THIRTY THREE THREADS, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

THIRTY THREE THREADS, INC. AND SUBSIDIARY

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PKF San Diego, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of Thirty Three Threads Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Thirty Three Threads Inc. and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thirty Three Threads Inc. and Subsidiary as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company suffered losses from continuing operations and has significant cash used in operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PKF San Diego, LLP

San Diego, California
March 29, 2022

PKF San Diego, LLP

2020 Camino del Rio North, Suite 500, San Diego, CA 92108
T: (619) 238 1040 **F:** (619) 237 5177 **E:** info@pkfsandiego.com **W:** www.pkfsandiego.com

THIRTY THREE THREADS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2021 AND 2020

ASSETS

		2021		Restated 2020
Current assets:				
Cash	$	1,471,201	$	459,001
Accounts receivable, net		625,679		904,386
Prepaid expenses		357,508		266,361
Other receivables, current portion		150,000		4,000
Inventories, net		4,165,557		3,572,345
Total current assets		6,769,945		5,206,093
Property and equipment, net		244,878		363,918
Intangible assets, net		437,513		384,065
Operating lease right-of-use asset, net of accumulated amortization		280,000		476,785
Other receivables, non-current portion		-		150,000
Deposits and other assets		25,912		70,332
Total assets	$	7,758,248	$	6,651,193

LIABILITIES AND SHAREHOLDERS' EQUITY

		2021		Restated 2020
Current liabilities:				
Accounts payable	$	3,366,685	$	2,380,991
Accrued expenses and other liabilities		477,204		930,838
Line of credit		1,000,000		850,000
Notes payable - related parties, current portion		114,401		68,814
Note payable - financial institution, current portion		113,261		200,633
Note payable - Federal government, current portion		3,202		-
Operating lease obligation, current portion		243,673		163,288
Finance lease obligations, current portion		23,414		20,865
Total current liabilities		5,341,840		4,615,429
Subordinated convertible note payable		1,476,244		960,406
Notes payable - related parties, net of current portion		59,540		188,287
Note payable - financial institution, net of current portion		464,539		401,267
Note payable - Federal government, net of current portion		146,798		-
Operating lease obligation, net of current portion		84,752		328,425
Finance lease obligations, net of current portion		29,628		38,844
Total liabilities		7,603,341		6,532,658
Commitments and contingencies (Notes 2 and 12)				
Shareholders' equity:				
Series A Convertible Preferred stock no par value; 1,865,500 shares authorized, 683,230 and 0, issued and outstanding as of June 30, 2021 and 2020, respectively		1,045,000		-
Common stock no par value; 50,000,000 shares authorized, 13,815,984 and 13,280,385 shares issued and outstanding as of June 30, 2021 and 2020, respectively		1,482,444		879,808
Stock subscriptions receivable		(37,087)		-
Additional paid-in capital		73,576		56,074
Shareholder note receivable		(413,883)		(416,126)
Accumulated other comprehensive loss		(1,341)		-
Accumulated deficit		(1,993,802)		(401,221)
Total shareholders' equity		154,907		118,535
Total liabilities and shareholders' equity	$	7,758,248	$	6,651,193

See accompanying notes to the consolidated financial statements

THIRTY THREE THREADS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	Restated 2020
Net revenue	$ 15,004,343	$ 14,339,485
Cost of revenue	(5,280,821)	(4,854,339)
Gross profit	9,723,522	9,485,146
Selling, general, and administrative expenses	(11,633,282)	(10,032,668)
Loss from continuing operations	(1,909,760)	(547,522)
Other income (expense):		
Forgiveness of debt	601,900	-
Interest expense	(292,880)	(186,540)
Interest and other income	10,706	11,861
Total other income (expense)	319,726	(174,679)
Loss from continuing operations before income taxes	(1,590,034)	(722,201)
Income tax provision	(800)	(26,414)
Net loss from continuing operations	(1,590,834)	(748,615)
Discontinued operations:		
Net income from discontinued operations (including gain on disposal of $1,647,490 in 2020), net of income taxes	-	1,615,759
Net (loss) income	(1,590,834)	867,144
Less: income from discontinued operations attributable to non-controlling interest	-	(339,715)
Net (loss) income	(1,590,834)	527,429
Other comprehensive loss, net of tax:		
Foreign currency translation	(1,341)	-
Comprehensive (loss) income	$ (1,592,175)	$ 527,429

See accompanying notes to the consolidated financial statements

THIRTY THREE THREADS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	Series A Convertible Preferred stock		Common stock					Accumulated		Retained		
	Shares	Amount (No par value)	Shares	Amount (No par value)	Stock Subscriptions Receivable	Additional Paid-in Capital	Shareholder Note Receivable	Other Comprehensive Loss	Members' Equity (Deficit)	Earnings (Accumulated Deficit)	Non-controlling Interest	Total Shareholders' Equity
Balance, June 30, 2019, as previously stated	-	$ -	13,280,385	$ 879,808	$ -	$ 1,672	$ (416,688)	$ -	$ (38,772)	$ 873,060	$ (9,694)	$ 1,289,386
Prior period adjustment	-	-	-	-	-	-	-	-	-	(442,688)	-	(442,688)
Balance, June 30, 2019 as restated	-	-	13,280,385	879,808	-	1,672	(416,688)	-	(38,772)	430,372	(9,694)	846,698
Compensation expense in connection with options granted	-	-	-	-	-	4,224	-	-	-	-	-	4,224
Warrants issued in conjunction with subordinated note payable	-	-	-	-	-	50,178	-	-	-	-	-	50,178
Shareholders' distributions	-	-	-	-	-	-	-	-	-	(162)	-	(162)
Shareholder note receivable	-	-	-	-	-	-	562	-	-	-	-	562
Net income (loss)	-	-	-	-	-	-	-	-	1,358,860	(831,431)	339,715	867,144
Disposal of discontinued operations	-	-	-	-	-	-	-	-	(1,320,088)	-	(330,021)	(1,650,109)
Balance, June 30, 2020, as restated	-	-	13,280,385	879,808	-	56,074	(416,126)	-	-	(401,221)	-	118,535
Compensation expense in connection with options granted	-	-	-	-	-	17,502	-	-	-	-	-	17,502
Warrants exercised in conjunction with subordinated note payable	-	-	165,060	990	-	-	-	-	-	-	-	990
Shareholders' distributions	-	-	-	-	-	-	-	-	-	(1,747)	-	(1,747)
Shareholder note receivable	-	-	-	-	-	-	2,243	-	-	-	-	2,243
Foreign currency translation	-	-	-	-	-	-	-	(1,341)	-	-	-	(1,341)
Net proceeds from issuance of preferred shares	683,230	1,045,000	-	-	-	-	-	-	-	-	-	1,045,000
Net proceeds from issuance of common stock	-	-	370,539	601,646	(37,087)	-	-	-	-	-	-	564,559
Net loss	-	-	-	-	-	-	-	-	-	(1,590,834)	-	(1,590,834)
Balance, June 30, 2021	683,230	$ 1,045,000	13,815,984	$ 1,482,444	$ (37,087)	$ 73,576	$ (413,883)	$ (1,341)	$ -	$ (1,993,802)	$ -	$ 154,907

