Section 1: 10-Q (QUARTERLY REPORT)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: **001-37523**

PURPLE INNOVATION, INC.
(Exact name of registrant as specified in its charter)

Delaware	**47-4078206**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

123 EAST 200 NORTH
ALPINE, UTAH 84004
(Address of principal executive offices, including zip code)

(801) 756-2600
(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 every Interactive Date File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule12b-2 of the Exchange Act.

Large accelerated filer ☐
Non-accelerated filer ☑

Accelerated filer ☐
Smaller reporting company ☑
Emerging growth company ☑

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

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

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**

Class A Common Stock, par value $0.0001 per share	PRPL	The NASDAQ Stock Market LLC
Warrants to purchase one-half of one share of Class A Common Stock	PRPLW	OTC PINK

As of May 7, 2019, 9,730,636 shares of the registrant's Class A common stock, $.0001 par value per share, and 44,071,318 shares of the registrant's Class B common stock, $.0001 par value per share, were outstanding.

PURPLE INNOVATION, INC.

QUARTERLY REPORT ON FORM 10-Q

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In this Quarterly Report on Form 10-Q, references to "dollars" and "$" are to United States ("U.S.") dollars.

We have a number of trademarks registered with the U.S. Patent and Trademark Office, including EquaPressure®, WonderGel® and EquaGel® (for cushions), and Purple®, No Pressure® and Hyper-Elastic Polymer® (for plasticized elastomeric gel and certain types of products, including mattresses); and the color "purple" (for mattresses). We also have a number of common law trademarks, including Mattress Max™, WonderGel Original™, WonderGel Extreme™, DoubleGel™, DoubleGel Plus™, DoubleGel Ultra™, Roll n' Go™, Fold N' Go™, Purple Bed™, Purple Top™, Purple Pillow™, Portable Purple™, Everywhere Purple™, Simply Purple™, Lite Purple™, Royal Purple™, Double Purple™, Deep Purple™, Ultimate Purple™, Purple Back™, EquaGel Straight Comfort™, EquaGel General™, EquaGel Protector™ and EquaGel Adjustable™. Solely for convenience, we refer to our trademarks in this Quarterly Report without the ™ or ® symbol, but such references are not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights to our trademarks.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PURPLE INNOVATION, INC.

Condensed Consolidated Balance Sheets
(In thousands, except par value)
(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 12,182	$ 12,232
Accounts receivable, net	19,689	10,241
Inventories, net	25,341	22,940
Prepaid inventory	592	790
Other current assets	2,375	1,494
Total current assets	60,179	47,697
Property and equipment, net	22,718	22,514
Intangible assets, net	1,538	1,493
Other long-term assets	5	5
Total assets	$ 84,440	$ 71,709
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 25,982	$ 24,828
Accrued sales returns	5,189	5,457
Accrued compensation	3,154	2,691
Customer prepayments	4,335	7,522
Accrued sales tax	4,438	5,538
Other current liabilities	3,726	2,541
Total current liabilities	46,824	48,577
Long-term debt, related-party	32,821	21,411
Warrant liabilities	3,166	—
Other long-term liabilities, net of current portion	4,287	3,732
Total liabilities	87,098	73,720
Commitments and contingencies (Note 12)		
Stockholders' deficit:		
Class A common stock; $0.0001 par value, 210,000 shares authorized; 9,731 issued and outstanding at March 31, 2019 and December 31, 2018	1	1
Class B common stock; $0.0001 par value, 90,000 shares authorized; 44,071 issued and outstanding at March 31, 2019 and December 31, 2018	4	4
Additional paid-in capital	3,728	3,655
Accumulated deficit	(4,452)	(4,322)
Total stockholders' deficit	(719)	(662)
Noncontrolling interest	(1,939)	(1,349)
Total deficit	(2,658)	(2,011)
Total liabilities and stockholders' deficit	$ 84,440	$ 71,709

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

PURPLE INNOVATION, INC.

Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2019	**2018**
Revenues, net	$ 83,648	$ 60,768
Cost of revenues	49,579	34,953
Gross profit	34,069	25,815
Operating expenses:		
Marketing and sales	24,017	22,045
General and administrative	4,565	6,853
Research and development	690	511
Total operating expenses	29,272	29,409
Operating income (loss)	4,797	(3,594)
Interest expense	1,144	702
Other income, net	(229)	(19)
Loss on extinguishment of debt	6,299	—
Change in fair value - warrant liabilities	(1,697)	—
Net loss	(720)	(4,277)
Net loss attributable to noncontrolling interest	(590)	(2,727)
Net loss attributable to Purple Innovation, Inc.	$ (130)	$ (1,550)
Net loss per common share—basic and diluted	$ (0.02)	$ (0.18)
Weighted average common shares outstanding—basic and diluted	8,437	8,389

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

PURPLE INNOVATION, INC.

Condensed Consolidated Statements of Stockholders' Equity (Deficit)/Member Deficit
(In thousands)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit	Noncontrolling Interest	Total Deficit
	Shares	Par Value	Shares	Par Value					
Balance - December 31, 2018	9,731	$ 1	44,071	$ 4	$ 3,655	$ (4,322)	$ (662)	$ (1,349)	$ (2,011)
Net loss	—	—	—	—	—	(130)	(130)	(590)	(720)
Stock-based compensation	—	—	—	—	73	—	73	—	73
Balance – March 31, 2019	9,731	$ 1	44,071	$ 4	$ 3,728	$ (4,452)	$ (719)	$ (1,939)	$ (2,658)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interest	Member Deficit	Total Equity
	Shares	Par Value	Shares	Par Value						
Balance - December 31, 2017	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ (13,919)	$ (13,919)
Net loss	—	—	—	—	—	(1,550)	(1,550)	(7,051)	4,324	(4,277)
Effect of the Business Combination:										
Proceeds and shares issued in the Business Combination	9,683	1	44,071	4	(1,600)	—	(1,595)	17,912	9,595	25,912
Assignment of founder shares and sponsor warrants	—	—	—	—	4,691	—	4,691	—	—	4,691
Balance – March 31, 2018	9,683	$ 1	44,071	$ 4	$ 3,091	$ (1,550)	$ 1,546	$ 10,861	$ —	$ 12,407

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

PURPLE INNOVATION, INC.

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2019	**2018**
Cash flows from operating activities:		
Net loss	$ (720)	$ (4,277)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	722	456
Non-cash interest	732	154
Loss on extinguishment of debt	6,299	—
Gain on change in fair value - warrant liabilities	(1,697)	—
Stock-based compensation	73	—
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(9,448)	271
Increase in inventories	(2,401)	(13,234)
Increase in prepaid inventory and other assets	(683)	(1,300)
Increase (decrease) in accounts payable	1,179	(1,235)
Decrease in accrued sales returns	(268)	(219)
Increase (decrease) in accrued compensation	463	(350)
Increase (decrease) in customer prepayments	(3,187)	4,026
Increase in other accrued liabilities	646	133
Net cash used in operating activities	(8,290)	(15,575)
Cash flows from investing activities:		
Purchase of property and equipment	(932)	(2,645)
Investment in intangible assets	(64)	(68)
Net cash used in investing activities	(996)	(2,713)
Cash flows from financing activities:		
Proceeds from the Business Combination	—	25,912
Proceeds from related-party debt	10,000	24,000
Payments on line of credit	—	(8,000)
Payments for debt issuance costs	(758)	(367)
Principal payments on capital lease obligations	(6)	(7)
Net cash provided by financing activities	9,236	41,538
Net increase (decrease) in cash	(50)	23,250
Cash, beginning of the period	12,232	3,593
Cash, end of the period	$ 12,182	$ 26,843
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment included in accounts payable	$ 438	$ 95
Assignment of founder shares and sponsor warrants	$ —	$ 4,691
Equipment acquired under build-to-suit service agreement	$ —	$ 553

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

PURPLE INNOVATION, INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

Purple Innovation, Inc., collectively with its subsidiary (the "Company" or "Purple Inc."), is a comfort innovation company which designs and manufactures products to improve how people live. The Company designs and manufactures a range of comfort technology products, including mattresses, pillows, cushions and other products, using its proprietary Hyper-Elastic Polymer® technology designed to improve comfort. The Company markets and sells its products through direct-to-consumer online channels, traditional wholesale partners and third-party online retailers.

The Company was incorporated in Delaware on May 19, 2015 as a special purpose acquisition company under the name of Global Partnership Acquisition Corp ("GPAC") for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving the Company and one or more businesses. On February 2, 2018, the Company consummated a transaction structured similar to a reverse recapitalization (the "Business Combination") pursuant to which the Company acquired a portion of the equity of Purple Innovation, LLC ("Purple LLC"). At the closing of the Business Combination (the "Closing"), the Company became the sole managing member of Purple LLC, and GPAC was renamed Purple Innovation, Inc.

As the sole managing member of Purple LLC, Purple Inc. through its officers and directors is responsible for all operational and administrative decision making and control of the day-to-day business affairs of Purple LLC without the approval of any other member, unless specified in the amended operating agreement.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company consists of Purple Inc. and its consolidated subsidiary Purple LLC. Pursuant to the Business Combination described in Note 3 — *Merger Transaction*, Purple Inc. has acquired approximately 18% of the common units of Purple LLC, while InnoHold, LLC ("InnoHold") and others retain approximately 82% of the common units in Purple LLC.

The Business Combination was structured similar to a reverse recapitalization. The historical operations of Purple LLC are deemed to be those of the Company. Thus, the financial statements included in this report reflect (i) the historical operating results of Purple LLC prior to the Business Combination; (ii) the combined results of the Company following the Business Combination; (iii) the assets and liabilities of Purple LLC at their historical cost; and (iv) the Company's equity and earnings per share for all periods presented.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting and reflect the financial position, results of operations and cash flows of the Company. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, these unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes included in the Company's Current Report on Form 10-K filed March 14, 2019. The unaudited condensed consolidated financial statements were prepared on the same basis as the audited financial statements and, in the opinion of management, reflect all adjustments (all of which were considered of normal recurring nature) considered necessary to present fairly the Company's financial results. The results of the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2019 or for any other interim period or other future year.

Variable Interest Entities

Purple LLC is a variable interest entity ("VIE"). The Company determined that it is the primary beneficiary of Purple LLC as Purple Inc. is the sole managing member and has the power to direct the activities most significant to Purple LLC's economic performance as well as the obligation to absorb losses and receive benefits that are potentially significant. At March 31, 2019, Purple Inc. had approximately an 18% economic interest in Purple LLC and consolidated 100% of Purple LLC's assets, liabilities and results of operations in the Company's unaudited condensed consolidated financial statements contained herein. At March 31, 2019, InnoHold and other parties owned approximately 82% of the economic interest in Purple LLC; however, InnoHold and other parties have disproportionally fewer voting rights, and are shown as the noncontrolling interest ("NCI") holder of Purple LLC. For further discussion see Note 13 — *Stockholders' Equity*.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net loss.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. The Company regularly makes significant estimates and assumptions including, but not limited to, estimates that affect the Company's revenue recognition, accounts receivable and allowance for doubtful accounts, valuation of inventories, cost of revenues, sales returns, warranty liabilities, the recognition and measurement of loss contingencies and estimates of current and deferred income taxes, deferred income tax valuation allowances and amounts associated with the Company's Tax Receivable Agreement with InnoHold (the "Tax Receivable Agreement"). Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates.

Revenue Recognition

The Company markets and sells its products through direct-to-consumer online channels, traditional wholesale partners, and third-party online retailers. Revenue is recognized when the Company satisfies its performance obligations under the contract which is transferring the promised products to the customer. This principle is achieved in the following steps:

Identify the contract with the customer. A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the goods to be transferred and identifies the payment terms related to these goods, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for the goods that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company does not have significant costs to obtain contracts with customers.

Identify the performance obligations in the contract. The Company's contracts with customers do not include multiple performance obligations to be completed over a period of time. The performance obligations generally relate to delivering products to a customer, subject to the shipping terms of the contract. The Company has made an accounting policy election to account for shipping and handling activities performed after a customer obtains control of the goods, including "white glove" delivery services, as activities to fulfill the promise to transfer the good. For certain products, limited assurance-type warranties are provided, for which the Company provides refunds. These amounts are reflected as a reduction of revenue in the statement of operations and a current liability on the balance sheet based on historical experience. The Company does not offer extended warranty or service plans. The Company does not provide an option to its customers to purchase future products at a discount and therefore there are no material option rights.

Determine the transaction price. Payment for sale of products through the direct-to-consumer online channels and third-party online retailers is collected at point of sale in advance of shipping the products. Amounts received for unshipped products are recorded as customer prepayments. Payment by traditional wholesale customers is due under customary fixed payment terms. None of the Company's contracts contain a significant financing component. Revenue is recorded at the net sales price, which includes estimates of variable consideration such as product returns, volume rebates, and other adjustments. The estimates of variable consideration are based on historical return experience, historical and projected sales data, and current contract terms. Variable consideration is included in revenue only to the extent that it is probable that a significant reversal of the revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues.

Allocate the transaction price to performance obligations in the contract. The Company's contracts with customers do not include multiple performance obligations. Therefore, the Company recognizes revenue upon transfer of the product to the customer's control at contractually stated pricing.

Recognize revenue when or as we satisfy a performance obligation. The Company satisfies performance obligations at a point in time upon either shipment or delivery of goods, in accordance with the terms of each contract with the customer. With the exception of third-party "white glove" delivery and certain wholesale partners, revenue generated from product sales is recognized at shipping point, the point in time the customer obtains control of the products. Revenue generated from sales through third-party "white glove" delivery is recognized at the point in time when the product is delivered to the customer. Revenue generated from certain wholesale partners is recognized at a point in time when the product is delivered to the wholesale partner's warehouse. The Company does not have service revenue.

Customer prepayments include cash amounts transacted with customers prior to product delivery.

Debt Issuance Costs and Discounts

Debt issuance costs and discounts are presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability and are amortized into interest expense using an effective interest rate over the duration of the debt. Refer to Note 8 – *Long-Term Debt, Related-Party*.

Fair Value Liability Warrants

The Company accounts for fair value liability warrants under the provisions of ASC 480 - *Distinguishing Liabilities from Equity*. ASC 480 requires the recording of certain liabilities at their fair value. Changes in the fair value of these liabilities are recognized in earnings. As a result of certain terms, conditions and features included in the incremental warrants issued by the Company, they are required to be accounted for as a liability at estimated fair value, with changes in fair value recognized in earnings. Refer to Note 9 – *Warrant Liabilities*.

Fair Value Measurements

The Company uses the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

Level 1—Quoted market prices in active markets for identical assets or liabilities;

Level 2—Significant other observable inputs (e.g. quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable, such as interest rate and yield curves, and market-corroborated inputs); and

Level 3—Unobservable inputs in which there is little or no market data, which require the reporting unit to develop its own assumptions.

The classification of fair value measurements within the established three-level hierarchy is based upon the lowest level of input that is significant to the measurements. Financial instruments, although not recorded at fair value on a recurring basis include cash and cash equivalents, receivables, accounts payable, accrued expenses and the Company's debt obligations. The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of these accounts. The fair value of the Company's debt instrument is estimated to be its face value based on the contractual terms of the debt instrument and market-based expectations. The warrant liability is a Level 3 instrument and uses an internal model to estimate fair value using certain significant unobservable inputs which requires determination of relevant inputs and assumptions. Accordingly, changes in these unobservable inputs may have a significant impact on fair value. Such inputs include risk free interest rate, expected average life, expected dividend yield, and expected volatility. These Level 3 liabilities would decrease (increase) in value based upon an increase (decrease) in risk free interest rate and expected dividend yield. Conversely, the fair value of these Level 3 liabilities would generally increase (decrease) in value if the expected average life or expected volatility were to increase (decrease).

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that the deferred tax assets will be realized. Deferred tax assets and liabilities are calculated by applying existing tax laws and the rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the year of the enacted rate change.

The Company accounts for uncertainty in income taxes using a recognition and measurement threshold for tax positions taken or expected to be taken in a tax return, which are subject to examination by federal and state taxing authorities. The tax benefit from an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination by taxing authorities based on technical merits of the position. The amount of the tax benefit recognized is the largest amount of the benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The effective tax rate and the tax basis of assets and liabilities reflect management's estimates of the ultimate outcome of various tax uncertainties. The Company recognizes penalties and interest related to uncertain tax positions within the provision (benefit) for income taxes line in the accompanying condensed consolidated statements of operations.

Purple LLC, the Company's accounting predecessor, is a limited liability company treated as a partnership for U.S. federal income tax purposes that is not subject to U.S. federal income tax.

Net Loss Per Share

The two-class method of computing net income (loss) per share is required for entities that have participating securities. The two-class method is an earnings allocation formula that determines net income (loss) per share for participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The Company's Class B Stock has no economic interest in the earnings of the Company, resulting in the two-class method not being applicable as of March 31, 2019 or in prior periods. Basic net loss per common share is calculated by dividing net loss attributable to common shareholders by the weighted average number of shares of Class A Stock outstanding each period. Diluted net loss per share adds to those shares the incremental shares that would have been outstanding and potentially dilutive assuming exchanges of the Company's outstanding warrants and stock options for Class A Stock, and the vesting of unvested Class A Stock. An anti-dilutive impact is an increase in net income per share or a reduction in net loss per share resulting from the conversion, exercise or contingent issuance of certain securities.

The Company uses the "if-converted" method to determine the potential dilutive effect of conversions of its outstanding Class B Stock, and the treasury stock method to determine the potential dilutive effect of its outstanding warrants and stock options exercisable for shares of Class A Stock and the vesting of unvested Class A Stock.

Recent Accounting Pronouncements

New Revenue Guidance

In May 2014, in addition to several amendments issued during 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The Company adopted this ASU effective January 1, 2019 on a modified retrospective basis. Adoption of this standard did not result in significant changes to the Company's accounting policies, business processes, systems or controls, or have a material impact on the Company's financial position, results of operations, or cash flows. As such, prior period amounts are not adjusted and continue to be reported under accounting standards then in effect, and the Company did not record a cumulative adjustment to the opening equity balance of accumulated deficit as of January 1, 2019. However, additional disclosures have been added in accordance with the requirements of Topic 606 and are reflected in Note 4 – *Revenue from Contracts with Customers.*

New Business Combination Guidance

In January 2017, the FASB issued ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business." The purpose of this ASU is to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The Company adopted this ASU effective January 1, 2019. The guidance in this standard did not have a material impact on the financial statements.

New Lease Guidance

In February 2016, the FASB issued ASU No. 2016-02, "Leases," and in March 2019, the FASB issued ASU No. 2019-01, "Leases: Codification Improvements", which updated the accounting guidance related to leases 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. They also clarify implementation issues. These updates are effective for public companies for annual periods beginning after December 15, 2018, including interim periods therein. The Company is allowed to use the private company adoption timelines, and therefore the standard is effective for the Company for its annual period beginning January 1, 2020, and interim periods within annual periods beginning January 1, 2021. The standard is to be applied utilizing a modified retrospective approach, with early adoption permitted. Upon adoption, the Company anticipates a material increase in assets and liabilities due to the recognition of the right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating leases.

Other Recent Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments." These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. These updates are effective for public companies for annual periods beginning after December 15, 2019, including interim periods therein. The Company is allowed to use the private company adoption timelines, and therefore the standard is effective for the Company for its annual period beginning January 1, 2021, and interim periods within annual periods beginning January 1, 2022, with early adoption permitted. The guidance in this standard is not expected to have a material impact on the financial statements.

3. Merger Transaction

On February 2, 2018, upon consummation of the Business Combination, Purple LLC merged with and into a wholly owned subsidiary of GPAC (PRPL Acquisition, LLC), with Purple LLC being the survivor in that merger pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), by and among GPAC, PRPL Acquisition, LLC, a Delaware limited liability company and a wholly owned subsidiary of GPAC ("Merger Sub"), Purple LLC and InnoHold. In connection with the Closing, GPAC was renamed "Purple Innovation, Inc." and its articles of incorporation were amended to rename its common stock to Class A common stock ("Class A Stock") and created a new class of stock named Class B common stock ("Class B Stock") of which 44.1 million shares of Class B Stock were issued to InnoHold (refer to Note 13 — *Stockholders' Equity* for a description of the Class A Stock and Class B Stock).

Additionally, at the Closing, 9.7 million Class A Units of Purple LLC were issued and are solely held by Purple Inc. They are voting common units entitled to share in the profits and losses of Purple LLC and receive distributions as declared by Purple LLC's manager. 44.1 million Class B Units of Purple LLC were issued to InnoHold who has limited voting rights in Purple LLC and is entitled to share in the profits and losses of Purple LLC and to receive distributions as declared by Purple LLC's manager. The amended operating agreement appoints Purple Inc. as the sole managing member of Purple LLC. As the sole managing member, Purple Inc. operates and controls all of the business and affairs of Purple LLC. Accordingly, although Purple Inc. has a minority economic interest in Purple LLC, Purple Inc. has the sole voting interest in and control of the management and operations of Purple LLC.

4. Revenue from Contracts with Customers

The Company markets and sells its products through direct-to-consumer online channels, traditional wholesale partners, and third-party online retailers. Revenue is recognized when the Company satisfies its performance obligations under the contract which is transferring the promised products to the customer as described in Note 2 – *Summary of Significant Accounting Policies*.

Contract Balances

Payment for sale of products through the direct-to-consumer online channels and third-party online retailers is collected at point of sale in advance of shipping the products. Amounts received for unshipped products are recorded as customer prepayments. Customer prepayments were $4.3 million at March 31, 2019 and $7.5 million at December 31, 2018. During the quarter ended March 31, 2019, the Company recognized $7.5 million of revenue that was deferred in customer prepayments at December 31, 2018.

