

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## CODE GREEN APPAREL CORP

**Form: 10-Q**

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Corporate Issuer CIK: 1444403

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

FORM 10-Q

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

For the fiscal quarter ended June 30, 2017

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number: 000-53434



**Code Green Apparel Corp.**

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

80-0250289

(I.R.S. Employer Identification No.)

31642 Pacific Coast Highway, Ste 102,  
Laguna Beach, California

(Address of principal executive offices)

92651

(Zip Code)

(888) 884-6277

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

As of August 22, 2017, there were 783,426,230 shares of the registrant's common stock outstanding.



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

**CODE GREEN APPAREL CORP.**  
**CONDENSED BALANCE SHEETS**  
**(UNAUDITED)**

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ —	\$ 47
Accounts receivable, net	—	7,834
Prepaid expenses	16,000	—
Inventory	—	22,831
<b>TOTAL CURRENT ASSETS</b>	<b>16,000</b>	<b>30,712</b>
Fixed assets, net	11,283	12,962
<b>TOTAL ASSETS</b>	<b>\$ 27,283</b>	<b>\$ 43,674</b>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 317,052	\$ 341,615
Accrued interest	179,598	120,232
Notes payable, current	82,500	82,595
Convertible debts payable, net of discount of \$402,653 and \$19,811, respectively	342,538	556,388
Derivative liability	1,194,128	1,525,135
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,115,816</b>	<b>2,625,965</b>
Notes payable, net of current portion	200,000	200,000
<b>TOTAL LIABILITIES</b>	<b>2,315,816</b>	<b>2,825,965</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Series A Preferred Stock, par value \$0.001 per share, Authorized – 1,000 shares, Issued and outstanding – 1,000 shares	1	1
Series B Preferred Stock, par value \$0.001 per share, Authorized – 200,000 shares, Issued and outstanding – 65,000 shares	65	65
Common stock, par value \$0.001 per share, Authorized – 1,990,000,000 shares, Issued and outstanding – 677,084,621 and 404,985,101 shares, respectively	677,085	404,985
Additional paid-in capital	11,848,634	11,352,697
Accumulated deficit	(14,814,318)	(14,540,039)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(2,288,533)</b>	<b>(2,782,291)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 27,283</b>	<b>\$ 43,674</b>

See notes to unaudited condensed financial statements.

**CODE GREEN APPAREL CORP.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016**  
**UNAUDITED**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
<b>REVENUE</b>	\$ —	\$ 10,141	\$ 33,479	\$ 28,378
<b>COST OF GOODS SOLD</b>	—	(8,500)	(24,628)	(23,698)
<b>GROSS PROFIT</b>	—	1,641	8,851	4,680
<b>OPERATING EXPENSES</b>				
Selling, general and administrative	332,577	226,390	421,652	601,686
<b>TOTAL OPERATING EXPENSES</b>	332,577	226,390	421,652	601,686
<b>LOSS FROM OPERATIONS</b>	(332,577)	(224,749)	(412,801)	(597,006)
<b>OTHER INCOME (EXPENSE)</b>				
Gain on conversion of debt	19,060	—	41,817	—
Change in fair value of derivative	1,256,670	(747,718)	912,422	(593,704)
Derivative liability gain (expense) – insufficient shares	—	(651,677)	561,447	(905,980)
Interest expense	(1,327,981)	(19,952)	(1,377,164)	(31,919)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	(52,251)	(1,419,347)	138,522	(1,531,603)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(384,828)	(1,644,096)	(274,279)	(2,128,609)
Income tax expense	—	—	—	—
<b>NET INCOME (LOSS)</b>	(384,828)	(1,644,096)	(274,279)	(2,128,609)
Discount attributable to beneficial conversion privilege of preferred stock	—	—	—	—
Income (Loss) applicable to common stock	(384,828)	(1,644,096)	(274,279)	(2,128,609)
<b>NET INCOME (LOSS) PER COMMON SHARE</b>				
Basic net income (loss) per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>				
Basic	530,165,072	373,300,195	482,738,567	370,951,294

See notes to unaudited condensed financial statements.

**CODE GREEN APPAREL CORP.**  
**CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIT**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2017**  
**UNAUDITED**

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2016	1,000	\$ 1	65,000	\$ 65	404,985,101	\$ 404,985	\$ 11,352,697	\$ (14,540,039)	\$ (2,782,291)
Issuance of shares for services	—	—	—	—	42,000,000	42,000	84,000	—	126,000
Issuance of shares for convertible debt	—	—	—	—	230,099,520	230,100	411,937	—	642,037
Net income	—	—	—	—	—	—	—	(274,279)	(274,279)
Balance, June 30, 2017	<u>1,000</u>	<u>\$ 1</u>	<u>65,000</u>	<u>\$ 65</u>	<u>677,084,621</u>	<u>\$ 677,085</u>	<u>\$ 11,848,634</u>	<u>\$ (14,814,318)</u>	<u>\$ (2,288,533)</u>

See notes to unaudited condensed financial statements.

**CODE GREEN APPAREL CORP.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016**  
**UNAUDITED**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (274,279)	\$ (2,128,609)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Derivative liability - initial valuation	1,218,779	
Loss on derivative revaluation	(912,423)	593,704
Derivative liability (income) expense - insufficient shares	(561,447)	905,980
Gain on conversion of debt	(41,817)	—
Depreciation	1,679	1,478
Common stock issued for services	126,000	117,000
Amortization of debt discount	34,392	13,354
Amortization of debt discount due to beneficial conversion feature	49,999	
Changes in operating assets and liabilities:		
Accounts receivable	7,834	—
Inventory	22,831	23,697
Prepaid expenses	(16,000)	33,387
Accounts payable and accrued expenses	(24,563)	80,595
Accrued interest	58,914	12,075
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(310,101)</u>	<u>(347,339)</u>
<b>CASH FLOWS USED BY INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	—	(13,928)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>—</u>	<u>(13,928)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the sale of Series B Preferred Stock	—	250,000
Proceeds from notes payable	338,917	95,956
Repayments on notes payable	(28,863)	—
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>310,054</u>	<u>345,956</u>
<b>NET DECREASE IN CASH</b>	(47)	(15,311)
<b>CASH AT THE BEGINNING OF THE YEAR</b>	47	32,205
<b>CASH AT THE END OF THE YEAR</b>	<u>\$ —</u>	<u>\$ 16,894</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 14,628	\$ 6,490
Taxes paid	\$ —	\$ —
<b>Noncash transactions:</b>		
Issuance of shares upon debt conversion	642,037	—

See notes to unaudited condensed financial statements.



**CODE GREEN APPAREL CORP.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**UNAUDITED**

**NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION**

**Organization and Nature of Business**

Code Green Apparel Corp. (the "Company") was incorporated in Nevada on December 11, 2007. On April 26, 2014, and with the appointment of George Powell as its CEO and Director, the Company changed its business model to offer eco-friendly corporate apparel primarily constructed from recycled textiles.

The Company is a publicly held Nevada corporation, whose common stock trades on the OTC Market Group, Inc.'s Pink Sheets under the trading symbol, "CGAC."

**Basis of Presentation**

The accompanying unaudited interim condensed financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2016.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts and timing of revenues and expenses, the reported amounts and classification of assets and liabilities, and the disclosure of contingent assets and liabilities. These estimates and assumptions are based on the Company's historical results as well as management's future expectations. The Company's actual results could vary materially from management's estimates and assumptions. Additionally, interim results may not be indicative of the Company's results for future interim periods, or the Company's annual results.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. At June 30, 2017, the Company did not have any cash equivalents.

**Accounts Receivable**

Accounts receivable are not collateralized and interest is not accrued on past due accounts. Periodically, management reviews the adequacy of its provision for doubtful accounts based on historical bad debt expense results and current economic conditions using factors based on the aging of its accounts receivable. After management has exhausted all collection efforts, management writes off receivables and the related reserve. Additionally, the Company may identify additional allowance requirements based on indications that a specific customer may be experiencing financial difficulties. Actual bad debt results could differ materially from these estimates.

## **Inventories**

Inventories are stated at the lower of cost (first-in, first-out) or market. The Company periodically reviews its inventories for indications of slow movement and obsolescence and records an allowance when it is deemed necessary. There was no inventory at June 30, 2017.

## **Revenue Recognition**

The Company recognizes gross sales when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collection is probable. It recognizes revenue in accordance with Accounting Standards Codification ("ASC") 605, Revenue Recognition ("ASC 605").

## **Stock Based Compensation**

The Company from time to time issues shares of common stock for services. These issuances have been valued based upon the quoted market price of the shares.

## **Disclosure About Fair Value of Financial Instruments**

The Company estimates that the fair value of all financial instruments at June 30, 2017 and December 31, 2016, do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying condensed balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

## **Derivative Financial Instruments**

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses the Black-Scholes-Merton pricing model to value the derivative instruments. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The Company has determined that certain convertible debt instruments outstanding as of the date of these financial statements include an exercise price "reset" adjustment that qualifies as derivative financial instruments under the provisions of ASC 815-40, Derivatives and Hedging - Contracts in an Entity's Own Stock ("ASC 815-40"). Certain of the convertible debentures have a variable exercise price, thus are convertible into an indeterminate number of shares for which we cannot determine if we have sufficient authorized shares to settle the transaction with. Accordingly, the embedded conversion option is a derivative liability and is marked to market through earnings at the end of each reporting period. Any change in fair value during the period recorded in earnings as "Other income (expense) - gain (loss) on change in derivative liabilities."

	Carrying Value	Fair Value Measurements Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Derivative liability – December 31, 2016	\$ 1,525,135	\$ —	\$ —	\$ 1,525,135
Derivative liability – June 30, 2017	\$ 1,194,128	\$ —	\$ —	\$ 1,194,128
Balance at December 31, 2016				\$ 1,525,135
Revaluation due to insufficient shares available for issuance				(561,447)
Valuation upon issuance of debts				1,621,854
Conversion				(478,991)
Change in derivative liability during the six months June 30, 2017				(912,423)
Balance June 30, 2017				<u>\$ 1,194,128</u>

### **Net Income (Loss) Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Any anti-dilutive effects on net income (loss) per share are excluded. The Company has 591,361,228 potentially dilutive securities outstanding as of June 30, 2017.

### **Income Taxes**

The Company accounts for income taxes in accordance with FASB ASC 740, "Income Taxes," which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company has adopted the provisions of FASB ASC 740-10-05 *Accounting for Uncertainty in Income Taxes*. The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Open tax-years subject to IRS examination include 2013 - 2016.

### **Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this ASU supersedes Topic 840, *Leases*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting ASU No. 2016-02 on its financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer and provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date for ASU 2016-08 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-08 on its financial statements.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which provides further guidance on identifying performance obligations and improves the operability and understandability of licensing implementation guidance. The effective date for ASU 2016-10 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-10 on its financial statements.

## NOTE 2 FIXED ASSETS, NET

Fixed assets consists of the following equipment:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Computer equipment	\$ 16,783	\$ 16,783
	16,783	16,783
Less accumulated depreciation	(5,500)	(3,821)
Total	<u>\$ 11,283</u>	<u>\$ 12,962</u>

The aggregate depreciation charge to operations was \$1,679 and \$1,478 for the six months ended June 30, 2017 and 2016, respectively. The depreciation policies followed by the Company are described in Note 1.

## NOTE 3 NOTES PAYABLE

During June 2016, the Company issued a \$200,000 promissory note in connection with the Asset Purchase Agreement, see Note 9. The note carries interest at 10% per annum and is due June 23, 2018. Total outstanding debt was \$200,000 at both June 30, 2017 and December 31, 2016. The accrued interest on the note was \$20,384 and \$10,466 at June 30, 2017 and December 31, 2016, respectively.

During July 2016, the Company issued a promissory note in the amount of \$82,500. The note is currently in default. The note contains an original issue discount in the amount of \$7,500. The remaining balance due at June 30, 2017 and December 31, 2016 was \$82,500 and \$82,500, respectively. The accrued interest on the note was \$43,556 and \$8,945 at June 30, 2017 and December 31, 2016, respectively.

During September 2016, the Company issued a promissory note in the amount of \$10,000. The note is due in six months. The note contains an original issue discount in the amount of \$650. The remaining balance due at June 30, 2017 and December 31, 2016 was \$0 and \$95, respectively. Interest accrues at 12% and is paid daily. The accrued interest on the note was \$0 and \$0 at June 30, 2017 and December 31, 2016, respectively. The balance of this note was paid in February 2017.

During January 2017, the Company issued a promissory note in the amount of \$20,000. The note was due February 15, 2017. The note requires an interest payment of \$5,000 upon repayment. The remaining balance due at June 30, 2017 and December 31, 2016 was \$0 and \$0, respectively. The accrued interest on the note was \$0 and \$0 at June 30, 2017 and December 31, 2016, respectively. The balance of this note and accrued interest was paid in April 2017.

#### **NOTE 4 CONVERTIBLE NOTES**

On May 1, 2014, the Company entered into an agreement with Anubis Capital Partners, a business advisor. The agreement calls for monthly payments of \$2,500 in service fees along with the issuance of a \$500,000 fully earned convertible debt that accrues interest at 8% per annum. The holder has the option to convert any balance of principal and interest into common stock of the Company. The rate of conversion for the note is calculated as the lowest of the 20 trading closing prices immediately preceding such conversion, discounted by 50%. During December 2015, the Company issued 25,000,000 shares of common stock in payment of \$212,500 of principal on this convertible debt. At both June 30, 2017 and December 31, 2016, \$20,000 was owed in services fees, accrued interest was \$98,954 and \$88,795, and the outstanding convertible debt was \$194,500 and \$287,500, respectively.

During the year ended December 31, 2014, the Company issued \$173,500 of convertible notes. The convertible notes carry interest at 10% per annum and are due 24 months from the date of issuance, June 2016 through September 2016. The note holders had the option to convert into shares of the Company's common stock after 180 days at 50% of the market price. During April and May of 2015, the Company issued 14,660,440 shares of common stock upon conversion of \$173,500 of principal amount outstanding under these convertible notes. At June 30, 2017 and December 31, 2016, the remaining accrued interest on the convertible notes was \$12,027 and \$12,027, respectively.

During December 2015, the Company issued a convertible note in the amount of \$175,000. The convertible note was due in one year and is currently in default, and contains a prepayment penalty of \$25,000. The holder has the option to convert any balance of principal into common stock of the Company. The rate of conversion for the note is calculated as the lowest of the 10 trading closing prices immediately preceding such conversion, discounted by 32.5%. During December 2016, the Company issued 12,000,000 shares of common stock upon conversion of \$13,770 of principal amount outstanding under this convertible note. During June 2017, the Company issued 70,119,900 shares of common stock upon conversion of \$48,436 of principal amount outstanding under this convertible note. The remaining balance due at June 30, 2017 and December 31, 2016 was \$112,794 and \$161,730, respectively.

During June 2016, the Company sold a convertible note in the principal amount of \$121,325. The convertible note is due in one year and contains an original issue discount in the amount of \$15,825. The holder has the option to convert any balance of principal into common stock of the Company after the initial 180 days. The rate of conversion for this note is calculated as the average of the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 50%. During April and June 2017, the Company issued 62,498,139 shares of common stock upon conversion of \$63,427 of principal amount outstanding under this convertible note. The remaining balance due at June 30, 2017 and December 31, 2016 was \$0 and \$73,989, respectively. Interest accrues at 12% per annum and is paid daily.

During September 2016, the Company sold a convertible note in the principal amount of \$63,825. The convertible note is due in one year and contains an original issue discount in the amount of \$13,825. The holder has the option to convert any balance of principal into common stock of the Company after the initial 180 days. The rate of conversion for this note is calculated as the average of the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 50%. The remaining balance due at June 30, 2017 and December 31, 2016 was \$44,671 and \$53,481, respectively. Interest accrues at 12% per annum and is paid daily.

During April 2017, the Company sold Carebourn a Convertible Promissory Note in the principal amount of \$135,575 (the "April 2017 Carebourn Convertible Note"), pursuant to a Securities Purchase Agreement, dated April 17, 2017. The April 2017 Carebourn Convertible Note bears interest at the rate of 12% per annum (22% upon an event of default) and is due and payable on April 17, 2018. The conversion price of the April 2017 Carebourn Convertible Note is the average of the the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 50%. The April 2017 Carebourn Convertible Note had an original issue discount of \$27,075. In addition, the Company paid \$8,500 of Carebourn's expenses and attorney fees in connection with the sale of the note, which were included in the principal amount of the note. The remaining balance due at June 30, 2017 was \$125,726. The accrued interest on the note was \$0 at June 30, 2017.

During April 2017, pursuant to a Note Purchase Agreement, the Company sold a 10% Convertible Debenture in the principal amount of \$32,500 (which included a \$5,000 original issue discount) to Sojourn Investments, LP ("Sojourn" and the "Sojourn Debenture"). The principal amount of the debenture accrues at 10% per annum until paid or converted into common stock (18% upon the occurrence of an event of default). The Sojourn Debenture has a maturity date of January 12, 2018, provided the debenture can be repaid at any time, provided that if repaid more than 30 days after the issuance date, the Company is required to pay 130% of the principal amount of the debenture, together with accrued interest. The remaining balance due at June 30, 2017 was \$32,500. The accrued interest on the note was \$703 at June 30, 2017.

During May 2017, the Company sold a convertible note in the principal amount of \$35,000. The convertible note is due in one year and contains an original issue discount in the amount of \$3,000. The holder has the option to convert any balance of principal into common stock of the Company after the initial 180 days. The rate of conversion for this note is calculated as the average of the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 35%. The remaining balance due at June 30, 2017 was \$35,000. Interest accrues at 12% per annum and is paid daily. The accrued interest on the note was \$337 at June 30, 2017.

During May 2017, the Company sold a convertible note in the principal amount of \$100,000. The convertible note is due in one year and contains an original issue discount in the amount of \$9,500. The holder has the option to convert any balance of principal into common stock of the Company after the initial 180 days. The rate of conversion for this note is calculated as the average of the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 45%. The remaining balance due at June 30, 2017 was \$100,000. Interest accrues at 12% per annum and is paid daily. The accrued interest on the note was \$986 at June 30, 2017.