See accompanying notes to the consolidated financial statements

THIRTY THREE THREADS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	Restated 2020
Cash flows from operating activities of continuing operations:		
Net loss from continuing operations	$ (1,590,834)	$ (748,615)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	220,916	250,627
Change in allowance for doubtful accounts	177,027	59,106
Inventory reserve	(72,880)	555,648
Stock option expense	17,502	4,224
Amortization of right-of-use assets	196,785	127,511
Amortization of warrant expense	15,838	10,584
Interest income on shareholder note receivable	(4,257)	(3,938)
Forgiveness of note payable - financial institution	(601,900)	-
Changes in assets and liabilities:		
Accounts receivable	101,680	(252,754)
Prepaid expenses	(91,147)	(188,183)
Inventories	(520,332)	(856,036)
Deposits and other assets	48,420	(62,130)
Reduction in operating lease obligation	(163,288)	(112,583)
Accounts payable	985,694	(53,868)
Accrued expenses and other liabilities	(453,634)	(52,795)
Net cash used in operating activities of continuing operations	(1,734,410)	(1,323,202)
Cash flows from investing activities of continuing operations:		
Purchases of property and equipment	(8,375)	(96,477)
Intangible assets	(131,548)	(93,843)
Net cash used in investing activities of continuing operations	(139,923)	(190,320)
Cash flows from financing activities of continuing operations:		
Collection on shareholder note receivable	6,500	4,500
Borrowings (repayments) on line of credit	150,000	(100,000)
Borrowings on related parties notes payable	-	257,101
Repayments on related parties notes payable	(83,160)	-
Borrowings on subordinated note payable	500,000	949,822
Proceeds from issuance of warrants	-	50,178
Proceeds from exercise of warrants	990	-
Borrowings on note payable - financial institution	577,800	601,900
Proceeds on note payable - Federal government	150,000	-
Principal payments on finance lease obligations	(22,068)	(14,928)
Proceeds from issuance of preferred stock, net	1,045,000	-
Proceeds from issuance of common stock, net	564,559	-
Shareholder distributions	(1,747)	(162)
Net cash provided by financing activities of continuing operations	2,887,874	1,748,411
Net cash provided by continuing operations	1,013,541	234,889
Net cash used in discontinued operations	-	(255,037)
Foreign translation loss on investment	(1,341)	-
Net increase (decrease) in cash	1,012,200	(20,148)
Cash at beginning of year	459,001	479,149
Cash at end of year	$ 1,471,201	$ 459,001
SUPPLEMENTARY DISCLOSURES		
Cash paid during the year for:		
Interest	$ 271,237	$ 74,054
Income taxes	$ 51,608	$ 1,620
Non-cash investing and financing activities:		
Establishment of right-of-use asset - operating lease per ASC 842	$ -	$ 604,296
Establishment of operating lease obligation per ASC 842	$ -	$ 604,296
Establishment of right-of-use assets - finance lease per ASC 842	$ 15,401	$ 74,637
Establishment of finance lease obligations per ASC 842	$ 15,401	$ 74,637
Stock subscriptions receivable	$ 37,087	$ -
Common stock - stock subscriptions receivable	$ 37,087	$ -

See accompanying notes to the consolidated financial statements

NOTE 1 – NATURE OF BUSINESS

Thirty Three Threads, Inc. ("Thirty Three Threads"), formerly known as ToeSox, Inc., was originally incorporated, in the state of California, in 2004 but then changed its name in 2015. Thirty Three Threads is engaged in the design, development, manufacturing and distribution of functional footwear, apparel and accessories. Thirty Three Threads purchased the assets of Tavi Noir in September 2015, and owns the brands and related intellectual property for ToeSox, Tavi Noir and Base 33. Products are manufactured in China and imported to a warehouse in Mexico or shipped directly to international distributors. The ToeSox, Tavi Noir and Base 33 product lines include numerous styles of specialty socks, gloves, apparel and accessories that are marketed primarily to yoga, Pilates, barre, dance and other athletic enthusiasts. Sales are generated primarily in the United States with international sales in Canada as well as Asia Pacific ("APAC"), Europe, Middle East, and Africa ("EMEA").

In February 2021, the Company opened a subsidiary, Thirty Three Threads AG ("AG"), in Switzerland. The AG office oversees all accounts in the EMEA market and all AG financial results are consolidated with Thirty Three Threads, Inc.

Park Center Holdings, LLC ("PCH") was an entity, related through common ownership, which owned real estate and leased the property to Thirty Three Threads. Thirty Three Threads and PCH also shared administrative functions. In November 2019, common ownership completed the sale of the owned real estate. After the sale, common ownership does not beneficially own any assets related to PCH. Accordingly, the assets, liabilities, and results of operations of PCH have been presented as "discontinued operations" for all periods presented. Thirty Three Threads, AG, and PCH are collectively referred to as the "Company".

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). References to the "ASC" included hereinafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative GAAP.

Consolidation

The consolidated financial statements include the accounts of Thirty Three Threads, AG and PCH. All material intercompany balances have been eliminated in consolidation.

Fiscal Year

The Company operates and reports using a fiscal year ended June 30 of each year. The Company's current fiscal year ran from July 1, 2020 through June 30, 2021 ("Fiscal Year").

Accounting estimates

The preparation of the consolidated financial statements in conformity with 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. Significant estimates made include the allowance for doubtful accounts, which is estimated based on current and historical customer practices; stock option expense, which is calculated based on the fair value of each option award estimated on the grant date using the Black-Scholes valuation model; inventory obsolescence, which is estimated based on projected and historical inventory movement; and lease liability and right-of-use asset, which is calculated based on certain assumptions such as borrowing rate, likelihood of lease extensions to occur, and asset valuation. Actual results could materially differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The Company's financial instruments consist of cash, accounts receivable, other receivables, accounts payable, accrued expenses and other liabilities, line of credit and notes and leases payable. The carrying values are considered to be representative of their fair market value, due to the short maturity of these instruments. The carrying value of the long-term portion of the notes and leases payable represents fair value as the terms approximate those currently available for similar debt instruments.