Disaggregated Revenue

The following table presents the Company's revenue disaggregated by sales channel and product (in thousands):

Channel	Three Months Ended March 31, 2019
Direct-to-consumer	$ 53,764
Wholesale partner	29,884
Revenues, net	$ 83,648

Product	Three Months Ended March 31, 2019
Bedding	$ 81,335
Other	2,313
Revenues, net	$ 83,648

The Company sells products through two channels: Direct-to-Consumer and Wholesale. The Direct-to-Consumer channel includes product sales through direct-to-consumer online channels and third-party online channels. The Wholesale channel includes all product sales to traditional third-party retailers. The Company classifies products into two major categories: Bedding and Other. Bedding products include mattresses, platforms, adjustable bases, mattress covers, pillows and sheets. Other products include cushions and various other products.

5. Inventories

Inventories consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Raw materials	$ 9,444	$ 10,763
Work-in-process	947	521
Finished goods	15,524	12,364
Inventory obsolescence reserve	(574)	(708)
Inventories, net	$ 25,341	$ 22,940

6. Property and Equipment

Property and equipment consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Equipment	$ 15,878	$ 15,465
Equipment in progress	2,733	2,895
Leasehold improvements	3,399	3,359
Furniture and fixtures	3,353	2,817
Office equipment	879	799
Equipment under capital lease	159	159
Total property and equipment	26,401	25,494
Accumulated depreciation and amortization	(3,683)	(2,980)
Property and equipment, net	$ 22,718	$ 22,514

The Company recorded depreciation and amortization related to property and equipment of $0.7 million and $0.5 million during the three months ended March 31, 2019 and 2018, respectively

7. Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Co-op advertising, rebates, promotions	$ 1,218	$ 430
Warranty accrual – current portion	979	893
Website commissions	701	823
Insurance financing	535	—
Accrued expenses	261	363
Capital leases – current portion	32	32
Total other current liabilities	$ 3,726	$ 2,541

8. Long-Term Debt, Related-Party

Long-term debt, related-party consists of the following (in thousands):

	March 31, 2019	December 31, 2018
Long-term debt, related-party	$ 37,164	$ 26,647
Less: unamortized debt issuance costs and discounts	(4,343)	(5,236)
Total long-term debt, related-party	$ 32,821	$ 21,411

Credit Agreement

On February 2, 2018, Purple LLC entered into a Credit Agreement (the "Credit Agreement") with Coliseum Capital Partners, L.P. ("CCP"), Blackwell Partners LLC – Series A ("Blackwell") and Coliseum Co-invest Debt Fund, L.P. ("CDF" and together with CCP and Blackwell, the "Lenders"), pursuant to which the Lenders agreed to make a loan in an aggregate principal amount of $25.0 million. The Credit Agreement was closed and funded in connection with the Closing on February 2, 2018. As part of the Credit Agreement, Global Partner Sponsor I LLC (the "Sponsor") agreed to assign to the Lenders an aggregate of 2.5 million warrants to purchase 1.3 million shares of its Class A Stock. The Credit Agreement was amended and restated on January 28, 2019 as discussed below.

The Company paid debt issuance costs, incurred an original issuance discount and discounts related to the Founder Shares (as defined in Note 13 – *Stockholders' Equity*) and Sponsor Warrants that were assigned in conjunction with the Credit Agreement. The amount of these reductions collectively allocated to debt at the time of the Business Combination was $6.1 million.

Amended and Restated Credit Agreement

On January 28, 2019, Purple LLC entered into a First Amendment to the Credit Agreement (the "First Amendment") with the Lenders which amends the Credit Agreement. In the First Amendment, Purple LLC agreed to enter into the Amended and Restated Credit Agreement, under which two of the Lenders ("Incremental Lenders") agreed to provide an incremental loan of $10.0 million such that the total amount of principal indebtedness provided to Purple LLC is increased to $35.0 million. A stockholder meeting was held on February 25, 2019 at which time a majority of non-interested stockholders voted in favor of this transaction. The Amended and Restated Credit Agreement, and each of the related documents, was accordingly closed and the incremental $10.0 million loan was funded on February 26, 2019 and the Company issued to the Incremental Lenders 2.6 million warrants to purchase 2.6 million shares of the Company's Class A Stock at a price of $5.74 per share, subject to certain adjustments. Among other things, the terms of the Amended and Restated Credit Agreement extends the maturity date for all loans under the Credit Agreement to five years from closing of the incremental loan, lowers the amount allowed for an asset-based loan to $10.0 million, revises certain restrictive covenants to make them more applicable to the Company's current business, provides the ability for the Company to request additional loans from the Lenders not to exceed $10 million and other closing conditions, representations, warranties and covenants customary for a transaction of this type. All indebtedness under the Amended and Restated Credit Agreement bears interest at 12.0% per annum and is payable on the last business day of each fiscal quarter, provided that Purple LLC will be required to pay up to an additional 4.0% of interest per annum if it fails to meet certain EBITDA thresholds and an additional 2.0% of interest per annum if the Company is not in material compliance with the Sarbanes-Oxley Act of 2002. In addition, Purple LLC may elect for interest in excess of 5.0% per annum to be capitalized and added to the principal amount. Any principal pre-payments in the first year are subject to a make-whole payment, while principal pre-payments in years two through four are subject to certain pre-payment penalties. The Amended and Restated Credit Agreement provided for certain remedies to the Lenders in the event of customary events of default and provides for standard indemnification of the Lenders. Purple LLC continues to be restricted from making capital expenditures in excess of $20.0 million and incurring capital lease obligations in excess of $10.0 million, subject to limited exceptions.

The Company paid fees in the amount of $0.5 million and debt issuance costs in the amount of $0.3 million in conjunction with the incremental loan under the Amended and Restated Credit Agreement. Interest expense related to the Credit Agreement and the Amended and Restated Credit Agreement was $1.0 and $0.5 million for the three months ended March 31, 2019 and 2018, respectively.

Loss on Extinguishment of Debt

The Company accounted for the debt restructuring under the Amended and Restated Credit Agreement in accordance with ASC 470 - *Debt*. The Company determined that there are separate lenders for purposes of determining if there was an extinguishment or modification. The amended debt terms with CDF were not determined to be substantial and therefore the existing debt attributable to CDF was accounted for as a modification of debt. The amended debt terms with the Incremental Lenders were determined to be substantially different terms from their existing debt and therefore required to be accounted for as an extinguishment of their existing debt. Accordingly, the Company recognized a loss on the extinguishment of their existing debt of approximately $6.3 million. This is a non-cash expense primarily associated with the recognition of related unamortized debt discount and debt issuance costs and the fair value of the incremental warrants issued.

9. Warrant Liabilities

The Incremental Loan Warrants issued in conjunction with the Amended and Restated Credit Agreement contain a warrant repurchase provision which, upon an occurrence of a fundamental transaction as defined in the warrant agreement, could give rise to an obligation of the Company to pay cash to the warrant holders. The Company has determined that this provision requires the warrants to be accounted for as a liability at fair value on the date of the transaction under guidance prescribed in ASC 480 - *Distinguishing Liabilities from Equity*. The liability for the warrants is subsequently re-measured to fair value at each reporting date with changes in the fair value included in earnings.

The Company determined the fair value of the Incremental Warrants to be $4.9 million on the date of the transaction on February 26, 2019 using a Monte Carlo Simulation of a Geometric Brownian Motion stock path model with the following assumptions:

Trading price of common stock on measurement date	$	5.59
Exercise price	$	5.74
Risk free interest rate		2.45%
Warrant lives in years		5.0
Expected volatility		34.37%
Expected dividend yield		—

The Company determined the fair value of the Incremental Warrants to be $3.2 million on March 31, 2019 using a Monte Carlo Simulation of a Geometric Brownian Motion stock path model with the following assumptions:

Trading price of common stock on measurement date	$	4.64
Exercise price	$	5.74
Risk free interest rate		2.23%
Warrant life in years		4.9
Expected volatility		34.35%
Expected dividend yield		—

10. Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Deferred rent expense	$ 2,648	$ 2,531
Warranty accrual	2,539	2,009
Capital leases	111	117
Total other long-term liabilities	5,298	4,657
Less: current portion of long-term liabilities	(1,011)	(925)
Other long-term liabilities, net of current portion	$ 4,287	$ 3,732

11. Related Party Transactions

The Company had various transactions with entities or individuals which are considered related parties.

Coliseum Capital Management, LLC

Immediately following the Business Combination, Adam Gray was appointed to the Company's board of directors. Mr. Gray is a manager of Coliseum Capital, LLC, which is the general partner of CCP and CDF, and he is also a managing partner of Coliseum Capital Management, LLC ("CCM"), which is the investment manager of Blackwell. Mr. Gray has voting and dispositive control over securities held by CCP, CDF and Blackwell which are the "Lenders" under the Credit Agreement. On February 26, 2019, the Amended and Restated Credit Agreement between Purple LLC and the Lenders thereto, and each of the related documents, including the issuance of additional warrants to the Incremental Lenders, was closed and an incremental loan of $10.0 million was funded (see Note 8 – *Long Term Debt, Related Party*). The Lenders in aggregate had $37.2 million in principal borrowings outstanding as of March 31, 2019, comprised of $25.0 million in original loan amount, $10.0 million in incremental loan amount and $2.2 million in capitalized interest. The Company made interest payments to the Lenders in the amount of $0.4 million during the three months ended March 31, 2019.

Purple Founder Entities

TNT Holdings, LLC (herein "TNT Holdings"), EdiZONE, LLC (herein "EdiZONE") and InnoHold, LLC (herein "InnoHold") (the "Purple Founder Entities") were entities under common control with Purple LLC prior to the Business Combination as TNT Holdings and InnoHold are majority owned and controlled by Terry Pearce and Tony Pearce (with EdiZONE being wholly owned by TNT Holdings) who also were the founders of Purple LLC and immediately following the Business Combination were appointed to the Company's board of directors (the "Purple Founders"). InnoHold is a majority shareholder of the Company.

TNT Holdings owns the Alpine facility Purple LLC leases. Effective as of October 31, 2017, Purple LLC entered into an Amended and Restated Lease Agreement with TNT Holdings. The Company determined that TNT Holdings is not a VIE as neither the Company nor Purple LLC hold any explicit or implicit variable interest in TNT Holdings and do not have a controlling financial interest in TNT Holdings. The Company incurred $0.3 million and $0.3 million in rent expense to TNT Holdings for the building lease of the Alpine facility for the three months ended March 31, 2019 and 2018, respectively. The Company has been leasing its headquarters facility in Alpine, Utah from TNT Holdings since 2010.

On February 2, 2019, the lock-up agreement expired that was entered into in connection with the Closing. The lock-up agreement was entered into by InnoHold between the Company and the Parent Representative with respect to the equity securities that both the Company and Purple LLC received in the Business Combination (the "Restricted Securities"). As of March 31, 2019, there have not been any transactions of the Restricted Securities since the lock-up agreement expired.

12. Commitments and Contingencies

Required Member Distributions

Prior to the Business Combination and pursuant to the then applicable First Amended and Restated Limited Liability Company Agreement (the "First Purple LLC Agreement"), Purple LLC was required to distribute to InnoHold an amount equal to 45 percent of Purple LLC's net taxable income following the end of each fiscal year. The First Purple LLC Agreement was amended and replaced by the Second Amended and Restated Limited Liability Company Agreement (the "Second Purple LLC Agreement") on February 2, 2018 as part of the Business Combination. The Second Purple LLC Agreement does not include any mandatory distributions, other than tax distributions. No distributions have been made under the Second Purple LLC Agreement in 2019 or 2018.

Service Agreement

In October 2017, the Company entered into an electric service agreement with the local power company. The agreement provided for the construction and installation of certain utility improvements to provide increased power capacity to the manufacturing and warehouse facility in Grantsville, Utah. The Company prepaid $0.5 million related to the improvements and agreed to a minimum contract billing amount over a 15-year period based on regulated rate schedules and changes in actual demand during the billing period. The agreement includes an early termination clause that requires the Company to pay a pro-rata termination charge if the Company terminates within the first 10 years of the service start date. The early termination charge is $1.3 million and is reduced annually on a straight-line basis over the 10-year period. During 2018, the utility improvements construction was completed and were made available to the Company. As of March 31, 2019, the Company expects to fulfill its commitments under the agreement in the normal course of business, and as such, no liability has been recorded.

Operating Leases

The Company leases various office and warehouse facilities under two non-cancellable operating leases. Building space for its headquarters facility in Alpine, Utah is leased from TNT Holdings, LLC, an entity that prior to the Business Combination was under common control with InnoHold which was the majority and controlling owner of Purple LLC. The lease was originally entered into in 2010, but in October 2017 was amended with a lease term of 10 years that expires in September 2027 with the option for a 5-year extension. The Company also leases a facility located in Grantsville, Utah for use primarily as manufacturing and warehouse space. The lease was entered into in August 2016 with a lease term of 66 months and expires in January 2022 with two 5-year extension options. The Company recognizes rent expense on lease payments, including those with rent escalations and rent free periods, on a straight-line basis over the lease term, which includes the extension option periods. During the three months ended March 31, 2019 and 2018, the Company recognized rent expense in the amount of $0.9 million and $0.9 million, respectively.

Purchase Agreement

In February 2018, the Company entered into a purchase contract with a supplier of mineral oil that includes a minimum purchase commitment over a two-year period. In exchange, the Company is offered a discount per gallon. As of March 31, 2019, approximately $5.2 million remains on the purchase contract. The Company expects to fulfill its commitments under the agreement in the normal course of business, and as such, no liability has been recorded.

Indemnification Obligations

From time to time, the Company enters into contracts that contingently require it to indemnify parties against claims. These contracts primarily relate to provisions in the Company's services agreements with related parties that may require the Company to indemnify the related parties against services rendered; and certain agreements with the Company's officers and directors under which the Company may be required to indemnify such persons for liabilities. In connection with the Closing, to secure the payment of a certain portion of specified post-closing indemnification rights of the Company under the Merger Agreement, 0.5 million shares of Class B Stock and 0.5 million Class B Units otherwise issuable to InnoHold as equity consideration have been deposited in an escrow account for up to three years from the Closing pursuant to a contingency escrow agreement. As of March 31, 2019, 0.5 million shares of Class B Stock and 0.5 million Class B Units otherwise issuable to InnoHold as equity consideration remain deposited in an escrow account and no indemnification claims have been made.

Rights of Securities Holders

The holders of certain Warrants exercisable into Class A Stock and certain other unregistered Class A Stock were entitled to registration rights pursuant to certain registration rights agreements of the Company as of the Business Combination date. In March 2018, the Company filed a registration statement registering the Warrants (and any shares of Class A Stock issuable upon the exercise of the Warrants), and certain unregistered shares of Class A Common Stock. The registration statement was declared effective on April 3, 2018.

The holders of the Incremental Warrants exercisable into Class A Stock were entitled to registration rights pursuant to the registration rights agreement of the Company in connection with the Amended and Restated Credit Agreement. In March 2019, the Company filed a registration statement registering the Warrants (and any shares of Class A Stock issuable upon the exercise of the Warrants). The registration statement has not yet been declared effective.

Purple LLC Class B Unit Exchange Right.

On February 2, 2018, in connection with the Closing, the Company entered into an exchange agreement with Purple LLC and InnoHold (the "Exchange Agreement"), which provides for the exchange of Purple LLC Class B Units (the "Class B Units") and shares of Class B Stock (together with an equal number of Class B Units, the "Paired Securities") for, at the Company's option, either (A) shares of Class A Stock at an initial exchange ratio equal to one Paired Security for one share of Class A Stock or (B) a cash payment equal to the product of the average of the volume-weighted closing price of one share of Class A Stock for the ten trading days immediately prior to the date InnoHold delivers a notice of exchange multiplied by the number of Paired Securities being exchanged.

Holders of Class B Units may elect to exchange all or any portion of their Class B Units (together with an equal number of shares of Class B Stock) as described above by delivering a notice to Purple LLC. However, the Class B Units (together with an equal number of shares of Class B Stock) may not be exchanged during a lock-up period ending on the earliest of (x) the one year anniversary of the Closing, (y) the date on which the last sale price of the Class A Stock (or any successor publicly traded common equity security) equals or exceeds $12.00 per share (as equitably adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 150 days after the Closing or (z) the date on which the Company consummates a liquidation, merger, share exchange or other similar transaction with an unaffiliated third party that results in all of the Company's stockholders having the right to exchange either equity holdings in the Company for cash, securities or other property. The exchange will occur automatically upon the occurrence of a change of control or sale of substantially all of the assets of the Company or Purple LLC. The lock-up period ended on the one-year anniversary of the Closing, as set forth above, on February 2, 2019.

In certain cases, adjustments to the exchange ratio will occur in case of a split, reclassification, recapitalization, subdivision or similar transaction of or relating to the Class B Units or the shares of Class A Stock and Class B Stock or a transaction in which the Class A Stock is exchanged or converted into other securities or property. The exchange ratio will also adjust in certain circumstances when the Company acquires Class B Units other than through an exchange for its shares of Class A Stock.

The right of a holder of Class B Units to exchange may be limited by the Company if it reasonably determines in good faith that such restrictions are required by applicable law (including securities laws), such exchange would not be permitted under other agreements of such holder with the Company or its subsidiaries, including the Operating Agreement, or if such exchange would cause Purple LLC to be treated as a "publicly traded partnership" under applicable tax laws.

The Company and each holder of Class B Units shall bear its own expense regarding the exchange except that the Company shall be responsible for transfer taxes, stamp taxes and similar duties.

Maintenance of One-to-One Ratios.

The Second Purple LLC Agreement includes provisions intended to ensure that the Company at all times maintains a one-to-one ratio between (a) (i) the number of outstanding shares of Class A Stock and (ii) the number of Class A Units owned by the Company (subject to certain exceptions for certain rights to purchase equity securities of the Company under a "poison pill" or similar stockholder rights plan, if any, certain convertible or exchangeable securities issued under the Company's equity compensation plan and certain equity securities issued pursuant to the Company's equity compensation plan (other than a stock option plan) that are restricted or have not vested thereunder) and (b) (i) the number of other outstanding equity securities of the Company (including the warrants exercisable for shares of Class A Stock) and (ii) the number of corresponding outstanding equity securities of Purple LLC. These provisions are intended to result in InnoHold having a voting interest in the Company that is identical to InnoHold's economic interest in Purple LLC.

Non-Income Related Taxes

The U.S. Supreme Court ruling in *South Dakota v. Wayfair, Inc.*, No.17-494, reversed a longstanding precedent that remote sellers are not required to collect state and local sales taxes. We cannot predict the effect of these and other attempts to impose sales, income or other taxes on e-commerce. The Company currently collects and reports on sales tax in all states in which it does business. However, the application of existing, new or revised taxes on our business, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of selling products over the internet. The application of these taxes on our business could also create significant increases in internal costs necessary to capture data and collect and remit taxes. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

Legal Proceedings

On January 9, 2018, Chris Knudsen, a former consultant to the company, filed a complaint against Purple LLC in the Fourth Judicial District Court of the State of Utah. Mr. Knudsen alleges that before his consulting contract ended in March 2016, he and Purple LLC reached an oral agreement under which Mr. Knudsen would become the company's chief executive officer on April 1, 2016, and under which Mr. Knudsen would immediately receive a 4% equity interest in Purple LLC. Mr. Knudsen alleges that Purple LLC's failure to make him the company's chief executive officer on April 1, 2016, constitutes a breach of that oral agreement, and Mr. Knudsen claims damages of $44 million, based on a 4% interest of a $1.1 billion valuation initially announced in association with Purple LLC's Business Combination. In the alternative, Mr. Knudsen seeks declaratory relief that he owns the 4% equity position in Purple LLC. Purple LLC denies that it reached an agreement with Mr. Knudsen for him to assume the role of chief executive officer and denies that it reached an agreement to provide equity to Mr. Knudsen. Purple LLC believes that Mr. Knudsen's lawsuit is without merit and is vigorously contesting it. The Company maintains insurance to defend against claims of this nature, which management believes is adequate to cover the cost of its defense of Mr. Knudsen's claims. Fact discovery in this matter is scheduled to be completed in July 2019.

The Company is from time to time involved in various other claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any such pending or threatened proceedings, or any amount that the Company might be required to pay by reason thereof, would have a material adverse effect on the financial condition or future results of the Company.

13. Stockholders' Equity

Prior to the Business Combination, GPAC was a shell company with no operations, formed as a vehicle to effect a business combination with one or more operating businesses. After the Closing, the Company became a holding company whose sole material asset consists of its interest in Purple LLC.

Class A Common Stock

The Company has 210.0 million shares of Class A Stock authorized at a par value of $0.0001 per share. Holders of the Company's Class A Stock are entitled to one vote for each share held on all matters to be voted on by the stockholders and participate in dividends, if declared by the Board, or receive any portion of any such assets in respect of their shares upon liquidation, dissolution, distribution of assets or winding-up of the Company in excess of the par value of such stock. Holders of the Class A Stock and holders of the Class B Stock voting together as a single class, have the exclusive right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders. Holders of Class A Stock and Class B Stock are entitled to one vote per share on matters to be voted on by stockholders.