During June 2017, the Company sold a convertible note in the principal amount of \$100,000. The convertible note is due in one year and contains an original issue discount in the amount of \$11,083. The holder has the option to convert any balance of principal into common stock of the Company after the initial 180 days. The rate of conversion for this note is calculated as the average of the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 42%. The remaining balance due at June 30, 2017 was \$100,000. Interest accrues at 12% per annum and is paid daily.

## Derivative Liability

On May 1, 2014, the Company secured \$500,000 in the form of a convertible promissory note. The note bears interest at the rate of 8% per annum until it matures, or until there is an event of default. The note matured on May 1, 2015. The holder has the option to convert any balance of principal and interest into common stock of the Company. The rate of conversion for the note is calculated as the lowest of the 20 trading closing prices immediately preceding such conversion, discounted by 50%. A total of \$194,500 remains outstanding as of June 30, 2017, and a total of \$305,500 was converted into shares of common stock.

On December 3, 2015, the Company secured \$175,000 in the form of a convertible promissory note. The note does not bear interest until or unless there is an event of default. The note matured on December 3, 2016. The holder has the option to convert any balance of principal into common stock of the Company. The rate of conversion for the note is calculated as the lowest of the 10 trading closing prices immediately preceding such conversion, discounted by 32.5%.

On June 15, 2016, the Company secured \$121,325 in the form of a convertible promissory note. The note bears interest at 12% per annum. The note matures on June 15, 2017. The holder has the option to convert any balance of principal into common stock of the Company after the initial 180 days. The rate of conversion for this note is calculated as the average of the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 50%.

On September 23, 2016, the Company secured \$63,825 in the form of a convertible promissory note. The note bears interest at 12% per annum. The note matures on September 23, 2017. The holder has the option to convert any balance of principal into common stock of the Company after the initial 180 days. The rate of conversion for this note is calculated as the average of the three lowest closing prices of the Company's common stock during the 20 trading days immediately preceding such conversion, discounted by 50%.

Due to the variable conversion price associated with these convertible promissory notes, the Company has determined that the conversion feature is considered a derivative liability. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the Convertible Promissory Note and to adjust the fair value as of each subsequent balance sheet date.

The initial fair values of the embedded debt derivatives of \$500,842, \$227,746, \$322,660 and \$108,458 were charged to current period operations as interest expenses. The fair value of the described embedded derivative was determined using the Black-Scholes Model with the following assumptions:

(1) risk free interest rate of	0.10% to 0.45%
(2) dividend yield of	0%;
(3) volatility factor of	248% to 435%;
(4) an expected life of the conversion feature of	365 days; and
(5) estimated fair value of the Company's common stock of	\$0.006 to \$0.008 per share.

During the six months ended June 30, 2017, the Company recorded a gain on fair value of derivative of \$70,599.

The following table represents the Company's derivative liability activity for the six months ended June 30, 2017:

Balance at December 31, 2016	\$ 1,525,135
Revaluation due to insufficient shares available for issuance	(561,447)
Valuation upon issuance of debts	1,621,854
Conversion	(478,991)
Change in derivative liability during the six months ended June 30, 2017	(912,423)
Balance June 30, 2017	<u>\$ 1,194,128</u>

## NOTE 5 DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents the components of the Company's derivative financial instruments associated with convertible promissory notes (See Note 4) which have no observable market data and are derived using the Black-Scholes option pricing model measured at fair value on a recurring basis, using Level 1 and 3 inputs to the fair value hierarchy, at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Embedded conversion features	\$ 1,194,128	\$ 963,688
Insufficient shares	—	561,447
Derivative liability	\$ 1,194,128	\$ 1,525,135

These derivative financial instruments arise as a result of applying *ASC 815 Derivative and Hedging* ("*ASC 815*"), which requires the Company to make a determination whether an equity-linked financial instrument, or embedded feature, is indexed to the entity's own stock. This guidance applies to any freestanding financial instrument or embedded features that have the characteristics of a derivative, and to any freestanding financial instruments that are potentially settled in an entity's own stock.

During the six months ended June 30, 2017, the Company had outstanding notes with embedded conversion features and the Company did not, at this date, have a sufficient number of authorized and available shares of common stock to settle the outstanding contracts which triggered the requirement to account for these instruments as derivative financial instruments until such time as the Company has sufficient authorized shares.

## NOTE 6 LEASE COMMITMENTS

### Laguna Beach Office

The Company is obligated under a commercial real estate lease agreement. The lease is for a term of 60 months which began February 1, 2016 and expires January 31, 2021. The lease calls for current monthly rental payments of \$3,438.

### Dallas Office

The Company was obligated under a commercial real estate sublease agreement. The sublease was for a term of seven months which began on August 1, 2016 and expired on February 28, 2017. The lease called for current monthly rental payments of \$2,200.

Rental expense for the six months ended June 30, 2017 and 2016 was \$21,318 and \$25,023, respectively. Future minimum rental payments for the remaining terms are as follows:

Year Ending December 31,	Amount
2018 – remaining six months	\$ 20,628
2019	41,256
2020	41,256
2021	3,438
Total	\$ 106,578

## NOTE 7 STOCKHOLDERS' EQUITY

On April 12, 2017, our Board of Directors and majority shareholder (i.e., George J. Powell, III, the Company's Chief Executive Officer and Director, who holds (i) 1,000 shares of Series A Preferred Stock, which provides the holder thereof the right to vote 51% of the vote on all shareholder matters and (ii) 89,115,016 shares of the Company's outstanding common stock), via a written consent to action without meeting, approved the filing of a Certificate of Amendment to our Articles of Incorporation to increase the authorized common stock of the Company, from one billion (1,000,000,000) shares of common stock, \$0.001 par value per share, to one billion, nine hundred and ninety million (1,990,000,000) shares of common stock, \$0.001 par value share (the "Amendment"). The increase in authorized shares is reflected in the balance sheets.



The Amendment did not change (a) the number of authorized shares of our preferred stock, which remained ten million (10,000,000) shares of preferred stock, \$0.001 par value per share; (b) the rights of our Board of Directors to designate the rights and preferences of such preferred stock (as further described in our Articles of Amendment, as amended); or (c) the previously designated series of our preferred stock.

On April 13, 2017, the Company filed the Amendment with the Nevada Secretary of State, which became effective on the same date.

On January 9, 2017, the Company issued 10,000,000 shares of its restricted common stock to its then newly appointed Director and COO, as a signing bonus for his appointment to the Company's Board of Directors. The shares had a fair market value of \$30,000.

On February 9, 2017, the Company entered into an Advertising Services Agreement (the "Advertising Agreement") with Cicero Consulting Group, LLC ("Cicero"), pursuant to which Cicero agreed to provide marketing and advertising services to the Company for a term of six months. In consideration for agreeing to provide those services the Company agreed to issue Cicero 32 million shares of common stock. The value of the 32,000,000 shares is \$96,000. Due to the terms of the agreement, \$80,000 has been recorded in the statement of operations for the six months ended June 30, 2017 and \$16,000 remains as prepaid expense to be amortized through July 2017.

During the six months ended June 30, 2017, the Company issued 230,099,520 shares of common stock in settlement of \$204,863 of principal indebtedness and recorded a net gain on conversion of \$41,817.

#### Series A Preferred Stock

On May 22, 2015, the Company designated a series of Series A Preferred Stock. The holders of the Series A Preferred Stock are not entitled to receive dividends paid on the Company's common stock. The holders of the Series A Preferred Stock are not entitled to any liquidation preferences. The shares of the Series A Preferred Stock have no conversion rights. The Series A Preferred Stock provide the holder thereof the power to vote on all shareholder matters (including, but not limited to at every meeting of the stockholders of the Company and upon any action taken by stockholders of the Company with or without a meeting) equal to fifty-one percent (51%) of the total vote. Following the third anniversary of the original issuance of the Series A Preferred Stock, the Company has the option with (a) the unanimous consent or approval of all members of the Board of Directors of the Company; (b) the approval of the holders of a majority of the outstanding shares of Series A Preferred Stock; and (c) the approval of any interest or option holder(s) of such Series A Preferred Stock, to redeem any and all outstanding shares of the Series A Preferred Stock by paying the holders a redemption price of \$100 per share.

#### Series B Preferred Stock

On December 7, 2015, the Company designated a series of Series B Preferred Stock. The Series B Preferred Stock have an original issue price and liquidation preference (pro rata with the common stock) of \$10.00 per share. The Series B Preferred Stock provides the holders thereof the right to convert such shares of Series B Preferred Stock into common stock on a 100-for-one basis, provided that no conversion can result in the conversion of more than that number of shares of Series B Preferred Stock, if any, such that, upon such conversion, the aggregate beneficial ownership of the Company's common stock of any such holder and all persons affiliated with any such holder as described in Rule 13d-3 is more than 4.99% of the Company's common stock then outstanding (the "Maximum Percentage"). For so long as any shares of the Series B Convertible Preferred Stock remain issued and outstanding, the holders thereof are entitled to vote that number of votes as equals the number of shares of common stock into which such holder's aggregate shares of Series B Convertible Preferred Stock are convertible, subject to the Maximum Percentage.

On December 7, 2015, the Company entered into an Exchange Agreement (the "Exchange") with its shareholder, Dr. Eric H. Scheffey, whereby Dr. Scheffey exchanged forty million (40,000,000) shares of the Company's restricted common stock for 40,000 shares of the Company's Series B Preferred Stock.

On January 4, 2016, the Company sold 25,000 shares of its restricted Series B Preferred Stock in connection with a Subscription Agreement dated December 7, 2015 (the January 1, 2016 payment) and received \$250,000. The intrinsic value, the difference between the subscription price and the underlying price of the common stock on the date of the subscription agreement, has been valued at \$250,000. Accordingly, this Discount attributable to beneficial conversion privilege of preferred stock has been recorded as a dividend in the current period and an increase in additional paid-in capital.

#### **NOTE 8 GOING CONCERN**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. The Company has had only limited revenues since inception. Since inception, it has incurred significant losses to date, and as of June 30, 2017, has an accumulated deficit of approximately \$14,800,000 and has a working capital deficit of \$2,099,816. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations is uncertain and is dependent upon its ability to implement a business plan sufficient to generate positive cash flow and/or raise capital to fund its operations. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations in the normal course of business.

#### **NOTE 9 ASSET PURCHASE AGREEMENT**

Effective on June 23, 2016, the Company entered into an Asset Purchase Agreement with 10Star LLC ("10Star" and the "Purchase Agreement"), pursuant to which, the Company purchased certain contracts, relating to 10Star's "On the Border" and "7-Eleven" accounts (the "Purchased Accounts").

The purchase price paid for the Assets at closing on June 23, 2016, was (a) \$50,000 in cash; (b) 5 million shares of restricted common stock; and (c) a promissory note in the amount of \$200,000 (the "Promissory Note"). During December 2016, the asset value of \$280,000 was considered fully impaired. As such, the entire value of \$280,000 less the accumulated amortization in the amount of \$60,000, was written off.

Amounts due under the Promissory Note accrue interest at the rate of 10% per annum (12% upon the occurrence of an event of default), with all interest payable on the maturity date of the Promissory Note, June 23, 2018, provided that the amounts owed under the Promissory Note can be pre-paid in whole or part at any time prior to maturity. Until the earlier of (a) the maturity date of the Promissory Note; and (b) the date the Promissory Note is paid in full, we are required to pay 10Star fifty percent (50%) of the Gross Profits generated by us in connection with the Purchased Accounts, no later than the end of the calendar month following the month during which we generate such Gross Profits and receive payment in connection therewith. "Gross Profit" means: (x) the total gross revenues derived from the Purchased Accounts, less (y) (i) cost of goods sold, (ii) returns, (iii) discounts, (iv) adjustments, and (v) allowances, and those other items that are customarily subtracted from total gross revenue to determine gross profit in accordance with generally accepted accounting principles ("GAAP"). Each payment is credited first to accrued interest and second to principal. The Promissory Note contains standard and customary events of default. The Promissory Note is unsecured and 10Star has no right to any collateral or security interests in connection therewith.

## NOTE 10 EMPLOYMENT AGREEMENTS

As part of, and as a required term and condition of the Purchase Agreement, the Company entered into executive employment agreements with Aaron Luna and William Joseph (J.B.) Hill, to serve as Executive Vice Presidents of the Company in May 2016, in anticipation of the Acquisition.

The employment agreements each have substantially similar terms, including an effective date of April 1, 2016, an initial term of one year (automatically renewable thereafter for additional one year terms in the event neither party provides the other notice of non-renewal at least 30 days prior to the end of the then term). Both agreements include a base salary as determined by the Board of Directors in its sole and absolute discretion in addition to an equity consideration of 3.75 million restricted shares of common stock to Mr. Luna and 3.25 million restricted shares of common stock to Mr. Hill (the "Restricted Shares"), which Restricted Shares are subject to forfeiture and cancellation until March 31, 2017, pursuant to Restricted Stock Award Agreements. In addition to the base salary described above, the executives were to receive a commission on our net sales.

Both Mr. Luna and Mr. Hill subsequently terminated their services with the Company in October 2016, provided that the Company has determined not to enforce the cancellation provisions relating the Restricted Shares.

## NOTE 11 SUBSEQUENT EVENTS

Effective on August 3, 2017, George J. Powell, III, our Chief Executive Officer, Interim Chief Financial Officer, Secretary and Director, and the holder of all 1,000 shares of our outstanding Series A Preferred Stock, which provide the holder thereof the power to vote on all stockholder matters (including, but not limited to at every meeting of the stockholders of the Company and upon any action taken by stockholders of the Company with or without a meeting) equal to fifty-one percent (51%) of the total vote, executed a written consent in lieu of the 2017 annual meeting of stockholders (the "Majority Stockholder Consent"), approving the following matters:

- the appointment of two members to the Company's Board of Directors (Mr. Powell and Thomas H. Witthuhn);
- the adoption of the Code Green Apparel Corp. 2017 Equity Incentive Plan;
- The filing of a Certificate of Amendment to the Company's Articles of Incorporation to increase the number of authorized shares of the Company's capital stock to five billion (5,000,000,000) shares, consisting of four billion nine hundred ninety million (4,990,000,000) shares of common stock, \$0.001 par value per share and ten million (10,000,000) shares of preferred stock, \$0.001 par value per share, without affecting or modifying the Company's previously designated shares of preferred stock in any way;
- authority for our Board of Directors, without further stockholder approval, to effect a reverse stock split of all of the outstanding common stock of the Company, by the filing of a Certificate of Amendment to the Company's Articles of Incorporation with the Secretary of State of Nevada, in a ratio of between one-for-one hundred and one-for-one thousand, with the Company's Board of Directors having the discretion as to whether or not the reverse split is to be effected, and with the exact exchange ratio of any reverse split to be set at a whole number within the above range as determined by the Board of Directors in its sole discretion, at any time before the earlier of (a) August 3, 2018; and (b) the date of the Company's 2018 annual meeting of stockholders;
- the appointment of Soles, Heyn & Company LLP as the Company's independent registered public accounting firm;
- an advisory vote on the frequency of an advisory vote on executive compensation; and
- an advisory vote on executive compensation.

In accordance with Rule 14c-2 of the Exchange Act, the corporate actions will be effective no earlier than forty (40) days after the date notice of the internet availability of an Information Statement disclosing the Majority Stockholder Consent is first sent to stockholders, which we expect to be on or around approximately September 25, 2017.

From July 1, 2017 to the date of this filing, Auctus converted an additional \$5,189 of the amount owed under certain convertible promissory note(s) held by Auctus into 72,650,000 shares of our common stock.

In July 2017, a note holder converted \$5,878 of the amount owed under certain convertible promissory note(s) held by the note holder into 33,781,609 shares of our common stock.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains "forward looking statements" (as that term is defined in Section 27A(i)(1) of the Securities Act), including statements concerning plans, objectives, goals, strategies, expectations, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. In evaluating these statements, you should consider various factors, including the assumptions, risks and uncertainties outlined in this report, if any, and our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on May 22, 2017, under the heading "Risk Factors". These factors or any of them may cause our actual results to differ materially from any forward-looking statement made in this report. Forward-looking statements in this report include, among others, statements regarding our capital needs, business plans, and expectations.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding future events, our actual results will likely vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. Some of the risks and assumptions include, but are not limited to: our need for additional financing; our limited operating history; our history of operating losses; the competitive environment in which we operate; the level of government regulation, including environmental regulation; changes in governmental regulation and administrative practices; our dependence on key personnel; our ability to fully implement our business plan; our ability to effectively manage our growth; and other regulatory, legislative and judicial developments.

We advise the reader that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to us or persons acting on our behalf.

The forward-looking statements in this report are made as of the date of this report and we do not intend or undertake to update any of the forward-looking statements to conform these statements to actual results, except as required by applicable law, including the securities laws of the United States.

The following is management's discussion and analysis of the significant factors that affected the Company's financial position and results of operations during the periods included in the accompanying unaudited consolidated financial statements. You should read this in conjunction with the discussion under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016, and the unaudited consolidated financial statements included in this quarterly report. Expectations of future financial condition and results of operations are based upon current business plans and may change.

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our consolidated financial statements included above under "Part I - Financial Information" - "Item 1. Financial Statements".

In this Quarterly Report on Form 10-Q, we may rely on and refer to information regarding our industry which comes from market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, and we have not independently verified any of it.

Unless the context requires otherwise, references to the "Company," "we," "us," "our," "Code Green" and "Code Green Apparel Corp." refer specifically to Code Green Apparel Corp.

In addition, unless the context otherwise requires and for the purposes of this report only:

- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “SEC” or the “Commission” refers to the United States Securities and Exchange Commission; and
- “Securities Act” refers to the Securities Act of 1933, as amended.

## Description of Business

The Company was incorporated in Nevada on December 11, 2007.