Cash

For the purposes of reporting cash flows, cash includes cash on hand, checks received but not yet deposited and short-term investments with an original maturity of ninety days or less. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At times, the account balances can exceed the insured limit. At June 30, 2021, the Company had a cash balance of $1,094,288.

Accounts receivable

The Company carries its accounts receivable at invoiced amounts less allowances for doubtful accounts and other deductions. The Company does not accrue interest on its trade receivables. Management evaluates the ability to collect accounts receivable based on a combination of factors. An allowance for doubtful accounts is maintained based on the length of time receivables are past due or the status of a customer's financial position. Receivables are considered past due based upon the credit terms extended to customers. Receivables are written off to expense in the period deemed uncollectible after collection efforts have proven unsuccessful. The Company recorded an allowance for doubtful accounts of $92,181 and $61,660 at June 30, 2021 and 2020, respectively. The Company recorded a reserve of receivables, for estimated returns from customers, of $146,507 and $0 at June 30, 2021 and 2020, respectively.

Inventories

Inventories are comprised of purchased finished goods and are stated at the lower of weighted average cost or net realizable value. Management periodically reviews inventory for excess quantities and obsolescence and evaluates quantities on hand for physical condition and functionality as these characteristics may be impacted by customer demand for current products and new product introductions. The reserve is adjusted based on such evaluation, with a corresponding provision included in cost of revenues. The Company periodically reviews the value of items in inventory and has established a reserve for write-downs or write-offs based on its assessment of seasonal, discontinued, and obsolete products. Based on review of inventory during 2021, management decreased the reserve for obsolete inventory by approximately $72,900 at June 30, 2021.

Inventories consist of the following at June 30:

	2021	2020
Inventories at cost	$ 3,963,806	$ 3,799,589
Purchases in transit	739,292	383,177
Inventory reserve	(537,541)	(610,421)
Inventories, net	$ 4,165,557	$ 3,572,345

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from three to fifteen years. Leasehold improvements are amortized over the shorter of the term of the related lease or the estimated useful lives of the assets. Depreciation and amortization expense related to property and equipment amounted to $142,816 and $135,191 for the years ended June 30, 2021 and 2020, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

The Company accounts for intangible assets in accordance with ASC 350, *Goodwill, and Other Intangible Assets*. Accordingly, intangible assets with finite useful lives are amortized while intangible assets with indefinite lives are not amortized, but rather are tested for impairment annually, or upon relevant events and circumstances that could have an impact on the fair value. Any required impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value and is recorded as a reduction of the carrying value of the related asset and a charge to operating results. Based on impairment tests as of June 30, 2021 and 2020, the Company determined that there was no impairment of its intangible assets with indefinite lives. Amortization expense related to intangible assets amounted to $78,100 and $115,436 for the years ended June 30, 2021 and 2020, respectively.

Accrued expenses and other liabilities

In accordance with applicable accounting guidance, the Company accrues liabilities that are impacted by estimates related to general operating expenses, such as payroll and royalty expenses. Management estimates reflect the probable liability as of the balance sheet date. In determining the adequacy of estimated liabilities, the Company performs ongoing evaluations based on available information.

Revenue recognition

The Company has various contracts with customers. The Company's contracts specify that revenues from product sales are recognized at the time the product is shipped, primarily FOB shipping point, which is when the transfer of control of goods has occurred, and at which point title passes. There are contracts with other shipping terms, such as FOB destination, and revenue is recognized according to those specific terms. Revenue is recorded net of estimated returns and sales discounts given to customers. The Company does not allow for unapproved returns, except in the event of defective merchandise, and has established an allowance for returns based on historical experience which have averaged less than four percent. In addition, the Company has contracts with customers wherein the customers receive sales discounts. The Company evaluated the status of these contracts, as of June 30, 2021, and does not believe that any additional discounts will be given through the end of the contract periods. The Company sells its products to domestic and international distributors, directly to customers through its online store, and through commission agreements with various studio fitness chains and retailers. See Note 11 for geographic detail of revenue.

Rental income, which is included in discontinued operations on the consolidated statements of operations, is recognized as rents become due.

Shipping and handling

Shipping and handling fees billed to customers are recorded in net revenue. Total shipping revenue for the years ended June 30, 2021 and 2020 amounted to $334,667 and $257,803, respectively. The costs associated with shipping goods to customers are included in cost of revenue.

Marketing and advertising

The Company expenses marketing and advertising costs as they are incurred. Marketing and advertising costs for the years ended June 30, 2021 and 2020 were $1,088,154 and $662,380, respectively, which are included in selling, general, and administrative expenses.

Sales tax

Taxes collected from the Company's customers are included in accrued expenses and other liabilities until the taxes are remitted to the appropriate taxing authorities. Taxes collected are excluded from revenues.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Until June 30, 2019, Thirty Three Threads had elected to be taxed under the provisions of subchapter S of the Internal Revenue Code. Under these provisions, Thirty Three Threads did not pay federal corporate income taxes on its taxable income; however, it was subject to a 1.5% California franchise tax. In addition, the shareholders were liable for individual federal and state income taxes on the entity's taxable income. Thirty Three Threads disbursed the funds necessary to satisfy the shareholders' estimated personal income tax liabilities. Effective July 1, 2019, the Company elected to be taxed as a C Corporation. Income taxes are accounted for under the asset and liability method. Deferred income taxes are recorded to reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and income tax purposes and for the expected future tax benefit to be derived from tax loss and credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and tax loss carry-forwards are to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. PCH is an LLC, which is not a tax paying entity at the corporate level. Each member is individually responsible for their share of the entity's income or loss for income tax reporting purposes. In accordance with the entity's operating agreement, the entity may disburse funds necessary in order to satisfy the members' estimated income tax liabilities. LLCs registered in the State of California are subject to an annual minimum state franchise tax of $800 and an LLC fee based upon revenues up to a maximum of $11,790.

The Company is liable for federal, cantonal and municipal income taxes for the AG company. As of June 30, 2021, the Company has accrued $36,500 of expense related to this liability.