In connection with the Business Combination, all of GPAC's issued and outstanding shares of common stock were renamed to Class A Stock. The Company distributed approximately $90.6 million of the cash proceeds from the Company's initial public offering to redeem approximately 9.0 million shares of Class A Stock, which shares were then cancelled by GPAC. In addition, the Sponsor agreed to forfeit an aggregate of 1.3 million of the 3.9 million shares of common stock it received at GPAC's formation (the "Founder Shares"), which forfeited shares were then cancelled by the Company. GPAC issued an additional 4.0 million shares of Class A Stock to investors as part of a private investment in public equity (PIPE financing). At March 31, 2019, 9.7 million shares of Class A Stock were outstanding.

The Founder Shares are identical to the shares of Class A Stock sold in GPAC's initial public offering, and holders of these shares have the same stockholder rights as public stockholders, except that the Founder Shares are subject to certain transfer and vesting restrictions described below.

The Sponsor agreed not to transfer, assign or sell, except to certain permitted transferees, including to its members or in connection with a business combination, any of its Founder Shares until either one year passed after the completion of the Business Combination or certain other events occurred. Upon its own terms this restriction expired on February 2, 2019.

In accordance with the terms of the Business Combination, the Sponsor agreed to subject 0.6 million shares of Class A Stock owned by it to vesting and forfeiture. The shares of Class A Stock subject to vesting will be forfeited eight years from the Closing, unless any of the following events (each a "Triggering Event") occurs prior to that time:(i) the closing price of the Class A Stock on the principal exchange on which it is listed is at or above $12.50 for 20 trading days over a thirty trading day period (subject to certain adjustments), (ii) a change of control of the Company, (iii) a "going private" transaction by the Company pursuant to Rule 13e-3 under the Exchange Act or such other time as the Company ceases to be subject to the reporting obligations under Section 13 or 15(d) of the Exchange Act, or (iv) the time that the Company's Class A Stock ceases to be listed on a national securities exchange. Such shares of Class A Stock will no longer be subject to forfeiture upon the occurrence of a Triggering event. In addition, in connection with the Coliseum Private Placement, the Sponsor assigned 1.3 million shares of Class A Stock of which 0.6 million shares are subject to the same vesting and forfeiture conditions described above. Further, the Sponsor had distributed the remaining Founder Shares to its members during the first quarter of 2018. Such distributed Founder Shares remain subject to the vesting and forfeiture conditions described above.

Class B Common Stock

The Company has 90.0 million shares of Class B Stock authorized at a par value of $0.0001 per share. Holders of the Company's Class B Stock will vote together as a single class with holders of the Company's Class A Stock on all matters properly submitted to a vote of the stockholders. Shares of Class B Stock may be issued only to InnoHold, their respective successors and assigns, as well as any permitted transferees of InnoHold. A holder of Class B Stock may transfer shares of Class B Stock to any transferee (other than the Company) only if such holder also simultaneously transfers an equal number of such holder's Purple LLC Class B units to such transferee in compliance with the Second Purple LLC Agreement. Additionally, InnoHold agreed to restrictions on certain transfers of the Company's securities which include, subject to certain exceptions, restrictions on the transfer of their common stock from the date of the Business Combination until the earliest of the one-year anniversary of the date of the Business Combination or the occurrence of certain other events. Upon its own terms this transfer restriction expired on February 2, 2019. The Class B Stock is not entitled to receive dividends, if declared by the Board, or to receive any portion of any such assets in respect of their shares upon liquidation, dissolution, distribution of assets or winding-up of the Company in excess of the par value of such stock.

In connection with the Business Combination, approximately 44.1 million shares of Series B Stock were issued to InnoHold as part of the equity consideration. At March 31, 2019, 44.1 million shares of Class B Stock were outstanding, of which 1.2 million shares were held directly by each of Terry and Tony Pearce and 41.6 million shares were held by InnoHold.

Public and Sponsor Warrants

There were 15.5 million public warrants (the "Public Warrants") issued in connection with GPAC's formation and IPO and 12.8 million warrants (the "Sponsor Warrants"), issued pursuant to a private placement simultaneously with the IPO. Each of the Company's warrants entitles the registered holder to purchase one-half of one share of the Company's Class A Stock at a price of $5.75 per half share ($11.50 per full share), subject to adjustment pursuant to the terms of the warrant agreement. Pursuant to the warrant agreement, a warrant holder may exercise its warrants only for a whole number of shares of the Class A Stock. For example, if a warrant holder holds one warrant to purchase one-half of one share of Class A Stock, such warrant will not be exercisable. If a warrant holder holds two warrants, such warrants will be exercisable for one share of the Class A Stock. In no event will the Company be required to net cash settle any warrant. The warrants have a five-year term which commenced on March 2, 2018, 30 days after the completion of the Business Combination, and will expire on February 2, 2023, or earlier upon redemption or liquidation.

The Company may call the warrants for redemption if the reported last sale price of the Class A Stock equals or exceeds $24.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date the Company sends the notice of redemption to the warrant holders; provided, however, that the Sponsor Warrants are not redeemable by the Company so long as they are held by the Sponsor or its permitted transferees. In addition, with respect to the Sponsor Warrants, so long as such Sponsor Warrants are held by the Sponsor or its permitted transferee, the holder may elect to exercise the Sponsor Warrants on a cashless basis, by surrendering their Sponsor Warrants for that number of shares of Class A Stock equal to the quotient obtained by dividing (x) the product of the number of shares of Class A Stock underlying the Sponsor Warrants, multiplied by the difference between the exercise price of the Sponsor Warrants and the "fair market value" (defined below), by (y) the fair market value. The "fair market value" means the average reported last sale price of the Class A Stock for the 10 trading days ending on the third trading day prior to the date on which the notice of warrant exercise is sent to the warrant agent. All other terms, rights and obligations of the Sponsor Warrants remain the same as the Public Warrants. Both the Public and Sponsor Warrants are classified as equity instruments in the accompanying condensed consolidated balance sheet.

From the time of GPAC's IPO up to the Business Combination with Purple LLC, GPAC had 28.3 million warrants outstanding. At March 31, 2019, all 28.3 million warrants remain outstanding.

Incremental Loan Warrants

In connection with the Amended and Restated Credit Agreement, the Company issued to CCP and Blackwell, as the Incremental Lenders funding the Incremental Loan, 2.6 million Incremental Loan Warrants to purchase 2.6 million shares of the Company's Class A Stock. Each Incremental Loan Warrant entitles the registered holder to purchase one share of the Company's Class A Stock at a price of $5.74 per share, subject to adjustment pursuant to the terms of the warrant agreement. The Incremental Loan Warrants have a five-year term and will expire on February 26, 2024, or earlier upon redemption or liquidation.

The Company may call the warrants for redemption at a price of $0.01 per Share of Class A Stock if the reported last sale price of the Class A Stock equals or exceeds $24.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date the Company sends the notice of redemption to the warrant holders. If the Company calls the Incremental Loan Warrants for redemption, it will have the option to require the holder to exercise the Incremental Loan Warrants on a cashless basis, by surrendering their Incremental Loan Warrants for that number of shares of Class A Stock equal to the quotient obtained by dividing (x) the product of the number of shares of Class A Stock underlying the Incremental Loan Warrants, multiplied by the difference between the exercise price of the Sponsor Warrants and the "fair market value" (defined below), by (y) the fair market value. The "fair market value" means the average reported last sale price of the Class A Stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of Incremental Loan Warrants.

In the event of a "fundamental transaction" as defined in the warrant agreement, the holder will have the right to purchase and receive the same kind and amount of consideration receivable by the stockholders of the Company upon the occurrence of such fundamental transaction. The warrant agreement requires the Company to cause the surviving company in a fundamental transaction, to assume the obligations of the Company under the Incremental Loan Warrants. In addition, a clause in the Incremental Loan Warrant Agreement states, upon the occurrence of a fundamental transaction, that the holders of the Incremental Loan Warrants may elect to either (i) have the exercise price of the warrant reduced by the Black-Scholes value of the Incremental Loan Warrants (as set forth in the Incremental Loan Warrants Agreement) or (ii) cause the Company or its successor to repurchase all or a portion of the Incremental Loan Warrants at the Black-Scholes value (as set forth in the Incremental Loan Warrants). As a result of this clause, the Incremental Loan Warrants embody an obligation to repurchase the Company's equity shares, or is indexed to such an obligation, and may require the Company to settle the obligation by transferring assets. As such, the Incremental Loan Warrants are classified as liabilities under ASC 480 - *Distinguishing Liabilities from Equity*.

Preferred Stock

The Company has 5.0 million shares of preferred stock authorized at a par value of $0.0001 per share. The preferred stock may be issued from time to time in one or more series. The directors are expressly authorized to provide for the issuance of shares of the preferred stock in one or more series and to establish from time to time the number of shares to be included in each such series and to fix the voting rights, designations and other special rights or restrictions. At March 31, 2019, there were no shares of preferred stock outstanding.

Noncontrolling Interest

NCI represents the membership interest held in Purple LLC by holders other than the Company. On February 2, 2018, upon the close of the Business Combination, and at March 31, 2019, InnoHold's and other Purple LLC Class B Unit holders' combined NCI percentage in Purple LLC was approximately 82%. The Company has consolidated the financial position and results of operations of Purple LLC and reflected the proportionate interest held by all such Purple LLC Class B Unit holders as NCI.

14. Income Taxes

The Company's sole material asset is Purple LLC, which is treated as a partnership for U.S. federal income tax purposes and for purposes of certain state and local income taxes. Purple LLC's net taxable income and any related tax credits are passed through to its members and are included in the members' tax returns, even though such net taxable income or tax credits may not have actually been distributed. While the Company consolidates Purple LLC for financial reporting purposes, the Company will be taxed on its share of future earnings of Purple LLC not attributed to the NCI holder, InnoHold, which will continue to bear its share of income tax on its allocable future earnings of Purple LLC. The income tax burden on the earnings taxed to the NCI is not reported by the Company in its condensed consolidated financial statements under GAAP. As a result, the Company's effective tax rate differs materially from the statutory rate.

As of March 31, 2019, the Company has a full valuation allowance on its net deferred tax assets. In assessing the realizability of deferred tax assets, including the deferred tax assets recorded in connection with the Business Combination and generated under the Tax Receivable Agreement described below, management determined that it was more likely than not that its net deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and consideration of tax-planning strategies. Considering these factors, a valuation allowance was recorded in the year ended December 31, 2018, and the Company continues to be in a full valuation allowance position for the period ended March 31, 2019.

The Company currently estimates its annual effective income tax rate to be 0%. The effective tax rate for Purple Inc. differs from the federal rate of 21% primarily due to (1) a full valuation allowance, (2) NCI in Purple LLC that is allocated to InnoHold and (3) various other items such as limitations on meals and entertainment, certain stock compensation and other costs.

No current income tax liability was recorded as a result of the Business Combination since its legal form was treated as a purchase of interests or assets in a non-taxable pass through partnership for U.S. federal income tax purposes such that the Company did not assume an existing tax obligation on the purchased assets. The excess of the Company's tax basis in its investment in Purple LLC over its book carrying value in this investment resulted in a deferred tax asset that may reduce certain income tax payments in the future. This deferred tax asset encompasses the basis increase in the assets of Purple LLC as a result of the Business Combination and Tax Receivable Agreement as well as the Company's share of Purple LLC's unrecognized temporary timing differences between book and tax. For the year ended December 31, 2018, the Company recorded a deferred tax asset of $9.5 million related to this initial outside basis difference, with an offsetting effect recorded in additional paid in capital. As noted above, due to uncertainties relating to the realization of the outside basis difference deferred tax asset, the Company recorded a full valuation allowance in 2018, with an offsetting effect recorded in additional paid in capital, such that the net effect to additional paid in capital was zero.

In connection with the Business Combination the Company entered into the Tax Receivable Agreement with the NCI holder, InnoHold, which provides for the payment by the Company to InnoHold of 80% of the net cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes (or is deemed to realize in certain circumstances) in periods after the Closing as a result of (i) any tax basis increases in the assets of Purple LLC resulting from the distribution to InnoHold of the cash consideration, (ii) the tax basis increases in the assets of Purple LLC resulting from the redemption by Purple LLC or the exchange by the Company, as applicable, of Class B Paired Securities or cash, as applicable, and (iii) imputed interest deemed to be paid by the Company as a result of, and additional tax basis arising from, payments it makes under the Tax Receivable Agreement. As realization of the tax benefit related to the Business Combination is not currently deemed probable, no liability under the Tax Receivable Agreement has been recognized in the accompanying condensed consolidated balance sheet.

In the future, if and when InnoHold exercises its right to exchange or cause Purple LLC to redeem all or a portion of its Class B Units, a liability under the Tax Receivable Agreement (a "TRA Liability") may be recorded based on 80% of the estimated future cash tax savings that the Company may realize as a result of increases in the basis of the assets of Purple LLC attributed to the Company as a result of such exchange or redemption. The amount of the increase in asset basis, the related estimated cash tax savings and the attendant TRA Liability to be recorded will depend on the price of the Company's Class A Stock at the time of the relevant redemption or exchange. Due to the uncertainty surrounding the amount and timing of future redemptions of Class B Paired Securities by InnoHold and uncertainty about the ability of the Company to realize net cash savings, the Company does not believe it is appropriate to record a TRA Liability related to future exchanges until such time that InnoHold exercises its right to cause Class B Paired Securities to be exchanged or converted into the Company's Class A Stock or cash and the Company believes that the associated tax benefits are more-likely-than-not to result in net cash savings.

The Company is treated as acquiring historical net deferred tax assets of GPAC of approximately $0.3 million in the Business Combination. These deferred tax assets, including those to be recorded in connection with the Business Combination, the Tax Receivable Agreement and for net operating loss carryforwards generated in 2019, are offset by a valuation allowance such that no net deferred tax assets are presently recorded on the financial statements, as the Company does not presently believe that the deferred tax assets are more likely than not realizable.

The effects of uncertain tax positions are recognized in the condensed consolidated financial statements if these positions meet a "more-likely-than-not" threshold. For those uncertain tax positions that are recognized in the condensed consolidated financial statements, liabilities are established to reflect the portion of those positions it cannot conclude "more-likely-than-not" to be realized upon ultimate settlement. As of March 31, 2019, no uncertain tax positions were recognized as liabilities in the condensed consolidated financial statements.

15. Net Loss Per Common Share

The Business Combination was structured similar to a reverse recapitalization by which the Company issued stock for the net assets of Purple LLC accompanied by a recapitalization. Earnings per share has been recast for all historical periods to reflect the Company's capital structure of all comparative periods.

The following table sets forth the calculation of basic and diluted weighted average shares outstanding and earnings per share for the periods presented (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net loss attributable to Purple Innovation, Inc.	$ (130)	$ (1,550)
Denominator:		
Weighted average common shares-basic and diluted	8,437	8,389
Net loss per common share:		
Basic	$ (0.02)	$ (0.18)
Diluted	$ (0.02)	$ (0.18)

For the three months ended March 31, 2019, the Company excluded 1.3 million shares of issued Class A common stock subject to vesting and 17.7 million shares of common stock issuable upon conversion of certain Company warrants and stock options as the effect was anti-dilutive. For the three months ended March 31, 2018, the Company excluded 1.3 million shares of issued common stock subject to vesting and 14.2 million shares of common stock issuable upon conversion of the Company's warrants as the effect was anti-dilutive.

16. Equity Compensation Plans

2017 Equity Incentive Plan

The Purple Innovation, Inc. 2017 Equity Incentive Plan (the "2017 Incentive Plan") provides for grants of stock options, stock appreciation rights, restricted stock and other stock-based awards. Directors, officers and other employees and subsidiaries and affiliates, as well as others performing consulting or advisory services for the Company and its subsidiaries, will be eligible for grants under the 2017 Incentive Plan. The aggregate number of shares of Common Stock which may be issued or used for reference purposes under the 2017 Incentive Plan or with respect to which awards may be granted may not exceed 4.1 million shares. The Company has filed a Form S-8 to register 4.1 million shares of Class A Stock authorized for issuance under the 2017 Incentive Plan. As of March 31, 2019, approximately 3.7 million shares remain available under the 2017 Incentive Plan.

Employee Stock Options

During the three months ended March 31, 2019, the Company granted 0.3 million stock options under the Company's 2017 Equity Incentive Plan to John Legg, the Company's Chief Operating Officer. The stock options have an exercise price of $5.95 per option that expire in five years and vest over a four-year period. The estimated fair value of the stock options, less expected forfeitures, is amortized over the options vesting period on a straight-line basis. The Company determined the value of the 0.3 million options granted during the three months ended March 31, 2019 to be $0.4 million which will be expensed over the vesting period of four years.

The following are the assumptions used in calculating the fair value of the total stock options granted during the three months ended March 31, 2019 using the Black-Scholes method:

Fair market value	$ 5.75
Exercise price	$ 5.75
Risk free interest rate	2.50%
Expected term in years	3.58
Expected volatility	37.1%
Expected dividend yield	—

The following table summarizes the Company's total stock option activity for the three months ended March 31, 2019:

	Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value $
As of March 31, 2019:				
Options outstanding as of January 1, 2019	933	$ 5.96	4.8	$ —
Granted	250	5.75	—	—
Exercised	—	—	—	—
Forfeited/expired	(287)	5.98	—	—
Options outstanding as of March 31, 2019	896	5.89	4.1	—

Outstanding and exercisable stock options as of March 31, 2019 are as follows:

	Options Outstanding		Options Exercisable		
Exercise Prices	Number of Options Outstanding (in thousands)	Weighted Average Remaining Life (Years)	Number of Options Exercisable (in thousands)	Weighted Average Remaining Life (Years)	Intrinsic Value
$ 5.75	250	4.89	—	$ —	$ —
$ 5.95	646	3.79	108	0.21	—

The estimated fair value of the Company stock options, less expected forfeitures, is amortized over the options vesting period on the straight-line basis. The Company recognized $0.1 million in stock-based compensation expenses during the three months ended March 31, 2019. As of March 31, 2019, there was $1.1 million of total unrecognized compensation cost with a remaining vesting period of 3.6 years. There were no stock options awarded or outstanding as of March 31, 2018.

InnoHold Incentive Units

In January 2017, pursuant to the 2016 Equity Incentive Plan approved by InnoHold and Purple LLC that authorized the issuance of 12.0 million incentive units, Purple LLC granted 11.3 million incentive units to Purple Team LLC, an entity for the benefit of certain employees who were participants in that plan.

In conjunction with the Business Combination, Purple Team LLC was merged into InnoHold with InnoHold being the surviving entity and the Purple Team LLC incentive units were cancelled and new incentive units were issued by InnoHold under its own limited liability company agreement (the "InnoHold Agreement"), which is considered a modification for accounting purposes. Under the revised terms of the incentive units granted under the InnoHold Agreement, the holders are only eligible to participate in InnoHold's distributions, if any, after the distribution threshold of approximately $135.0 million is met and in accordance with the same vesting schedule that had existed at the time of the initial grant. The $135.0 million threshold is considered a performance condition. Under the terms of the new incentive units, holders may participate in tax and discretionary distributions once the remaining threshold is met. As of March 31, 2019, the remaining threshold is approximately $96.6 million.

On February 8, 2019, InnoHold initiated a tender offer to each of these participants of incentive units in InnoHold to distribute to each a pro rata number of the paired Class B Units of Purple LLC and Class B Stock of Purple Inc. held by InnoHold in exchange for the cancellation of their ownership interests in InnoHold. The InnoHold incentive unit holders are current and former employees of Purple LLC who had received equity incentive grants prior to the Business Combination through a separate entity. All InnoHold incentive unit holders accepted the offer, and each transaction is expected to close sometime in the second quarter of 2019. As of the closing of the tender offer, those employees of Purple LLC prior to the Business Combination will be distributed and then will directly hold paired Purple LLC Class B Units and Purple Inc. Class B Stock, which is anticipated to reduce the amount of such Paired Securities held by InnoHold from 41.6 million shares to 39.1 million shares. This transfer will result in the recognition of stock compensation expense for Purple LLC. These transactions will not be dilutive to any stockholder holding or having rights to purchase the Company's Class A Stock.

For the three months ended March 31, 2019 and 2018, the Company has not recorded any expenses related to the incentive units, as the achievement of the performance condition was not yet deemed probable.

The following table summarizes the total incentive unit activity granted first by Purple Team LLC and then continued through InnoHold for the benefit of the Company:

(in thousands)	Incentive Units
As of March 31, 2019	
Incentive units outstanding as of January 1, 2019	7
Granted	—
Exercised	—
Forfeited/Cancelled	(1)
Incentive units outstanding as of March 31, 2019	6
Incentive units vested as of March 31, 2019	5

17. Employee Retirement Plan

In July 2018 the Company established a 401(k) plan that qualifies as a deferred compensation arrangement under Section 401 of the IRS Code. All eligible employees over the age of 18 and with 4 months' service are eligible to participate in the plan. The plan provides for Company matching of employee contributions up to 5% of eligible earnings. Company contributions immediately vest. The Company matching contribution expense was $0.3 million for the three months ended March 31, 2019.

18. Subsequent Events

In April 2019, the Company entered into a capital lease agreement for the lease of certain warehouse equipment valued at $0.4 million. The lease is for a 72-month period and includes a bargain purchase option at the end of the lease.

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

The following discussion is intended to provide a more comprehensive review of the operating results and financial condition of Purple Innovation, Inc. than can be obtained from reading the Unaudited Condensed Consolidated Financial Statements alone. The discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and the notes thereto included in "Part I. Item 1. Financial Statements."

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q (this "Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that represent our current expectations and beliefs. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws. In some cases, you can identify these statements by forward-looking words such as "believe," "expect," "project," "anticipate," "estimate," "intend," "plan," "targets," "likely," "will," "would," "could," "may," "might," the negative of these words and other similar words.

