ("GAAP") for interim consolidated financial information and in accordance with Rule 8-03 of Regulation S-X per Regulation A requirements. Certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements of the Company as of and for the years ended December 31, 2016 and 2015. The results of operations for the six months ended June 30, 2017 and 2016 are not necessarily indicative of the results that may be expected for the full year.

Managements' plans - Since inception the Company has relied upon debt and equity securities to fund operations. The Company expects to fund operations for the next year by increasing the existing credit facility by up to $1.0 million, and through the issuance of up to 6 million Class B Common shares.

Accounting estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

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

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

Level 1
Observable inputs – unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2
Observable inputs – other than the quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data; and

Level 3
Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable.

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

Revenue recognition – Revenues are recognized upon shipment of product and when title has been passed to customers. Revenue is recorded net of estimated returns, chargebacks, and markdowns based upon management's estimates and the Company's historical experience. The Company generally allows a 60 day right of return to its customers. The Company had a reserve for returns of approximately $34,000 and $15,000 recorded within accrued expenses as of June 30, 2017 and 2016, respectively.

Cost of sales - Cost of sales consists primarily of inventory and warranty costs.

Shipping and handling – The Company recognizes shipping and handling billed to customers as a component of net sales, and the cost of shipping and handling as a component of operating expenses. Total shipping and handling billed to customers as a component of net sales was approximately $319,000 and $212,000 for the periods ended June 30, 2017 and June 30, 2016, respectively. Total shipping and handling costs included in operating expenses was approximately $339,000 and $272,000 for the periods ended June 30, 2017 and June 30, 2016, respectively.

Advertising and promotion – Advertising and promotional costs are expensed as incurred. Advertising and promotional expense for the periods ended June 30, 2017 and June 30, 2016 amounted to approximately $488,000 and $218,000, respectively, which is included in selling and marketing expense.

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

Basic (loss) per common share - Basic (loss) per share is calculated by dividing the Company's net loss applicable to common shareholders by the weighted average number of common shares during the period. Diluted earnings per share is calculated by dividing the Company's net loss available to common shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted number of shares adjusted for any potentially dilutive debt or equity. The Company's common stock equivalents consist of common stock issuable upon the conversion of preferred stock, and exercise of options and warrants. As of June 30, 2017 and June 30, 2016, the effect of dilutive securities were anti-dilutive and thus aren't included.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Company has evaluated subsequent events through August 31, 2017, which is the date the financial statements were available to be issued.

Note 3 – Property and Equipment

Property and equipment consisted of the following as of:

	June 30, 2017	December 31, 2016
Website development	$ 372,975	$ 224,925
Auto	105,772	105,772
Leasehold improvements	79,598	79,598
Office furniture, fixtures and equipment	53,157	53,157
Retail fixtures	36,452	36,452
Computer hardware and software	37,221	31,033
	$ 685,173	$ 530,936
Accumulated Depreciation	(332,303)	(234,827)
	$ 352,870	$ 296,109

Depreciation and amortization expense related to property and equipment amounted to approximately $98,000 and $80,000 for the periods ended June 30, 2017 and June 30, 2016, respectively.

Note 4 – Line of Credit

On December 23, 2015, the Company entered into a revolving line of credit agreement with a lender. The agreement allowed for a maximum availability of $1,500,000 and accrued interest annually at a rate equal to the Prime Rate plus 8.75% (12.25% at December 31, 2015). Advances were calculated based on the amount of eligible inventory, as defined in the agreement, and collections were to be paid into a collection account at a financial institution to be selected by the lender. The agreement also contained certain financial and non-financial covenants and was secured by substantially all of the Company's assets. All principal and accrued interest was paid in full during the year ended December 31, 2016 and the line of credit agreement was terminated. In connection with the termination, the Company paid a termination fee of approximately $54,000.

Note 5 – Convertible Debt

As of December 31, 2015, the Company had an outstanding convertible note payable balance of approximately $882,000, net of debt issuance costs of approximately $20,000. The debt accrued interest at 5% per annum and matured in June 2016. The note had two conversion options, mandatory and optional. These options were to be at the discretion of the Company. Mandatory conversion would take place upon the closing of Qualified Financing (net proceeds of at least $2,000,000) that occured before the maturity date. At that time, the note (including all principal and unpaid interest) would automatically be converted into the number of shares equal to the sum of the outstanding principal balance under the note plus accrued and unpaid interest computed as of the date of conversion, divided by the lesser of: (A) eighty percent (80%) of the price per share of the equity securities sold in the Qualified Financing (rounded to the nearest whole share), and (B) the value of a share of the Company's equity securities on a fully diluted basis at a pre-money enterprise valuation of the Company of $15,000,000. As both are contingent events, a beneficial conversion feature was not recorded upon issuance.

Under the optional conversion, the debt would be converted into the number of shares by taking the total amount of all unpaid principal and interest and divided by the same price per share as the Company's last round of financing. Under the optional conversion method in June 2016, approximately $928,000 of convertible debt principal, including accrued interest, was converted into 1,804,600 shares of Series A-2 Preferred Stock. The conversion price was that which had been paid by other Series A-2 shareholders.