The Company is engaged in the business of manufacturing, selling, marketing and outfitting companies of all sizes and industries with eco-friendly apparel made from recycled textiles. The corporate apparel market encompasses a wide variety of apparel products and accessories ranging from customized uniforms to caps, t-shirts and aprons. We believe that many of these companies are actively seeking ways to incorporate being more environmentally friendly into their company and would entertain mandating that all uniforms be manufactured from recycled fabrics. As all of our products are eco-friendly, our strategy is to emphasize the sustainability features while at the same time providing our products at market competitive rates.

Code Green reduces the environmental impact of the apparel industry by designing, manufacturing and distributing apparel products from eco-friendly and sustainable textiles. It supports both the uniform needs and sustainability initiatives of companies worldwide, by offering a complete line of recycled apparel in the form of T-shirts, hats, polo shirts, pants, shorts, aprons, jackets and accessories. In addition, the Company fulfills recycled clothing needs for organizations of all sizes hosting promotional, fundraising and special events. Its apparel collection is also available to distributors and screen printers through its wholesale distribution channel.

## Recent Transactions:

On April 12, 2017, our Board of Directors and majority shareholder (i.e., George J. Powell, III, the Company’s Chief Executive Officer and Director, who holds 1,000 shares of Series A Preferred Stock, which provides the holder thereof the right to vote 51% of the vote on all shareholder matters), via a written consent to action without meeting, approved the filing of a Certificate of Amendment to our Articles of Incorporation to increase the authorized common stock of the Company, from one billion (1,000,000,000) shares of common stock, \$0.001 par value per share, to one billion, nine hundred and ninety million (1,990,000,000) shares of common stock, \$0.001 par value share (the “Amendment”).

The Amendment did not change (a) the number of authorized shares of our preferred stock, which remained ten million (10,000,000) shares of preferred stock, \$0.001 par value per share; (b) the rights of our Board of Directors to designate the rights and preferences of such preferred stock (as further described in our Articles of Amendment, as amended); or (c) the previously designated series of our preferred stock.

On April 13, 2017, the Company filed the Amendment with the Nevada Secretary of State, which became effective on the same date.

In April 2017, the Company entered into a consulting agreement with a consultant, pursuant to which the consultant agreed to provide business consulting services to the company for a term of three months (extendable at the option of the parties), and the Company agreed to pay the consultant \$25,000 per month in consideration for such services, with \$25,000 due upon the parties’ entry into the agreement, \$25,000 due in 15 days and \$25,000 due in 30 days, which amounts were paid.

On April 12, 2017, pursuant to a Note Purchase Agreement, we sold a 10% Convertible Debenture in the principal amount of \$32,500 (which included a \$5,000 original issue discount) to Sojourn Investments, LP (“Sojourn” and the “Sojourn Debenture”). The principal amount of the debenture accrues at 10% per annum until paid or converted into common stock (18% upon the occurrence of an event of default). The Sojourn Debenture has a maturity date of January 12, 2018, provided the debenture can be repaid at any time, provided that if repaid more than 30 days after the issuance date, we are required to pay 130% of the principal amount of the debenture, together with accrued interest.

The Sojourn Debenture is convertible into shares of our common stock at any time, at a conversion price equal to 58% of the average of the lowest three (3) closing prices during the prior 20 trading days.

In the event we fail to deliver the shares of common stock issuable upon conversion of the debenture within three business days of our receipt of a conversion notice, we are required to pay Sojourn \$1,000 per day for each day that we fail to deliver such shares for up to the first 30 days that the failure continues.

At no time may the Sojourn Debenture be converted into shares of our common stock if such conversion would result in Sojourn and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock.

The Sojourn Debenture provides for standard and customary events of default such as failing to timely make payments under the Sojourn Debenture when due and the failure of the Company to timely comply with the Exchange Act reporting requirements. Additionally, upon the occurrence of certain defaults, as described in the Sojourn Debenture, we are required to pay Sojourn liquidated damages in addition to the amount owed under the Sojourn Debenture.

We hope to repay the Sojourn Debenture prior to any conversion. In the event that the Sojourn Debenture is not repaid in cash in its entirety, Company shareholders may suffer dilution if and to the extent that the balance of the Sojourn Debenture is converted into common stock.

On April 17, 2017, we sold Carebourn a Convertible Promissory Note in the principal amount of \$135,575 (the "April 2017 Carebourn Convertible Note"), pursuant to a Securities Purchase Agreement, dated April 17, 2017. The April 2017 Carebourn Convertible Note bears interest at the rate of 12% per annum (22% upon an event of default) and is due and payable on April 17, 2018. The April 2017 Carebourn Convertible Note had an original issue discount of \$27,075. In addition, we paid \$8,500 of Carebourn's expenses and attorneys' fees in connection with the sale of the note, which were included in the principal amount of the note.

Periodic payments are due by us on the April 2017 Carebourn Convertible Note at the rate of \$565 per day ( $\$135,575 / 240$  days)(the "Repayment Amount"), via direct withdrawal from our bank account. The Repayment Amount automatically adjusts to a prorated higher amount in the amount any penalties or events of default occur under the April 2017 Carebourn Convertible Note.

The April 2017 Carebourn Convertible Note provides for standard and customary events of default such as failing to timely make payments under the April 2017 Carebourn Convertible Note when due, the failure of the Company to timely comply with the Exchange Act reporting requirements and the failure to maintain a listing on the OTCQB. Additionally, upon the occurrence of certain defaults, as described in the April 2017 Carebourn Convertible Note, we are required to pay Carebourn liquidated damages in addition to the amount owed under the April 2017 Carebourn Convertible Note.

The principal amount of the April 2017 Carebourn Convertible Note and all accrued interest is convertible at the option of the holder thereof into our common stock at any time following the 180th day after the April 2017 Carebourn Convertible Note was issued. The conversion price of the April 2017 Carebourn Convertible Note is equal to 50% of the average of the lowest three (3) trading prices of the Company's common stock during the twenty trading days prior to the conversion date.

In the event we fail to deliver the shares of common stock issuable upon conversion of the note within three business days of our receipt of a conversion notice, we are required to pay Carebourn \$1,500 per day for each day that we fail to deliver such shares.

At no time may the April 2017 Carebourn Convertible Note be converted into shares of our common stock if such conversion would result in Carebourn and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock.

We may prepay in full the unpaid principal and interest on the April 2017 Carebourn Convertible Note, with at least 20 trading days' notice, (a) any time prior to the 180th day after the issuance date, by paying 130% of the principal amount of the note together with accrued interest thereon; and (b) any time after the 180th day after the issuance date and prior to the 364<sup>th</sup> day after issuance, by paying 150% of the principal amount of the note together with accrued interest thereon.

The April 2017 Carebourn Convertible Note also contains customary positive and negative covenants.

We hope to repay the April 2017 Carebourn Convertible Note prior to any conversion. In the event that the April 2017 Carebourn Convertible Note is not repaid in cash in its entirety, Company shareholders may suffer dilution if and to the extent that the balance of the April 2017 Carebourn Convertible Note is converted into common stock.

Convertible Promissory Note with Power Up Lending Group Ltd.

On May 24, 2017, pursuant to a Securities Purchase Agreement dated May 22, 2017, we sold a 9% Convertible Promissory Note dated May 22, 2017, in the principal amount of \$32,500, to Power Up Lending Group Ltd. ("Power Up" and the "Power Up Note"). The principal amount of the note accrues interest at 9% per annum until paid or converted into common stock (22% upon the occurrence of an event of default). The Power Up Note has a maturity date of February 28, 2018. We have the right to prepay the note prior to maturity, provided that we pay a prepayment penalty of between 15% and 40%, depending on the number of days that have elapsed from the date the note was sold, together with accrued interest. After the maturity date we have no right to repay the Power Up Note.

The Power Up Note is convertible into shares of our common stock beginning 180 days after the issuance date, at a conversion price equal to the greater of 65% of the average of the two lowest trading prices during the 20 trading days prior to the applicable conversion and \$0.00006 per share.

In the event we fail to deliver the shares of common stock issuable upon conversion of the note within three business days of our receipt of a conversion notice, we are required to pay Power Up \$2,000 per day for each day that we fail to deliver such shares, subject to certain exceptions.

At no time may the Power Up Note be converted into shares of our common stock if such conversion would result in Power Up and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock.

The Power Up Note provides for standard and customary events of default such as failing to timely make payments under the Power Up Note when due and the failure of the Company to timely comply with our Exchange Act reporting requirements. Additionally, upon the occurrence of certain defaults, as described in the Power Up Note, we are required to pay Power Up liquidated damages in addition to the amount owed under the Power Up Note.

We hope to repay the Power Up Note prior to any conversion. In the event that the Power Up Note is not repaid in cash in its entirety, Company shareholders may suffer dilution if and to the extent that the balance of the Power Up Note is converted into common stock.

Convertible Note with JSJ Investments Inc.

On May 25, 2017, we sold a 10% Convertible Promissory Note to JSJ Investments Inc. ("JSJ" and the "JSJ Convertible Note") in the amount of \$100,000. The note included a \$7,500 original issuance discount and we paid \$2,000 of JSJ's legal fees in connection with our entry into the note. Amounts owed under the JSJ Convertible Note accrue interest at the rate of 10% per annum (18% upon an event of default). The JSJ Convertible Note is payable by us on demand by JSJ at any time after February 25, 2018. We have the right to prepay the JSJ Convertible Note prior to the maturity date in the event we pay a prepayment penalty of between 30% to 45% of the principal then due, together with accrued interest, provided that the note can only be repaid if JSJ consents to such repayment.

The JSJ Convertible Note and all accrued interest is convertible at the option of the holder thereof into the Company's common stock at any time. The conversion price of the JSJ Convertible Note is 55% (a 45% discount) of the lower of (a) the third lowest intra-day trading prices of the Company's common stock during the 20 trading days prior to any conversion date of the note, and (b) the lowest intra-day trading price of the Company's common stock during the 20 trading days prior to the entry into the note. In the event we do not issue the holder the shares due in connection with a conversion within three business days, we are required to pay the holder \$2,000 per day until such shares are delivered. In the event certain defaults under the note occur, the conversion discount increases by 5%.

The JSJ Convertible Note contains standard and customary events of default, including in the event we fail to timely file any and all reports due with the SEC. Upon the occurrence of an event of default, we are required to pay JSJ liquidated damages in addition to the amount owed under the JSJ Convertible Note.

At no time may the JSJ Convertible Note be converted into shares of our common stock if such conversion would result in JSJ and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock, provided such percentage may be increased or decreased by JSJ upon not less than 61 days prior written notice to us.

We hope to repay the JSJ Convertible Note prior to any conversion. In the event that the JSJ Convertible Note is not repaid in cash in its entirety, Company shareholders may suffer dilution if and to the extent that the balance of the JSJ Convertible Note is converted into common stock.

#### Convertible Promissory Note with Auctus Fund, LLC

On June 5, 2017, pursuant to a Securities Purchase Agreement, we sold a 10% Convertible Promissory Note in the principal amount of \$150,000 to Auctus Fund, LLC ("Auctus" and the "Auctus Convertible Note"). The principal amount of the note accrues at 10% per annum until paid or converted into common stock (24% upon the occurrence of an event of default). The Auctus Convertible Note has a maturity date of March 5, 2018. Auctus paid \$100,000 of the purchase price of the note at the closing and agreed to pay \$50,000 of the purchase price within forty five (45) days after the closing date, so long as an event of default under the note has not occurred. The note can be repaid at any time prior to the 180<sup>th</sup> day after the issuance date subject to prepayment penalties of between 35% and 50% of the principal amount of the note, together with accrued interest, depending on what is repaid.

At closing, we reimbursed Auctus' legal expenses in the amount of \$2,750 and paid \$8,333 to Auctus to cover due diligence, monitoring, and other transaction costs incurred for services rendered by Auctus. An additional \$4,167 in due diligence, monitoring, and other transaction costs are due in connection with the payment of the \$50,000 portion of the purchase price.

The Auctus Convertible Note is convertible into shares of our common stock at any time, at a conversion price equal to 58% of the lowest trading price during the prior 20 trading days, subject to anti-dilution rights.

If we do not deliver common stock due upon a conversion of the note by DWAC, an additional 10% discount will apply for all future conversions under the note. If our common stock is "chilled" for deposit into the DTC system and only eligible for clearing deposit, an additional 15% discount will apply for all future conversions under the note while the "chill" is in effect. Additionally, if we cease to be a reporting company or if the note cannot be converted into free trading shares after 181 days from the closing date, an additional 30% discount will apply. Additionally, if we fail to maintain our status as "DTC Eligible" for any reason, or, if the conversion price is less than \$0.0005 at any time, the principal amount of the note is increased by \$10,000. If an event of default under the note occurs after the sixth month anniversary of the closing date, the principal amount of the note increases by \$15,000. If the note is not paid at maturity, the principal amount of the note increases by \$15,000. If, we do not maintain or replenish the reserve of shares required under the note within three (3) business days of the request of Auctus, the principal amount of the note increases by \$5,000 per occurrence.



In the event we fail to deliver the shares of common stock issuable upon conversion of the note within three business days of our receipt of a conversion notice, we are required to pay Auctus \$1,000 per day for each day that we fail to deliver such shares.

At no time may the Auctus Convertible Note be converted into shares of our common stock if such conversion would result in Auctus and its affiliates owning an aggregate of in excess of 4.99% of the then outstanding shares of our common stock, subject to the right of Auctus to increase such percentage to 9.99% with 61 days prior notice.

The Auctus Convertible Note provides for standard and customary events of default such as failing to timely make payments under the Auctus Convertible Note when due and the failure of the Company to timely comply with our Exchange Act reporting requirements. Additionally, upon the occurrence of certain defaults, as described in the Auctus Convertible Note, we are required to pay Auctus liquidated damages in addition to the amount owed under the Auctus Convertible Note.

We also agreed pursuant to the Securities Purchase Agreement that until the sooner of the six month anniversary of the closing date or the payment of the note in full, or full conversion of the note, we would not, directly or indirectly, without Auctus' prior written consent, which consent shall not be unreasonably withheld, undertake certain transactions, including solicit any offers for, respond to any unsolicited offers for, or conduct any negotiations with any other person or entity in respect of any variable rate debt transactions (i.e., transactions where the conversion or exercise price of the security issued by the Company varies based on the market price of the common stock) above \$500,000 (per variable rate debt transaction).

We hope to repay the Auctus Convertible Note prior to any conversion. In the event that the Auctus Convertible Note is not repaid in cash in its entirety, Company shareholders may suffer dilution if and to the extent that the balance of the Auctus Convertible Note is converted into common stock.

Written Consent in Lieu of Annual Meeting

Effective on August 3, 2017, George J. Powell, III, our Chief Executive Officer, Interim Chief Financial Officer, Secretary and Director, and the holder of all 1,000 shares of our outstanding Series A Preferred Stock, which provide the holder thereof the power to vote on all stockholder matters (including, but not limited to at every meeting of the stockholders of the Company and upon any action taken by stockholders of the Company with or without a meeting) equal to fifty-one percent (51%) of the total vote, executed a written consent in lieu of the 2017 annual meeting of stockholders (the "Majority Stockholder Consent"), approving the following matters:

- the appointment of two members to our Board of Directors (Mr. Powell and Thomas H. Withuhn);
- the adoption of the Code Green Apparel Corp. 2017 Equity Incentive Plan (described in greater detail below under "Part II – Other Information" – "Item 5. Other Information");
- the filing of a Certificate of Amendment to the Company's Articles of Incorporation to increase the number of authorized shares of the Company's capital stock to five billion (5,000,000,000) shares, consisting of four billion nine hundred ninety million (4,990,000,000) shares of common stock, \$0.001 par value per share and ten million (10,000,000) shares of preferred stock, \$0.001 par value per share, without affecting or modifying the Company's previously designated shares of preferred stock in any way;

- authority for our Board of Directors, without further stockholder approval, to effect a reverse stock split of all of the outstanding common stock of the Company, by the filing of a Certificate of Amendment to the Company's Articles of Incorporation with the Secretary of State of Nevada, in a ratio of between one-for-one hundred and one-for-one thousand, with the Company's Board of Directors having the discretion as to whether or not the reverse split is to be effected, and with the exact exchange ratio of any reverse split to be set at a whole number within the above range as determined by the Board of Directors in its sole discretion, at any time before the earlier of (a) August 3, 2018; and (b) the date of the Company's 2018 annual meeting of stockholders;
- the appointment of Soles, Heyn & Company LLP as our independent registered public accounting firm;
- an advisory vote on the frequency of an advisory vote on executive compensation; and
- an advisory vote on executive compensation.

In accordance with Rule 14c-2 of the Exchange Act, the corporate actions will be effective no earlier than forty (40) days after the date notice of the internet availability of an Information Statement disclosing the Majority Stockholder Consent is first sent to stockholders, which we expect to be on or around approximately September 25, 2017.

#### **Plan of Operations**

We have commenced shipping products to several customers, including Frisco Rivet and numerous specialty based accounts. We are also working diligently to finalize programs with numerous other accounts. Notwithstanding the above, we believe we need \$1.5 million of additional funding for production in the near term and for our operations for the next 12 months and \$2.5 million for our operations over the next 24 months. We plan to raise funding subsequent to the date of this report through the sale of debt or equity, which may not be available on favorable terms, if at all. We require additional funding to (a) fund production on new programs that are coming on line; (b) fund additional sales and marketing programs to enhance revenue growth; (c) fund development of and warehouse inventory for an E-Commerce site; (d) fund synergistic acquisitions; and (e) to bridge operational working capital until such time, if ever, as we can generate sufficient revenues to support our expenses. If we are unable to access additional capital moving forward, it will hurt our ability to grow and to generate future revenues. We may not be able to increase sales or obtain additional financing, if necessary, at a level to meet our current obligations to continue as a going concern.