All forward-looking statements included in this Quarterly Report are made only as of the date thereof. It is routine for our internal projections and expectations to change throughout the year, and any forward-looking statements based upon these projections or expectations may change prior to the end of the next quarter or year. Investors are cautioned not to place undue reliance on any such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

We caution and advise readers that these statements are based on assumptions that may not be realized and involve risks and uncertainties that could cause actual results to differ materially from the expectations and beliefs contained herein. For a summary of these risks, see the risk factors included in the "Risk Factors" section in this Quarterly Report and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2019.

Introductory Note

On February 2, 2018 (the "Closing Date"), our predecessor, Global Partner Acquisition Corp. ("GPAC") consummated the previously announced merger transaction (the "Business Combination") pursuant to that certain Agreement and Plan of Merger (the "Merger Agreement"), by and among GPAC, PRPL Acquisition, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company ("Merger Sub"), Purple Innovation, LLC, a Delaware limited liability company ("Purple LLC"), InnoHold, LLC, ("InnoHold") a Delaware limited liability company and the sole equity holder of Purple LLC, and Global Partner Sponsor I LLC, solely in its capacity thereunder as the representative of GPAC after the consummation of the transactions contemplated by the Merger Agreement (the "Parent Representative" or the "Sponsor"), which provided for the Company's acquisition of Purple LLC's business through the merger of Merger Sub with and into Purple LLC, with Purple LLC being the survivor in the Business Combination.

In connection with the closing of the Business Combination (the "Closing"), the Company changed its name from "Global Partner Acquisition Corp." to "Purple Innovation, Inc." The Business Combination was accounted for as a reverse recapitalization because the former owners of Purple LLC have control over the combined company through their 82% ownership of the common stock of the Company. Although the Company was the legal acquirer, the historical operations of Purple LLC are deemed to be those of the Company. Thus, the financial statements included in this Quarterly Report on Form 10-Q reflect (i) the historical operating results of Purple LLC prior to the Business Combination; (ii) the combined results of the Company following the Business Combination; (iii) the assets and liabilities of Purple LLC at their historical cost; and (iv) the Company's equity and earnings per share for all periods (both pre- and post-Business Combination) presented.

On January 28, 2019, Purple LLC entered into a First Amendment to the Credit Agreement (the "First Amendment") with the Lenders which amends the Credit Agreement. In the First Amendment, Purple LLC agreed to enter into the Amended and Restated Credit Agreement, under which the Lenders agreed to provide an incremental loan of $10.0 million such that the total amount of principal indebtedness provided to Purple LLC was increased to $35.0 million. A stockholder meeting was held on February 25, 2019 at which time a majority of non-interested stockholders voted in favor of this transaction. The Amended and Restated Credit Agreement, and each of the related documents, was accordingly closed and this incremental loan was funded on February 26, 2019. In addition, the Company issued to the Lenders warrants to purchase 2,613,241 shares of the Company's Class A Stock at a price of $5.74 per share, subject to certain adjustments.

On February 8, 2019, InnoHold, at the request of the Compensation Committee of the Company's Board of Directors, initiated a tender offer to each of its Class B unit holders to distribute to each a pro rata number of the paired Class B Units of Purple LLC and Class B Stock of Purple Inc. held by InnoHold in exchange for the cancellation of their ownership interests in InnoHold. The InnoHold Class B unit holders are current and former employees of Purple LLC who had received equity incentive grants prior to the Business Combination through a separate entity. All InnoHold Class B unit holders accepted the offer, and each transaction is expected to close sometime in the second quarter of 2019. As of the closing of the tender offer, those employees of Purple LLC prior to the Business Combination will be distributed and will then directly hold paired Purple LLC Class B Units and Purple Inc. Class B Stock, which is expected to reduce the amount of such Paired Securities held by InnoHold from 41.6 million shares to 39.1 million shares. This transfer will result in the recognition of stock compensation expense for Purple LLC. These transactions will not be dilutive to any stockholder holding or having rights to purchase the Company's Class A Stock.

Overview of Our Business

The Company is a comfort innovation company that designs and manufactures products to improve how people live. We design and manufacture a range of comfort technology products, including mattresses, pillows, and cushions, using our patented Hyper-Elastic Polymer technology designed to improve comfort. We market and sell our products through our direct-to-consumer online channel, traditional wholesale partners and third-party online retailers.

Operating Results for the Three Months Ended March 31, 2019 and 2018

The following table sets forth for the periods indicated for our results of operations and the percentage of total revenue represented in our statements of operations:

	Three Months Ended March 31,			
	2019	% of Net Revenues	2018	% of Net Revenues
Revenues, net	$ 83,648	100.0%	$ 60,768	100.0%
Cost of revenues	49,579	59.3	34,953	57.5
Gross profit	34,069	40.7	25,815	42.5
Operating expenses:				
Marketing and sales	24,017	28.7	22,045	36.3
General and administrative	4,565	5.5	6,853	11.3
Research and development	690	0.8	511	0.8
Total operating expenses	29,272	35.0	29,409	48.4
Operating income (loss)	4,797	5.7	(3,594)	(5.9)
Interest expense	1,144	1.4	702	1.1
Other income, net	(229)	(0.3)	(19)	—
Loss on extinguishment of debt	6,299	7.5	—	—
Change in fair value – warrant liabilities	(1,697)	(2.0)	—	—
Net loss	(720)	(0.9)	(4,277)	(7.0)
Net loss attributable to noncontrolling interest	(590)	(0.7)	(2,727)	(4.4)
Net loss attributable to Purple Innovation, Inc.	$ (130)	(0.2)	$ (1,550)	(2.6)

Revenue

Total net revenue increased $22.9 million, or 37.7%, to $83.6 million for the three months ended March 31, 2019 from $60.8 million for the three months ended March 31, 2018 due mainly to a $22.8 million increase in bedding sales. The increase in bedding sales was primarily attributable to an increase in wholesale revenue driven by an increase of over 800 stores as compared to the same period last year.

Cost of Revenues

The cost of revenues increased $14.6 million, or 41.8%, to $49.6 million for the three months ended March 31, 2019 from $35.0 million for the three months ended March 31, 2018. The increase is primarily due to a $6.4 million increase in direct materials and a $6.1 million increase in labor and overhead related to the increased bedding sales, and a $1.6 million increase in freight costs due to third party "white-glove" delivery service. The gross profit percentage decreased to 40.7% of net revenues for first quarter 2019 from 42.5% for first quarter 2018. The decrease was primarily driven by a shift in sales mix to more sales with wholesale pricing.

Marketing and Sales

Marketing and sales expenses increased $2.0 million, or 8.9%, to $24.0 million for the three months ended March 31, 2019 from $22.0 million for the three months ended March 31, 2018. The increase is primarily due to added resources and infrastructure to drive increased sales. The overall marketing and sales expense as a percentage of net revenue decreased to 28.7% for the three months ended March 31, 2019 from 36.3% for the three months ended March 31, 2018 due to the Company's efforts to improve the efficiency of marketing spend for the revenue generated.

General and Administrative

General and administrative expenses decreased $2.3 million, or 33.4%, to $4.6 million for the three months ended March 31, 2019 from $6.9 million for the three months ended March 31, 2018. The decrease was primarily due to the costs incurred related to the Business Combination in February 2018.

Research and Development

Research and development costs increased $0.2 million, or 35%, to $0.7 million for the three months ended March 31, 2019 from $0.5 million for the three months ended March 31, 2018. The increase is primarily due to increases in salaries and wages as we added resources for new product innovation.

Operating income (loss)

Operating income was $4.8 million for the three months ended March 31, 2019, a change of $8.4 million from operating loss of $3.6 million for the three months ended March 31, 2018. The change was primarily due to higher revenues than the prior year and lower marketing spend as a percentage of net revenue in 2019, partially offset by a lower gross profit percentage.

Interest Expense

Interest expense increased $0.4 million, or 63.0%, to $1.1 million for the three months ended March 31, 2019 from $0.7 million for the three months ended March 31, 2018. The increase is due primarily to the increase in the outstanding balance of the Amended and Restated Credit Agreement from $25.0 million in 2018 to $37.2 million in 2019 with a fixed interest rate of 12%.

Loss on Extinguishment of Debt

In conjunction with the Incremental Loan under the Amended and Restated Credit Agreement the Company determined that the amended debt terms resulted in substantially different terms for a portion the existing debt and therefore required to be accounted for as an extinguishment of a portion of the existing debt. Accordingly, the Company recognized a loss on the extinguishment of a portion of the existing debt of approximately $6.3 million. This is a non-cash expense primarily associated with the recognition of related unamortized debt discount and debt issuance costs and the fair value of the Incremental Loan Warrants issued.

Change in Fair Value – Warrant Liabilities

The Incremental Loan Warrants issued in conjunction with the Amended and Restated Credit Agreement are classified as liabilities and recorded at fair value on the date of the transaction and subsequently re-measured to fair value at each reporting date with changes in the fair value included in earnings. The change in fair value from the date of the transaction resulted in a gain in the amount of $1.7 million recorded in earnings for the three months ended March 31, 2019.

Noncontrolling Interest

As a result of the Business Combination in 2018, we attribute net income or loss to the Class B units in Purple LLC, owned by InnoHold and other Class B unit holders, as a noncontrolling interest at their ownership percentage. At March 31, 2019, this noncontrolling ownership percentage was approximately 82%.

Liquidity and Capital Resources

Our primary cash needs have historically consisted of working capital, capital expenditures, member distributions prior to the Business Combination and debt service. Our working capital needs depend upon the timing of cash receipts from sales, payments to vendors and others, changes in inventories, and capital and operating lease payment obligations. We had working capital of $13.4 million as of March 31, 2019, and we had negative working capital of $(0.9) million as of December 31, 2018. During the three months ended March 31, 2019, our accounts receivable increased by $9.4 million due mainly to an increase in our wholesale revenue. In addition, our customer prepayments decreased $3.2 million as we recognized revenue due to the reduction of our direct-to-consumer shipment backlog because of increased production. Our capital expenditures primarily relate to acquiring and maintaining manufacturing equipment. Our cash used for capital expenditures was $0.9 million for the three months ended March 31, 2019. We financed these capital expenditures through cash provided by operating activities and proceeds from the Amended and Restated Credit Agreement. We expect our capital expenditures for our facilities and equipment to be between $8 million and $12 million in 2019. We believe that our cash flow from operations, together with other available sources of liquidity, including the additional cash we have just received and have access to under the Amended and Restated Credit Agreement, will be sufficient to fund anticipated operating expenses, growth initiatives and our other anticipated liquidity needs for the next twelve months, based on our current operating conditions. Actual amounts for capital expenditures or capital needed to fund operations could differ significantly from current expectations because of operating needs, growth needs, regulatory changes, other expenses, or other factors.

On January 28, 2019, Purple LLC entered into the First Amendment, which amended the Credit Agreement. In the First Amendment, Purple LLC agreed to enter into the Amended and Restated Credit Agreement. A stockholder meeting was held on February 25, 2019 at which time a majority of non-interested stockholders voted in favor of this transaction. Accordingly, the Amended and Restated Credit Agreement, and each related document, was closed and an incremental loan of $10.0 million was funded. On February 26, 2019, we received approximately $9.2 million in proceeds after debt issuance costs and fees.

Debt service for the three months ended March 31, 2019 totaled $1.1 million and consisted of interest paid-in-kind and with cash on the Amended and Restated Credit Agreement as well as principal and interest payments on certain capital leases.

In the event our cash flow from operations or other sources of financing are less than anticipated, we believe we will be able to fund operating expenses based on our ability to scale back operations, reduce marketing spend and postpone or discontinue our growth strategies. In such event, this could result in slower growth or no growth, and we may run the risk of losing key suppliers, we may not be able to timely satisfy customer orders, and we may not be able to retain all of our employees. In addition, we may be forced to restructure our obligations to current creditors or pursue work-out options.

If cash flow from operations or available financing under the Amended and Restated Credit Agreement are not sufficient to fund our operating expenses or our growth strategies, we may need to raise additional capital. Our ability to obtain additional capital on acceptable terms or at all is subject to a variety of uncertainties, including approval from the Lenders. Adequate financing may not be available or, if available, may only be available on unfavorable terms. The restrictive covenants in the Amended and Restated Credit Agreement may make it difficult to obtain additional capital on terms that are favorable to us, and the Lenders may not agree to lend us additional funds. There is no assurance we will obtain the capital we require. As a result, there can be no assurance that we will be able to fund our future operations or growth strategies. In addition, future equity or debt financings, including under the Amended and Restated Credit Agreement, may require us to also issue warrants or other equity securities that are likely to be dilutive to our existing stockholders. Newly issued securities may include preferences or superior voting rights or, as described above, may be combined with the issuance of warrants or other derivative securities, which each may have additional dilutive effects. Furthermore, we may incur substantial costs in pursuing future capital and financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition. If we cannot raise additional funds on favorable terms or at all, we may not be able to carry out all or parts of our long-term growth strategy, maintain our growth and competitiveness or continue in business.

We are required to make certain payments to InnoHold under the Tax Receivable Agreement, which payments may have a material adverse effect on our liquidity and capital resources. We are currently unable to anticipate the amount of these payments due to the unpredictable nature of several factors, including when we will have taxable income, the timing of exchanges, the market price of shares of Class A Stock at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of income.

Amended and Restated Credit Agreement with Coliseum

For additional information regarding our credit agreement with Coliseum, refer to Note 8 — *Long-Term Debt, Related Party* of our condensed consolidated financial statements.

Cash Flows for the Three Months Ended March 31, 2019 and 2018

The following summarizes our cash flows for the three months ended March 31, 2019 and 2018 as reported in our condensed consolidated statements of cash flows (in thousands):

	Three Months Ended March 31,	
	2019	**2018**
Net cash used in operating activities	$ (8,290)	$ (15,575)
Net cash used in investing activities	(996)	(2,713)
Net cash provided by financing activities	9,236	41,538
Net increase (decrease) in cash	(50)	23,250
Cash, beginning of the period	12,232	3,593
Cash, end of the period	$ 12,182	$ 26,843

Three months ended March 31, 2019 compared to the three months ended March 31, 2018

Cash used in operating activities was $8.3 million for the three months ended March 31, 2019, a decrease of $7.3 million from cash used in operating activities of $15.6 million during the three months ended March 31, 2018. This decrease in cash used in operations was primarily due to decreased operating costs, as evidenced by an increase of $8.4 million in operating income, and a decrease of $10.8 million of cash used to purchase inventories. In 2018 we were increasing inventory due to an expanded product line, growing demand for our product and the stocking of new models at third-party distribution centers for "white glove" delivery service. These increases in cash were partially offset by a $9.4 million decrease in cash provided as our accounts receivable balance increased due to the increase in wholesale revenue.

Cash used in investing activities was $1.0 million for the three months ended March 31, 2019, a decrease of $1.7 million from cash used in investing activities of $2.7 million during the three months ended March 31, 2018. This decrease in cash used in investing activities was primarily due to decreased investment in property and equipment.

Cash provided by financing activities was $9.2 million in the three months ended March 31, 2019, a decrease of $32.3 million from cash provided by financing of $41.5 million during the three months ended March 31, 2018. The decrease was primarily due to $49.9 million in funds provided to the Company as a result of the Business Combination in February 2018 partially offset by the $10.0 million in funds received in February 2019 pursuant to the Amended and Restated Credit Agreement.

Critical Accounting Policies

For a description of our critical accounting policies, refer to Note 2 — *Summary of Significant Accounting Policies* of our condensed consolidated financial statements.

Contractual Obligations

There were no significant changes to our contractual obligations as of March 31, 2019 from those disclosed in our Annual Report on Form 10-K filed on March 14, 2019.

Seasonality and Cyclicality

We believe that sales of our products are typically subject to seasonality corresponding to different periods of the consumer spending cycle, holidays and other seasonal factors. Our sales may also vary with the performance of the broader economy consistent with the market.

Available Information

Our website address is www.purple.com. We make available free of charge on the Investor Relations portion of our website, investors.purple.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

We also use the Investor Relations portion of our website, investors.purple.com, as a channel of distribution of additional Company information that may be deemed material. Accordingly, investors should monitor this channel, in addition to following our press releases, Securities and Exchange Commission filings and public conference calls and webcasts. The contents of our website shall not be deemed to be incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Prior to the completion of the Business Combination, Purple LLC was a private company with accounting personnel and other supervisory resources sufficient for its reporting requirements as a private company. Upon the Closing, the sole business conducted by the Company is the business conducted by Purple LLC. As a result of the Business Combination, the internal control over financial reporting utilized by Purple LLC prior to the Business Combination became the internal control over financial reporting of the Company. As an emerging growth company, we are exempt from the auditor attestation requirements with respect to internal control over financial reporting under Section 404(b) of the Sarbanes Oxley Act of 2002.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and interim Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Based on that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were not effective as of March 31, 2019 as a result of material weaknesses in our internal control over financial reporting disclosed below and as previously disclosed in our Current Report on Form 10-K filed March 14, 2019.

Previously Reported Material Weakness

In connection with the preparation of our annual financial statements for prior fiscal years, and continuing into the March 31, 2019 quarterly period, we identified material weaknesses in our internal control over financial reporting. While accounting for complex transactions, including the Incremental Loan transaction during the current quarterly period, material weaknesses have been identified resulting in accounting adjustments. Other material weaknesses identified in prior fiscal periods have also resulted in adjustments in those periods to prepaid inventory and net inventory on the balance sheet, and cost of revenues within the statement of operations. The material weaknesses were primarily caused by the deficient design and operation of internal control processes, including appropriate management review of complex transactions.

As of December 31, 2018, we had not designed and implemented sufficient controls and processes around our account related analyses and reconciliations. As a result, we determined that we did not have adequate procedures and controls, to ensure that accurate financial statements could be prepared timely.

We have begun taking numerous steps and plans to remediate the underlying causes of the material weakness. The measures include the hiring and contracting of additional personnel and other supervisory resources to strengthen internal control over financial reporting, specifically in the areas of technical accounting and our month-end close processes. To date, certain personnel have been added in each of these specific areas and additional training of existing resources has taken place. In addition, we have also engaged third-party consultants to assist the company in enhancing risk assessment and monitoring controls to ensure that control activities are appropriately designed, implemented and operating effectively. We believe that the combination of these remediation activities will enable us to broaden the scope and quality of our controls relating to the oversight and review of our financial statements. However, these remediation efforts are still in process and have not yet been completed. A material weakness in internal control over financial reporting is a matter that may require an extended period to correct. We will continue to evaluate, design and implement policies and procedures to address these material weaknesses, including the enhancement of accounting personnel to adequately execute our accounting processes and address our internal control over financial reporting as a public company.

If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our financial statements may contain material misstatements and we could be required to restate our financial result which could lead to substantial additional costs for accounting and legal fees.

(b) Changes in Internal Controls Over Financial Reporting.

Other than the changes described above, there have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is from time to time involved in various other claims, legal proceedings and complaints arising in the ordinary course of business. Please refer to Note 12 — *Commitments and Contingencies* to the condensed consolidated financial statements contained in this report and to Part I, Item 3 of our Annual Report on Form 10-K filed on March 14, 2019 for certain information regarding our legal proceedings. No additional legal proceedings have occurred following the date of our financial statements.

ITEM 1A. RISK FACTORS

Except as described below, there have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2019.

We may need additional capital to execute our business plan and fund operations and may not be able to obtain such capital on acceptable terms or at all.

In connection with the development and expansion of our business, we expect to incur significant capital and operational expenses. We believe that we can increase our sales and net income by implementing a growth strategy that focuses on (i) increasing our manufacturing capacity, (ii) increasing our direct-to-consumer sales; (iii) expanding our wholesale distribution channel, particularly for our mattress products; (iv) expanding our global sales; and (v) engaging global partners to improve distribution efficiencies and cost savings.

We believe that our cash flow from operations, together with other available sources of liquidity, including the additional cash we received on February 26, 2019 and additional cash we may have access to under the Amended and Restated Credit Agreement, will be sufficient to fund anticipated operating expenses, growth initiatives and our other anticipated liquidity needs for the next twelve months, based on our current operating conditions. Our ability to obtain other capital resources and sources of liquidity may not be sufficient to support future growth strategies. If we are unable to satisfy our liquidity and capital resource requirements, we may have to scale back, postpone or discontinue our growth strategies, which could result in slower growth or no growth, and we may run the risk of losing key suppliers, we may not be able to timely satisfy customer orders, and we may not be able to retain all of our employees. In addition, we may be forced to restructure our obligations to creditors, pursue work-out options or other protective measures.

Our ability to obtain additional capital on acceptable terms or at all is subject to a variety of uncertainties, including approval from the Lenders. Adequate financing may not be available or, if available, may only be available on unfavorable terms. The restrictive covenants in the Amended and Restated Credit Agreement may make it difficult to obtain additional capital on terms that are favorable to us, and the Lenders may not agree to lend us additional funds. There is no assurance we will obtain the capital we require. As a result, there can be no assurance that we will be able to fund our future operations or growth strategies. In addition, future equity or debt financings, including under the Amended and Restated Credit Agreement, may require us to also issue warrants or other equity securities that are likely to be dilutive to our existing stockholders. Newly issued securities may include preferences or superior voting rights or, as described above, may be combined with the issuance of warrants or other derivative securities, which each may have additional dilutive effects. Furthermore, we may incur substantial costs in pursuing future capital and financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition. If we cannot raise additional funds on favorable terms or at all, we may not be able to carry out all or parts of our long-term growth strategy, maintain our growth and competitiveness or continue in business.

We depend on a few key employees, and if we lose the services of certain of our principal executive officers, we may not be able to run our business effectively.