Uncertain tax positions

The Company accounts for uncertain tax positions in accordance with ASC 740, *Income Taxes*. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as de-recognition, interest, penalties, and disclosures required. As of June 30, 2021 and 2020, the Company does not have any entity-level uncertain tax positions. The Company files U.S. federal and California state income tax returns, which are subject to examination by the taxing authorities for three to four years from filing of a tax return. Currently no audits for any tax periods are in progress.

The Company's policy is to record interest and penalties on uncertain tax positions as income tax expense. As of June 30, 2021 and 2020, the Company has no accrued interest or penalties related to uncertain tax positions.

Stock-based compensation

The Company follows the guidance of the accounting provisions of ASC 718, *Share-based Compensation*, which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (warrants and options). The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Management's estimate of expected volatility was based on a sampling of companies with attributes similar to those of the Company. The risk-free rate was based on the U.S. Treasury rate on instruments with terms similar to the expected lives of the options. Expected lives were determined using the simplified method. The Company has elected to account for forfeitures as they occur.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based compensation (continued)

The fair value of options and warrants granted during the years ended June 30, 2021 and 2020, respectively, were estimated on the date of grant using the following weighted average assumptions:

	2021	2020
Dividend yield	0%	0%
Expected volatility	23% - 63%	30% - 53%
Risk-free interest rate	0.72% - 1.0%	0.5% - 1.6%
Expected lives (in years)	6.5	6.5

Going concern

The Company's financial statements have been prepared assuming that it will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

As reflected in the consolidated financial statements, the Company had a net loss from continuing operations and net cash used in operating activities of continuing operations for the years ended June 30, 2021 and 2020. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company is continuing to expand operations while generating revenue and reinforcing its positive relationships with key vendors and customers. The Company's current cash position may not be sufficient to support the Company's daily operations, however, management anticipates receiving additional funding from private investors via equity sales and loans. In addition, existing shareholders have cash resources through the sale of PCH to contribute to the capital needs of the Company.

While management believes the Company's strategy is viable for continuing operations, generating sufficient revenue, and raising additional funds, there can be no assurances to that effect.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plan, generate sufficient revenue and its ability to raise additional funds by way of a public or private offering.

The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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 March 29, 2022, which is the date the financial statements were available to be issued.

On July 1, 2021, the Company signed an amendment to a distributor agreement with an international customer. The amendment extends the agreement to January 15, 2022, modifies minimum purchases, discounts, invoicing, return of goods, marketing contributions and payment terms. The agreement included conversion of part of the customer's outstanding accounts receivable balance of $207,308 to a non-interest bearing note receivable consisting of monthly payments of $17,276 starting in July 2021.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events (continued)

On July 20, 2021, a second modification agreement was signed with Comerica Bank. In conjunction with this agreement the Company made a payment of $100,000 on August 27, 2021 and was to pay $800,000 by September 30, 2021. The maturity date of the note was changed to July 31, 2022 and certain loan covenants were waived through July 31, 2022. The Company failed to pay the $800,000 by September 30, 2021 and on December 31, 2021, a third modification agreement was signed with Comerica Bank. In conjunction with this third amendment, payments of $50,000 on December 31, 2021, $100,000 on January 3, 2022, $100,000 on January 15, 2022, $100,000 on January 31, 2022 and $50,000 on February 28, 2022 were made. The maturity date of the note was changed to March 22, 2022. The LIBOR rate was replaced by the SOFR rate and no further advances are permitted under the note. The loan was paid in full on March 23, 2022.

On July 27, 2021, 248,447 shares of Series A convertible preferred stock were issued to a private equity firm for $1.61 per share.

On August 9, 2021, a second amendment to the lease agreement for office space was agreed upon. The lease is extended to January 31, 2026 and includes modification of the monthly rent payments by 2.8% in year 1, (2.6)% in year 2, and 5% in each year 3, 4 and 5. The building owner agreed to provide $100,000 in building improvements in the first year.

On August 11, 2021, the Company agreed to a second amendment to the preferred stock agreement with a private equity firm. The amendment modifies the debt-to-equity conversion to be split into three tranches of $500,000 each. The agreement identifies specific revenue and EBITDA targets that must be achieved in order for the debt-to-equity conversions to occur. The private equity firm paid the Company $400,000 for 248,447 shares of Series A convertible preferred stock on July 27, 2021.

On September 29, 2021, the second PPP loan of $577,800 was forgiven.

On October 15, 2021, a private equity firm converted $500,000 of debt into 310,559 shares of Series A convertible preferred stock.

In October and November 2021, 6,147 shares of common stock were issued, at an average price of $1.89 per share, as a result of additional crowd funding.

On December 15, 2021, a private equity firm converted $500,000 of debt into 310,559 shares of Series A convertible preferred stock.

On December 17, 2021, stock options in the amount of 1,190,081 were forfeited.

On December 27, 2021, the Company entered into an amendment, to the preferred stock purchase agreement, which expands the subordinated credit facility by $1,750,000. $500,000 of the funds, received under this new agreement, shall be used to pay amounts owed to the private equity firm. The liquidation preference for the $1,000,000, that was converted from debt to equity, is $1.67 times the Series A convertible preferred stock issuance price.

On January 7, 2022, the Company acquired certain assets of a company in Utah that sells and distributes fitness tote bags and backpacks. The Company paid $1.0 million in cash, issued 250,000 shares of common stock and agreed to pay the seller a percentage of future sales in exchange for the assets.

During March 2022, the Company entered into a short term note payable for up to $1.14 million, with a related company, bearing interest at 10% per annum. The Company has borrowed approximately $360,000 under this agreement as of March 29, 2022.

Right-of-use asset and lease liability

In February 2016, FASB issued an accounting standards update which requires lessees to recognize most leases on the balance sheet with a corresponding right-of-use asset. Right-of-use assets represent the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Right-of-use asset and lease liability (continued)

Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of fixed lease payments over the lease term. Leases are classified as financing or operating which drive the expense recognition pattern. The Company has elected to exclude short-term leases. The Company adopted this guidance as of July 1, 2019.