## Results of Operations

### Three months ended June 30, 2017 versus the three months ended June 30, 2016

The following table presents the Company's results of operations for the three months ended June 30, 2017 compared to the three months ended June 30, 2016:

	For the Three Months Ended June 30,		\$ Change	% Change
	2017	2016		
<b>Revenue</b>	\$ —	\$ 10,141	(10,141)	(100%)
<b>Cost of Goods Sold</b>	—	(8,500)	8,500	100%
<b>Gross Profit</b>	—	1,641	(1,641)	(100%)
<b>Operating Expenses</b>				
Selling, General and Administrative	332,577	226,390	106,187	47%
<b>Total Operating Expenses</b>	<b>332,577</b>	<b>226,390</b>	<b>106,187</b>	<b>47%</b>
<b>Loss From Operations</b>	<b>(332,577)</b>	<b>(224,749)</b>	<b>(107,828)</b>	<b>(48%)</b>
<b>Other Income (Expense)</b>				
Gain on Conversion	19,060	—	19,060	100%
Change in Fair Value of Derivative	1,256,670	(747,718)	2,004,388	268%
Derivative Liability Gain (Expense) – Insufficient Shares	—	(651,677)	651,677	100%
Interest Expense	(1,327,981)	(19,952)	(1,308,029)	656%
<b>Total Other Income (Expense)</b>	<b>(52,251)</b>	<b>(1,419,347)</b>	<b>1,367,096</b>	<b>96%</b>
<b>Net (Loss)</b>	<b>(384,828)</b>	<b>(1,644,096)</b>	<b>1,259,268</b>	<b>77%</b>

### Revenue and Gross Loss

During the three months ended June 30, 2017, the Company generated no revenues through the sale of goods and had no associated costs. The Company was unable to generate revenues due to the Company's lack of cash on hand, which made it impossible for the Company to purchase raw materials. During the three months ended June 30, 2016, the Company generated \$10,141 in revenues through the sale of goods with associated costs of \$8,500. The Company recognized a gross profit of \$1,641 for the three months ended June 30, 2016.

### Operating expenses

The Company incurred \$332,577 in selling, general and administrative expenses for the three months ended June 30, 2017, a \$106,187 increase from the \$226,390 in selling, general and administrative expenses incurred during the three months ended June 30, 2016. This increase is directly related to increased professional fees and product development expenses.

During the three months ended June 30, 2017, the Company incurred \$89,845 of consulting expenses, which are included under selling, general and administrative expenses. The Company incurred \$74,600 of consulting expenses during the three months ended June 30, 2016. Consulting expenses relate to the development of products within the corporate logo wear industry made from sustainable textiles.

During the three months ended June 30, 2017, the Company incurred \$84,665 of legal, accounting and professional expenses, which are included under selling, general and administrative expenses, which is a \$33,375 increase from the \$51,290 incurred during the three months ended June 30, 2016. Legal, accounting and professional expenses relate to the Company's registration statement and other filings with the Securities and Exchange Commission. The main reason for the decrease in professional fees was the cost of the preparation of the Company's Form S-1 registration statement during the prior period. Additionally, the Company did not have the resources in place to begin work on its required periodic reports during the three months ended June 30, 2017.

During the three months ended June 30, 2017, the Company incurred \$70,938 of product development expenses, which are included under selling, general and administrative expenses, which is a \$65,938 increase compared to the \$45,000 incurred during the three months ended June 30, 2016. The product development costs relate to the development of products within the corporate logo wear industry made from sustainable textiles, and were higher in the current period as the Company was active in developing new products.

During the three months ended June 30, 2017, the Company recorded \$ 48,000 of non-cash compensation related to the stock issuance to a consultant, which is included under selling, general and administrative expenses. During the three months ended June 30, 2016, the Company recorded \$42,000 of non-cash compensation related to the stock issuance to a consultant.

**Other income (expense)**

During the three months ended June 30, 2017, the Company reported \$1,327,981 of interest expense compared to \$19,952 reported during the three months ended June 30, 2016. The interest expense relates to the promissory notes outstanding as described in greater detail in Notes 3 and 4 to the financial statements included herein.

During the three months ended June 30, 2017, the Company recognized a gain of \$1,256,670 on change in fair value of derivative in connection with the valuation of the derivative liabilities (see Notes 4 and 5 of the financial statements included herein), compared to a loss on change in fair value of derivative of \$747,718 for the three months ended June 30, 2016.

The Company recognized a \$651,677 expense in connection with insufficient shares being available for the Company's derivative liability for the three months ended June 30, 2016.

The Company had a \$19,060 gain on the conversion of debt in connection with the conversion of amounts due under the terms of certain convertible promissory notes into shares of our common stock for the three months ended June 30, 2017.

**Net income (loss)**

The Company had a net loss for the three months ended June 30, 2017 of \$384,828, a \$1,259,268 decrease from the net loss of \$1,644,096 incurred during the three months ended June 30, 2016. The decrease in net loss was primarily due to the reasons described above.

**Six months ended June 30, 2017 versus the six months ended June 30, 2016**

The following table presents the Company's results of operations for the six months ended June 30, 2017 compared to the six months ended June 30, 2016:

	<b>For the Six Months Ended June 30,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2017</b>	<b>2016</b>		
<b>Revenue</b>	<b>\$ 33,479</b>	<b>\$ 28,378</b>	<b>5,101</b>	<b>18%</b>
<b>Cost of Goods Sold</b>	<b>(24,628)</b>	<b>(23,698)</b>	<b>(930)</b>	<b>(4%)</b>
<b>Gross Profit</b>	<b>8,851</b>	<b>4,680</b>	<b>4,171</b>	<b>89%</b>
<b>Operating Expenses</b>				
Selling, General and Administrative	421,652	601,686	(180,024)	(30%)
<b>Total Operating Expenses</b>	<b>421,652</b>	<b>601,686</b>	<b>(180,024)</b>	<b>(30%)</b>
<b>Loss From Operations</b>	<b>(412,801)</b>	<b>(597,006)</b>	<b>(184,205)</b>	<b>31%</b>
<b>Other Income (Expense)</b>				
Gain on Conversion	41,817	—	41,817	100%
Change in Fair Value of Derivative	912,422	(593,704)	1,506,126	254%
Derivative Liability Gain (Expense) – Insufficient Shares	561,447	(905,980)	1,467,427	162%
Interest Expense	(1,377,164)	(31,919)	(1,345,245)	421%
<b>Total Other Income (Expense)</b>	<b>138,522</b>	<b>(1,531,603)</b>	<b>1,670,125</b>	<b>109%</b>
<b>Net Income (Loss)</b>	<b>(274,279)</b>	<b>(2,128,609)</b>	<b>1,854,330</b>	<b>87%</b>

**Revenue and Gross Loss**

During the six months ended June 30, 2017, the Company generated \$33,479 in revenues through the sale of goods with associated costs of \$24,628. The Company recognized a gross profit of \$8,851 for the six months ended June 30, 2017. During the six months ended June 30, 2016, the Company generated \$28,378 in revenues through the sale of goods with associated costs of \$23,698. The Company recognized a gross profit of \$4,680 for the six months ended June 30, 2016.

**Operating expenses**

The Company incurred \$421,651 in selling, general and administrative expenses for the six months ended June 30, 2017, a \$180,024 decrease from the \$601,686 in selling, general and administrative expenses incurred during the six months ended June 30, 2016. This decrease is directly related to the limited cash resources which the Company had during the six months ending June 30, 2017. Selling, general and administrative expenses consist of expenses the Company incurs during day-to-day operations.

During the six months ended June 30, 2017, the Company incurred \$90,645 of consulting expenses, which are included under selling, general and administrative expenses. The Company incurred \$107,987 of consulting expenses during the six months ended June 30, 2016. Consulting expenses relate to the development of products within the corporate logo wear industry made from sustainable textiles.

During the six months ended June 30, 2017, the Company incurred \$85,517 of legal, accounting and professional expenses, which are included under selling, general and administrative expenses, which is a \$151,219 decrease from the \$203,360 incurred during the six months ended June 30, 2016. Legal, accounting and professional expenses relate to the Company's registration statement and other filings with the Securities and Exchange Commission. The main reason for the decrease in professional fees was the cost of the preparation of the Company's Form S-1 registration statement during the prior period. Additionally, the Company did not have the resources in place to begin work on its required periodic reports during the six months ending June 30, 2017.

During the six months ended June 30, 2017, the Company incurred \$71,594 of product development expenses, which are included under selling, general and administrative expenses, which is a \$41,350 increase compared to the \$30,244 incurred during the six months ended June 30, 2017. The product development costs relate to the development of products within the corporate logo wear industry made from sustainable textiles, and were higher in the current period as the Company was developing new products.

During the six months ended June 30, 2017, the Company incurred \$28,476 of travel expenses, which are included under selling, general and administrative expenses, which is a \$46,822 decrease from the \$75,297 incurred during the six months ended June 30, 2016. Travel expenses relate to the efforts by management to meet with new customers and potential customers and vary from period-to-period. Over time the Company expects to see a leveling off of these costs; however, as the Company grows the Company anticipates these expenses increasing.

During the six months ended June 30, 2017, the Company recorded \$ 110,000 of non-cash compensation related to the stock issuance to the Company's COO and a consultant, which is included under selling, general and administrative expenses. During the six months ended June 30, 2016, the Company recorded \$117,000 of non-cash compensation related to the stock issuance to the Company's COO and a consultant.

#### **Other income (expense)**

During the six months ended June 30, 2017, the Company reported \$1,377,164 of interest expense compared to \$31,919 reported during the six months ended June 30, 2016. The interest expense relates to the promissory notes outstanding as described in greater detail in Notes 3 and 4 to the financial statements included herein.

During the six months ended June 30, 2017, the Company recognized income of \$912,422 in connection with the change in fair value of derivative in connection with the valuation of the derivative liabilities (see Notes 4 and 5 of the financial statements included herein), compared to an expense of \$593,704 in change in fair value of derivative for the six months ended June 30, 2016.

The Company recognized a \$561,447 gain in connection with insufficient shares being available for the Company's derivative liability for the six months ended June 30, 2017, compared to an expense of \$905,980 in connection therewith for the six months ended June 30, 2016.

The Company had a \$41,817 gain on the conversion of debt in connection with the conversion of amounts due under the terms of certain convertible promissory notes into shares of our common stock for the six months ended June 30, 2017.

## Net income (loss)

The Company had a net loss for the six months ended June 30, 2017 of \$274,279, a \$1,854,330 increase from the net loss of \$2,128,609 incurred during the six months ended June 30, 2016. The increase in net loss was primarily due to the reasons described above, mainly, the non-cash derivative liability gain.

## Liquidity and Capital Resources

The Company had an accumulated deficit at June 30, 2017 of approximately \$14.8 million. The Company had net loss of \$274,279 during the six months ended June 30, 2017, had \$16,000 of current assets as of June 30, 2017, consisting solely of prepaid expenses, had only \$27,283 in total assets and has negative working capital of \$2,099,816, as of June 30, 2017. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required and, ultimately, to attain profitable operations. Management's plans to eliminate the going concern situation include, but are not limited to, raising additional capital through the issuance of debt and equity (including the sale of additional convertible securities, which will likely be convertible into common stock at a discount to the trading price of the Company's common stock), and improved cash flow management. Failure to raise additional capital or improve its performance in the next 12 months may cause the Company to significantly curtail its business activities and expansion plans within the next twelve months. The Company may be unable to sell additional debt, convertible debt and/or equity on favorable terms, if at all, and the sale of any such securities may cause substantial dilution to existing shareholders. In the event the Company is unable to fund its operations and expenses and satisfy outstanding liabilities in the future, it may be forced to liquidate assets, cease filing reports with the SEC or seek bankruptcy protection.

The Company had no cash as of June 30, 2017, compared to \$47 as of December 31, 2016.

We had \$27,283 of total assets as of June 30, 2017, consisting solely of fixed assets, net of \$11,283 and \$16,000 of prepaid expenses.

We had total liabilities of \$2,315,816 as of June 30, 2017, including current liabilities consisting of accounts payable and accrued expenses of \$317,052, accrued interest on our convertible notes of \$179,598, notes payable of \$82,500, convertible notes, net of discount, of \$342,538 and derivative liability of \$1,194,128, and long-term liabilities consisting of notes payable, net of current portion, of \$200,000.

Our outstanding promissory notes, convertible notes and derivative liability are described in greater detail in Notes 3, 4 and 5, to the financial statements attached herein and under "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions", above.

## Cash Flows

	Six Months Ending June 30,	
	2017	2016
Net cash used by operating activities	\$ (310,101)	\$ (347,339)
Net cash used by investing activities	\$ —	\$ 13,928
Net cash provided by financing activities	\$ 310,054	\$ 345,956

### Operating Activities

Net cash used by operating activities for the six months ended June 30, 2017 of \$310,101 was mainly due to non-cash items including a derivative liability of \$561,447, offset by \$912,423 of gain on derivative revaluation and \$126,000 of common stock issued for services.

### Investing Activities

Net cash used by investing activities for the six months ended June 30, 2016 was solely due to the purchase of fixed assets of \$13,928. We had no net cash used by investing activities for the six months ended June 30, 2017.

## Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2016, was from the sale of Series B Preferred Stock of \$250,000 and \$95,956 of proceeds from note payable sales, net of repayments. We had \$310,054 of net cash provided by financing activities for the six months ended June 30, 2017 related to proceeds from notes payable, net of repayments.

From time to time, we may attempt to raise capital through either equity or debt offerings. Our capital requirements will depend on many factors, including, among other things, the rate at which our business grows, with corresponding demands for working capital and expansion capacity. We could be required, or may elect, to seek additional funding through public or private equity, debt financing or bank financing.

## Critical Estimates and Judgments

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates its estimates and judgments, including those related to receivables and accrued expenses. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable based on the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the appropriate carrying value of the Company's intangible assets, the amount of stock compensation, and the amount of accrued liabilities that are not readily attainable from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the consolidated financial statements.

The discussion in this report contains forward-looking statements that involve risks and uncertainties. The Company's future actual results may differ materially from the results discussed herein, including those in the forward-looking statements.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We have established and maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed with the Commission pursuant to the Exchange, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Interim Chief Financial Officer (CFO), to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. As of June 30, 2017, based on the evaluation of these disclosure controls and procedures, and in light of the reasons described below, our CEO and CFO have concluded that our disclosure controls and procedures **were not effective to** provide reasonable assurance that information required to be disclosed in our reports filed with the Commission pursuant to the Exchange Act, is recorded properly, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures.



Management has identified the following control deficiencies that represent material weaknesses as of June 30, 2017:

i) *Lack of segregation of duties.* At this time, our resources and size prevent us from being able to employ sufficient resources to enable us to have adequate segregation of duties within our internal control system. Management will periodically reevaluate this situation.

ii) *Lack of an independent audit committee.* Although the Board of Directors serves as an audit committee, it is not comprised solely of independent directors. We may establish an audit committee comprised solely of independent directors when we have sufficient capital resources and working capital to attract qualified independent directors and to maintain such a committee.

iii) *Insufficient number of independent directors.* At the present time, our Board of Directors does not consist of a majority of independent directors, a factor that is counter to corporate governance practices as set forth by the rules of various stock exchanges.

Due to a lack of financial resources, we are not able to, and do not intend to, immediately take any action to remediate these material weaknesses. We will not be able to do so until we acquire sufficient financing to do so. We will implement further controls as circumstances, cash flow, and working capital permit. Notwithstanding the assessment that our disclosure controls and procedures were not effective and that there were material weaknesses as identified in this report, we believe that our financial statements fairly present our financial position, results of operations and cash flows for the periods covered thereby in all material respects.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended June 30, 2017, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we are not currently a party to any material legal proceeding. In addition, we are not aware of any material legal or governmental proceedings against us, or contemplated to be brought against us.

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Commission on May 22, 2017, under the heading "Risk Factors", except as provided below, and investors should review the risks provided in the Form 10-K and below, prior to making an investment in the Company. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the Form 10-K for the year ended December 31, 2016, under "Risk Factors" and below, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

***There is substantial doubt about the Company's ability to continue as a going concern.***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. The Company has had only limited revenues since inception. The Company had an accumulated deficit at June 30, 2017 of approximately \$14.5 million. The Company had net income of \$11,478 during the six months ended June 30, 2017, had \$16,000 of current assets as of June 30, 2017, consisting solely of prepaid expenses, had only \$27,283 in total assets and has negative working capital of \$1,802,776, as of June 30, 2017. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required and, ultimately, to attain profitable operations. Management's plans to eliminate the going concern situation include, but are not limited to, the raise of additional capital through issuance of debt and equity, improved cash flow management. If we are unable to raise additional funding our business would be jeopardized and the Company may not be able to continue. If we ceased operations, it is likely that all of our investors would lose their investment.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 9, 2017, the Company entered into an Advertising Services Agreement (the "Advertising Agreement") with Cicero Consulting Group, LLC ("Cicero"), pursuant to which Cicero agreed to provide marketing and advertising services to the Company for a term of six months. In consideration for agreeing to provide those services we issued Cicero 32 million shares of common stock in April 2017.

We claim an exemption from registration pursuant to Section 4(a)(2) and/or Rule 506(b) of Regulation D of the Securities Act, and the rules and regulations promulgated thereunder in connection with the issuance described above since the foregoing issuance did not involve a public offering, the recipient was (a) an "accredited investor", and/or (b) had access to similar documentation and information as would be required in a Registration Statement under the Securities Act. With respect to the transaction described above, no general solicitation was made either by us or by any person acting on our behalf. The transaction was privately negotiated, and did not involve any kind of public solicitation. No underwriters or agents were involved in the foregoing issuance and we paid no underwriting discounts or commissions. The securities are subject to transfer restrictions, and the certificates evidencing the securities contain an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption therefrom.

On April 7, 2017, we issued 21,481,481 shares of common stock to Anubis Capital Partners in connection with the conversion of debt.

From March 31, 2017 to June 30, 2017, Anubis Capital Partners converted \$67,000 of the amount owed under certain convertible promissory note(s) held by Anubis Capital Partners into 77,481,481 shares of our common stock.

From March 31, 2017 to June 30, 2017, Carebourn converted \$63,427 of the amount owed under certain convertible promissory note(s) held by Carebourn into 62,498,139 shares of our common stock.