Our future success depends in part on our ability to attract and retain key executive, merchandising, marketing, sales, finance, operations and engineering personnel. If any of our executive officers cease to be employed by us, we would have to hire additional qualified personnel. Our ability to successfully attract and hire other experienced and qualified executive officers cannot be assured and may be difficult because we face competition for these professionals from our competitors, our suppliers and other companies operating in our industry. Since the Business Combination, we have hired a new Chief Executive Officer, Chief Operating Officer, and an interim Chief Financial Officer. The Company has also experienced the departure of the Chief Marketing Officer, Chief Branding and the Chief Financial Officer. These departures and any delay in replacing these executives could significantly disrupt the Company's ability to grow and pursue its strategic plans. The Company is currently in the process of searching for qualified replacements. While we believe our new executive officers have benefitted and will continue to benefit the Company, finding qualified replacements is time-consuming, takes Company resources, and can disrupt the Company's growth and achievement of strategic plans.

Further, the involvement of Tony and Terry Pearce has been crucial to the success of our company because of their extensive experience with and technical knowledge of our products. Pursuant to the employment agreements that have been entered into with them in connection with the consummation of the Business Combination, they are not required to work a particular number of hours for us or to be based at any particular location. The loss or reduction of their services could adversely affect our operations and our ability to achieve our business objectives.

We are subject to warranty claims for our products, which could result in unexpected expense.

Our products carry warranties for defects in quality and workmanship. Historically, the amount for return of products, discounts provided to affected customers and cost for returns or warrant claims has been immaterial. However, we may experience significant expense as the result of future product quality issues, product recalls or product liability claims which may have a material adverse effect on our business. The actual costs of servicing future warranty claims may exceed our expectations and have a material adverse effect on our results of operations, financial condition and cash flows. Further, we may modify our warranties from time to time, and limitations to warranties intended to reduce the number of claims may result in customer dissatisfaction. The occurrence of any of the foregoing could have a material adverse effect on our business.

Our business could suffer if we are unsuccessful in making, integrating, and maintaining commercial agreements, strategic alliances, and other business relationships.

To successfully operate our business, we rely on commercial agreements and strategic relationships with suppliers, service providers and certain wholesale partners and customers. These arrangements can be complex and require substantial infrastructure capacity, personnel, and other resource commitments. Further, our business partners may have disruptions in their businesses or choose to no longer do business with us. We may not be able to implement, maintain, or develop the components of these commercial relationships. Moreover, we may not be able to enter into additional commercial relationships and strategic alliances on favorable terms or at all.

As our agreements terminate or relationships unwind, we may be unable to renew or replace these agreements on comparable terms, or at all. We may in the future enter into amendments on less favorable terms or encounter parties that have difficulty meeting their contractual obligations to us, which could adversely affect our operating results.

Our present and future services agreements, other commercial agreements, and strategic relationships create additional risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- impairment of other relationships;
- variability in revenue and income from entering into, amending, or terminating such agreements or relationships; and
- difficulty integrating under the commercial agreements.

During 2018 we entered into arrangements with several new wholesale partners through which we sell certain of our products in their retail stores. We anticipate increasing the number of these partnerships. Also, we have agreed to exclusivity of certain products with some of our wholesale partners. Our relationships with our wholesale partners may not be profitable to us or may impose additional costs that we would not otherwise incur under our prior DTC-only operations. Our wholesale partners may experience their own business disruptions, including for example bankruptcy, that could affect their ability to continue to do business with the Company. Our wholesale partners may engage in conduct that could breach the exclusivity rights of other wholesale partners. Further, maintaining these relationships may require the commitment of significant amounts of time, financial resources and management attention, and may result in prohibitions on certain sales channels through exclusivity requirements, which may adversely affect other aspects of our business.

We operate in the highly competitive mattress, pillow and cushion industries, and if we are unable to compete successfully, we may lose customers and our sales may decline.

The mattress, pillow and cushion markets are highly competitive and fragmented. We face competition from many manufacturers (including competitors that primarily manufacture and import from China), traditional brick-and-mortar retailers and online retailers, including direct-to-consumer competitors. Participants in the mattress, pillow and cushion industries compete primarily on price, quality, brand name recognition, product availability and product performance and compete across a range of distribution channels. The highly competitive nature of the mattress, pillow and cushion industries means we are continually subject to the risk of loss of market share, loss of significant customers, reductions in margins, and the inability to acquire new customers.

A number of our significant competitors offer products that compete directly with our products. Any such competition by established manufacturers and retailers or new entrants into the market could have a material adverse effect on our business, financial condition and operating results. Mattress, pillow and cushion manufacturers and retailers are seeking to increase their channels of distribution and are looking for new ways to reach the consumer. Like us, many newer competitors in the mattress industry have begun to offer “bed-in-a-box” or similar products directly to consumers through the Internet and other distribution channels. Some of our established competitors have begun to offer “bed-in-a-box” products as well. Companies providing for the distribution of mattresses online or through retail stores, such as Amazon and Walmart, also have begun to offer competing products in their respective channels. In addition, retailers outside the U.S. have integrated vertically in the furniture and bedding industries, and it is possible that retailers may acquire other retailers or may seek to vertically integrate in the U.S. by acquiring a mattress manufacturer.

Many of our current and potential competitors may have substantially greater financial support, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition, mature distribution methods, and more established relationships in the industry than we do and sell products through broader and more established distribution channels. These competitors, or new entrants into the market, may compete aggressively and gain market share with existing or new products, and may pursue or expand their presence in the mattress, pillow and cushion industries. We cannot be sure we will have the resources or expertise to compete successfully in the future. We have limited ability to anticipate the timing and scale of new product introductions, advertising campaigns or new pricing strategies by our competitors, which could inhibit our ability to retain or increase market share, or to maintain our product margins. Our current and potential competitors may secure better terms from vendors, adopt more aggressive pricing, and devote more resources to technology, infrastructure, fulfillment, and marketing. Also, due to the large number of competitors and their wide range of product offerings, we may not be able to continue to differentiate our products through value, styling or functionality from those of our competitors. Our products are also typically heavier than others and some markets we wish to expand into will not support delivery of our heavy products through parcel services or other affordable home delivery services, limiting our ability to serve the market.

One competitor, which has been a licensee of EdiZONE for over fifteen years, uses substantially similar technology to the Company's Hyper-Elastic Polymer® material in its own mattress, topper and pillow products sold through branded retail stores domestically and in Canada. This competitor recently has been seen to be growing its sales and now distributes its products through wholesale partners with retail locations where the Company's mattresses are sold. This competitor may continue to increase its sales and expand into additional distribution channels which could erode the Company's sales in those retail locations and channels. The continuing growth of this single competitor could adversely affect our business.

A consolidation of the domestic market for foam may increase the prices for foam in the geographical market in which we purchase foam which could adversely affect our business.

In addition, the barriers to entry into the retail bedding industry are relatively low. New or existing bedding retailers could enter our markets and increase the competition we face. Competition in existing and new markets may also prevent or delay our ability to gain relative market share. Any of the developments described above could have a material adverse effect on our planned growth and future results of operations.

Moreover, the U.S. Department of Commerce has opened an antidumping investigation into whether mattresses imported from China are being sold into the United States at below fair market value. The investigation results from a petition filed by U.S. mattress manufacturers claiming that in recent years Chinese exporters have unfairly made large gains in market share by undercutting prices. The United States International Trade Commission has found that there is a reasonable indication that the U.S. mattress industry is being materially injured by reason of mattresses being imported from China and sold for less than fair value. The U.S. Department of Commerce will continue with its antidumping duty investigation concerning imports of this product from China. If the antidumping investigation does not result in the prevention of dumping of underpriced Chinese mattresses into the U.S. market, we could continue to experience a negative impact on our planned growth and the future results of operations.

We will face different market dynamics and competition as we develop new products to expand our presence in our target markets. In some markets, our future competitors may have greater brand recognition and broader distribution than we currently enjoy. We may not be as successful as our competitors in generating revenues in those markets due to the lack of recognition of our brands, lack of customer acceptance, lack of product quality history and other factors. As a result, any new expansion efforts could be costlier and less profitable than our efforts in our existing markets. If we are not as successful as our competitors are in our target markets, our sales could decline, our margins could be impacted negatively and we could lose market share, any of which could materially harm our business.

If we are unable to effectively compete with other manufacturers and retailers of mattresses, pillows and cushions, our sales, profitability, cash flows and financial condition may be adversely impacted.

Regulatory requirements, including, but not limited to, trade, customs, environmental, health and safety requirements, may require costly expenditures and expose us to liability.

Our products and our marketing and advertising programs are subject to regulation in the U.S. by various federal, state and local regulatory authorities, including the Federal Trade Commission and U.S. Customs and Border Protection. In addition, our operations are subject to federal, state and local consumer protection regulations and other laws relating specifically to the bedding industry. These rules and regulations may change from time to time or may conflict. There may be continuing costs of regulatory compliance including continuous testing, additional quality control processes and appropriate auditing of design and process compliance. For example, the CPSC and other jurisdictions have adopted rules relating to fire retardancy standards for the mattress industry. Some states and the U.S. Congress continue to consider fire retardancy regulations that may be different from or more stringent than the current standard. Additionally, California, Rhode Island and Connecticut have all enacted laws requiring the recycling of mattresses discarded in their states. State and local bedding industry regulations vary among the states in which we operate but generally impose requirements as to the proper labeling of bedding merchandise, restrictions regarding the identification of merchandise as “new” or otherwise, controls as to hygiene and other aspects of product handling, disposal, sales, resales and penalties for violations. We or our suppliers may be required to incur significant expense to the extent that these regulations change and require new and different compliance measures. For example, new legislation aimed at improving the fire retardancy of mattresses, regulating the handling of mattresses in connection with preventing or controlling the spread of bed bugs could be passed, or requiring the recycling of discarded mattresses, could result in product recalls or in a significant increase in the cost of operating our business. In addition, failure to comply with these various regulations may result in penalties, the inability to conduct business as previously conducted or at all, or adverse publicity, among other things. Adoption of multi-layered regulatory regimes, particularly if they conflict with each other, could increase our costs, alter our manufacturing processes and impair the performance of our products which may have an adverse effect on our business. We are also subject to various health and environmental provisions, such as California Proposition 65 (the Safe Drinking Water and Toxic Enforcement Act of 1986) and 16 CFR Part 1633 (Standard for the Flammability (Open Flame) of Mattress Sets).

Our marketing and advertising practices could also become the subject of proceedings before regulatory authorities or the subject of civil claims by competitors and other parties, which could result in civil litigation or regulatory penalties and require us to alter or end these practices or adopt new practices that are not as effective or are more expensive. Despite our efforts to comply with all marketing laws and regulations, we may not be in complete compliance at all times. Some competitors engage in the practice of regularly sending notices of non-compliance with certain of these regulations, and demand proof of compliance, and while we may believe we comply this practice consumes our resources, could lead to litigation and may have a negative impact on our financial condition.

In addition, we are subject to federal, state and local laws and regulations relating to pollution, environmental protection and occupational health and safety. We may not be in complete compliance with all such requirements at all times, and we have been required in the past to make changes to our facilities in order to comply with these requirements. We have made and will continue to make capital and other expenditures to comply with environmental and health and safety requirements. If a release of harmful or hazardous substances occurs on or from our properties or any associated offsite disposal location, or if contamination from prior activities is discovered at any of our properties, we may be held liable and the amount of such liability could be material. As a manufacturer of mattresses, pillows, cushions and related products, we use and dispose of a number of substances, such as glue, oil, solvents and other petroleum products, as well as certain foam ingredients, that may subject us to regulation under numerous foreign, federal and state laws and regulations governing the environment. Among other laws and regulations, we are subject in the U.S. to the Federal Water Pollution Control Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Clean Air Act and related state and local statutes and regulations.

We are also subject to federal laws and regulations relating to international shipments, customs, and import controls. We may not be in complete compliance with all such requirements at all times, and if we are not in compliance with such requirements may be subject to penalties or fines, which could have an adverse impact on our financial condition and results of operations.

Our operations could also be impacted by a number of pending legislative and regulatory proposals to address greenhouse gas emissions in the U.S. and other countries. Certain countries have adopted the Kyoto Protocol. New greenhouse gas reduction targets have been established under the Kyoto Protocol, as amended. This and other initiatives under consideration could affect our operations. These actions could increase costs associated with our manufacturing operations, including costs for raw materials, pollution control equipment and transportation. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our future consolidated financial condition, results of operations, or cash flows.

We are also subject to regulations and laws specifically governing the Internet, e-commerce, electronic devices, and other services. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, electronic device certification, electronic waste, energy consumption, electronic contracts and other communications, competition, consumer protection, trade and protectionist measures, web services, the provision of online payment services, information reporting requirements, unencumbered Internet access to our services or access to our facilities, the design and operation of websites and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, libel, and personal privacy apply to the Internet, e-commerce, digital content, and web services. Unfavorable regulations and laws could diminish the demand for, or availability of, our products and services and increase our cost of doing business.

Claims have been made against us for alleged violations of the Americans with Disability Act ("ADA") related to accessibility to our website by the blind. The law is unsettled as to whether the ADA covers websites and what standards are applicable, but courts in certain jurisdictions have recognized these types of ADA claims. While we comply with industry standards for making our website accessible to the blind, and regularly test our site for this purpose, we may be subject to such claims and, as a result, we may be required to expend resources in defense of these claims that could increase our cost of doing business.

Provisions in our Second Amended and Restated Certificate of Incorporation may limit our stockholders' ability to obtain a favorable judicial forum.

Our Second Amended and Restated Certificate of Incorporation provides that the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents. It also provides that, unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a claim for or based on a breach of duty or obligation owed by any current or former director, officer or employee of ours to us or to our stockholders, including any claim alleging the aiding and abetting of such a breach; any action asserting a claim against us or any current or former director, officer or employee of ours arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws; or any action asserting a claim related to or involving us that is governed by the internal affairs doctrine. This exclusive forum provision would not apply to suits brought to enforce any liability or duty created by the Securities Act or the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. To the extent that any such claims may be based upon federal law claims, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or employees, which may discourage such lawsuits against us and our directors, officers or employees. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Future sales of our Class A Common Stock by our existing stockholders may cause our stock price to fall.

The market price of our Class A Common Stock could decline as a result of sales by our existing stockholders in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate. In addition, subsequent public issuances of our stock would cause the interest of each current Purple Inc. stockholder to be diluted.

In connection with the Closing of the Business Combination, the founders, Terry and Tony Pearce, through InnoHold, LLC control all of the shares of Class B Common Stock of the Company which constitutes over 80% of all ownership interests in the Company. The lock-up period following the Business Combination has expired, and the founders are now able to exchange their Class B shares for Class A shares and sell them. Also, at this time, CCP, Blackwell and CDF own a majority of the shares of Class A Common Stock of the Company. Any of these shareholders may choose to sell shares of Common Stock, and the founders particularly may decide to liquidate a substantial portion of their interest in view of their age and for other personal reasons. The amount of shares they are able to sell, if sold in large blocks or relatively close to each other in time, could result in downward pressure on the price of our Class A Stock.

In connection with the Closing of the Business Combination, some of our employees were granted incentive units as members of InnoHold, which together with Terry and Tony Pearce holds all of the outstanding shares of Class B Common Stock of the Company. On February 8, 2019, at the request of the Company's HR & Compensation Committee of the Board of Directors, InnoHold initiated a tender offer to each of its Class B unit holders to distribute to each a pro rata number of the paired Class B Units of Purple LLC and Class B Stock of Purple Inc. held by InnoHold in exchange for the cancellation of their ownership interests in InnoHold. All InnoHold Class B unit holders accepted the offer, and each transaction is expected to close in the second quarter of 2019. The closing of the transaction will be a taxable event for the recipients of paired Class B Units of Purple LLC and Class B Stock of Purple Inc., and such recipients, or the Company on their behalf, may need to exchange, subject to the exchange agreement among the Company, Purple LLC and InnoHold (the "Exchange Agreement") and certain other conditions and restrictions, all or some of their securities into shares of Class A Common Stock and then liquidate those shares of Class A Common Stock in order to pay taxes assessed. Some of the participants receiving these equity incentives, including those who no longer work for the Company, may want to liquidate some or all of the equity distributed to them by InnoHold. Sales of such shares of Class A Common Stock may occur relatively close to each other in time, including during short windows of time when such employees are able to trade in the Company's securities without violating the Company's insider trading policy, and such consolidated trading in such short windows of time could result in downward pressure on the price of our Class A Common Stock.

This risk of downward pressure on the price of our Class A Common Stock is particularly acute at this time inasmuch as the average trading volume of our Class A Common Stock is very low, making it more difficult to sell a substantial number of shares at any point in time. This risk related to the lack of an active trading market also may make it more difficult for any shareholder to sell their shares, and until an active trading market develops and becomes sustainable, it is likely to make our stock less desirable to investors. InnoHold, CCP, Blackwell and CDF, who hold most of the Company's Common Stock, may not sell shares, or sell enough shares, to increase the float to a point where a sustainable market develops.

A market for our securities may not develop, which would adversely affect the liquidity and price of our securities.

The price of our securities may vary significantly due to our operating performance and general market or economic conditions. Furthermore, an active trading market for our securities may never develop or, if developed, it may not be sustained for many reasons, including that InnoHold, CCP, Blackwell and CDF, who hold most of the Company's Common Stock, may not sell shares, or sell enough shares, to increase the float to a point where a sustainable market develops. You may be unable to sell your securities unless a market can be established and sustained.

Purple LLC's level of indebtedness could adversely affect Purple LLC's and the Company's ability to meet its obligations under its indebtedness, react to changes in the economy or its industry and to raise additional capital to fund operations.

As of March 31, 2019, Purple LLC had total debt of $37.3 million outstanding, comprised of $37.2 million outstanding under the Amended and Restated Credit Agreement and $0.1 million in capital lease obligations. Our level of indebtedness could have important consequences to stockholders. For example, it could:

- make it more difficult to satisfy our obligations with respect to our indebtedness, resulting in possible defaults on, and acceleration of, such indebtedness;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flows from operations to payments on indebtedness, thereby reducing the availability of such cash flows to fund working capital, capital expenditures and other general corporate requirements or to carry out other aspects of its business;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements or to carry out other aspects of its business;
- limit our ability to make material acquisitions or take advantage of business opportunities that may arise; and
- place us at a potential competitive disadvantage compared to its competitors that have less debt.

We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility.

We could issue additional preferred stock without stockholder approval with the effect of diluting then current stockholder interests, impairing their voting rights and potentially discouraging a takeover that stockholders may consider favorable.

Pursuant to our Amended and Restated Certificate of Incorporation, the board of directors of the Company has the ability to authorize the issuance of up to five million shares of preferred stock at any time and from time to time, with such terms and preferences as the board determines and without any stockholder approval other than as may be required by NASDAQ rules. The issuance of such shares of preferred stock could dilute the interest of, or impair the voting power of, our common stockholders. The issuance of such preferred stock could also be used as a method of discouraging, delaying or preventing a change of control.

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

In connection with the closing of the Amended and Restated Credit Agreement, the Company issued to CCP and Blackwell, as the Lenders funding the Incremental Loan, Incremental Loan Warrants to purchase 2.6 million shares of the Company's Class A Stock. Each Incremental Loan Warrant entitles the registered holder to purchase one share of the Company's Class A Stock at a price of $5.74 per share, subject to adjustment pursuant to the terms of the warrant agreement. The Incremental Loan Warrants have a five-year term and will expire on February 26, 2024, or earlier upon redemption or liquidation. The Incremental Loan Warrants were issued pursuant to the exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

The Incremental Loan Warrants may be exercised by providing an executed notice of exercise form accompanied by full payment of the exercise price or on a cashless basis, if applicable. The holders do not have the rights or privileges of holders of Class A Stock or any voting rights until they exercise their Incremental Loan Warrants and receive shares of Class A Stock. After the issuance of shares of Class A Stock upon exercise of the Incremental Loan Warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders generally. Upon 20 days' prior written notice, the Company may, in its sole discretion, decrease the exercise price of the Incremental Loan Warrants at any time prior to the expiration of the Incremental Loan Warrants for a period of not less than 20 business days. In no event shall the exercise price be lowered by the Company to be less than $1.00.

Once the Incremental Loan Warrants become exercisable, the Company may call the Incremental Loan Warrants for redemption in whole and not in part at a price of $0.01 per share of Class A Stock issuable upon exercise of the Incremental Loan Warrants upon not less than 30 days' prior written notice of redemption (the "30-day redemption period") to each warrantholder, provided that this redemption right is only available if the reported last sale price of the Class A Stock equals or exceeds $24.00 per share for any 20 trading days within a 30-trading day period ending three business days before the Company sends the notice of redemption to the warrantholders. If the Company calls the Incremental Loan Warrants for redemption, it will have the option to require any holder that wishes to exercise his, her or its Incremental Loan Warrant to do so on a "cashless basis" by which the holders of Incremental Loan Warrants would pay the exercise price by surrendering their Incremental Loan Warrants for that number of shares of Class A Stock equal to the quotient obtained by dividing (x) the product of the number of shares of Class A Stock underlying the Incremental Loan Warrants, multiplied by the difference between the exercise price of the Incremental Loan Warrants and the "fair market value" (defined below), by (y) the fair market value. The "fair market value" means the average reported last sale price of the Class A Stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of Incremental Loan Warrants.

The warrantholders may elect to be subject to a requirement that such warrantholder will not have the right to exercise its Incremental Loan Warrants, to the extent that after giving effect to such exercise, such person (together with such person's affiliates) would beneficially own in excess of 9.8% (as specified by the holder) of the shares of Class A Stock outstanding immediately after giving effect to such exercise.