The adoption of this standard resulted in an operating lease right-of-use asset and operating lease obligation being recorded in the amount of $604,296 relating to the Company's building lease agreement. The Company also has several lease agreements for computer equipment and a copy machine, all of which are classified as finance leases. Finance lease assets of $90,038 and $74,637 relating to these agreements as of June 30, 2021 and 2020, respectively, were recorded in net property and equipment, with finance lease obligations of $53,042 and $59,709 recorded on the balance sheet for June 30, 2021 and 2020, respectively. The right-of-use assets and lease liabilities for the Company's operating and finance leases will be amortized over the lives of the underlying leases. For additional information, see Note 12. The Company has elected not to reassess whether expired or existing contracts contain leases or reassess the classification of existing leases as of the adoption date. Some of the leases include the option to renew and the exercise of the renewal options is at the Company's sole discretion. Options to extend or terminate a lease are considered in the lease term to the extent that the option is reasonably certain of exercise. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Restatements for prior period adjustments

As of and for the year ended June 30, 2019, management determined that there were errors in the financial statements, whereby, the Company improperly recorded revenues prior to the shipping terms per invoices and overstated inventory. As a result of these errors, retained earnings was overstated by $442,688 as of June 30, 2019. The accompanying consolidated statement of shareholders' equity has been restated for the correction of these errors.

As of and for the year ended June 30, 2020, management determined that there were errors in the financial statements, whereby, the Company improperly recorded revenues prior to the shipping terms per the invoices, overstated inventory, and did not record a customer credit when granted. As a result of these errors, accounts receivable, net, and accrued expenses were overstated by $1,131,928 and $145,332, respectively, and inventory, net, was understated by $371,642 as of June 30, 2020. Further, as a result of these errors and the 2019 errors noted above, the accumulated deficit was overstated by $614,954 as of June 30, 2020.

As a result of the 2019 errors noted above and the 2020 errors, net revenue was overstated by $734,928, cost of revenue was overstated by $562,662, selling, general and administrative expenses were overstated by $91,723, and net loss was understated by $172,266, for the year ended June 30, 2020. The accompanying 2020 consolidated financial statements have been restated for the correction of these errors. There was no effect on the provision for income taxes as a result of the corrections.

NOTE 3 – PROPERTY AND EQUIPMENT

At June 30, 2021 and 2020 property and equipment, net consists of:

	2021	2020
Computer hardware	$ 123,064	$ 147,782
Furniture, fixtures and office equipment	401,975	378,485
Leasehold improvements	25,333	27,821
Machinery and equipment	153,121	142,765
Total property and equipment at cost	703,493	696,853
Accumulated depreciation and amortization	(458,615)	(332,935)
Property and equipment, net	$ 244,878	$ 363,918

NOTE 4 – INTANGIBLE ASSETS

At June 30, 2021 and 2020 intangible assets, net consists of the following:

	Life	2021	2020
Computer software	3-5 years	$ 594,114	$ 517,823
Patents	15 years	356,891	352,720
Accumulated amortization		(641,570)	(587,642)
Intangible assets, net of amortization		309,435	282,901
Trademarks	Indefinite	128,078	101,164
Intangible assets, net		$ 437,513	$ 384,065

The Company capitalizes all legal costs to register, purchase, and renew its intangible assets. Amortization of intangible assets with finite lives is provided for on a straight-line basis over their estimated useful lives. Amortization expense related to intangible assets with finite lives amounted to $78,100 and $115,436 for the years ended June 30, 2021, and 2020, respectively.

Estimated amortization expense related to intangible assets for the next five years and thereafter is as follows:

Years ending June 30,	
2022	$ 52,092
2023	52,207
2024	32,672
2025	23,793
2026	23,793
Thereafter	124,878
	$ 309,435

NOTE 5 – LINE OF CREDIT

The Company maintains a line of credit with a financial institution allowing borrowings up to $1,300,000, which is due on demand and collateralized by the property and assets of Thirty Three Threads. Borrowings under the line bear interest at prime referenced rate plus 1.00%, and no less than daily adjusting LIBOR rate plus 2.50%, on the first day of the applicable fixed rate term (which was 4.25% at June 30, 2021 and 2020). The outstanding balance on the line of credit was $1,000,000 and $850,000 at June 30, 2021 and 2020, respectively. The Company is required to maintain certain financial and non-financial covenants in accordance with the line of credit agreement and the line of credit is guaranteed by officers and shareholders of the Company. At June 30, 2021 and 2020, the Company was out of compliance with these covenants; accordingly, the Company received a formal waiver from the financial institution. See subsequent events in Note 2.

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following at June 30, 2021 and 2020, respectively:

	2021	2020
Convertible note payable to a private equity firm, advances of up to $1,500,000 with interest at 15% per annum, interest only payable monthly starting September 2019. The note is subordinated to the line of credit and secured by all assets and property of the Company. The balance remaining on the loan is due in full by December 31, 2022. Warrants to purchase 165,060 shares of common stock were issued to the lender and exercised November 2020. The amount of capital stock, represented by the 165,060 shares, on the date of issuance was 0.3125%. The Company valued the warrant at $50,000 which is being recognized over the life of the loan. On August 21, 2021, an amendment to the note was made that allows for a conversion of the debt to equity. The share price of $1.61 was used for the conversion. This conversion can be executed in three tranches of $500,000 each.	$ 1,476,244	$ 960,406
On April 20, 2020, the Company received loan proceeds of $601,900 under the Paycheck Protection Program ("PPP") as part of the Coronavirus Aid, Relief & Economic Security ("CARES") Act. Funds from the loan may only be used for payroll costs, group health care benefits, rent and utilities. The Company has used the enitire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if used for qualifying expenses as described in the CARES Act. The Company received confirmation of the loan forgiveness on May 24, 2021 and accordingly, is included in forgiveness of debt in the accompanying consolidated statements of operations.	-	601,900
On February 11, 2021, the Company received loan proceeds of $577,800 under the PPP as part of the CARES Act. Funds from the loan may only be used for payroll costs, group health care benefits, rent, utilities, supplier costs and other covered operational costs. The Company has used the enitire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if used for qualifying expenses as described in the CARES Act. Any unforgiven portion is payable monthly, at an interest rate of 1% per annum, and due in full by February 11, 2026. The loan was forgiven September 29, 2021.	577,800	-
Economic Injury Disaster Loan with U.S. Small Business Administration. The note is secured by all tangible and intangible assets of the Company and accrues interest at a rate of 3.75% per annum. The Company has used the proceeds for qualifying expenses. The $150,000 note is due in full July 2050 and includes monthly principal and interest payments of $731 starting in July 2021.	150,000	-
Note payable to a shareholder, initial loan $201,040 with interest accruing at a rate of 5% per annum. Monthly payments vary from $4,000 to $8,000.	136,071	205,681
Note payable to a shareholder, initial loan $50,260 with interest accruing at a rate of 5% per annum. Monthly payments vary from $1,000 to $2,000.	37,870	51,420
Total notes payable	2,377,985	1,819,407
Less: current portion	230,864	269,447
Long-term portion	$ 2,147,121	$ 1,549,960