From March 31, 2017 to June 30, 2017, Auctus converted \$48,436 of the amount owed under certain convertible promissory note(s) held by Auctus into 70,119,900 shares of our common stock.

From July 1, 2017 to the date of this filing, Auctus converted an additional \$5,189 of the amount owed under certain convertible promissory note(s) held by Auctus into 72,650,000 shares of our common stock.

In July 2017, a note holder converted \$5,878 of the amount owed under certain convertible promissory note(s) held by the note holder into 33,781,609 shares of our common stock.

We claim an exemption from registration provided by Section 3(a)(9) of the Securities Act for the debt conversions described above, as the securities were exchanged by us with our existing security holders in a transaction where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange.

As described above under “[Part I - Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions](#)”, on April 12, 2017, we sold Sojourn the Sojourn Debenture, on April 17, 2017, we sold Carebourn the April 2017 Carebourn Convertible Note, on May 22, 2017 we sold Power Up, the Power Up Note, on May 25, 2017, we sold JSJ the JSJ Convertible Note, and on June 5, 2017, we sold Auctus, the Auctus Convertible Note. The notes and debenture are convertible into our common stock at a discount to the trading price of our common stock as described in greater detail above. We claim an exemption from registration for the issuance of such convertible securities pursuant to Section 4(a)(2) and/or Rule 506(b) of Regulation D of the Securities Act, since the foregoing issuances did not involve a public offering, the recipients were (i) “[accredited investors](#)”; and/or (ii) had access to similar documentation and information as would be required in a Registration Statement under the Securities Act, and the recipients acquired the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The securities were offered without any general solicitation by us or our representatives. No underwriters or agents were involved in the foregoing issuance and we paid no underwriting discounts or commissions. The securities sold are subject to transfer restrictions, and the certificates evidencing the securities contain an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption therefrom. The securities were not registered under the Securities Act and such securities may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act and any applicable state securities laws.

***Use of Proceeds From Sale of Registered Securities***

None.

***Issuer Purchases of Equity Securities***

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Effective on August 13, 2017, our Board of Directors and George J. Powell, III, our Chief Executive Officer, Interim Chief Financial Officer, Secretary and Director, and the holder of all 1,000 shares of our outstanding Series A Preferred Stock, which provide the holder thereof the power to vote on all stockholder matters (including, but not limited to at every meeting of the stockholders of the Company and upon any action taken by stockholders of the Company with or without a meeting) equal to fifty-one percent (51%) of the total vote, approved the adoption of the Code Green Apparel Corp. 2017 Equity Incentive Plan (the “[Plan](#)”). While the Plan went into effect on August 13, 2017, the approval of the Plan by Mr. Powell, in accordance with Rule 14c-2 of the Exchange Act, will be effective no earlier than forty (40) days after the date notice of the internet availability of an Information Statement disclosing such approval, and other items, is first sent to stockholders, which we expect to be on or around approximately September 25, 2017.

The material terms of the Plan are described below.

**What is the purpose of the Plan?**

The Plan is intended to secure for the Company the benefits arising from ownership of the Company’s common stock by the employees, officers, directors and consultants of the Company, all of whom are and will be responsible for the Company’s future growth. The Plan is designed to help attract and retain for the Company, qualified personnel for positions of exceptional responsibility, to reward employees, officers, directors and consultants for their services to the Company and to motivate such individuals through added incentives to further contribute to the success of the Company.

### **Who is eligible to participate in the Plan?**

The Plan provides an opportunity for any employee, officer, director or consultant of the Company, subject to any limitations provided by federal or state securities laws, to receive (i) incentive stock options (to eligible employees only); (ii) nonqualified stock options; (iii) restricted stock; (iv) stock awards; (v) shares in performance of services; or (vi) any combination of the foregoing. In making such determinations, the Board of Directors may take into account the nature of the services rendered by such person, his or her present and potential future contribution to the Company's success, and such other factors as the Board of Directors in its discretion shall deem relevant. Incentive stock options granted under the Plan are intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Nonqualified (non-statutory stock options) granted under the Plan are not intended to qualify as incentive stock options under the Code. See "Federal Income Tax Consequences" below for a discussion of the principal federal income tax consequences of awards under the Plan.

No incentive stock option may be granted under the Plan to any person who, at the time of the grant, owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of our Company or any affiliate of our Company, unless the exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and the term of the option does not exceed five years from the date of grant.

### **Who will administer the Plan?**

The Plan will be administered by the Board of Directors of the Company. The Board will have the exclusive right to interpret and construe the Plan, to select the eligible persons who shall receive an award, and to act in all matters pertaining to the grant of an award and the determination and interpretation of the provisions of the related award agreement, including, without limitation, the determination of the number of shares subject to stock options and the option period(s) and option price(s) thereof, the number of shares of restricted stock or shares subject to stock awards or performance shares subject to an award, the vesting periods (if any) and the form, terms, conditions and duration of each award, and any amendment thereof consistent with the provisions of the Plan.

### **How much common stock is subject to the Plan?**

Subject to adjustment in connection with the payment of a stock dividend, a stock split or subdivision or combination of the shares of common stock, or a reorganization or reclassification of the Company's common stock, the maximum aggregate number of shares of common stock which may be issued pursuant to awards under the Plan is 75,000,000 shares. Such shares of common stock will be made available from the authorized and unissued shares of the Company.

If shares of common stock subject to an option or performance award granted under the Plan expire or otherwise terminate without being exercised (or exercised in full), such shares will become available again for grants under the Plan. If shares of restricted stock awarded under the Plan are forfeited to us or repurchased by us, the number of shares forfeited or repurchased will again be available under the Plan. Where the exercise price of an option granted under the Plan is paid by means of the optionee's surrender of previously owned shares of common stock, or our withholding of shares otherwise issuable upon exercise of the option as may be permitted under the Plan, only the net number of shares issued and which remain outstanding in connection with such exercise will be deemed "issued" and no longer available for issuance under the Plan.

### **Does the Company have any present plans to grant or issue securities pursuant to the Plan?**

The Company cannot determine the amounts of awards that will be granted under the Plan or the benefits of any awards to the executive officers as a group, or employees who are not executive officers as a group. Under the terms of the Plan, the number of awards to be granted is within the discretion of the Board of Directors.

The Board of Directors may issue Options, shares of restricted stock or other awards under the Plan for such consideration as determined in their sole discretion, subject to applicable law.

**What will be the exercise price, vesting terms and expiration date of options and awards under the Plan?**

The Board of Directors, in its sole discretion, will determine the exercise price of any Options granted under the Plan which exercise price will be set forth in the agreement evidencing the Option, provided however that at no time will the exercise price be less than \$0.001 par value per share of the Company's common stock. Also, the exercise price of incentive stock options may not be less than the fair market value of the common stock subject to the option on the date of the grant and, in some cases (see "Who is eligible to participate in the Plan?" above), may not be less than 110% of such fair market value. The exercise price of non-statutory options also may not be less than the fair market value of the common stock on the date of grant. The exercise price of options granted under the Plan must be paid either in cash at the time the option is exercised or, at the discretion of our Board, (i) by delivery of already-owned shares of our common stock, (ii) pursuant to a deferred payment arrangement, (iii) pursuant to a net exercise arrangement, or (iv) pursuant to a cashless exercise as permitted under applicable rules and regulations of the Securities and Exchange Commission.

Options and other awards granted under the Plan may be exercisable in cumulative increments, or "vest," as determined by our Board. Our Board has the power to accelerate the time as of which an option may vest or be exercised. Shares of restricted stock acquired under a restricted stock purchase or grant agreement may, but need not, be subject to forfeiture to us or other restrictions that will lapse in accordance with a vesting schedule to be determined by the Board of Directors. In the event a recipient's employment or service with our Company terminates, any or all of the shares of common stock held by such recipient that have not vested as of the date of termination under the terms of the restricted stock agreement may be forfeited to our Company in accordance with such restricted stock agreement.

The expiration date of Options and other awards granted under the Plan will be determined by our Board of Directors. The maximum term of options and performance shares under the Plan is ten years, except that in certain cases the maximum term is five years.

**What equitable adjustments will be made in the event of certain corporate transactions?**

Upon the occurrence of:

- (i) the adoption of a plan of merger or consolidation of the Company with any other corporation or association as a result of which the holders of the voting capital stock of the Company as a group would receive less than 50% of the voting capital stock of the surviving or resulting corporation;
- (ii) the approval by the Board of Directors of an agreement providing for the sale or transfer (other than as security for obligations of the Company) of substantially all of the assets of the Company; or
- (iii) in the absence of a prior expression of approval by the Board of Directors, the acquisition of more than 20% of the Company's voting capital stock by any person within the meaning of Rule 13d-3 under the Exchange Act (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

and unless otherwise provided in the award agreement with respect to a particular award, all outstanding stock options will become immediately exercisable in full, subject to any appropriate adjustments, and will remain exercisable for the remaining option period, regardless of any provision in the related award agreement limiting the ability to exercise such stock option or any portion thereof for any length of time. All outstanding performance shares with respect to which the applicable performance period has not been completed will be paid out as soon as practicable; and all outstanding shares of restricted stock with respect to which the restrictions have not lapsed will be deemed vested and all such restrictions will be deemed lapsed and the restriction period ended.

Additionally, after the merger of one or more corporations into the Company, any merger of the Company into another corporation, any consolidation of the Company and one or more corporations, or any other corporate reorganization of any form involving the Company as a party thereto and involving any exchange, conversion, adjustment or other modification of the outstanding shares of the common stock, each participant will, at no additional cost, be entitled, upon any exercise of such participant's stock option, to receive, in lieu of the number of shares as to which such stock option will then be so exercised, the number and class of shares of stock or other securities or such other property to which such participant would have been entitled to pursuant to the terms of the agreement of merger or consolidation or reorganization, if at the time of such merger or consolidation or reorganization, such participant had been a holder of record of a number of shares of common stock equal to the number of shares as to which such stock option will then be so exercised.

#### **What happens to options upon termination of employment or other relationships?**

The incentive stock options will lapse and cease to be exercisable upon the termination of service of an employee or director as defined in the Plan, or within such period following a termination of service as will have been determined by the Board and set forth in the related award agreement; provided, further, that such period will not exceed the period of time ending on the date three (3) months following a termination of service. Non-incentive stock options are governed by the related award agreements.

#### **Will adjustments be made for tax withholding?**

To the extent provided by the terms of an option or other award, a participant may satisfy any federal, state or local tax withholding obligation relating to the exercise of such option, or award by a cash payment upon exercise, or in the discretion of our Board of Directors, by authorizing our Company to withhold a portion of the stock otherwise issuable to the participant, by delivering already-owned shares of our common stock or by a combination of these means.

#### **Federal income tax consequences?**

The following is a summary of the principal United States federal income tax consequences to the recipient and our Company with respect to participation in the Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

#### ***Incentive Stock Options***

There will be no federal income tax consequences to either us or the recipient upon the grant of an incentive stock option. Upon exercise of the option, the excess of the fair market value of the stock over the exercise price, or the "spread," will be added to the alternative minimum tax base of the recipient unless a disqualifying disposition is made in the year of exercise. A disqualifying disposition is the sale of the stock prior to the expiration of two years from the date of grant and one year from the date of exercise. If the shares of common stock are disposed of in a disqualifying disposition, the recipient will realize taxable ordinary income in an amount equal to the spread at the time of exercise, and we will be entitled (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to a federal income tax deduction equal to such amount. If the recipient sells the shares of common stock after the specified periods, the gain or loss on the sale of the shares will be long-term capital gain or loss and we will not be entitled to a federal income tax deduction.

#### ***Non-statutory Stock Options and Restricted Stock Awards***

Non-statutory stock options and restricted stock awards granted under the Plan generally have the following federal income tax consequences.

There are no tax consequences to the participant or us by reason of the grant. Upon acquisition of the stock, the recipient will recognize taxable ordinary income equal to the excess, if any, of the stock's fair market value on the acquisition date over the purchase price. However, to the extent the stock is subject to "a substantial risk of forfeiture" (as defined in Section 83 of the Code), the taxable event will be delayed until the forfeiture provision lapses unless the recipient elects to be taxed on receipt of the stock by making a Section 83(b) election within 30 days of receipt of the stock. If such election is not made, the recipient generally will recognize income as and when the forfeiture provision lapses, and the income recognized will be based on the fair market value of the stock on such future date. On that date, the recipient's holding period for purposes of determining the long-term or short-term nature of any capital gain or loss recognized on a subsequent disposition of the stock will begin. If a recipient makes a Section 83(b) election, the recipient will recognize ordinary income equal to the difference between the stock's fair market value and the purchase price, if any, as of the date of receipt and the holding period for purposes of characterizing as long-term or short-term any subsequent gain or loss will begin at the date of receipt.

With respect to employees, we are generally required to withhold from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation, we will generally be entitled to a business expense deduction equal to the taxable ordinary income realized by the participant.

Upon disposition of the stock, the recipient will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income with respect to the stock. Such gain or loss will be long-term or short-term depending on whether the stock has been held for more than one year.

### **Potential Limitation on Company Deductions**

Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain senior executives of our Company (a "covered employee") in a taxable year to the extent that compensation to such employees exceeds \$1,000,000. It is possible that compensation attributable to awards, when combined with all other types of compensation received by a covered employee from our company, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified "performance-based compensation," are disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m), compensation attributable to stock options will qualify as performance-based compensation if the award is granted by a committee solely comprising "outside directors" and, among other things, the plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, the per-employee limitation is approved by the stockholders, and the exercise price of the award is no less than the fair market value of the stock on the date of grant. Awards to purchase restricted stock under the Plan will not qualify as performance-based compensation under the Treasury Regulations issued under Section 162(m).

### **May awards under the Plan be modified after they are granted?**

Yes. The Board may reprice any stock option without the approval of the stockholders of the Company. For this purpose, "reprice" means (i) any of the following or any other action that has the same effect: (A) lowering the exercise price of a stock option after it is granted, (B) any other action that is treated as a repricing under U.S. generally accepted accounting principles ("GAAP"), or (C) cancelling a stock option at a time when its exercise price exceeds the fair market value of the underlying common stock, in exchange for another stock option, restricted stock or other equity, unless the cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction; and (ii) any other action that is considered to be a repricing under formal or informal guidance issued by an exchange or market on which the Company's common stock then trades or is quoted. In addition to, and without limiting the above, the Board may permit the voluntary surrender of all or a portion of any stock option granted under the Plan to be conditioned upon the granting to the participant of a new stock option for the same or a different number of shares of common stock as the stock option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new stock option to such participant. Subject to the provisions of the Plan, such new stock option will be exercisable at such option price, during such option period and on such other terms and conditions as are specified by the Board at the time the new stock option is granted. Upon surrender, the stock options surrendered will be canceled and the shares of common stock previously subject to them will be available for the grant of other stock options.

**May the Plan be modified, amended or terminated?**

The Board of Directors may adopt, establish, amend and rescind such rules, regulations and procedures as it may deem appropriate for the proper administration of the Plan, make all other determinations which are, in the Board's judgment, necessary or desirable for the proper administration of the Plan, amend the Plan or a stock award as provided in Article XI of the Plan, and/or terminate or suspend the Plan as provided in Article XI thereof. Our Board of Directors may also amend the Plan at any time, and from time to time. However, except as relates to adjustments upon changes in common stock, no amendment will be effective unless approved by our stockholders to the extent stockholder approval is necessary to preserve incentive stock option treatment for federal income tax purposes. Our Board of Directors may submit any other amendment to the Plan for stockholder approval if it concludes that stockholder approval is otherwise advisable.

Unless sooner terminated, the Plan will terminate ten years from the date of its adoption by our Board, i.e., in August 2027.