If the number of outstanding shares of Class A Stock is increased by a stock dividend payable in shares of Class A Stock, or by a split-up of shares of Class A Stock or other similar event, then, on the effective date of such stock dividend, split-up or similar event, the number of shares of Class A Stock issuable on exercise of each Incremental Loan Warrant will be increased in proportion to such increase in the outstanding shares of Class A Stock. A rights offering to holders of Class A Stock entitling holders to purchase shares of Class A Stock at a price less than the fair market value will be deemed a stock dividend of a number of shares of Class A Stock equal to the product of (i) the number of shares of Class A Stock actually sold in such rights offering (or issuable under any other equity securities sold in such rights offering that are convertible into or exercisable for Class A Stock) multiplied by (ii) one (1) minus the quotient of (x) the price per share of Class A Stock paid in such rights offering divided by (y) the fair market value. For these purposes (i) if the rights offering is for securities convertible into or exercisable for Class A Stock, in determining the price payable for Class A Stock, there will be taken into account any consideration received for such rights, as well as any additional amount payable upon exercise or conversion and (ii) "fair market value" means the volume weighted average price of Class A Stock as reported during the ten trading day period ending on the trading day prior to the first date on which the shares of Class A Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive such rights.

In addition, if the Company, at any time while the Incremental Loan Warrants are outstanding and unexpired, pays a dividend or makes a distribution in cash, securities or other assets to the holders of Class A Stock on account of such shares of Class A Stock (or other shares of our capital stock into which the warrants are convertible), other than (a) as described in the paragraph above or (b) certain ordinary cash dividends, then the Incremental Loan Warrant exercise price will be decreased, effective immediately after the effective date of such event, by the amount of cash and/or the fair market value of any securities or other assets paid on each share of Class A Stock in respect of such event.

If the number of outstanding shares of Class A Stock is decreased by a consolidation, combination, reverse stock split or reclassification of shares of Class A Stock or other similar event, then, on the effective date of such consolidation, combination, reverse stock split, reclassification or similar event, the number of shares of Class A Stock issuable on exercise of each warrant will be decreased in proportion to such decrease in outstanding shares of Class A Stock.

Whenever the number of shares of Class A Stock purchasable upon the exercise of the Incremental Loan Warrants is adjusted, as described in the paragraphs above, the Incremental Loan Warrant exercise price will be adjusted by multiplying the Incremental Loan Warrant exercise price immediately prior to such adjustment by a fraction (x) the numerator of which will be the number of shares of Class A Stock purchasable upon the exercise of the Incremental Loan Warrants immediately prior to such adjustment, and (y) the denominator of which will be the number of shares of Class A Stock so purchasable immediately thereafter.

In the event of a "fundamental transaction" the holder will have the right to purchase and receive the same kind and amount of consideration receivable by the stockholders of the Company in such fundamental transaction. The Company will cause the surviving company in a fundamental transaction to assume the obligations of the Company under the Incremental Loan Warrants. In addition, the holder may elect to either (i) have the exercise price of the warrant reduced by the Black-Scholes value of the Incremental Loan Warrants (as set forth in the Incremental Loan Warrants) or (ii) cause the Company or its successor to repurchase all or a portion of the Incremental Loan Warrants at the Black-Scholes value (as set forth in the Incremental Loan Warrants). For purposes of the Incremental Loan Warrants, a "fundamental transaction" includes, subject to certain exceptions, any reclassification or reorganization of the Company, any merger or consolidation of the Company with or into another corporation, any merger or consolidation with (but not into) another corporation in which the stockholders of the Company immediately prior to the merger or consolidation own less than a majority of the outstanding stock of the surviving entity, any sale or conveyance of all or substantially all of the assets or other property of the Company, and any group (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) consummates a tender, exchange or redemption offer after which such group beneficially owns more than 50% of the outstanding shares of Class A Stock of the Company.

Additionally, the exercise price of the warrant will be reduced by the Black-Scholes value of the Incremental Loan Warrants (as set forth in the Incremental Loan Warrants) in the event (a) any person (other than the holders of the Incremental Loan Warrants and their affiliates), together with members of any group (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) of which such person is a part, and together with any affiliate or associate of such person (within the meaning of Rule 12b-2 under the Exchange Act) and any members of any such group of which any such affiliate or associate is a part, becomes the beneficial owner, directly or indirectly, through purchase, merger or other acquisition transaction or series of transactions, securities of the Company entitling such person or group to exercise 25% or more of the total voting power of all voting securities of the Company, (b) Tony Pearce or Terry Pearce individually or together cease beneficially to own at least 50% of the voting securities of the Company, or (c) the Board ceases to be comprised of a majority of independent directors (as defined under NASDAQ rules) for a period of longer than 60 consecutive days.

The issuance of the Incremental Loan Warrants does not affect the rights of our existing security holders, other than with respect to potential dilution as a result of an increase in the number of shares of Class A Stock outstanding if the Lenders exercise the Incremental Loan Warrants.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Number	Description
4.1	Form of Class A Common Stock Purchase Warrant (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on February 27, 2019)
10.1+	Offer Letter between Purple Innovation, LLC and John Legg dated January 12, 2019 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on January 14, 2019)
10.2	First Amendment to Credit Agreement dated January 28, 2019 between and among Purple Innovation, LLC, Coliseum Capital Partners, L.P., Blackwell Partners LLC – Series A and Coliseum Co-Invest Debt Fund, L.P. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on January 31, 2019)
10.3+	Option Grant Agreement dated February 21, 2019 between Purple Innovation, Inc. and John Legg (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on February 27, 2019)
10.4	Amended and Restated Credit Agreement dated February 26, 2019 between and among Purple Innovation, LLC, Coliseum Capital Partners, L.P., Blackwell Partners LLC – Series A, Coliseum Co-Invest Debt Fund, L.P. and Delaware Trust Company (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on February 27, 2019)
10.5	Registration Rights Agreement dated February 26, 2019 between and among Purple Innovation, Inc., Coliseum Capital Partners, L.P., Blackwell Partners LLC – Series A and Coliseum Co-Invest Debt Fund, L.P. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on February 27, 2019)
10.6	Amended and Restated Parent Guaranty dated February 26, 2019 by Purple Innovation, Inc. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on February 27, 2019)
10.7	IP Security Agreement dated February 26, 2019 by and among Purple Innovation, Inc., Purple Innovation, LLC, Coliseum Capital Partners, L.P., Blackwell Partners LLC – Series A, Coliseum Co-Invest Debt Fund, L.P. and Delaware Trust Company (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on February 27, 2019)
10.8	Guarantor Security Agreement dated February 26, 2019 by Purple Innovation, Inc. (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K (File No. 001-37523) filed with the SEC on February 27, 2019)
10.9*#	Statement of Work agreement dated March 1, 2019 by and between Purple Innovation, Inc. and FTI Consulting, Inc.
10.10*#	Master Retailer Agreement dated September 18, 2018 by and between Purple Innovation LLC and Mattress Firm, Inc.
31.1*	Certification by Joseph B. Megibow, Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by Craig L. Phillips, Interim Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification by Joseph B. Megibow, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification by Craig L. Phillips, Interim Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
\+ Indicates management contract or compensatory plan.
\# Indicates confidential portions of the exhibit have been omitted.

SIGNATURE

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.

PURPLE INNOVATION, INC.

Date: May 7, 2019

By: /s/ Joseph B. Megibow
Joseph B. Megibow
Chief Executive Officer
(Principal Executive Officer)

Date: May 7, 2019

By: /s/ Craig L. Phillips
Craig L. Phillips
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

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Section 2: EX-10.9 (STATEMENT OF WORK AGREEMENT DATED MARCH 1, 2019 BY AND BETWEEN PURPLE INNOVATION, INC. AND FTI CONSULTING, INC)

Exhibit 10.9

Certain identified information in this exhibit has been excluded because the information is (i) not material and (ii) would be competitively harmful if publicly disclosed. Such excluded information is designated by [**].

SCHEDULE B

Statement of Work Number 2
To the Engagement Contract
Dated March 1, 2019
By and between Purple Innovation, Inc. and FTI Consulting, Inc.

This Statement of Work Number 2 ("SOW 2") to the Engagement Contract dated March 1, 2019 ("Agreement"), is made and entered into as of March 12, 2019 ("Effective Date"), by and between Purple Innovation, Inc. on its own behalf and on behalf of its subsidiaries and affiliates worldwide (hereinafter referred to as "Client") and FTI Consulting, Inc. (hereinafter referred to as "FTI").

Client and FTI, for and in consideration of the mutual covenants set forth in the Agreement and in this SOW, and other good and valuable consideration, the sufficiency of which is acknowledged, the parties agree as follows:

1. FTI shall supply the services at the fees and in the term set forth in this SOW.
2. In the event of any conflict between the terms of this SOW and the Agreement, the Agreement shall govern.

The FTI team, working in conjunction with the Client staff and at the direction of the Client management team, will provide the following services for Temporary Officers, Hourly Temporary Employees and Services.

Scope of Services

The scope of this SOW includes the following activities and deliverables, to the extent requested by the Client management:

- FTI will provide Craig Phillips to serves as the Company's interim CFO, until a permanent CFO is hired by the Company, reporting to the Company's Board of Directors, subject to FTI's internal approval from its risk management team, confirmation that the Company has a Directors and Officers Liability insurance policy in accordance with Section 6.3 of the FTI Standard Terms and Conditions attached hereto, and a copy of the signed Board of Directors' resolution (or similar document) as official confirmation of the appointment.

- Mr. Phillips will report to the CEO ("Joe Megibow"), work with senior management of the Company, the Board of Directors and other Company professionals and will, along with any additional Hourly Temporary Staff (as defined below), perform the ordinary and typical duties of a CFO and officer of a public company, and the staff of a CFO, as the CEO and the CFO may from time to time determine, and shall at all times report to and be subject to supervision by the CEO.

In addition to providing the Temporary Officer, FTI may also provide the Client with additional staff (the "Hourly Temporary Staff" and, together with the Temporary Officer, the "FTI Professionals"), subject to the terms and conditions of this Agreement. The Hourly Temporary Staff may be assisted by or replaced by other FTI professionals reasonably satisfactory to the Board and/or Committee, as required, who shall also become Hourly Temporary Staff for purposes hereof. FTI will keep the CEO reasonably informed as to FTI's staffing and will not add additional Hourly Temporary Staff to the assignment without first consulting with the Client.

The Services do not include (i) audit, legal, tax, environmental, accounting, actuarial, employee benefits, insurance advice or similar specialist and other professional services which are typically outsourced and which shall be obtained directly where required by the Client at Client's expense; or (ii) investment banking, including valuation or securities analysis, including advising any party or representation of the Client on the purchase, sale or exchange of securities or representation of the Client in securities transactions. FTI is not a registered broker-dealer in any jurisdiction and will not offer advice or its opinion or any testimony on valuation or exchanges of securities or on any matter for which FTI is not appropriately licensed or accredited. An affiliate of FTI is a broker-dealer but is not being engaged by the Client to provide any investment banking or broker-dealer services. The Client agrees to supply office space, and office and support services to FTI as reasonably requested by FTI in connection with the performance of its duties hereunder.

Compensation to FTI

Monthly Fee

For services rendered in connection with this assignment, the Client agrees to pay FTI a monthly, non-refundable advisory fee for the services of Craig Phillips. The monthly fee shall be calculated based on the discounted standard hourly rates, capped at $90,000 per month ("Monthly Fee Cap"). In any month where billings for our staff would exceed [**] (including for the Interim CFO and any additional staff), the Monthly Fee Cap for the Interim CFO will be reduced to [**]. In any month where billings for our staff would exceed [**] (including for the Interim CFO and any additional staff), the Monthly Fee Cap for the Interim CFO will be reduced to [**].To the extent that the average weekly hours for any FTI professional exceeds 50 hours per week during any calendar month, FTI will be entitled to additional compensation at Discounted Standard Hourly Rates and/or FTI and the Client will discuss the addition of additional resources to the Engagement.

Hourly Temporary Staff

For services rendered by additional FTI staff, they will be billed at their current hourly rate. Fees are payable in advance and may be billed not less frequently than monthly.

FTI Standard Hourly Rates

The monthly fee provided for the Interim CFO is a discounted fee that is less than the fees that the Client would incur if FTI were to bill it on an hourly basis. The normal hourly billing rates and the Monthly Fee Cap for any additional professionals with the skills and experience needed for engagements of this kind, which are subject to periodic revision, are as follows:

United States

	Standard Hourly Rate (USD)	Discounted Hourly Rate (USD)	Monthly Fee Cap (USD)
Senior Managing Director	[**]	[**]	[**]
Managing Director	[**]	[**]	[**]
Senior Director	[**]	[**]	[**]
Director	[**]	[**]	[**]
Senior Consultant	[**]	[**]	[**]
Consultant	[**]	[**]	[**]

In addition to the fees outlined above, FTI will bill for reasonable allocated and direct expenses which are likely to be incurred on your behalf during this Engagement. Direct expenses include reasonable and customary out-of-pocket expenses which are billed directly to the engagement such as internet access, telephone, overnight mail, messenger, travel, meals, accommodations and other expenses specifically related to this engagement. Further, if FTI and/or any of its employees are required to testify or provide evidence at or in connection with any judicial or administrative proceeding relating to this matter, FTI will be compensated by you at its regular hourly rates and reimbursed for reasonable allocated and direct expenses (including counsel fees) with respect thereto.

We will send the Company periodic invoices (not less frequently than monthly) for services rendered and charges and disbursements incurred on the basis discussed above, and in certain circumstances, an invoice may be for estimated fees, charges and disbursements through a date certain. Each invoice constitutes a request for an interim payment against the fee to be determined at the conclusion of our Services. Invoices are due upon receipt and the provision for discounting any of the above services is subject to prompt payment.

The Company agrees to promptly notify FTI if the Company or any of its subsidiaries or affiliates extends (or solicits the possible interest in receiving) an offer of employment to a principal or employee of FTI involved in this Engagement and agrees that FTI has earned and is entitled to a cash fee, upon hiring, equal to 150% of the aggregate first year's annualized compensation, including any guaranteed or target bonus and equity award, to be paid to FTI's former principal or employee that the Company or any of its subsidiaries or affiliates hires at any time up to one year subsequent to the date of the final invoice rendered by FTI with respect to this Engagement.

Additional Provisions Regarding Fees:

a) Client agrees that FTI is not an employee of the Client and the FTI employees and independent FTI contractors who perform the Services are not employees of the Client, and they shall not receive a W-2 from the Client for any fees earned under this engagement, and such fees are not subject to any form of withholding by the Client. The Client shall provide FTI a standard form 1099 on request for fees earned under this Engagement.

b) Copies of Invoices shall be sent by facsimile or email as follows:

To the Client at:
Purple Innovation, Inc.
123 East 200 North
Alpine, Utah 84004

Attention: Accounts Payable

Availability of Information

In connection with FTI's activities on the Client's behalf, the Client agrees (i) to furnish FTI with all information and data concerning the business and operations of the Client which FTI reasonably requests, and (ii) to provide FTI with reasonable access to the Client's officers, directors, partners, employees, retained consultants, independent accountants, and legal counsel. FTI shall not be responsible for the truth or accuracy of materials and information received by FTI under this agreement.

The parties have caused this Amendment to be executed by their duly authorized representatives:

PURPLE INNOVATION, INC.	FTI CONSULTING, INC.
BY: /s/ Joseph B. Megibow	BY: /s/ Stuart Gleichenhaus
NAME: Joseph B. Megibow	NAME: Stuart Gleichenhaus
TITLE: Chief Executive Officer	TITLE: Senior Managing Director

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Section 3: EX-10.10 (MASTER RETAILER AGREEMENT DATED SEPTEMBER 18, 2018 BY AND BETWEEN PURPLE INNOVATION LLC AND MATTRESS FIRM, INC)

Exhibit 10.10

Certain identified information in this exhibit has been excluded because the information is (i) not material and (ii) would be competitively harmful if publicly disclosed. Such excluded information is designated by [**].

Master Retailer Agreement

This Master Retailer Agreement (this "Agreement") is made effective as of September 18, 2018 (the "Effective Date"), by and between Purple Innovation, LLC, a Delaware limited liability company ("Vendor"), and Mattress Firm, Inc., a Delaware corporation ("Mattress Firm" and, together with its operating subsidiaries, "Retailer").

Recitals

WHEREAS, Retailer is engaged in the retail sale of mattresses, foundations, sheets, pillows, bedding, hot tubs, massage chairs and sleep-related products through physical store locations, online, and at "pop-up" locations, including state fairs, trade shows, car shows, home shows and other events or expositions (collectively, "Events") and online (collectively, the "Business"); and

WHEREAS, Retailer desires to sell and offer for sale one or more of Vendor's products (collectively, the "Products") in the operation of the Business.

Agreement

NOW, THEREFORE, in consideration of the mutual covenants and promises of the parties set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Authorized Retailer.** Subject to the terms and conditions of this Agreement, Vendor hereby appoints Retailer, and Mattress Firm hereby accepts such appointment for itself and on behalf of its operating subsidiaries, as a non-exclusive (except as set forth herein) authorized retailer of the Products for the term of this Agreement. From time to time during the term of this Agreement, Vendor may agree to establish certain business development programs available to authorized retailers on an annual basis, including Retailer (each, a "Merchandising Program"). Vendor anticipates that these programs may be available in the future, although the terms of such programs may change over time in form and scope, or be eliminated depending on internal and external factors; provided that no changes may be made to an existing Merchandising Program unless Retailer consents to such changes in writing. Participation in any such program is subject to Retailer's compliance with the terms and conditions of this Agreement and the terms of any such Merchandising Program.

2. Products.

a. During the term of this Agreement, Retailer may sell or offer for sale the Products at one or more physical store locations operated by Retailer, one or more Events in which Retailer participates or one or more websites/webpages operated by or on behalf of Retailer. Retailer has no obligation to sell or offer for sale any specified amount of the Products, except as expressly set forth herein.

b. Retailer and Vendor shall mutually agree upon the Products available for sale through Retailer from time to time hereunder. Retailer shall have the right to reject for any reason any Product line proposed to be offered; *provided*, that if any such Product line includes an Exclusive Product (defined below), such exclusivity shall automatically terminate upon Retailer's rejection of such Product line.

c. Vendor reserves the right to: (i) change the design of or modify any Product; (ii) discontinue any Product; and (iii) add new and additional products to Retailer's product lines, which products shall constitute Products for purposes of this Agreement. Notwithstanding the foregoing, without 60 days' prior written notice to Retailer, Vendor shall not modify any Product, including its contents, if such modification would render false or inaccurate any product description of such Product provided to Retailer or any of Retailer's consumers. Further, Vendor will not discontinue or change any Product unless Vendor has provided Retailer with, in the case of Products offered only online, at least 30 days' prior written notice, and in the case of all other Products, at least 90 days' prior written notice. Each notice required by this Section 2.d, will include sufficient information regarding the change or discontinuance so as to give Retailer a reasonable opportunity to update its website(s), promotional materials and/or advertising regarding the subject Products.

3. Exclusive Mattresses

a. Vendor's Purple.3 and Purple.4 mattress models (the "Existing Exclusive Mattresses") and two additional mattress models per Section 3.b below (the "Developed Exclusive Mattresses" and, together with the Existing Exclusive Mattresses, the "Exclusive Mattresses") will be exclusive to Retailer as set forth in this Section 3. In the United States during the term of this Agreement, Vendor shall not sell, directly or indirectly, the Exclusive Mattresses in physical brick and mortar retail stores or online retail stores, unless, in the case of Existing Exclusive Mattresses only (i) Vendor is the seller in such store (as described below) or (ii) such stores, whether online or brick and mortar, are not Specialty Mattress Stores, provided that Vendor shall not indirectly sell Existing Exclusive Mattresses through more than ten non-Specialty Mattress Stores with National Store Coverage or 50 additional non-Specialty Mattress Stores with less than National Coverage; *provided*, however, such non-Specialty Mattress Stores with less than National Coverage shall not be unreasonably concentrated in any market where Retailer sells or offers for sale Vendor's Products at Retailer's physical store locations. "National Store Coverage" means having a physical brick and mortar presence in at least 30 states. "Specialty Mattress Stores" means those retailers whose primary offering is mattresses. For the avoidance of doubt, Vendor may sell (x) all Exclusive Mattresses, other than the Developed Exclusive Mattresses, (A) through its brick and mortar stores, its online website store, Amazon.com, and other internet sites and (B) to up to ten non-Specialty Mattress Stores with National Store Coverage, and, so long as not unreasonably concentrated in any Retailer market, up to 50 additional non-Specialty Mattress Stores with less than National Store Coverage, and (y) all other Products that are not Exclusive Mattresses through any physical brick and mortar retail stores and/or online retail stores, regardless of whether such stores are Specialty Mattress Stores.

b. Vendor shall develop two new mattress models in collaboration with Retailer that include mutually agreeable features and price points and Vendor shall provide Retailer the opportunity to designate such models as Exclusive Mattresses (the "New Models"). Upon development, Vendor shall demonstrate a prototype to Retailer, and Retailer shall have fifteen (15) business days to choose to accept or reject designating the New Model as an Exclusive Product. If Retailer chooses to designate the New Model as an Exclusive Product, Vendor will then continue to develop the product to production-ready. Should Retailer choose not to designate such New Model as an Exclusive Product, that New Model will become non-exclusive and available to Vendor to sell through other physical brick and mortar retail and/or online retail stores unless additional features are added to the New Model or the specifications are materially changed in which case the updated New Model shall be resubmitted to Retailer for consideration as an Exclusive Product. No New Model will be substantially comparable to the Purple.3 or Purple.4 mattress models unless expressly agreed by Retailer.

c. Regardless of whether the New Model is designated as an Exclusive Product, Vendor will retain ownership of all intellectual property with respect to the New Model and Vendor branded marketing materials related to the New Model, including, without limitation, the New Model's design and all improvements or modifications thereto.

d. Retailer may elect to remove any model of mattress from the designation of Exclusive Product for a new model developed by mutual agreement of the parties.

e. For the avoidance of doubt, at any time there will be no more than four of Vendor's mattress models designated as Exclusive Mattresses, however there will be no limit on the number of non-exclusive models that may be sold by Retailer.

f. Exclusivity, as used in this Agreement for the Exclusive Mattresses and any New Models that Vendor may develop that is designated by Retailer as Developed Exclusive Mattresses, is contingent upon certain conditions that may be set forth in the Merchandising Program from time to time.

g. In the event that the conditions required to maintain exclusivity are not met by Retailer and continue to be unsatisfied 30 days after written notice from Vendor, then the Exclusivity set forth in this Section 3 shall automatically terminate and Vendor shall be free to offer or sell the Exclusive Mattresses to third parties without limitation.