NOTE 6 – NOTES PAYABLE (continued)

The following is a summary of principal maturities as of June 30, 2021:

Years ending June 30,		
2022	$	230,864
2023		1,653,507
2024		118,999
2025		120,291
2026		121,602
Thereafter		132,722
	$	2,377,985

NOTE 7 – SHAREHOLDERS' EQUITY

Series A Convertible Preferred stock - The Company is authorized to issue 1,865,500 shares of Series A convertible preferred stock with no par value. In 2021, the Company issued 683,230 shares with an average net share price of approximately $1.61 to a private equity firm in conjunction with a preferred stock purchase agreement. Stock issuance costs related to these preferred shares were $55,000 for the year ending June 30, 2021. These shares have a liquidation preference of 1.67 times the Series A convertible preferred stock issuance price. The holder of Series A convertible preferred stock has the option to convert the shares into shares of common stock at $1.61 per share. See subsequent events in Note 2.

Common stock - The Company is authorized to issue 50,000,000 shares of common stock with no par value. In 2021, the Company issued 370,539 shares, with an average share price of approximately of $1.78, to a series of individuals as a result of a Regulation CF capital raise. The Company has 13,815,984 and 13,280,385 shares outstanding as of June 30, 2021 and 2020, respectively. Stock issuance costs for the year ending June 30, 2021 were $57,514. At June 30, 2021, the Company has stock subscriptions receivable in conjunction with the sale of common stock of $37,087.

Distributions - Holders of shares are entitled to receive distributions on a pro rata basis, and are payable when and if declared by the Company's Board of Directors. Such distributions are not cumulative. Distributions of $1,747 and $162, were paid during the years ended June 30, 2021 and 2020, respectively. Series A convertible preferred stock holders receive distributions prior to common stock holders.

Voting rights - Holders of common stock and Series A convertible preferred stock each have the right to one vote per share.

Stock options - In the years ended June 30, 2019 and 2018, the Company adopted stock incentive plans covering an aggregate of 3,500,000 and 750,000 shares, respectively, of the Company's unissued common stock to be granted to employees, directors, and select contractors of the Company. During the years ended June 30, 2021 and 2020, the Company granted 298,099 and 2,655,765 shares, respectively, to officers and employees at exercise prices ranging from $1.30 to $2.00 per share.

Warrants - During the year ended June 30, 2020, the Company issued warrants to purchase 165,060 shares of capital stock in conjunction with a note payable to a private equity firm. The warrants were exercised November 2020. The Company valued the warrants at approximately $50,000, are reported as a debt discount to the note payable, and are amortized to interest expense over the life of the loan. The unamortized amount of the warrants at June 30, 2021 and 2020 is approximately $24,000 and $40,000, respectively. The amount amortized to interest expense during the years ended June 30, 2021, and 2020 was approximately $16,000 and $11,000, respectively.

NOTE 7 – SHAREHOLDERS' EQUITY (continued)

Activity as to aggregate stock options outstanding is as follows:

	Number of stock options	Exercise price range per share	Weighted average exercise price
Options outstanding at June 30, 2019	1,706,500	\$0.52 - \$1.30	\$0.72
Options granted	2,655,765	\$1.30 - \$1.43	\$1.31
Options exercised	-	-	-
Options canceled or expired	(45,000)	\$1.30	\$1.30
Options outstanding at June 30, 2020	4,317,265	\$0.52 - \$1.43	\$1.08
Options granted	298,099	\$1.30 - \$2.00	\$1.38
Options exercised	-	-	-
Options canceled or expired	(255,429)	\$1.30	\$1.30
Options outstanding at June 30, 2021	4,359,935	\$0.52 - \$2.00	\$1.08

The weighted average fair value of options granted during the years ended June 30, 2021 and 2020 was \$1.38 and \$1.31, respectively. The aggregate intrinsic value of options outstanding at June 30, 2021 and 2020 was \$0.

The number of non-vested stock options as of June 30, 2021 included in the table above is as follows:

	Number of shares	Weighted average grant date fair value
Non-vested shares at June 30, 2020	3,339,206	\$1.21
Granted	298,099	\$1.38
Forfeited	(255,429)	\$(1.30)
Vested	(1,086,609)	\$1.08
Non-vested shares at June 30, 2021	2,295,267	\$1.28

At June 30, 2021, the total compensation cost related to non-vested stock option awards not yet recognized totaled approximately \$84,000. The weighted average period over which this amount was expected to be recognized at June 30, 2021 is 3.93 years. The weighted average remaining contractual term of options that are exercisable at June 30, 2021 is 2.9 years.

The following summarizes information about the Company's stock options outstanding at June 30, 2021:

Range of exercise prices	Number outstanding at June 30, 2021	Weighted average remaining contractual life in years	Weighted average exercise price	Number exercisable at June 30, 2021
\$0.52 - \$0.72	1,466,500	1.5	\$0.62	1,235,920
\$1.30 - \$1.43	2,858,435	3.5	\$1.31	826,312
\$2.00	35,000	4.6	\$2.00	2,436

NOTE 8 – RELATED-PARTY TRANSACTIONS

Shareholder note receivable – As a result of a common stock purchase, the Company has a long-term note receivable due from a shareholder with a maturity date of January 1, 2085 or earlier. The note is secured by the shareholder's grant of security interest in shares of the Company. The note accrues annual interest at

NOTE 8 – RELATED-PARTY TRANSACTIONS (continued)

approximately 0.95% and payments of $500 are received monthly. Interest income is capitalized into the note balance. Interest income of $4,256 and $3,939 was recognized during the years ended June 30, 2021 and 2020, respectively. Principal payments of $6,500 and $4,500 were received during the years ended June 30, 2021 and 2020, respectively. The outstanding balance of the shareholder note receivable was $413,883 and $416,126 at June 30, 2021 and 2020, respectively, and has been recorded as contra equity within the consolidated statements of shareholders' equity due to the relative uncertainty surrounding repayment.

Related party payables - The Company has a payable due to a shareholder with a balance due of $136,071 and $205,681 at June 30, 2021 and 2020, respectively. The original amount of the note was $201,040 with interest accruing at a rate of 5% per annum. Monthly payments vary from $4,000 to $8,000.