**Item 6. Exhibits**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.



**SIGNATURES**

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

**Code Green Apparel Corp.**

Date: August 25, 2017

By: /s/ **George J. Powell, III**

George J. Powell, III

Chief Executive Officer and Interim Chief Financial Officer

(Principal Executive Officer and Principal Financial/Accounting Officer)

**EXHIBIT INDEX**

Exhibit No.	Description	Incorporated By Reference				
		Filed Herewith	Form	Exhibit	Filing Date/Period End Date	File Number
2.1+	Asset Purchase Agreement by and between Code Green Apparel Corp., as purchaser and 10Star LLC, as seller, dated June 23, 2016		8-K	2.1	7/13/2016	333-206089
3.1	Articles and Restated By-Laws		S-1	3.1	8/4/15	333-206089
3.2	Certificate of Designation of Series B Convertible Preferred Stock		S-1/A	99.3	1/29/16	333-206089
3.3	Certificate of Amendment to the Articles of Incorporation of Code Green Apparel Corp. (increasing the authorized capitalization to 2,000,000,000 shares, representing 1,990,000,000 shares of common stock and 10,000,000 shares of preferred stock), as filed with the Secretary of State of Nevada on April 13, 2017		8-K	3.1	4/14/17	333-206089
10.1	Form of Investor Subscription Agreement		S-1/A	10.2	11/13/15	333-206089
10.2	Employment Agreement with George J. Powell, III***		S-1/A	99.2	11/13/15	333-206089
10.3	Investor Subscription Agreement for Series B Convertible Preferred Stock		S-1/A	99.4	1/29/16	333-206089
10.4	Exchange Agreement dated December 7, 2015 between the Company and Dr. Eric H. Scheffey		S-1/A	99.5	1/29/16	333-206089
10.5	\$150,000 Convertible Promissory Note dated December 3, 2015 between the Company and Beaufort Capital Partners, LLC		S-1/A	10.5	4/11/16	333-206089
10.6	Promissory Note by Code Green Apparel Corp., in favor of 10Star LLC (\$200,000)		8-K	10.1	7/13/2016	333-206089
10.7	Form of Executive Employment Agreement***		8-K	10.2	7/13/2016	333-206089
10.8	Form of Restricted Stock Agreement***		8-K	10.3	7/13/2016	333-206089
10.9	June 15, 2016 Securities Purchase Agreement with Carebourn Capital, L.P.		10-Q	10.4	6/30/16	333-206089
10.10	\$121,325 Convertible Promissory Note owed to Carebourn Capital, L.P.		10-Q	10.5	6/30/16	333-206089
10.11	\$75,000 Promissory Note dated July 23, 2016		10-Q	10.6	9/30/16	333-206089
10.12	September 23, 2016 Securities Purchase Agreement with Carebourn Capital, L.P.		10-Q	10.7	9/30/16	333-206089
10.13	September 23, 2016 \$63,825 Convertible Promissory Note owed to Carebourn Capital, L.P.		10-Q	10.8	9/30/16	333-206089
10.14	Note Purchase Agreement dated April 12, 2017, by and between Code Green Apparel Corp. and Sojourn Investments, LP		8-K	10.1	4/26/17	000-53434
10.15	10% Convertible Debenture dated April 12, 2017, by Code Green Apparel Corp. in favor of Sojourn Investments, LP		8-K	10.2	4/26/17	000-53434

10.16	Securities Purchase Agreement dated April 17, 2017, by and between Code Green Apparel Corp. and Carebourn Capital, L.P.	8-K	10.3	4/26/17	000-53434
10.17	\$135,575 Convertible Promissory Note dated April 17, 2017, by Code Green Apparel Corp. in favor of Carebourn Capital, L.P.	8-K	10.4	4/26/17	000-53434
10.18	Securities Purchase Agreement dated May 22, 2017, by and between Code Green Apparel Corp. and Power Up Lending Group Ltd.	8-K	10.1	6/16/17	000-53434
10.19	\$35,000 Convertible Promissory Note dated May 22, 2017, by Code Green Apparel Corp. in favor of Power Up Lending Group Ltd.	8-K	10.2	6/16/17	000-53434
10.20	10% Convertible Promissory Note dated May 25, 2017, by Code Green Apparel Corp. in favor of JSJ Investment Inc.	8-K	10.3	6/16/17	000-53434
10.21	Securities Purchase Agreement dated June 5, 2017, by and between Code Green Apparel Corp. and Auctus Fund, LLC	8-K	10.4	6/16/17	000-53434
10.22	10% \$150,000 Convertible Promissory Note dated June 5, 2017, by Code Green Apparel Corp. in favor of Auctus Fund, LLC	8-K	10.5	6/16/17	000-53434
<a href="#">10.23</a>	<a href="#">Code Green Apparel Corp. 2017 Equity Incentive Plan</a>	X			
16.1	Letter From K. Brice Toussaint	8-K	16.1	8/22/16	333-206089
16.2	Letter From Patrick D. Heyn, CPA, P.A.	8-K	16.1	5/17/17	000-53434
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	X			
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>	*			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema Document	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X			

\*Furnished herein.

\*\*\* Indicates management contract or compensatory plan or arrangement.

+ Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however that Code Green Apparel Corp. may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act, for any schedule or exhibit so furnished.

**CODE GREEN APPAREL CORP.  
2017 EQUITY INCENTIVE PLAN**

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**CODE GREEN APPAREL CORP.  
2017 EQUITY INCENTIVE PLAN**

**ARTICLE I.  
PREAMBLE**

1.1. This 2017 Equity Incentive Plan of Code Green Apparel Corp. (the "Company") is intended to secure for the Company and its Affiliates the benefits arising from ownership of the Company's Common Stock by the Employees, Officers, Directors and Consultants of the Company and its Affiliates, all of whom are and will be responsible for the Company's future growth. The Plan is designed to help attract and retain for the Company and its Affiliates personnel of superior ability for positions of exceptional responsibility, to reward Employees, Officers, Directors and Consultants for their services and to motivate such individuals through added incentives to further contribute to the success of the Company and its Affiliates. With respect to persons subject to Section 16 of the Act, transactions under this Plan are intended to satisfy the requirements of Rule 16b-3 of the Act.

1.2. Awards under the Plan may be made to an Eligible Person in the form of (i) Incentive Stock Options (to Eligible Employees only); (ii) Nonqualified Stock Options; (iii) Restricted Stock; (iv) Stock Awards; (v) Performance Shares; or (vi) any combination of the foregoing.

1.3. The Company's board of directors adopted the Plan effective on August 3, 2017 (the "Effective Date"). The grant of Incentive Stock Options is subject to approval by the Company's shareholders within twelve (12) months of the Effective Date. Shareholder approval is to be obtained in accordance with the Company's Certificate of Formation and Bylaws, each as amended, and applicable laws. The Board may grant Incentive Stock Options prior to shareholder approval, but until the Company obtains this approval, a grantee shall not exercise them. If the Company does not timely obtain shareholder approval (or a grantee desires to exercise such Incentive Stock Options prior to shareholder approval), a grantee may exercise previously granted Incentive Stock Options as Nonqualified Stock Options. Unless sooner terminated as provided elsewhere in this Plan, this Plan shall terminate upon the close of business on the day next preceding the tenth (10th) anniversary of the Effective Date. Award Agreements outstanding on such date shall continue to have force and effect in accordance with the provisions thereof.

1.4. The Plan shall be governed by, and construed in accordance with, the laws of the State of Nevada (except its choice-of-law provisions).

1.5. Capitalized terms shall have the meaning provided in ARTICLE II unless otherwise provided in this Plan or any related Award Agreement.

**ARTICLE II.  
DEFINITIONS**

**DEFINITIONS.** Except where the context otherwise indicates, the following definitions apply:

2.1. "Act" means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

2.2. "Affiliate" means any parent corporation or subsidiary corporation of the Company, whether now or hereinafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

2.3. "Award" means an award granted to a Participant in accordance with the provisions of the Plan, including, but not limited to, Stock Options, Restricted Stock, Stock Awards, Performance Shares, or any combination of the foregoing.

2.4. "Award Agreement" means the separate written agreement evidencing each Award granted to a Participant under the Plan.

2.5. "Board of Directors" or "Board" means the Board of Directors of the Company, as constituted from time to time.

- 2.6. "**Bylaws**" means the Company's Bylaws as amended and restated from time to time.
- 2.7. "**Change of Control**" means (i) the adoption of a plan of merger or consolidation of the Company with any other corporation or association as a result of which the holders of the voting capital stock of the Company as a group would receive less than 50% of the voting capital stock of the surviving or resulting corporation; (ii) the approval by the Board of Directors of an agreement providing for the sale or transfer (other than as security for obligations of the Company) of substantially all the assets of the Company; or (iii) in the absence of a prior expression of approval by the Board of Directors, the acquisition of more than 20% of the Company's voting capital stock by any person within the meaning of Rule 13d-3 under the Act (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company).
- 2.8. "**Code**" means the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder.
- 2.9. "**Committee**" means a committee of two or more members of the Board appointed by the Board in accordance with Section 3.2 of the Plan. In the event the Company has not designated a Committee pursuant to Section 3.2 of the Plan, "**Committee**" shall refer to the Compensation Committee of the Company (in the event the Compensation Committee has authority to administer the Plan), if any, or the Board of Directors of the Company.
- 2.10. "**Common Stock**" means the Company's common stock.
- 2.11. "**Company**" means Code Green Apparel Corp., a Nevada corporation.
- 2.12. "**Consultant**" means any person, including an advisor engaged by the Company or an Affiliate to render bona fide consulting or advisory services to the Company or an Affiliate, other than as an Employee, Director or Non-Employee Director.
- 2.13. "**Director**" means a member of the Board of Directors of the Company.
- 2.14. "**Disability**" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.
- 2.15. "**Effective Date**" shall be the date set forth in Section 1.3 of the Plan.
- 2.16. "**Eligible Employee**" means an Eligible Person who is an Employee of the Company or any Affiliate.
- 2.17. "**Eligible Person**" means any Employee, Officer, Director, Non-Employee Director or Consultant of the Company or any Affiliate, except for instances where services are in connection with the offer or sale of securities in a capital-raising transaction, or they directly or indirectly promote or maintain a market for the Company's securities, subject to any other limitations as may be provided by the Code, the Act, or the Board. In making such determinations, the Board may take into account the nature of the services rendered by such person, his or her present and potential contribution to the Company's success, and such other factors as the Board in its discretion shall deem relevant.
- 2.18. "**Employee**" means an individual who is a common-law employee of the Company or an Affiliate including employment as an Officer. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "**employment**" by the Company or an Affiliate.
- 2.19. "**ERISA**" means the Employee Retirement Income Security Act of 1974, as now in effect or as hereafter amended.

2.20. **"Fair Market Value"** means, as of any date and unless the Committee determines otherwise, the value of Common Stock determined as follows:

2.20.1 If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the NYSE MKT, Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the day of determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable;

2.20.2 If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported for the date in question, or the Common Stock is quoted on an over-the-counter market, the Fair Market Value will be the mean between the high bid and low asked prices for the Common Stock for the day of determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable; or

2.20.3 In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Committee.

2.20.4 The Committee also may adopt a different methodology for determining Fair Market Value with respect to one or more Awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular Award(s) (for example, and without limitation, the Committee may provide that Fair Market Value for purposes of one or more Awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

2.21. **"Grant Date"** means, as to any Award, the latest of:

2.21.1 the date on which the Board authorizes the grant of the Award; or

2.21.2 the date the Participant receiving the Award becomes an Employee or a Director of the Company or its Affiliate, to the extent employment status is a condition of the grant or a requirement of the Code or the Act; or

2.21.3 such other date (later than the dates described in 2.21.1 and 2.21.2 above) as the Board may designate and as set forth in the Participant's Award Agreement.

2.22. **"Immediate Family"** means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and shall include adoptive relationships.

2.23. **"Incentive Stock Option"** means a Stock Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and is granted under ARTICLE IV of the Plan and designated as an Incentive Stock Option in a Participant's Award Agreement.

2.24. **"Non-Employee Director"** shall have the meaning set forth in Rule 16b-3 under the Act.

2.25. **"Nonqualified Stock Option"** means a Stock Option not intended to qualify as an Incentive Stock Option and is not so designated in the Participant's Award Agreement.

2.26. **"Officer"** means a person who is an officer of the Company within the meaning of Section 16 of the Act.

2.27. **"Option Period"** means the period during which a Stock Option may be exercised from time to time, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.

- 2.28. "**Option Price**" means the purchase price for a share of Common Stock subject to purchase pursuant to a Stock Option, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.
- 2.29. "**Outside Director**" means a Director who either (i) is not a current employee of the Company or an "**affiliated corporation**" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "**affiliated corporation**" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "**affiliated corporation**" at any time and is not currently receiving direct or indirect remuneration from the Company or an "**affiliated corporation**" for services in any capacity other than as a Director or (ii) is otherwise considered an "**outside director**" for purposes of Section 162(m) of the Code.
- 2.30. "**Participant**" means an Eligible Person to whom an Award has been granted and who has entered into an Award Agreement evidencing the Award or, if applicable, such other person who holds an outstanding Award.
- 2.31. "**Performance Objectives**" shall have the meaning set forth in ARTICLE IX of the Plan.
- 2.32. "**Performance Period**" shall have the meaning set forth in ARTICLE IX of the Plan.
- 2.33. "**Performance Share**" means an Award under ARTICLE IX of the Plan of a unit valued by reference to the Common Stock, the payout of which is subject to achievement of such Performance Objectives, measured during one or more Performance Periods, as the Board, in its sole discretion, shall establish at the time of such Award and set forth in a Participant's Award Agreement.
- 2.34. "**Plan**" means this Code Green Apparel Corp. 2017 Equity Incentive Plan, as it may be amended from time to time.
- 2.35. "**Reporting Person**" means a person required to file reports under Section 16(a) of the Act.
- 2.36. "**Restricted Stock**" means an Award under ARTICLE VII of the Plan of shares of Common Stock that are at the time of the Award subject to restrictions or limitations as to the Participant's ability to sell, transfer, pledge or assign such shares, which restrictions or limitations may lapse separately or in combination at such time or times, in installments or otherwise, as the Board, in its sole discretion, shall determine at the time of such Award and set forth in a Participant's Award Agreement.
- 2.37. "**Restriction Period**" means the period commencing on the Grant Date with respect to such shares of Restricted Stock and ending on such date as the Board, in its sole discretion, shall establish and set forth in a Participant's Award Agreement.
- 2.38. "**Retirement**" means retirement as determined under procedures established by the Board or in any Award, as set forth in a Participant's Award Agreement.
- 2.39. "**Rule 16b-3**" means Rule 16b-3 promulgated under the Act or any successor to Rule 16b-3, as in effect from time to time. Those provisions of the Plan which make express reference to Rule 16b-3, or which are required in order for certain option transactions to qualify for exemption under Rule 16b-3, shall apply only to a Reporting Person.
- 2.40. "**Stock Award**" means an Award of shares of Common Stock under ARTICLE VIII of the Plan.
- 2.41. "**Stock Option**" means an Award under ARTICLE IV or ARTICLE V of the Plan of an option to purchase Common Stock. A Stock Option may be either an Incentive Stock Option or a Nonqualified Stock Option.



2.42. **"Ten Percent Stockholder"** means an individual who owns (or is deemed to own pursuant to Section 424(d) of the Code), at the time of grant, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its Affiliates.

2.43. **"Termination of Service"** means (i) in the case of an Eligible Employee, the discontinuance of employment of such Participant with the Company or its Subsidiaries for any reason other than a transfer to another member of the group consisting of the Company and its Affiliates and (ii) in the case of a Director who is not an Employee of the Company or any Affiliate, the date such Participant ceases to serve as a Director. The determination of whether a Participant has discontinued service shall be made by the Board in its sole discretion. In determining whether a Termination of Service has occurred, the Board may provide that service as a Consultant or service with a business enterprise in which the Company has a significant ownership interest shall be treated as employment with the Company.

### **ARTICLE III. ADMINISTRATION**

3.1. The Plan shall be administered by the Board of Directors of the Company. The Board shall have the exclusive right to interpret and construe the Plan, to select the Eligible Persons who shall receive an Award, and to act in all matters pertaining to the grant of an Award and the determination and interpretation of the provisions of the related Award Agreement, including, without limitation, the determination of the number of shares subject to Stock Options and the Option Period(s) and Option Price(s) thereof, the number of shares of Restricted Stock or shares subject to Stock Awards or Performance Shares subject to an Award, the vesting periods (if any) and the form, terms, conditions and duration of each Award, and any amendment thereof consistent with the provisions of the Plan. The Board may adopt, establish, amend and rescind such rules, regulations and procedures as it may deem appropriate for the proper administration of the Plan, make all other determinations which are, in the Board's judgment, necessary or desirable for the proper administration of the Plan, amend the Plan or a Stock Award as provided in ARTICLE XI, and terminate or suspend the Plan as provided in ARTICLE XI. All acts, determinations and decisions of the Board made or taken pursuant to the Plan or with respect to any questions arising in connection with the administration and interpretation of the Plan or any Award Agreement, including the severability of any and all of the provisions thereof, shall be conclusive, final and binding upon all persons. On or after the date of grant of an Award under the Plan, the Board may (i) accelerate the date on which any such Award becomes vested, exercisable or transferable, as the case may be, (ii) extend the term of any such Award, including, without limitation, extending the period following a termination of a Participant's employment during which any such Award may remain outstanding, or (iii) waive any conditions to the vesting, exercisability or transferability, as the case may be, of any such Award; provided, that the Board shall not have any such authority to the extent that the grant of such authority would cause any tax to become due under Section 409A of the Code.

3.2. The Board may, to the full extent permitted by and consistent with applicable law and the Company's Bylaws, and subject to Subparagraph 3.2.1 herein below, delegate any or all of its powers with respect to the administration of the Plan to the Company's Compensation Committee or another Committee of the Company consisting of not fewer than two members of the Board each of whom shall qualify (at the time of appointment to the Committee and during all periods of service on the Committee) in all respects as a Non-Employee Director and as an Outside Director.

3.2.1 If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in the Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not consistent with the provisions of the Plan, as may be adopted from time to time by the Board.

3.2.2 The Board may abolish the Committee at any time and reassume all powers and authority previously delegated to the Committee.

3.2.3 For purposes of clarifying the preceding paragraph, shares of Common Stock covered by Awards shall only be counted as used to the extent they are actually issued and delivered to a Participant (or such Participant's permitted transferees as described in the Plan) pursuant to the Plan. If an Award is settled for cash or if shares of Common Stock are withheld to pay the exercise price of a Stock Option or to satisfy any tax withholding requirement in connection with an Award, only the shares issued (if any), net of the shares withheld, will be deemed delivered for purposes of determining the number of shares of Common Stock that are available for delivery under the Plan. In addition, shares of Common Stock related to Awards that expire, are forfeited or cancelled or terminate for any reason without the issuance of shares shall not be treated as issued pursuant to the Plan. In addition, if shares of Common Stock owned by a Participant (or such Participant's permitted transferees as described in the Plan) are tendered (either actually or through attestation) to the Company in payment of any obligation in connection with an Award, the number of shares tendered shall be added to the number of shares of Common Stock that are available for delivery under the Plan.

3.2.4 In addition to, and not in limitation of, the right of any Committee so designated by the Board to administer this Plan to grant Awards to Eligible Persons under this Plan, the full Board of Directors and/or the Company's Compensation Committee may from time to time grant Awards to Eligible Persons pursuant to the terms and conditions of this Plan, subject to the requirements of the Code, Rule 16b-3 under the Act or any other applicable law, rule or regulation. In connection with any such grants, the Board of Directors and/or the Company's Compensation Committee shall have all of the power and authority of the Committee to determine the Eligible Persons to whom such Awards shall be granted and the other terms and conditions of such Awards.