4. Compliance with Laws

a. Vendor will comply with all applicable laws, rules, orders, treaties, and regulations related to the production, manufacture, sale, use, import and export of all Products, to the extent not inconsistent with United States law.

b. Vendor will assure that all Products are labeled in accordance with California Proposition 65, if applicable.

c. Vendor will comply with all applicable environmental laws and health and human safety laws, including without limitation, all laws prohibiting child labor, human trafficking, and slavery.

5. Pricing.

a. Retailer shall purchase the Products from Vendor at the prices set by Vendor and agreed to by Retailer from time to time (the "Prices"). Such Prices may be increased following 90 days' prior written notice to Retailer from Vendor. These price increases may cover increases in raw material, delivery or labor costs, but shall not have a disproportionate effect on the prices paid by Retailer for the Products as compared to any other competing retailer. Further, if Vendor offers a better price to a third party for similar quantities of identical Products, the price of the Products will be adjusted to the price offered to such third party. Such price adjustment will not apply retroactively, and Retailer shall only be entitled to such lower price on future purchases of such Products.

b. Vendor will set the advertised retail price for all the Products, including any discounts, after considering in good faith input from Retailer regarding mattress pricing. Vendor and Retailer may sell the Products through their respective agreed channels, in parity with the advertised prices set by Vendor. Advertised prices for all Products shall be universally applicable to all retailers of the Products.

c. If a Product does not meet sales performance expectations as reasonably determined by Retailer and Vendor, Vendor may authorize commercially reasonable markdown strategies that will ensure that the parties share equally in the costs of liquidating the poor performing inventory. If inventory or floor samples of such Product remain on hand more than 30 days after the implementation of a negotiated markdown strategy, excess inventory of new, unopened, undamaged Products and related floor samples will be sold back to Vendor at Retailer's price and 50% of the shipping cost to return the Products to Vendor. If Purple fails to pay such amounts to MFI within 45 days after re-delivery of the Products, MFI may offset payments owed by MFI to Purple by such amounts.

6. Order Processing.

a. As needed from time to time, Retailer shall order Products from Vendor by either delivering written notice to Vendor or submitting an order to Vendor by means of electronic data interchange (EDI) communication (such notice or submission is referred to as a "Product Order").

b. Each Product Order shall specify (i) the type and quantity of Products ordered, (ii) the location(s) to which such Products shall be delivered and (iii) the date(s) of delivery of such Products.

c. Vendor must, within one business day or less of Retailer's transmission of the Order, send a Product Order Acknowledgement detailing what, if any, changes are needed via EDI or, if EDI is not available, by written acceptance within two business days. If Vendor fails to expressly accept or reject a Product Order, it shall be deemed accepted.

d. Unless otherwise specified by Retailer, Vendor must abide by all instructions for order processing communications as defined by the EDI Compliance Document attached hereto as Exhibit A.

e. Vendor will adequately package all Products and comply with all packaging requirements of Retailer and applicable law.

f. Retailer will provide Vendor with a weekly sell-through report of Products, aggregated by distribution center. Collaboratively, the parties will develop a forecast for all distribution centers.

7. Product Delivery and Shipping Costs.

a. Vendor shall deliver Products as directed in the Product Order and shall be responsible for arranging shipment of such Products unless otherwise requested by Retailer. Risk and title (except as stated elsewhere in this Agreement) of Products shall pass to Retailer CPT (carriage paid to) at Retailer's warehouse or, if applicable, to Retailer's carrier FCA (free carrier) to such carrier's delivery location.

b. Notwithstanding Section 7.a above, if any Product will be delivered directly to Retailer's customer ("drop ship"), Vendor must arrange for shipment of such Product in accordance with the Mattress Firm Drop Ship Requirements attached hereto as Exhibit B, subject to Section 15.d of this Agreement. Pursuant to the Mattress Firm Drop Ship Requirements, Vendor shall ship on Retailer's shipping accounts at Retailer's cost. For purposes of drop ship deliveries, risk and title (except as stated elsewhere in this Agreement) of Products shall pass to Retailer carrier FCA (free carrier) to such carrier's delivery location; *provided* that liability for concealed damage and/or damage occurring in-transit as a result of insufficient or improper packaging will remain with Vendor. If Vendor ships on Retailer's shipping accounts, Vendor shall direct any customer seeking delivery information to Retailer's Inside Sales Department at 866-805-0120 or, if applicable, to Amazon directly.

c. Time is of the essence with respect to Vendor's shipment of the Products. Unless otherwise specified in the Product Order, Vendor shall ship Products within a timeframe reasonably anticipated to meet the delivery dates set forth in the Product Order. If the Product Order does not designate a delivery date, Vendor shall ship Products within three business days of the Product Order placement unless otherwise agreed to by Retailer in writing. Beginning on October 1, 2018, if Vendor fails to ship at least 98% of the Products within the required timeframe, then for each Product not timely shipped, the price paid by Retailer for each such Product shall be multiplied by 1.5 for purposes of calculating the Volume Rebate (defined below) related to such Product, *provided* that such late penalty shall not be applicable in situations involving force majeure pursuant to Section 32. For the avoidance of doubt, if less than 100% of the items listed in a Product Order are delivered timely, those items that are not timely delivered will be subject to the late penalty specified in the preceding sentence.

d. If Vendor fails, at any time, to maintain a timely shipment rate of 96% or higher with respect to drop ship Products ordered, Retailer may, in its sole discretion, immediately suspend and refrain from offering the Products for sale for a period of 60 days. Furthermore, if Vendor fails again, to timely ship Products, Retailer may, in its sole discretion, immediately suspend and refrain from offering such Products for the remainder of the term of the Agreement. Retailer shall give Vendor a 30-day cure period following written notice but need not give more than two cure opportunities per calendar year.

e. The shipping costs incurred as a result of Vendor's shipments to Retailer will be borne by Vendor; and the shipping and delivery costs incurred as a result of Retailer's shipping to customers will be borne by Retailer, *provided* that the parties will cooperate in good faith to maximize efficiency of freight costs.

8. Payment Terms. Vendor shall invoice Retailer within five business days after shipment of Products purchased by Retailer. Retailer shall pay the amount set forth on such invoice, in US Dollars, unless disputed in good faith, within 45 days after receipt of goods. The parties acknowledge that the payment terms are "net 45 days". Either party may deduct any amount owed by the other party to such party as a setoff against any amount due or credit owed to the other party under this Agreement.

9. Term; Termination.

a. This Agreement will commence on the Effective Date and continue until terminated as provided herein. The termination or expiration of a Merchandising Program shall not have the effect of terminating this Agreement.

b. Either party may terminate this Agreement at any time upon 90 days' written notice to the other party (the "Notice Period"). Additionally, either party may terminate this Agreement immediately upon written notice in the event of a material breach (including but not limited to any uncured payment default) by the other party, if such other party has failed to cure such breach or default within 15 days of written notice thereof. Sections 7, 8, 9, 12, 14, 15, 17.c, 17.d, 19, 20, 21 and 23-36 shall survive the termination of this Agreement.

c. All rebates, subsidies, and credits set forth herein in effect on the date of termination (collectively, the "Subsidies") shall continue to accrue on all Products sold by, or, in the case of return credits, returned to, Retailer during the Notice Period.

d. During the Notice Period, Vendor shall continue to timely ship and deliver all Products ordered in accordance with Section 6 and Section 7 of this Agreement and Retailer shall pay for all such Products in accordance with Section 8 of this Agreement; *provided, however*, that notwithstanding anything to the contrary in this Agreement, Vendor shall not be required to ship or deliver any Products to Retailer during any period in which Retailer is in material breach of this Agreement (including but not limited to any payment default, unless such payment is disputed in good faith) after giving effect to all applicable notice and cure periods; *provided, further*, that if Vendor elects to ship or deliver Products during such periods of material default it shall hold title to such Products at all times, and title shall not pass to Retailer until Retailer has paid for such Products in full unless such payment or portion thereof is disputed in good faith.

e. Following the effective date of termination (the "Termination Date"):

i. Vendor shall remit to Retailer the balance of any merchandise credit memorandum in immediately available funds within 30 days of the effective date of termination; *provided, however*, that any such merchandise credit shall be offset by any unpaid amounts owed by Retailer to Vendor under this Agreement except to the extent disputed in good faith;

ii. Vendor shall remit to Retailer all accrued but unpaid Subsidies; *provided, however*, that any such unpaid Subsidies shall be offset by any unpaid amounts owed by Retailer to Vendor under this Agreement except to the extent disputed in good faith;

iii. Unless otherwise agreed in writing by the parties, during any post-termination run-out period, Retailer will be entitled to continue to market and sell any Products then in inventory, as well as to honor any non-cancellable open customer orders. At Retailer's request within 15 days of the Termination Date, Vendor shall repurchase all new, unopened, undamaged Products (including outlet products) then held by Retailer and related floor samples at Retailer's cost for such Products, and each party shall pay 50% of the shipping for the return of such Products to Vendor;

iv. Retailer shall promptly cease and desist use of all Vendor intellectual property and shall cease and desist holding itself out in any way as an authorized retailer of the Products, *provided* that, unless Vendor repurchases Retailer's inventory of the Products (including floor samples and outlet products) and picks up all returned Products (including Products returned after the effective date of termination), Retailer shall have the right to market and sell all such Products in its possession, including at physical store locations, Events and online, and use Vendor's intellectual property in connection therewith; and

v. Vendor shall be solely responsible for, and shall directly handle, all customer warranty claims (excluding comfort exchanges) initiated after or in process on the effective date of termination.

vi. Unless Vendor elects to retrieve the Purple Gallery displays by delivering written notice of such election prior to the Termination Date (or, in the event of termination due to a breach, on the Termination Date), then concurrently with the termination of this Agreement, Retailer shall dismantle and dispose of all Purple Gallery displays. If Retailer timely receives Vendor's election notice, then Retailer shall use reasonable care in dismantling the Purple Gallery displays and will make such displays available to Vendor at Retailer's warehouse locations. If Vendor fails to retrieve such Purple Gallery displays within 30 days after the Termination Date, such displays shall be deemed abandoned and Retailer shall dispose of such displays promptly.

10. Advertising.

a. In order to assist Retailer in the funding of advertising and marketing expenses related to the promotion of the Products, at the end of each calendar month, Vendor will accrue for co-operative advertising funds into internally held accounts a mutually agreed aggregate amount (the "Co-Op Funds") of Retailer's Net Purchases during such calendar month. "Net Purchases" shall mean an amount equal to (i) Retailer's (including purchases by Retailer's franchisees and Retailer's purchases for its brick and mortar stores, websites and Events) gross purchases of all Products paid in full, less (ii) any discounted portion of payments, returns and penalties. Net Purchases do not include Retailer's purchase of floor models for purposes of this Section 10. At Retailer's request, Vendor will provide supporting detail of the Retailer's monthly Net Purchases of Products on which co-operative advertising funds are accrued.

b. Vendor may use the Co-Op Funds to pay for customary point of purchase advertising displays or exterior signage at Retailer's stores, participation in Retailer managed advertising, contest prizes, marketing for Retailer events and expositions, or other pop up marketing collaborations with Retailer, at Vendor's reasonable discretion. All Co-Op Funds must be applied to marketing efforts that directly benefit Retailer. Co-Op Funds may not be used to pay for the development, production, transport or installation of Purple Galleries, marketing brochures, demonstration samples or the cost of any gift with purchase promotion. Vendor or Retailer may use the Co-Op Funds to promote the sale of Vendor's Products at Retailer's stores. Retailer shall comply with Vendor's branding guidelines communicated by Vendor to Retailer. For any Retailer managed advertising funded in whole or in part by Co-Op Funds, Retailer shall provide Vendor with samples of the advertising and, promptly following receipt thereof, Vendor shall reimburse Retailer for the cost of such advertising out of available Co-Op Funds if such advertising is in compliance with Vendor's branding guidelines that have been communicated to Retailer.

c. Vendor will be responsible for the costs of developing and producing point of purchase marketing materials, including "Purple Gallery" fixtures, top of bed displays, marketing brochures and demonstration samples, irrespective of the availability of Co-Op Funds. The Purple Galleries shall be owned by Vendor. Vendor shall fulfill, at its sole cost, all gift with purchase promotions. All other marketing materials will be developed and produced independently by Vendor and Retailer, at their own cost, subject to review by the other as desired when mentioning the other in the marketing materials.

d. Vendor shall pay for the replacement or repair of any damaged in-store Purple Gallery fixtures that have been in place longer than 18 months.

e. Vendor will use best efforts to drive customers to Retailer's retail stores through its marketing campaigns. In furtherance of the foregoing, Vendor will mention Retailer prominently on its website to those customers identified as living within areas in which Retailer is selling the Products in its physical brick and mortar retail stores, to drive foot traffic to those retail stores. Marketing campaigns and advertising assets developed about the Exclusive Mattresses may emphasize their availability at Retailer stores and their effectiveness will determine the prominence of these ads and campaigns over other traffic-driving campaigns.

f. The Co-Op Funds are owned solely by Vendor. Retailer shall have no right to use or otherwise acquire such funds, except for purposes of promoting the sale of Vendor's Products by Retailer in compliance with Vendor's branding guidelines. Vendor has no obligation to use any Co-Op Funds if (i) Retailer is not currently selling or offering for sale the Products at any of Retailer's physical store locations; (ii) Retailer is in default of its payment obligations hereunder (after giving effect to all applicable notice and cure periods, and such payment is not disputed in good faith), (iii) Retailer is otherwise in material breach of this Agreement (after giving effect to all applicable notice and cure periods) or (iv) a notice of termination has been given by either party.

11. Product Displays.

a. Retailer may purchase Products to be used as floor samples at a 50% discount off of the Prices set for such Products by Vendor (the "Discounted Prices"). All replacement Products ordered for use as floor samples shall also be purchased at such Discounted Prices; *provided* that Retailer may not replace any such floor sample more than once during a calendar year at the Discounted Price. Notwithstanding the foregoing, Vendor may from time to time determine that the floor samples on Retailer's retail floors should be changed more frequently, in which case the Discounted Prices will apply to such additional replacement samples. Retailer shall specify in the Product Order for such Products that such Products will be used as floor samples.

b. Retailer may purchase Vendor's powerbases through January 31, 2019, at which time the parties will negotiate in good faith with respect to alternative product. In the event the parties are unable to come to an agreement with respect to such alternative product within 60 days following January 31, 2019, Retailer shall have the option to use non-Vendor powerbases in the display of Products.

c. All Products will be displayed together in each retail store in which Retailer displays Products in a "Purple Gallery" branded by Vendor and designed as mutually agreed by the parties. For the avoidance of doubt, non-mattress products will be displayed with mattress products as a full comfort solution, inclusive of one or more of the following: Pillows, Cushions, Sheets, Mattress Protectors, PowerBases and Platform Bases. Retailer shall direct its associates to not merchandise non-Vendor products in the Purple Gallery without Vendor's consent (which consent shall be in Vendor's sole discretion). The Purple Gallery display area will showcase, as for the Products, at least two bed floor models on a Vendor PowerBase or a Vendor Platform, two Vendor pillows for each mattress, one set of mattress protectors and sheets, and one seat cushion; and as for other items, demonstration tools such as cushion stools, mattress buns, buckling-column demonstrators and squishy Vendor giveaways. Retailer will have final approval rights on design to ensure configuration will accommodate store design, size and layout.

d. Purple Gallery fixtures will be owned by Vendor and all related costs will be borne by Vendor. To the extent that Retailer pays for any additional store fixtures or display items, such fixtures and items shall be owned by Retailer.

e. Sales tools or demonstration samples (ex: mattress buns) will be provided by Vendor and costs will be borne by Vendor.

f. The number of Vendor mattresses displayed in stores will be determined by the size of the stores and the bed slots that can be accommodated, *provided*, however, that at least 70% of Retailer stores that sell Products must have four Purple bed displays. As Vendor will be encouraging customers to visit and buy Products from Retailer, including non-mattress products, it is anticipated that in-store inventory for "cash and carry" customers will be beneficial. Retailer will carry an appropriate amount, as determined in Retailer's reasonable discretion, of Vendor non-mattress product inventory in certain stores to meet customer demands.

12. Volume Rebate Funds. Vendor will accrue and award volume rebate funds (the "Volume Rebate") to Retailer on an annual basis during the term of this Agreement as may be agreed from time to time in a Merchandising Program. The Volume Rebates will be calculated and paid in the form of a merchandise credit memorandum within 45 days after the end of each calendar year; *provided however* that any such merchandise credit shall be offset by any unpaid amounts owed by Retailer to Vendor under this Agreement except to the extent disputed in good faith. For the avoidance of doubt, the term "Net Purchases" shall include purchases of floor samples for purposes of this Section 12.

13. **Franchise Introductions.** Retailer may make introductions between Vendor and Retailer's franchisees (the "Franchisees"). Any purchases made by such Franchisees shall be included in the Volume Rebate calculation for the benefit of Retailer; provided, however, that Vendor will not be obligated to supply to such Franchisees, and any such relationship would be subject to creditworthiness or other requirements in the sole discretion of Vendor and may include different payment terms. Vendor reserves the right not to do business with any Franchisee for any reason.

14. **Warranty.**

    a. Vendor warrants to Retailer that each Product: (i) is of good quality, (ii) meets all applicable Product specifications, and (iii) is free from defects in workmanship or material per Vendor's published standard product warranty. This warranty is in addition to any standard product warranty offered by Vendor to its customers. Purple's warranties, as published on its website, will apply to the Products, and be the sole responsibility of Purple.

    b. Subject to Section 14.a, warranty claims on mattress Products and returns on Products sold by Retailer will be handled through Retailer's customer service. Warranty claims on non-mattress Products sold by Retailer shall be handled by Vendor's customer service departments. Vendor will be available to Retailer to answer any questions and assist as reasonably necessary to comply with warranty and return obligations. Retailer will be available to Vendor to answer any questions and assist as reasonably necessary to allow Vendor to respond to inquiries from Retailer's customers.

15. **Returns.**

    a. Vendor shall provide a credit to Retailer (the "Return Credit") for mattresses returned by customers, which shall be set forth in the Merchandising Program.

    b. The Return Credit shall be the limit of Vendor's responsibility for defective or returned Products except as set forth in Section 15.c. Retailer shall be responsible for either issuing a refund to the customer or making a Product replacement otherwise agreed upon by Retailer and such customer. Except as set forth in Section 15.c, Vendor is not required to pick up or take back any defective or returned Products.

    c. Retailer has the right to reject defective Products or misdeliveries (including floor samples) at the point of receipt, and such returns will not count toward the Return Credit and will be taken back by Vendor, at Vendor's expense. In the event that Retailer reasonably determines Products are not built to specifications (including component quality and specifications) or fail to conform to Vendor's published warranty, Retailer shall notify Vendor in writing of such defects or failures. Following such written notice, Vendor shall take back, at Vendor's expense, all defective or non-conforming Products that remain in Retailer's inventory, and such returns will not count toward the Return Credit. Serial failures and recalls (including for odor or yellowing) will be excluded from the Return Credit, irrespective of whether Retailer rejected such Products at delivery, and accepted for return by Vendor, at Vendor's expense. In the case of Products rejected at the point of receipt or returned in connection with serial failures or recalls, Retailer shall receive a merchandise credit memorandum in an amount equal to 100% of the Price paid by Retailer for such returned Products. Vendor shall have the right to verify the defect or failure before taking back such Products and issuing a merchandise credit; provided that if Vendor fails to inspect the Products within 30 days of notification from Retailer of a defect or non-conformity, Vendor will be deemed to have waived its verification right and shall take back the applicable Product(s) irrespective of any subsequent inspection results.

d. All drop ship Products shall identify the return address for shipping labels as "Mattress Firm, Inc. c/o [Vendor's address]". Vendor shall process a refund for all returned drop ship Products following evidence from Retailer or customer that such drop ship Product has been return shipped. Vendor shall bear the risk of loss of any returned drop ship Products in transit.

16. Brand Standards; Minimum Advertised Price.

a. During the term of this Agreement, Retailer agrees to comply with any reasonable marketing or online advertisement requirements as well as any brand standards or other requirements or criteria relating to the display, marketing or sale techniques regarding the Products, in each case, established by Vendor and applicable to and followed by all authorized retailers of the Products, including Vendor.

b. Retailer will keep all displayed floor samples well-maintained and clean.

c. Retailer will use the most current displays and point-of-sale materials provided or approved by Vendor, if required by applicable marketing standards.

d. Retailer acknowledges that Vendor has a Minimum Advertised Price ("MAP") Policy in place, and Vendor shall provide Retailer with a current copy of such MAP Policy.