Note 6 – Bridge Note Payable

On August 19, 2015, the Company received $200,000 under a Senior Bridge Note (the "Bridge Note") agreement, with an initial maturity date of December 31, 2016. The Bridge Note holder is an investor and a member of the Company's board of directors. From August 19, 2015 through December 31, 2015, the Bridge Note accrued interest at 1% per month, paid on a monthly basis. In November 2016, the Bridge Note maturity date was extended to December 31, 2017 and the accrued interest rate increased to 1.5% per month. In connection with the extension, the Company paid fees of $10,000 for which were recorded as a discount to the Bridge Note. The discount is being amortized using the straight-line method over the term of the Bridge Note. No principal payments have been made on the Bridge Note through June 30, 2017.

Note 7 – Loan Payable

On July 29, 2016, the Company entered into a senior credit agreement with a lender with principal due three years from the date of issuance. The lender has offered the Company up to $3,150,000, which accrues interest at a rate equal to 12.50% per annum, compounded monthly. The Company pays the interest on a monthly basis and, thus, does not have any interest accrued as of June 30, 2017 related to this agreement. The agreement contains certain affirmative covenants related to the timely delivery of financial information to the lender, as well as certain customary negative covenants. The agreement also includes a financial covenant related to the Company's liquidity and requires a minimum cash balance of $250,000 to be maintained. As of June 30, 2017, the Company was in compliance with all financial and non-financial covenants. The senior credit agreement is secured by substantially all of the Company's assets and shareholder shares in which have been pledged as additional collateral.

Note 8 – Preferred Stock Warrant Liability

During the year ended December 31, 2016, the Company issued Series A-2 Preferred Stock warrants in conjunction with a debt agreement (Notes 7 and 11). The Series A-2 Preferred Stock is contingently redeemable and, accordingly, the related warrants have been presented as a liability in accordance with ASC 480. Warrants that are treated as a liability are measured to estimated fair value at each reporting period. The fair value of the preferred stock warrant liability has been measured under the Level 3 hierarchy, and was approximately $625,000 as of the year ended December 31, 2016.

Note 9 – Preferred Stock

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

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

In June 2016, approximately $928,000 of convertible debt principal, including accrued interest, was converted into 1,804,600 shares of Series A-2 Preferred Stock (Note 5).

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

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

In the event of liquidation, cumulative preferred dividends accrue from the issuance date, whether or not such dividends are declared or paid. Preferred dividends accrue at 12% per annum. Accrued dividends accrete directly to retained earnings (or accumulated deficit). For the periods ended June 30, 2017 and December 31, 2016, the Company recorded accretion of $277,078 and $484,892, respectively. No dividends have been declared or paid to date.

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

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

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

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

Redemption rights – The holders of at least 75% of the then outstanding shares of preferred stock, voting together on an as-if-converted basis, may require the Company to redeem the preferred stock at any time on or after the fifth anniversary of the most recent issuance of convertible securities, currently

January 13, 2020. The redemption date shall be at least 180 days after the date of such notice from preferred stock holders and shall be brought into effect from the Company by paying cash in exchange for the shares of preferred stock in a sum equal to the original issue price per share of the preferred stock (Series A initially equal to $0.1917 per share, Series A-1 initially equal to $0.3078 per share and Series A-2 initially equal to $0.5143 per share) plus unpaid dividends with respect to such shares, whether or not declared by the Board of Directors. Due to the potential redemption of the Series A, Series A-1 and Series A-2 being outside of the Company's control, the preferred stock has been presented outside of stockholders' deficit on the accompanying balance sheets.

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

Summary of Preferred Stock Transactions

During the periods ended June 30, 2017 and December 31, 2016, the Company amortized discounts on preferred stock to accumulated deficit of $23,672 and $46,439, respectively. The discounts were the result of placement fees paid in connection with the issuance of the preferred stock.

Note 10 – Common Stock

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

During the period ended June 30, 2017, the Company authorized the sale and issuance of 1,000,000 shares of Class B Common Stock at a purchase price of $1.00 per share for total gross proceeds of $1,000,000.

Note 11 – Stock Warrants

In 2016, the Company issued 1,249,500 Series A-2 Preferred Stock warrants in connection with the loan payable (Note 7). The warrants have an exercise price of $0.0143 per share and expire ten years after issuance.

Management determined that the fair market value of the Series A-2 Preferred Stock warrants granted as of December 31, 2016 was approximately $625,000, which has been recorded as a liability as of December 31, 2016 (Note 8).

Note 12 – Stock Option Plan

The Company’s Equity Incentive Plan (the “Incentive Plan”), permits the grant of incentive and nonqualified stock options for up to 1,746,500 shares of common stock. As of June 30, 2017, there were 662,900 shares available for issuance under the Plan. Key employees, defined as employees, directors, non-employee directors and consultants, are eligible to be granted awards under the Plan. The Company believes that such awards promote the long-term success of the Company.

Note 13 – Retirement Plan

The Company has a 401(k) Plan (the "Plan") covering employees who meet eligibility requirements. Employees are eligible to contribute any amount of their earnings, up to the annual federal maximum allowed by law. The employer contributions to the 401(k) plan are determined on a yearly basis at the discretion of Management.

Note 14 – Major Suppliers and Customers

For the periods ended June 30, 2017 and December 31, 2016, purchases from two suppliers represented approximately 32% and 45%, respectively, of total supplier purchases. As of June 30, 2017, approximately $42,000, or 13% of accounts payable, was due to these suppliers. As of December 31, 2016, approximately $229,000, or 48% of accounts payable, was due to these suppliers.

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

Note 15 – Subsequent Events

On July 28, 2017, the Company extended its existing senior credit facility by $1,000,000 under principally the same terms and conditions of the initial agreement.

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