3.3. Without limiting the provisions of this ARTICLE III, and subject to the provisions of ARTICLE X, the Board is authorized to take such action as it determines to be necessary or advisable, and fair and equitable to Participants and to the Company, with respect to an outstanding Award in the event of a Change of Control as described in ARTICLE X or other similar event. Such action may include, but shall not be limited to, establishing, amending or waiving the form, terms, conditions and duration of an Award and the related Award Agreement, so as to provide for earlier, later, extended or additional times for exercise or payments, differing methods for calculating payments, alternate forms and amounts of payment, or an accelerated release of restrictions or other modifications. The Board may take such actions pursuant to this Section 3.3 by adopting rules and regulations of general applicability to all Participants or to certain categories of Participants, by including, amending or waiving terms and conditions in an Award and the related Award Agreement, or by taking action with respect to individual Participants from time to time. In the event any Award is not evidenced by a written Award Agreement, such Award shall be governed by the terms of this Plan and the terms and conditions of the grant of the Award as evidenced by the minutes of the Board (or any authorized Committee thereof). For the sake of clarity, the failure of the Company to document an Award by way of a written Award Agreement shall not affect the validity of such Award.

3.4. Subject to the provisions of Section 3.9 and this Section 3.4, the maximum aggregate number of shares of Common Stock which may be issued pursuant to Awards under the Plan shall be **75,000,000** shares. Such shares of Common Stock shall be made available from authorized and unissued shares of the Company.

3.4.1 For all purposes under the Plan, each Performance Share awarded shall be counted as one share of Common Stock subject to an Award.

3.4.2 If, for any reason, any shares of Common Stock (including shares of Common Stock subject to Performance Shares) that have been awarded or are subject to issuance or purchase pursuant to Awards outstanding under the Plan are not delivered or purchased, or are reacquired by the Company, for any reason, including but not limited to a forfeiture of Restricted Stock or failure to earn Performance Shares or the termination, expiration or cancellation of a Stock Option, or any other termination of an Award without payment being made in the form of shares of Common Stock (whether or not Restricted Stock), such shares of Common Stock shall not be charged against the aggregate number of shares of Common Stock available for Award under the Plan and shall again be available for Awards under the Plan. In no event, however, may Common Stock that is surrendered or withheld to pay the exercise price of a Stock Option or to satisfy tax withholding requirements be available for future grants under the Plan.

3.4.3 For purposes of clarifying the preceding paragraph, shares of Common Stock covered by Awards shall only be counted as used to the extent they are actually issued and delivered to a Participant (or such Participant's permitted transferees as described in the Plan) pursuant to the Plan. If an Award is settled for cash or if shares of Common Stock are withheld to pay the exercise price of a Stock Option or to satisfy any tax withholding requirement in connection with an Award, only the shares issued (if any), net of the shares withheld, will be deemed delivered for purposes of determining the number of shares of Common Stock that are available for delivery under the Plan. In addition, shares of Common Stock related to Awards that expire, are forfeited or cancelled or terminate for any reason without the issuance of shares shall not be treated as issued pursuant to the Plan. In addition, if shares of Common Stock owned by a Participant (or such Participant's permitted transferees as described in the Plan) are tendered (either actually or through attestation) to the Company in payment of any obligation in connection with an Award, the number of shares tendered shall be added to the number of shares of Common Stock that are available for delivery under the Plan.

3.4.4 The foregoing subsections 3.4.1 and 3.4.2 of this Section 3.4 shall be subject to any limitations provided by the Code or by Rule 16b-3 under the Act or by any other applicable law, rule or regulation.

3.5. Each Award granted under the Plan shall be evidenced by a written Award Agreement, which shall be subject to and shall incorporate (by reference or otherwise) the applicable terms and conditions of the Plan and shall include any other terms and conditions (not inconsistent with the Plan) required by the Board. In the event any Award is not evidenced by a written Award Agreement, such Award shall be governed by the terms of this Plan and the terms and conditions of the grant of the Award as evidenced by the minutes of the Board (or any authorized Committee thereof). For the sake of clarity, the failure of the Company to document an Award by way of a written Award Agreement shall not affect the validity of such Award.

3.6. Securities Matters.

3.6.1 The Company shall be under no obligation to affect the registration pursuant to the Act of any shares of Common Stock to be issued hereunder or to effect similar compliance under any state or local laws. Notwithstanding anything herein to the contrary, the Company shall not be obligated to cause to be issued any shares of Common Stock pursuant to the Plan unless and until the Company is advised by its counsel that the issuance of such shares is in compliance with all applicable laws, regulations of governmental authority and the requirements of any securities exchange on which shares of Common Stock are traded. The Board may require, as a condition to the issuance of shares of Common Stock pursuant to the terms hereof, that the recipient of such shares make such covenants, agreements and representations, and that any certificates representing such shares bear such legends, as the Board deems necessary or desirable.

3.6.2 The exercise of any Stock Option granted hereunder shall only be effective at such time as counsel to the Company shall have determined that the issuance of shares of Common Stock pursuant to such exercise is in compliance with all applicable laws, regulations of governmental authority and the requirements of any securities exchange on which shares of Common Stock are traded. The Company may, in its sole discretion, defer the effectiveness of an exercise of a Stock Option hereunder or the issuance of shares of Common Stock pursuant to any Award pending or to ensure compliance under federal, state or local securities laws. The Company shall inform the Participant in writing of its decision to defer the effectiveness of the exercise of a Stock Option or the issuance of shares of Common Stock pursuant to any Award. During the period that the effectiveness of the exercise of a Stock Option has been deferred, the Participant may, by written notice, withdraw such exercise and obtain the refund of any amount paid with respect thereto.

3.6.3 In the event the Plan and/or the Common Stock issuable in connection with Awards hereunder are registered with the Securities Exchange Commission (the "**SEC**") under the Act, no free-trading shares of Common Stock shall be issuable by the Company under the Plan and pursuant to such registration statement, (a) except to natural persons (as such term is interpreted by the SEC); (b) in connection with services associated with the offer or sale of securities in a capital-raising transaction; or (c) where the services directly or indirectly promote or maintain a market for the Company's securities.

3.7. The Board may require any Participant acquiring shares of Common Stock pursuant to any Award under the Plan to represent to and agree with the Company in writing that such person is acquiring the shares of Common Stock for investment purposes and without a view to resale or distribution thereof. Shares of Common Stock issued and delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed and any applicable federal or state laws, and the Board may cause a legend or legends to be placed on the certificate or certificates representing any such shares to make appropriate reference to any such restrictions. In making such determination, the Board may rely upon an opinion of counsel for the Company.

3.8. Except as otherwise expressly provided in the Plan or in an Award Agreement with respect to an Award, no Participant shall have any right as a shareholder of the Company with respect to any shares of Common Stock subject to such Participant's Award except to the extent that, and until, one or more certificates representing such shares of Common Stock shall have been delivered to the Participant. No shares shall be required to be issued, and no certificates shall be required to be delivered, under the Plan unless and until all of the terms and conditions applicable to such Award shall have, in the sole discretion of the Board, been satisfied in full and any restrictions shall have lapsed in full, and unless and until all of the requirements of law and of all regulatory bodies having jurisdiction over the offer and sale, or issuance and delivery, of the shares shall have been fully complied with.

3.9. The total amount of shares with respect to which Awards may be granted under the Plan and rights of outstanding Awards (both as to the number of shares subject to the outstanding Awards and the Option Price(s) or other purchase price(s) of such shares, as applicable) shall be appropriately adjusted for any increase or decrease in the number of outstanding shares of Common Stock of the Company resulting from payment of a stock dividend on the Common Stock, a stock split or subdivision or combination of shares of the Common Stock, or a reorganization or reclassification of the Common Stock, or any other change in the structure of shares of the Common Stock. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as a result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

3.10. No director or person acting pursuant to authority delegated by the Board shall be liable for any action or determination under the Plan made in good faith. The members of the Board shall be entitled to indemnification by the Company in the manner and to the extent set forth in the Company's Articles of Incorporation, as amended, Bylaws or as otherwise provided from time to time regarding indemnification of Directors.

3.11. The Board shall be authorized to make adjustments in any performance based criteria or in the other terms and conditions of outstanding Awards in recognition of unusual or nonrecurring events affecting the Company (or any Affiliate, if applicable) or its financial statements or changes in applicable laws, regulations or accounting principles. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement in the manner and to the extent it shall deem necessary or desirable to reflect any such adjustment. In the event the Company (or any Affiliate, if applicable) shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another corporation or business entity, the Board may, in its sole discretion, make such adjustments in the terms of outstanding Awards under the Plan as it shall deem appropriate.

3.12. Subject to the express provisions of the Plan, the Board shall have full power and authority to determine whether, to what extent and under what circumstances any outstanding Award shall be terminated, canceled, forfeited or suspended. Notwithstanding the foregoing or any other provision of the Plan or an Award Agreement, all Awards to any Participant that are subject to any restriction or have not been earned or exercised in full by the Participant shall be terminated and canceled if the Participant is terminated for cause, as determined by the Board in its sole discretion.

#### **ARTICLE IV. INCENTIVE STOCK OPTIONS**

4.1. The Board, in its sole discretion, may from time to time on or after the Effective Date grant Incentive Stock Options to Eligible Employees, subject to the provisions of this ARTICLE IV and ARTICLE III and ARTICLE VI and subject to the following conditions:

4.1.1 Incentive Stock Options shall be granted only to Eligible Employees, each of whom may be granted one or more of such Incentive Stock Options at such time or times determined by the Board.

4.1.2 The Option Price per share of Common Stock for an Incentive Stock Option shall be set in the Award Agreement, but shall not be less than (i) one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date, or (ii) in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the Grant Date.

4.1.3 An Incentive Stock Option may be exercised in full or in part from time to time within ten (10) years from the Grant Date, or such shorter period as may be specified by the Board as the Option Period and set forth in the Award Agreement; provided, however, that, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, such period shall not exceed five (5) years from the Grant Date; and further, provided that, in any event, the Incentive Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement; and provided, further, that such period shall not exceed the period of time ending on the date three (3) months following a Termination of Service (except as otherwise provided in any employment agreement approved by the Board), unless employment shall have terminated:

(i) as a result of Disability, in which event such period shall not exceed the period of time ending on the date twelve (12) months following a Termination of Service; or

(ii) as a result of death, or if death shall have occurred following a Termination of Service (other than as a result of Disability) and during the period that the Incentive Stock Option was still exercisable, in which event such period may not exceed the period of time ending on the earlier of the date twelve (12) months after the date of death;

(iii) and provided, further, that such period following a Termination of Service or death shall in no event extend beyond the original Option Period of the Incentive Stock Option.

4.1.4 The aggregate Fair Market Value of the shares of Common Stock with respect to which any Incentive Stock Options (whether under this Plan or any other plan established by the Company) are first exercisable during any calendar year by any Eligible Employee shall not exceed one hundred thousand dollars (\$100,000), determined based on the Fair Market Value(s) of such shares as of their respective Grant Dates; provided, however, that to the extent permitted under Section 422 of the Code, if the aggregate Fair Market Values of the shares of Common Stock with respect to which Stock Options intended to be Incentive Stock Options are first exercisable by any Eligible Employee during any calendar year (whether such Stock Options are granted under this Plan or any other plan established by the Company) exceed one hundred thousand dollars (\$100,000), the Stock Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonqualified Stock Options.

4.1.5 No Incentive Stock Options may be granted more than ten (10) years from the Effective Date.

4.1.6 The Award Agreement for each Incentive Stock Option shall provide that the Participant shall notify the Company if such Participant sells or otherwise transfers any shares of Common Stock acquired upon exercise of the Incentive Stock Option within two (2) years of the Grant Date of such Incentive Stock Option or within one (1) year of the date such shares were acquired upon the exercise of such Incentive Stock Option.

4.2. Subject to the limitations of Section 3.4, the maximum aggregate number of shares of Common Stock subject to Incentive Stock Option Awards shall be the maximum aggregate number of shares available for Awards under the Plan.

4.3. The Board may provide for any other terms and conditions which it determines should be imposed for an Incentive Stock Option to qualify under Section 422 of the Code, as well as any other terms and conditions not inconsistent with this ARTICLE IV or ARTICLE III or ARTICLE VI, as determined in its sole discretion and set forth in the Award Agreement for such Incentive Stock Option.

4.4. Each provision of this ARTICLE IV and of each Incentive Stock Option granted hereunder shall be construed in accordance with the provisions of Section 422 of the Code, and any provision hereof that cannot be so construed shall be disregarded.

**ARTICLE V.  
NONQUALIFIED STOCK OPTIONS**

5.1. The Board, in its sole discretion, may from time to time on or after the Effective Date grant Nonqualified Stock Options to Eligible Persons, subject to the provisions of this ARTICLE V and ARTICLE III or ARTICLE VI and subject to the following conditions:

5.1.1 Nonqualified Stock Options may be granted to any Eligible Person, each of whom may be granted one or more of such Nonqualified Stock Options, at such time or times determined by the Board.

5.1.2 The Option Price per share of Common Stock for a Nonqualified Stock Option shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date; provided, however, that the exercise price of each Nonqualified Stock Option granted under the Plan shall in no event be less than the par value per share of the Company's Common Stock.

5.1.3 A Nonqualified Stock Option may be exercised in full or in part from time to time within the Option Period specified by the Board and set forth in the Award Agreement; provided, however, that, in any event, the Nonqualified Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement.

5.2. The Board may provide for any other terms and conditions for a Nonqualified Stock Option not inconsistent with this ARTICLE V or ARTICLE III or ARTICLE VI, as determined in its sole discretion and set forth in the Award Agreement for such Nonqualified Stock Option.

**ARTICLE VI.**  
**INCIDENTS OF STOCK OPTIONS**

6.1. Each Stock Option shall be granted subject to such terms and conditions, if any, not inconsistent with this Plan, as shall be determined by the Board and set forth in the related Award Agreement, including any provisions as to continued employment as consideration for the grant or exercise of such Stock Option and any provisions which may be advisable to comply with applicable laws, regulations or rulings of any governmental authority.

6.2. Except as hereinafter described, a Stock Option shall not be transferable by the Participant other than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Participant only by the Participant or the Participant's guardian or legal representative. In the event of the death of a Participant, any unexercised Stock Options may be exercised to the extent otherwise provided herein or in such Participant's Award Agreement by the executor or personal representative of such Participant's estate or by any person who acquired the right to exercise such Stock Options by bequest under the Participant's will or by inheritance. The Board, in its sole discretion, may at any time permit a Participant to transfer a Nonqualified Stock Option for no consideration to or for the benefit of one or more members of the Participant's Immediate Family (including, without limitation, to a trust for the benefit of the Participant and/or one or more members of such Participant's Immediate Family or a corporation, partnership or limited liability company established and controlled by the Participant and/or one or more members of such Participant's Immediate Family), subject to such limits as the Board may establish. The transferee of such Nonqualified Stock Option shall remain subject to all terms and conditions applicable to such Nonqualified Stock Option prior to such transfer. The foregoing right to transfer the Nonqualified Stock Option, if granted by the Board shall apply to the right to consent to amendments to the Award Agreement.

6.3. Shares of Common Stock purchased upon exercise of a Stock Option shall be paid for in such amounts, at such times and upon such terms as shall be determined by the Board, subject to limitations set forth in the Stock Option Award Agreement. The Board may, in its sole discretion, permit the exercise of a Stock Option by payment in cash or by tendering shares of Common Stock (either by actual delivery of such shares or by attestation), or any combination thereof, as determined by the Board. In the sole discretion of the Board, payment in shares of Common Stock also may be made with shares received upon the exercise or partial exercise of the Stock Option, whether or not involving a series of exercises or partial exercises and whether or not share certificates for such shares surrendered have been delivered to the Participant. The Board also may, in its sole discretion, permit the payment of the exercise price of a Stock Option by the voluntary surrender of all or a portion of the Stock Option. Shares of Common Stock previously held by the Participant and surrendered in payment of the Option Price of a Stock Option shall be valued for such purpose at the Fair Market Value thereof on the date the Stock Option is exercised.

6.4. The holder of a Stock Option shall have no rights as a shareholder with respect to any shares covered by the Stock Option (including, without limitation, any voting rights, the right to inspect or receive the Company's balance sheets or financial statements or any rights to receive dividends or non-cash distributions with respect to such shares) until such time as the holder has exercised the Stock Option and then only with respect to the number of shares which are the subject of the exercise. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

6.5. The Board may permit the voluntary surrender of all or a portion of any Stock Option granted under the Plan to be conditioned upon the granting to the Participant of a new Stock Option for the same or a different number of shares of Common Stock as the Stock Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Stock Option to such Participant. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at such Option Price, during such Option Period and on such other terms and conditions as are specified by the Board at the time the new Stock Option is granted. Upon surrender, the Stock Options surrendered shall be canceled and the shares of Common Stock previously subject to them shall be available for the grant of other Stock Options.

6.6. The Board may at any time offer to purchase a Participant's outstanding Stock Option for a payment equal to the value of such Stock Option payable in cash, shares of Common Stock or Restricted Stock or other property upon surrender of the Participant's Stock Option, based on such terms and conditions as the Board shall establish and communicate to the Participant at the time that such offer is made.

6.7. The Board shall have the discretion, exercisable either at the time the Award is granted or at the time the Participant discontinues employment, to establish as a provision applicable to the exercise of one or more Stock Options that, during a limited period of exercisability following a Termination of Service, the Stock Option may be exercised not only with respect to the number of shares of Common Stock for which it is exercisable at the time of the Termination of Service but also with respect to one or more subsequent installments for which the Stock Option would have become exercisable had the Termination of Service not occurred.

6.8. Notwithstanding anything to the contrary herein, the Company may reprice any Stock Option without the approval of the stockholders of the Company. For this purpose, "reprice" means (i) any of the following or any other action that has the same effect: (A) lowering the exercise price of a Stock Option after it is granted, (B) any other action that is treated as a repricing under U.S. generally accepted accounting principles ("**GAAP**"), or (C) cancelling a Stock Option at a time when its exercise price exceeds the Fair Market Value of the underlying Common Stock, in exchange for another Stock Option, restricted stock or other equity, unless the cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction; and (ii) any other action that is considered to be a repricing under formal or informal guidance issued by exchange or market on which the Company's Common Stock then trades or is quoted.

6.9. In addition to, and without limiting the above Section 6.8, the Board may permit the voluntary surrender of all or a portion of any Stock Option granted under the Plan to be conditioned upon the granting to the Participant of a new Stock Option for the same or a different number of shares of Common Stock as the Stock Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Stock Option to such Participant. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at such Option Price, during such Option Period and on such other terms and conditions as are specified by the Board at the time the new Stock Option is granted. Upon surrender, the Stock Options surrendered shall be canceled and the shares of Common Stock previously subject to them shall be available for the grant of other Stock Options.