The Company has a payable due to a related party with a balance due of $37,870 and $51,420 at June 30, 2021 and 2020, respectively. The original amount of the note was $50,260 with interest accruing at a rate of 5% per annum. Monthly payments vary from $1,000 to $2,000.

NOTE 9 – CONCENTRATION OF CREDIT RISK

The Company provides unsecured credit in the normal course of business to customers throughout the United States and in foreign markets. For the years ended June 30, 2021 and 2020, the Company did not have any individual customers accounting for more than 10% of sales. At June 30, 2021 the Company had three customers that accounted for 48% of gross accounts receivables while at June 30, 2020 the Company had one customer that accounted for 17% of gross accounts receivables. If the financial condition or operations of these customers deteriorates, the risks associated with selling on credit could increase substantially.

For the years ended June 30, 2021 and 2020, the Company had four vendors that accounted for 92% and 42%, of inventory purchases, respectively. For the years ended June 30, 2021 and 2020, the Company had three vendors that accounted for 51% and 68% of accounts payable, respectively.

NOTE 10 – INCOME TAXES

The tax effect of temporary differences consisted of the following as of June 30, 2021, and 2020, respectively:

	2021	2020
Deferred tax assets:		
Net operating loss carryforwards	$ 614,800	$ 50,600
Lease liability	78,400	-
Provisions	42,800	38,000
Other	900	200
Total deferred tax assets	736,900	88,800
Deferred tax liabilites:		
Depreciation on property and equipment	(50,900)	(68,000)
Right-of-use asset	(91,900)	-
Total deferred tax liabilities	(142,800)	(68,000)
Valuation allowance	(594,100)	(20,800)
Net deferred tax assets	$ -	$ -

NOTE 10 – INCOME TAXES (continued)

Income tax expense for the year ended June 30, 2021 and 2020 is comprised as follows:

	2021	2020
Current expense:		
Federal	$ -	$ -
State	800	(26,414)
Total current portion	800	(26,414)
Deferred expense		
Federal	-	-
State	-	-
Total deferred portion	-	-
Total income tax expense (benefit)	$ 800	$ (26,414)

The income tax expense differs from the amounts which would be provided by applying the statutory federal income tax rate of 21% to the net income before income tax expense. The primary components of this difference for the years ended June 30, 2021 and 2020, respectively, are as follows:

	2021	2021 Rate	2020	2020 Rate
Tax computed at the federal statutory rate	$ (295,000)	21.00%	$ 116,000	21.00%
State tax, net of fed tax benefit	(98,000)	6.98%	35,000	6.43%
Permanent items	13,000	1.10%	(9,000)	-1.67%
Federal carryback to short year C corporation	-	-	(45,000)	-8.14%
Opening deferred tax liability on conversion to C corporation from S corporation	-	-	(40,000)	-7.20%
Valuation allowance increase(decrease)	536,000	38.23%	(57,700)	-8.89%
California short period tax not recoverable by net operating loss carryback	-	-	(24,300)	-3.77%
PPP loan	(168,000)	0.00%	-	-
Return-to-provision	64,000	-4.59%	-	-
True-up	(52,000)	3.74%	-	-
Other	800	0.04%	(1,614)	0.02%
Income tax provision	$ 800	-12.06%	$ (26,614)	-2.22%

As the ultimate realization of the potential benefits of the Company's deferred tax assets is considered uncertain by management, the Company has offset the deferred tax assets attributable with a valuation allowance. The valuation allowance increased by $573,300 in 2021 and $20,800 in 2020. The Company is subject to federal or state income tax examinations by tax authorities for years after 2016.

At June 30, 2021 and 2020, the Company had federal and California net operating loss carryforwards of approximately $2,143,000 and $2,359,000, respectively, which begin to expire in 2040.

Pursuant to Internal Revenue Code Sections 382 and 383, the Company’s use of its net operating loss carryforwards may be limited as a result of cumulative changes in ownership of more than 50% over a three year period. Management has not performed a study to determine limitations to the use of net operating losses and tax credit carryforwards.

NOTE 11 – GEOGRAPHIC CONCENTRATION

As of June 30, 2021, and 2020, approximately $20,000 and $55,000, respectively, of the Company's property and equipment, net of accumulated depreciation, was located in Tijuana, Mexico. All of the Company's inventory is located in Tijuana, Mexico. Geographic information regarding net revenues is approximately as follows:

Years ending June 30,	2021	2020
Approximate net revenues:		
US	$ 11,532,000	$ 11,867,000
APAC	1,921,000	1,255,000
EMEA	1,198,000	850,000
Canada	266,000	285,000
Other	87,000	82,000
	$ 15,004,000	$ 14,339,000

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Leases

For leases with terms greater than 12 months, a related asset and obligation at the present value of lease payments over the term is recorded. If the rate implicit in the lease is not available, the incremental borrowing rate is used, which is based on the estimated interest rate for collateralized borrowing over a similar term of the lease at commencement date.

In October 2019, the Company entered into an agreement to lease a building in Vista, California for the period from November 1, 2019 through October 31, 2022. On June 17, 2020, the Company signed an amendment to the lease agreement wherein it was granted two additional months of rent concessions. The initial base rent for the lease agreement was $18,711 per month, increasing to $20,831 for the period from November 1, 2020 through October 31, 2021 and $21,409 for the period from November 1, 2021 through October 31, 2022. As of June 30, 2021 the monthly rent is $20,831.

The Company also has several finance lease agreements for computer and office equipment. Monthly payments for these agreements range from approximately $50 to $620 per month, with the balance due in full in 2026. Each of these agreements include a bargain purchase option of $1.