## **ARTICLE VII. RESTRICTED STOCK**

7.1. The Board, in its sole discretion, may from time to time on or after the Effective Date award shares of Restricted Stock to Eligible Persons as a reward for past service and an incentive for the performance of future services that will contribute materially to the successful operation of the Company and its Affiliates, subject to the terms and conditions set forth in this ARTICLE VII.

7.2. The Board shall determine the terms and conditions of any Award of Restricted Stock, which shall be set forth in the related Award Agreement, including without limitation:

7.2.1 the purchase price, if any, to be paid for such Restricted Stock, which may be zero, subject to such minimum consideration as may be required by applicable law;

7.2.2 the duration of the Restriction Period or Restriction Periods with respect to such Restricted Stock and whether any events may accelerate or delay the end of such Restriction Period(s);

7.2.3 the circumstances upon which the restrictions or limitations shall lapse, and whether such restrictions or limitations shall lapse as to all shares of Restricted Stock at the end of the Restriction Period or as to a portion of the shares of Restricted Stock in installments during the Restriction Period by means of one or more vesting schedules;

7.2.4 whether such Restricted Stock is subject to repurchase by the Company or to a right of first refusal at a predetermined price or if the Restricted Stock may be forfeited entirely under certain conditions;

7.2.5 whether any performance goals may apply to a Restriction Period to shorten or lengthen such period; and



7.2.6 whether dividends and other distributions with respect to such Restricted Stock are to be paid currently to the Participant or withheld by the Company for the account of the Participant.

7.3. Awards of Restricted Stock must be accepted within a period of thirty (30) days after the Grant Date (or such shorter or longer period as the Board may specify at such time) by executing an Award Agreement with respect to such Restricted Stock and tendering the purchase price, if any. A prospective recipient of an Award of Restricted Stock shall not have any rights with respect to such Award, unless such recipient has executed an Award Agreement with respect to such Restricted Stock, has delivered a fully executed copy thereof to the Board and has otherwise complied with the applicable terms and conditions of such Award.

7.4. In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Restricted Stock, all shares of Restricted Stock held by a Participant and still subject to restrictions shall be forfeited by the Participant upon the Participant's Termination of Service and shall be reacquired, canceled and retired by the Company. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Restricted Stock, in the event of the death, Disability or Retirement of a Participant during the Restriction Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may elect to waive in whole or in part any remaining restrictions with respect to all or any part of such Participant's Restricted Stock, if it finds that a waiver would be appropriate.

7.5. Except as otherwise provided in this ARTICLE VII, no shares of Restricted Stock received by a Participant shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

7.6. Upon an Award of Restricted Stock to a Participant, a certificate or certificates representing the shares of such Restricted Stock will be issued to and registered in the name of the Participant. Unless otherwise determined by the Board, such certificate or certificates will be held in custody by the Company until (i) the Restriction Period expires and the restrictions or limitations lapse, in which case one or more certificates representing such shares of Restricted Stock that do not bear a restrictive legend (other than any legend as required under applicable federal or state securities laws) shall be delivered to the Participant, or (ii) a prior forfeiture by the Participant of the shares of Restricted Stock subject to such Restriction Period, in which case the Company shall cause such certificate or certificates to be canceled and the shares represented thereby to be retired, all as set forth in the Participant's Award Agreement. It shall be a condition of an Award of Restricted Stock that the Participant deliver to the Company a stock power endorsed in blank relating to the shares of Restricted Stock to be held in custody by the Company.

7.7. Except as provided in this ARTICLE VII or in the related Award Agreement, a Participant receiving an Award of shares of Restricted Stock Award shall have, with respect to such shares, all rights of a shareholder of the Company, including the right to vote the shares and the right to receive any distributions, unless and until such shares are otherwise forfeited by such Participant; provided, however, the Board may require that any cash dividends with respect to such shares of Restricted Stock be automatically reinvested in additional shares of Restricted Stock subject to the same restrictions as the underlying Award, or may require that cash dividends and other distributions on Restricted Stock be withheld by the Company or its Affiliates for the account of the Participant. The Board shall determine whether interest shall be paid on amounts withheld, the rate of any such interest, and the other terms applicable to such withheld amounts.

#### **ARTICLE VIII. STOCK AWARDS**

8.1. The Board, in its sole discretion, may from time to time on or after the Effective Date grant Stock Awards to Eligible Persons in payment of compensation that has been earned or as compensation to be earned, including without limitation compensation awarded or earned concurrently with or prior to the grant of the Stock Award, subject to the terms and conditions set forth in this ARTICLE VIII.

8.2. For the purposes of this Plan, in determining the value of a Stock Award, all shares of Common Stock subject to such Stock Award shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date.

8.3. Unless otherwise determined by the Board and set forth in the related Award Agreement, shares of Common Stock subject to a Stock Award will be issued, and one or more certificates representing such shares will be delivered, to the Participant as soon as practicable following the Grant Date of such Stock Award. Upon the issuance of such shares and the delivery of one or more certificates representing such shares to the Participant, such Participant shall be and become a shareholder of the Company fully entitled to receive dividends, to vote and to exercise all other rights of a shareholder of the Company. Notwithstanding any other provision of this Plan, unless the Board expressly provides otherwise with respect to a Stock Award, as set forth in the related Award Agreement, no Stock Award shall be deemed to be an outstanding Award for purposes of the Plan.

#### **ARTICLE IX. PERFORMANCE SHARES**

9.1. The Board, in its sole discretion, may from time to time on or after the Effective Date award Performance Shares to Eligible Persons as an incentive for the performance of future services that will contribute materially to the successful operation of the Company and its Affiliates, subject to the terms and conditions set forth in this ARTICLE IX.

9.2. The Board shall determine the terms and conditions of any Award of Performance Shares, which shall be set forth in the related Award Agreement, including without limitation:

9.2.1 the purchase price, if any, to be paid for such Performance Shares, which may be zero, subject to such minimum consideration as may be required by applicable law;

9.2.2 the performance period (the "**Performance Period**") and/or performance objectives (the "**Performance Objectives**") applicable to such Awards;

9.2.3 the number of Performance Shares that shall be paid to the Participant if the applicable Performance Objectives are exceeded or met in whole or in part; and

9.2.4 the form of settlement of a Performance Share.

9.3. At any date, each Performance Share shall have a value equal to the Fair Market Value of a share of Common Stock.

9.4. Performance Periods may overlap, and Participants may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

9.5. Performance Objectives may vary from Participant to Participant and between Awards and shall be based upon such performance criteria or combination of factors as the Board may deem appropriate, including, but not limited to, minimum earnings per share or return on equity. If during the course of a Performance Period there shall occur significant events which the Board expects to have a substantial effect on the applicable Performance Objectives during such period, the Board may revise such Performance Objectives.

9.6. In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Performance Shares, all Performance Shares held by a Participant and not earned shall be forfeited by the Participant upon the Participant's Termination of Service. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Performance Shares, in the event of the death, Disability or Retirement of a Participant during the applicable Performance Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may determine to make a payment in settlement of such Performance Shares at the end of the Performance Period, based upon the extent to which the Performance Objectives were satisfied at the end of such period and pro-rated for the portion of the Performance Period during which the Participant was employed by the Company or an Affiliate; provided, however, that the Board may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Board deems appropriate or desirable.

9.7. The settlement of a Performance Share shall be made in cash, whole shares of Common Stock or a combination thereof and shall be made as soon as practicable after the end of the applicable Performance Period. Notwithstanding the foregoing, the Board in its sole discretion may allow a Participant to defer payment in settlement of Performance Shares on terms and conditions approved by the Board and set forth in the related Award Agreement entered into in advance of the time of receipt or constructive receipt of payment by the Participant.

9.8. Performance Shares shall not be transferable by the Participant. The Board shall have the authority to place additional restrictions on the Performance Shares including, but not limited to, restrictions on transfer of any shares of Common Stock that are delivered to a Participant in settlement of any Performance Shares.

**ARTICLE X.**  
**CHANGES OF CONTROL OR OTHER FUNDAMENTAL CHANGES**

10.1. Upon the occurrence of a Change of Control and unless otherwise provided in the Award Agreement with respect to a particular Award:

10.1.1 all outstanding Stock Options shall become immediately exercisable in full, subject to any appropriate adjustments in the number of shares subject to the Stock Option and the Option Price, and shall remain exercisable for the remaining Option Period, regardless of any provision in the related Award Agreement limiting the exercisability of such Stock Option or any portion thereof for any length of time;

10.1.2 all outstanding Performance Shares with respect to which the applicable Performance Period has not been completed shall be paid out as soon as practicable as follows:

(i) all Performance Objectives applicable to the Award of Performance Shares shall be deemed to have been satisfied to the extent necessary to earn one hundred percent (100%) of the Performance Shares covered by the Award;

(ii) the applicable Performance Period shall be deemed to have been completed upon occurrence of the Change of Control;

(iii) the payment to the Participant in settlement of the Performance Shares shall be the amount determined by the Board, in its sole discretion, or in the manner stated in the Award Agreement, as multiplied by a fraction, the numerator of which is the number of full calendar months of the applicable Performance Period that have elapsed prior to occurrence of the Change of Control, and the denominator of which is the total number of months in the original Performance Period; and

(iv) upon the making of any such payment, the Award Agreement as to which it relates shall be deemed terminated and of no further force and effect; and

10.1.3 all outstanding shares of Restricted Stock with respect to which the restrictions have not lapsed shall be deemed vested, and all such restrictions shall be deemed lapsed and the Restriction Period ended.

10.2. Anything contained herein to the contrary notwithstanding, upon the dissolution or liquidation of the Company, each Award granted under the Plan and then outstanding shall terminate; provided, however, that following the adoption of a plan of dissolution or liquidation, and in any event prior to the effective date of such dissolution or liquidation, each such outstanding Award granted hereunder shall be exercisable in full and all restrictions shall lapse, to the extent set forth in [Section 10.1.1](#), [10.1.2](#) and [10.1.3](#) above.

10.3. After the merger of one or more corporations into the Company or any Affiliate, any merger of the Company into another corporation, any consolidation of the Company or any Affiliate of the Company and one or more corporations, or any other corporate reorganization of any form involving the Company as a party thereto and involving any exchange, conversion, adjustment or other modification of the outstanding shares of the Common Stock, each Participant shall, at no additional cost, be entitled, upon any exercise of such Participant's Stock Option, to receive, in lieu of the number of shares as to which such Stock Option shall then be so exercised, the number and class of shares of stock or other securities or such other property to which such Participant would have been entitled to pursuant to the terms of the agreement of merger or consolidation or reorganization, if at the time of such merger or consolidation or reorganization, such Participant had been a holder of record of a number of shares of Common Stock equal to the number of shares as to which such Stock Option shall then be so exercised. Comparable rights shall accrue to each Participant in the event of successive mergers, consolidations or reorganizations of the character described above. The Board may, in its sole discretion, provide for similar adjustments upon the occurrence of such events with regard to other outstanding Awards under this Plan. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

#### **ARTICLE XI. AMENDMENT AND TERMINATION**

11.1. Subject to the provisions of Section 11.2, the Board of Directors at any time and from time to time may amend or terminate the Plan as may be necessary or desirable to implement or discontinue the Plan or any provision hereof. To the extent required by the Act or the Code, however, no amendment, without approval by the Company's shareholders, shall:

11.1.1 materially alter the group of persons eligible to participate in the Plan;

11.1.2 except as provided in Section 3.4, change the maximum aggregate number of shares of Common Stock that are available for Awards under the Plan; or

11.1.3 alter the class of individuals eligible to receive an Incentive Stock Option or increase the limit on Incentive Stock Options set forth in Section 4.1.4 or the value of shares of Common Stock for which an Eligible Employee may be granted an Incentive Stock Option.

11.2. No amendment to or discontinuance of the Plan or any provision hereof by the Board of Directors or the shareholders of the Company shall, without the written consent of the Participant, adversely affect (in the sole discretion of the Board) any Award theretofore granted to such Participant under this Plan; provided, however, that the Board retains the right and power to:

11.2.1 annul any Award if the Participant is terminated for cause as determined by the Board; and

11.2.2 convert any outstanding Incentive Stock Option to a Nonqualified Stock Option.

11.3. If a Change of Control has occurred, no amendment or termination shall impair the rights of any person with respect to an outstanding Award as provided in ARTICLE X.

**ARTICLE XII.**  
**MISCELLANEOUS PROVISIONS**

12.1. Nothing in the Plan or any Award granted hereunder shall confer upon any Participant any right to continue in the employ of the Company or its Affiliates or to serve as a Director or shall interfere in any way with the right of the Company or its Affiliates or the shareholders of the Company, as applicable, to terminate the employment of a Participant or to release or remove a Director at any time. Unless specifically provided otherwise, no Award granted under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Company or its Affiliates for the benefit of their respective employees unless the Company shall determine otherwise. No Participant shall have any claim to an Award until it is actually granted under the Plan and an Award Agreement has been executed and delivered to the Company. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Board, be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as provided in ARTICLE VII with respect to Restricted Stock and except as otherwise provided by the Board.

12.2. The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required. Any provision herein relating to compliance with Rule 16b-3 under the Act shall not be applicable with respect to participation in the Plan by Participants who are not subject to Section 16 of the Act.

12.3. The terms of the Plan shall be binding upon the Company, its successors and assigns.

12.4. Neither a Stock Option nor any other type of equity-based compensation provided for hereunder shall be transferable except as provided for in Section 6.2. In addition to the transfer restrictions otherwise contained herein, additional transfer restrictions shall apply to the extent required by federal or state securities laws. If any Participant makes such a transfer in violation hereof, any obligation hereunder of the Company to such Participant shall terminate immediately.

12.5. This Plan and all actions taken hereunder shall be governed by the laws of the State of Nevada.

12.6. Each Participant exercising an Award hereunder agrees to give the Board prompt written notice of any election made by such Participant under Section 83(b) of the Code, or any similar provision thereof.

12.7. If any provision of this Plan or an Award Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan or the Award Agreement, it shall be stricken, and the remainder of the Plan or the Award Agreement shall remain in full force and effect.

12.8. The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company or any of its Affiliates to make adjustments, reclassification, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or to dissolve, liquidate or sell, or to transfer all or part of its business or assets.

12.9. The Plan is not subject to the provisions of ERISA or qualified under Section 401(a) of the Code.

12.10. If a Participant is required to pay to the Company an amount with respect to income and employment tax withholding obligations in connection with (i) the exercise of a Nonqualified Stock Option, (ii) certain dispositions of Common Stock acquired upon the exercise of an Incentive Stock Option, or (iii) the receipt of Common Stock pursuant to any other Award, then the issuance of Common Stock to such Participant shall not be made (or the transfer of shares by such Participant shall not be required to be effected, as applicable) unless such withholding tax or other withholding liabilities shall have been satisfied in a manner acceptable to the Company. To the extent provided by the terms of an Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

12.11. Compliance with other laws.

12.11.1 For Reporting Persons:

- (i) the Plan is intended to satisfy the provisions of Rule 16b-3;
- (ii) all transactions involving Participants who are subject to Section 16(b) of the Exchange Act of 1934, as amended, are subject to the provisions of Rule 16b-3 regardless of whether they are set forth in the Plan; and
- (iii) any provision of the Plan that conflicts with Rule 16b-3 does not apply to the extent of the conflict.

12.11.2 If any provision of the Plan, any Award, or Award Agreement conflicts with the requirements of Code Section 162(m) or 422 for Awards subject to these requirements, then that provision does not apply to the extent of the conflict.

12.11.3 Notwithstanding any other provision of the Plan, the Board and each applicable Committee shall administer the Plan and exercise all authority and discretion under the Plan to satisfy the requirements of Code Section 409A or any exemption thereto.

12.11.4 Notwithstanding any other provision of the Plan, if, for an Employee of a parent company, the conversion of an Incentive Stock Option to a Nonqualified Stock Option or the treatment of an Incentive Stock Option as a Nonqualified Stock Option would not satisfy the requirements of Code Section 409A or an exemption thereto, as determined by the Board in its exclusive discretion, then the Incentive Stock Option shall terminate on the date that it would no longer qualify as an Incentive Stock Option as determined by the Board in its exclusive discretion.

12.12. Any reference in the Plan to a written document includes any document delivered electronically or posted on the Company's intranet.

12.13. The headings and captions in the Plan are inserted as a matter of convenience for organizational purposes, and do not construe, define, extend, interpret, or limit any provision of the Plan.

12.14. Whenever the context may require, any pronoun includes the corresponding masculine, feminine, or neuter form, and the singular includes the plural and vice versa.

12.15. Any reference in the Plan to a statutory or regulatory provision includes corresponding successor provisions.

12.16. The proceeds from the sale of shares pursuant to Awards granted under the Plan shall constitute general funds of the Company.

12.17. Nothing contained in the Plan or in any Award agreement executed pursuant hereto shall be deemed to confer upon any individual or entity to whom an Award is or may be granted hereunder any right to remain in the employ or service of the Company or a parent or subsidiary of the Company or any entitlement to any remuneration or other benefit pursuant to any consulting or advisory arrangement.

## CERTIFICATION

I, George J. Powell, III, certify that:

1. I have reviewed this annual report on Form 10-Q for the quarter ended June 30, 2017, of Code Green Apparel Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 25, 2017

/s/ George J. Powell, III

George J. Powell, III  
Chief Executive Officer and Interim Chief Financial Officer  
(Principal Executive Officer and Principal Financial/Accounting Officer)

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

In connection with the Quarterly Report of Code Green Apparel Corp. on Form 10-Q for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George J. Powell, III, Chief Executive Officer and Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ George J. Powell, III*

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George J. Powell, III  
Chief Executive Officer and Interim Chief Financial Officer  
August 25, 2017  
(Principal Executive Officer and Principal Financial/Accounting Officer)

*The foregoing certification is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*