For purposes of determining straight-line rent expense, the lease term is calculated from the date the Company first takes possession of the facility, including any periods of free rent and any renewal option periods that the Company is reasonably certain of exercising. The Company's office lease has contractually specified minimum rent and annual rent increases are included in the measurement of the right-of-use asset and related lease liability. Additionally, under this lease arrangement, the Company may be required to pay directly, or reimburse the lessor, for some maintenance and operating costs. Such amounts are generally variable and therefore not included in the measurement of the right-of-use asset and related lease liability but are instead recognized as variable lease expense in the consolidated statements of operations when they are incurred. The Company recognized building rent expense of approximately $219,000 and $208,000 for the years ended June 30, 2021 and 2020, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

Leases (continued)

The table below presents certain information related the lease-related assets and liabilities recorded on the balance sheet as of June 30,

	2021	2020
Weighted average remaining lease term (in years)		
Operating lease	1.33	2.33
Finance leases	2.52	3.83
Weighted average discount rate		
Operating lease	5%	5%
Finance leases	12%	3%
Operating cash flow from operating leases	$185,361	$130,977
Financing cash flow from finance leases	$ 22,068	$ 14,928
Right-of-use assets obtained in exchange for new operating lease liabilities	$ -	$604,296

The maturity of lease liabilities as of June 30, 2021 are as follows:

		Operating lease obligations	Finance lease obligations
Years ending June 30,			
	2022	$ 243,673	$ 23,414
	2023	84,752	17,573
	2024	-	8,089
	2025	-	2,622
	2026	-	1,344
		$ 328,425	$ 53,042

Commission & Royalty Agreements

The Company has certain commission and royalty agreements through which it has obtained rights to manufacture and market products solely for sale to various purchasers and their franchisees, primarily consisting of studio fitness locations and other retailers. Commission and royalty expense of approximately $2,776,000 and $2,889,000, related to these agreements, was included in selling, general, and administrative expenses for the years ended June 30, 2021 and 2020, respectively. Product sales related to these agreements comprised approximately 53% and 55% of total net revenues for the years ended June 30, 2021 and 2020, respectively. The Company may enter into other royalty and license agreements in the future as it deems necessary for conducting business.

Regulations and industry

The apparel industry is subject to laws and regulations of federal, state, and local governments. As a manufacturer of consumer products, the Company has exposure to California Proposition 65 which regulates substances officially listed by California as causing cancer, birth defects, or other reproductive harm. The regulatory arm of Proposition 65 that relates to the Company prohibits businesses from knowingly exposing individuals to listed substances without providing a clear and reasonable warning. All companies in California are subject to potential claims based on the content of their products sold. Management believes that the

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

Regulations and industry (continued)

Company is in compliance with these laws. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future review and interpretation, as well as regulatory actions unknown or asserted at this time.

Uncertainty

During the year ended June 30, 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. The combination of the outbreak and associated mandates from federal, state, and local authorities have created significant economic uncertainties and an overall decline in economic activity which could result in a loss of revenue and other material adverse effects to the Company's consolidated financial position, consolidated statements of operations, consolidated statements of owners' equity, and consolidated statements of cash flows. The Company is not able to reliably estimate the length or severity of either the outbreak or the related health mandates, nor their impact on the Company's business operations. Accordingly, the financial impact of this event cannot be reasonably estimated at this time, but could be substantial. The Company's success is largely dependent upon its ability to gauge the fashion tastes of its targeted consumers and provide merchandise that satisfies consumer demand. Any inability to provide appropriate merchandise in sufficient quantities in a timely manner could have material adverse effect on the Company's business, operating results and financial condition.

Litigation

The Company is also subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company accrues a liability and charges operations for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated in accordance with the recognition criteria in FASB ASC 450, *Contingencies*. Estimating liabilities and costs associated with these matters requires significant judgment and assessment based on the professional knowledge and experience of management and its legal counsel. Management believes there is no such accrual necessary as of June 30, 2021 and 2020.

Retirement savings plan

The Company has established an employee benefit plan as provided under §401(k) of the Internal Revenue Code (the "Plan"). The Plan is open to all eligible employees as defined in the Plan documents. The Company may make matching and discretionary contributions to the Plan in such amounts as provided by the Plan and determined by the shareholders. The Company made contributions of approximately $8,900 and $55,000 for the years ended June 30, 2021, and 2020, respectively.

NOTE 13 – CONSOLIDATION OF VARIABLE INTEREST ENTITY AND DISCONTINUED OPERATIONS

Consolidation of variable interest entity

Management evaluated the explicit and implicit variable interests of Thirty Three Threads to determine if they have any variable interests in PCH. Variable interests are contractual, ownership, or other pecuniary interest in an entity whose value changes with changes in the fair value of the entity's net assets, exclusive of variable interests. The analysis includes consideration of the design of the entity and its organizational structure, including decision making ability over the activities that most significantly impact the Variable Interest Entity's ("VIE") direct performance. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE.

PCH was related through common ownership and leased certain property to Thirty Three Threads, which was used in operations. Substantially all of PCH's revenue was from Thirty Three Threads and PCH's accounting records were maintained by the management of Thirty Three Threads. The property was primarily used by Thirty Three Threads, with minimal space leased to third parties. The PCH lease commenced on May 1, 2015,

NOTE 13 – CONSOLIDATION OF VARIABLE INTEREST ENTITY AND DISCONTINUED OPERATIONS (continued)

and terminated November 2019 with the sale of the leased property and the dissolving of PCH.

Thirty Three Threads had a direct interest in PCH through its obligation to absorb losses of PCH through the guarantee of debt that could potentially be significant to PCH; therefore, management determined that PCH was a VIE. Additionally, as a result of being determined to be a "public business entity" Thirty Three Threads is required to consolidated PCH in its financial statements.

The equity of PCH was not owned by Thirty Three Threads, and therefore, has been reflected as a noncontrolling interest in the accompanying consolidated financial statements. The consolidation of PCH did not change the legal ownership, and did not change the assets or liabilities and equity of Thirty Three Threads or PCH as stand-alone entities. All inter-company accounts and transactions have been eliminated in consolidation. Accordingly, the financial statements are presented on a consolidated basis including the accounts of Thirty Three Threads and PCH through November 2019. The results of operations of PCH have been presented as "discontinued operations" for the year ended June 30, 2020. In November 2019, common ownership completed the sale of the property. For the year ended June 30, 2020, the Company recognized net income attributable to common ownership of $1,276,044 including a gain on sale attributable to common ownership of $1,317,992.

Discontinued operations

In November 2019, the ownership of PCH completed the sale of the property owned by PCH and dissolved PCH. After the sale, Thirty Three Threads no longer consolidates the financial results of PCH within its financial results of continuing operations. For all the periods prior to the sale, the financial results of PCH are presented as net earnings from discontinued operations on the Consolidated Statements of Operations.

The following table presents the financial results of the Company's discontinued operations for the fiscal year ended June 30, 2020:

Net revenue	$	59,334
Operating expenses		(98,902)
Gain on sale of real estate, net		1,647,490
Interest and other, net		8,872
Earnings from discontinued operations before taxes		1,616,794
Provision for income taxes		(1,035)
Income from discontinued operations		1,615,759
Income attributable to non-controlling interest		(339,715)
Net income attributable to common ownership	$	1,276,044