17. Product Details; Trademark License.

a. For each Product, Vendor shall provide to Retailer a full description of the features and benefits of each such Product, a complete list of such Product's specifications and a picture for display of such Product. If none are available, Vendor shall supply Retailer with funding to cover the costs of a photo shoot to capture necessary imagery for Retailer's advertising assets (i.e. website, print, in-store, digital, etc.). Retailer may incorporate such descriptions and pictures on the website(s) in connection with each Product offered online and, as applicable, into any print advertisement.

b. Vendor may, from time to time, reasonably request changes or revisions to a website or any pages of a website that is controlled by Retailer and which references, depicts or describes the Products or Retailer's relationship to Vendor, which requested changes or revisions shall be considered by Retailer in good faith and, unless unreasonable, incorporated promptly in the applicable website.

c. Vendor hereby grants to Retailer a worldwide, non-exclusive, royalty-free license to use such descriptions and pictures, and Vendor's trademarks, trade names, images and other Vendor-provided promotional materials in connection with the sale and promotion of Products during the term of this Agreement and for purposes of the sale and promotion of any Products by Retailer pursuant to Section 9.e.iii, Section 9.e.iv and otherwise pursuant to the terms of this Agreement.

d. Vendor will retain ownership of all intellectual property and Vendor branded marketing materials related to the Products, including, without limitation, the Products' designs and all improvements to or modifications thereof, in each case developed through the parties' collaboration. Vendor will have the right to make all decisions with respect to the registration of such a Product design with the U.S. Patent and Trademark Office, the U.S. Copyright Office or similar authorities. Retailer agrees to assign, and hereby does assign, to Vendor all of Retailer's rights in and to any improvements or modifications to the Products, as more fully set forth in the parties' May 26, 2017 Joint Development and Confidentiality Agreement incorporated herein by reference (the "Joint Development Agreement").

18. Training; Reporting Obligations.

a. Vendor shall provide Product training to Retailer's sales associates from time to time, as reasonably requested by Retailer.

b. Vendor will provide Retailer, on a weekly basis, a report detailing the Product Orders received and shipped, as well as the shipment date and any shipment delays, Product returns, current levels of Product inventory, and a list of any Products reasonably expected to be out of stock for that week (for drop ship Products) or within the next 90 days (for non-drop ship Products). Any such report provided through EDI communication shall satisfy this requirement.

c. Vendor will designate an employee to be Retailer's primary point of contact for the business relationship contemplated by this Agreement. Vendor will respond to all written (e-mail transmissions acceptable) inquiries of Retailer within one business day of receipt.

19. Limitation of Liability. Except for claims arising out of willful misconduct, breach of Section 27 (Confidentiality), or third-party indemnification obligations under Section 20 (Indemnification), in no event will either party be liable to the other for any special, punitive, exemplary, reliance or consequential damages, however caused, whether for breach of contract, tort or otherwise, and whether or not advised of the possibility of such damages.

20. Indemnification.

a. Vendor shall indemnify, defend and hold harmless Retailer, its affiliates, successors and permitted assigns, and its and their officers, directors, shareholders, members, partners and employees (each, a "Retailer Indemnified Party") from and against any and all claims, actions, proceedings, judgments and other liabilities and expenses (including reasonable attorneys' fees and costs) of any nature arising out of or relating to:

   i. the authorized use by Retailer of Vendor's intellectual property;

   ii. any allegation that any Product or marketing materials prepared by Vendor or made by Vendor's employees infringes, misappropriates or otherwise violates the intellectual property rights of a third party or applicable law (except to the extent the alleged infringing material contains information provided by Retailer);

   iii. the use of promotional materials and other information provided by Vendor, including in training sessions;

   iv. any material breach of this Agreement by Vendor;

   v. Product liability claims, including claims of personal injury or damage to personal property arising from the use of any Product;

   vi. Product returns due to any manufacturing defect or damage, any customer claims under manufacturer warranties or any recall issued by Vendor;

   vii. any gross negligence or intentional misconduct by Vendor or its directors, officers, employees or contractors in connection with the performance of Vendor's obligations under this Agreement;

   viii. claims under any applicable deceptive trade practices laws;

   ix. the operation of Purple's facilities; and/or

   x. any allegation of any of the foregoing.

b. Retailer shall indemnify, defend and hold harmless Vendor, its affiliates, successors and permitted assigns, and its and their officers, directors, shareholders, members, partners and employees (each, a "Vendor Indemnified Party") from and against any and all claims, actions, proceedings, judgments and other liabilities and expenses (including reasonable attorneys' fees and costs) of any nature arising out of or relating to:

   i. Retailer's unauthorized use of Vendor's trademarks;

   ii. any allegation that any marketing materials prepared by Retailer or made by Retailer's employees infringes, misappropriates or otherwise violates the intellectual property rights of a third party or applicable law (except to the extent the alleged infringing material contains information provided by Vendor);

   iii. the use of promotional materials and other information provided by Retailer (except to the extent the alleged infringing material contains information provided by Vendor);

   iv. Retailer's customer comfort exchanges (except as set forth in Section 9.e.v);

   v. any material breach of this Agreement by Retailer;

   vi. the operation of Retailer's facilities;

vii. any gross negligence or intentional misconduct by Retailer or its directors, officers, employees or contractors in connection with the performance of Retailer's obligations under this Agreement; and/or

viii. any allegation of any of the foregoing.

21. Indemnification Procedures.

a. If any Retailer Indemnified Party or Vendor Indemnified Party (collectively and individually, the "Indemnified Party"), as the case may be, receives notice of the assertion or commencement of any action, suit, claim or other legal proceeding made or brought by any person who is not a party to this Agreement or an affiliate of a party to this Agreement (a "Third-Party Claim") against such Indemnified Party with respect to which either Vendor or Retailer is obligated to provide indemnification under this Agreement (each the "Indemnifying Party"), the Indemnified Party shall give the Indemnifying Party prompt written notice thereof. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeit rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Third-Party Claim in reasonable detail and shall indicate the estimated amount, if reasonably practicable, of the loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third-Party Claim at the Indemnifying Party's expense and by the Indemnifying Party's own counsel (provided the Indemnifying Party acknowledges in writing its indemnity obligations under this Section for such Third-Party Claim), and the Indemnified Party shall cooperate in good faith in such defense. If the Indemnifying Party assumes the defense of any Third-Party Claim, it shall have the right to take such action as it deems necessary to avoid, dispute, defend, appeal or make counterclaims pertaining to any such Third-Party Claim in the name and on behalf of the Indemnified Party. The Indemnified Party shall have the right, at its own cost and expense, to participate in the defense of any Third-Party Claim with counsel selected by it subject to the Indemnifying Party's right to control the defense thereof. If the Indemnifying Party elects not to compromise or defend such Third-Party Claim or fails promptly to notify the Indemnified Party in writing of its election to defend as provided in this Agreement, the indemnified Party may, subject to the following, pay, compromise and defend such Third-Party Claim and seek indemnification for any and all losses based upon, arising from or relating to such Third-Party Claim. Vendor and Retailer shall cooperate with each other in all reasonable respects in connection with the defense of any Third-Party Claim, including making available records relating to such Third-Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending Party, management employees of the non-defending Party as may be reasonably necessary for the preparation of the defense of such Third-Party Claim.

b. Notwithstanding any other provision of this Agreement, the Indemnifying Party shall not enter into settlement of any Third-Party Claim without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed), except as provided in this Section. If a firm offer is made to settle a Third-Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnified Party and provides, in customary form, for the unconditional release of each Indemnified Party from all liabilities and obligations in connection with such Third-Party Claim and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to that effect to the Indemnified Party. If the Indemnified Party rejects such firm offer within 15 days after its receipt of such notice, the Indemnified Party may continue to contest or defend such Third-Party Claim and in such event, the maximum liability of the Indemnifying Party as to such Third-Party Claim shall not exceed the amount of such settlement offer. If the Indemnified Party rejects such firm offer and also fails to assume defense of such Third-Party Claim in writing, the Indemnifying Party may settle the Third-Party Claim upon the terms set forth in such firm offer to settle such Third-Party Claim. If the Indemnified Party fails to affirmatively accept or reject such firm offer within the 15-day period referenced above, the Indemnified Party shall be deemed to have accepted such firm offer. If the Indemnified Party has assumed the defense pursuant to this Section, it shall not agree to any settlement without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed).

c. Any claim by an Indemnified Party on account of a loss which does not result from a Third-Party Claim (a "Direct Claim") shall be asserted by the Indemnified Party giving the Indemnifying Party prompt written notice thereof. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail and shall indicate the estimated amount, if reasonably practicable, of the loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have 30 days after its receipt of such notice to respond in writing to such Direct Claim. During such 30-day period, the Indemnified Party shall allow the Indemnifying Party and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim and the Indemnified Party shall assist the Indemnifying Party's investigation by giving such information and assistance (including access to the applicable premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party and its professional advisors may reasonably request. If the Indemnifying Party does not so respond within such 30-day period, the Indemnifying Party shall be deemed to have accepted such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

22. **Insurance.** Retailer will furnish annually to Vendor a certificate of insurance evidencing minimum coverage of general liability insurance with combined single limits of one million US dollars (US$1,000,000) per occurrence. Vendor will furnish annually to Retailer a certificate of insurance evidencing minimum coverage of general and product liability insurance with combined single limits of one million US dollars (US$1,000,000) per occurrence, which may include a combination of primary and excess liability insurance. Retailer will be named as an additional insured under Vendor's liability policies on the certificate of insurance. The certificate of insurance will list the insurance company, amount of coverage, policy numbers, expiration date, and will include a clause that requires at least 30 days' notice prior to cancellation of the policies, a waiver of subrogation, and a clause that provides that the insurance described in the certificate is primary and non-contributory with respect to any insurance Retailer may maintain. Vendor will maintain the required insurance and provide the certificates described above during the term of this Agreement. These insurance requirements do not limit Vendor's indemnification or other liabilities under this Agreement.

23. **Executory Contract.** The parties acknowledge that this Agreement is an executory contract inasmuch as they each owe continuing duties hereunder to the other before it will be fully performed, including but not limited to the duty of making payments and providing merchandise credits as set forth in this Agreement.

24. **Expenses.** Except as otherwise expressly agreed herein, each party will each bear their own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

25. **Relationship of the Parties.** Vendor and Retailer are independent contractors and neither shall represent itself as having any power to bind the other or to assume or to create any obligation or responsibility, express or implied, on behalf of the other party to this agreement. Nothing contained in this Agreement shall be deemed to establish a relationship of principal and agent between Vendor and Retailer, nor any of their agents or employees for any purpose whatsoever. This Agreement shall not be construed as constituting Vendor and Retailer as partners, or to create any other form of legal association or arrangement which would impose liability upon one party for the act or failure to act of any other party.

26. **Representations and Warranties.** Each party hereby represents and warrants to the other party as follows:

    a. Such party is duly organized, validly exists and is in good standing under the laws of its jurisdiction of organization.

b. Such party is authorized to execute and perform this Agreement.

c. Such party has had the opportunity to retain independent counsel regarding its obligations and commitments hereunder.

d. The performance of this Agreement by such party will not conflict with or violate any material agreement, arrangement or commitment, whether written or oral, with any third party.

27. Confidentiality.

a. Each party expressly agrees to (i) retain in confidence all information transmitted to such party that the disclosing party has identified as being proprietary and/or confidential or which, by the nature of the circumstances surrounding the disclosure or the content of the disclosed information, ought in good faith to be treated as proprietary and/or confidential, and (ii) use such information and/or know-how solely for the purposes set forth in this Agreement. The receiving party's obligation hereunder shall survive termination of this Agreement. The parties acknowledge that they may be exposed to confidential information of the other party that is unrelated to the matters set forth in this Agreement, and that such information will be subject to the same protections from disclosure and misuse hereunder. Notwithstanding the foregoing, if a receiving party is required to disclose any confidential information of the other party by any court, tribunal or other governmental or regulatory authority, the receiving party may disclose such confidential information, *provided* that the receiving party, to the extent legally permissible, provides reasonable prior notice to the disclosing party of any such requirements and provides reasonable assistance to the disclosing party in obtaining a protective order or similar protection for such information. This Section 27 is subordinate to any conflicting provision set forth in the Joint Development Agreement.

b. Confidential information subject to the obligations in the prior paragraph shall not include any information that: (i) is or becomes publicly available without the receiving party's breach of any obligations owed the disclosing party; (ii) was known to the receiving party prior to the disclosing party's disclosure of such information to the receiving party; (iii) became known to the receiving party from a source other than the disclosing party without breach of an obligation of confidentiality; or (iv) is independently developed by the receiving party, as demonstrated by the receiving parties' records.

c. Neither party will make a public announcement, publicly disclose or discuss with third parties the terms and conditions of this Agreement. Nothing herein prevents either party from making public announcements or disclosing in general that they have a business relationship under which Products are jointly sold by Vendor and Retailer. For the avoidance of doubt, the parties may disclose the terms and conditions of this Agreement for business purposes to their current and future employees, affiliates, advisors, attorneys, accountants, lenders, investors, vendors and suppliers who are not competitors of the other party.

28. Notices. All notices and other communications under this Agreement must be delivered in writing and shall be deemed to have been given when (a) delivered by hand or (b) one (1) business day after deposit thereof for overnight delivery with a nationally recognized overnight delivery service (receipt requested) to the appropriate address as set forth below (or to such other address as a party may designate by notice to the other parties):

Retailer:	Mattress Firm, Inc. 10201 South Main Street Houston, Texas 77025 Attention: Merchandising Dept.
	For legal notices:
	Mattress Firm, Inc. 10201 South Main Street Houston, Texas 77025 Attention: Legal Dept.
Vendor:	Purple Innovation, LLC 123 East 200 North Alpine, Utah 84004 Attention: Wholesale Sales Dept.
	For legal notices:
	Purple Innovation, LLC 123 East 200 North Alpine, Utah 84004 Attention: Legal Dept.

29. **Governing Law; Waiver of Jury Trial**. This Agreement shall be governed by the laws of the state of Delaware without giving effect to the conflicts of laws principles thereof. If Retailer commences suit against Vendor for any reason related to this Agreement, venue shall be exclusively in Houston, Texas, and Vendor consents to personal jurisdiction over it in Texas for that purpose. If Vendor commences suit against Retailer for any reason related to this Agreement, venue shall be exclusively in Salt Lake City, Utah, and Retailer consents to personal jurisdiction over it in Utah for that purpose. For purposes of this Section, declaratory judgment actions shall be deemed to be suits commenced by the party against whom the action is filed. For purposes of establishing jurisdiction in Texas and Utah, as applicable, under this Agreement, each party hereby waives, to the fullest extent permitted by applicable law, any claim that: (a) it is not personally subject to the jurisdiction of such court; (b) it is immune from any legal process with respect to it or its property; and (c) any such suit, action or proceeding is brought in an inconvenient forum. The parties expressly disclaim the application of the United Nations Convention on Contracts for the International Sale of Goods. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE IT HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT.

30. **Third-Party Beneficiaries.** The parties agree that there are no third-party beneficiaries to this Agreement other than the Vendor Indemnified Parties and Retailer Indemnified Parties.

31. **Amendment; Assignment.** Except as expressly set forth herein, this Agreement may be amended or modified only by written agreement signed by both parties. Neither party may assign this Agreement without the prior written consent of the other party, except that either party may assign this Agreement to an affiliate without the other party's prior written consent. The merger or direct change of control of either party, including pursuant to bankruptcy, shall constitute an assignment of this Agreement in violation of this Section 31.

32. **Force Majeure.** Neither party shall be held responsible for any failure of performance in the event such failure was due, in whole or in part, to federal, state or municipal action, statute, ordinance or regulation, strike or other labor trouble, fire or other damage to or destruction of, in whole or in part, the Products or the manufacturing facility for the Products, the lack of or inability to obtain raw materials, labor, fuel, electrical power, water or supplies, or any other cause, act of God, contingency or circumstance not subject to the reasonable control of that party, which causes delays or hinders the manufacture or delivery of the Products, sale of the Products or reconciliation of amounts owed on the sale of the Products.

33. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal ES1GN Act of 2000, e.g., www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

34. Waiver. No waiver of any term or condition of this Agreement shall be effective or binding unless such waiver is in writing and is signed by the waiving party, nor shall this Agreement be changed, modified, discharged or terminated other than in accordance with its terms, in whole or in part, except by a writing signed by both parties. Waiver by any party of any term, provision or condition of this Agreement shall not be construed to be a waiver of any other term, provision or condition nor shall such waiver be deemed a subsequent waiver of the same term, provision or condition.

35. Severability. The provisions of this Agreement are fully severable and the invalidity or unenforceability of any provision of this Agreement shall in no way affect the validity or enforceability of any other provision hereof.

36. Entire Agreement. All Product Orders are subject to, and governed by, the terms and conditions of this Agreement. This Agreement, the Joint Development Agreement, the applicable Merchandising Program then in effect, if any, and all Product Orders submitted hereunder, constitutes the entire agreement between the parties with regards to the subject matter hereof and sets forth all of the representations, warranties, promises, covenants, agreements, conditions, and undertakings between the parties hereto with regards to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, inducements or conditions, express or implied, oral or written, with regards to the subject matter hereof. Time is of the essence with respect the performance obligations set forth in this Agreement. In the event of a conflict between this Agreement and any Merchandising Program, this Agreement shall control.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the parties have duly executed this Agreement to be effective as of the Effective Date.

Purple Innovation, LLC

By: /s/ Terry V. Pearce
Name: Terry V. Pearce
Title: CEO
Date: September 17, 2018

Mattress Firm, Inc.

By: /s/ Hendre Ackermann
Name: Hendre Ackermann
Title: COO/CFO
Date: September 18, 2018

Exhibit A
EDI Compliance Document

See attached

Mattress Firm has identified the following documents as required to drive efficiencies and value into the supply chain and supporting the needs of the end consumer.

EDI TRANSACTIONS

Supplier EDI Transactions – Ship to DC and Drop Ship

- **Purchase Order Acknowledgment (EDI 855)** - Mattress Firm is requiring Trading Partners to provide commitment and status of the order with the Purchase Order Acknowledgement (POA). Purchase Order Acknowledgements are expected to be returned via EDI for every Purchase Order within two business day of PO receipt. If changes are necessary, your assigned Mattress Firm buyer will work with you outside of the electronic trading process.

- **Advance Ship Notice (EDI 856)** - As confirmation of shipment, trading partners will be required to provide the ASN/Ship Notice details for all electronically created purchase orders at the time the shipment is leaving the warehouse and should reflect the purchase order and items that are in the shipment. Each ASN will represent a single shipment (Ship-To location) and expected to include all PO's physically in a single shipment. The 856 is expected to be sent after the 855 and before shipment.

- **Branded Packing Slip** - In order to support continuity of customer shipments from the Distribution Center and directly from trading partners, trading partners will be required to support a Mattress Firm Branded Packing Slip. This Packing Slip is to be included in every consumer carton. *Until further notice, a generic packing slip with no product cost details is to be provided.*

- **Invoice (EDI 810)** - Mattress Firm is requiring trading partners to provide electronic Invoices for all electronically created Orders that have shipped to automate the 3-way match between the PO, ASN, and invoice. An invoice represents a single PO and shipment, where they are billing a single Ship-to location. The 810 is expected to be sent with or after the 856.

Mattress Firm Dropship Routing Instructions

These instructions include details for all small parcel and LTL shipments drop shipped to Mattress Firm's customers. These requirements include the use of Mattress Firm's shipping accounts. Refer to Dropship Routing instruction package.

GETTING STARTED

Mattress Firm has engaged SPS Commerce, a SaaS provider of supply chain solutions, to provide a complete suite of EDI services for us. All EDI data to or from Mattress Firm is processed through SPS Commerce. A uniform and consistent Interface has allowed us to rapidly engage our trading partners in communications via EDI.

To learn more on how to partner with Mattress Firm, please visit:

https://community.spscommerce.com/mattress-firm-new-vendor-onboarding/

Exhibit B
Mattress Firm Drop Ship Requirements

See attached

Drop Ship Requirements

We are pleased to announce that we have chosen FedEx© as our carrier of choice for small parcel shipments. Effective immediately, please route our small parcel shipments through FedEx using the Bill Third Party option with the following account number: [**].

Small parcel shipments are those with an aggregate weight of less than 150lbs and meet standard parcel specs (i.e., less than 130", length + girth).

NOTE: FedEx account numbers are confidential and should only be communicated for the limited purpose of preparing FedEx shipments under these Routing Instructions. Do not post this information online or make it generally available beyond what is required for your company to follow the instructions. This account number is to be used for delivery of MFRM drop-ship Purchase Orders.

Requirements

When creating labels in FedEx Ship Manager, enter MFRM's Purchase Order number in the 'Original Customer Reference' field. MFRM's Purchase Order is 10 characters beginning with the letter P and followed by 9 digits.

Freight charges for shipments with missing, incomplete and/or incorrectly formatted purchase order numbers will be deducted from future product invoices.

When confirming the order has shipped, you must issue an EDI856 ASN with the FedEx SCAC code and FedEx tracking number for each package in the shipment.

Improperly formatted ASNs, or ASNs with incomplete/inaccurate information will result in delayed payment of your invoice. Continued violation of this requirement may result in penalties up to or including suspended sales of your product.

Upon receipt of the EDI850 Purchase Order, contact MFRM's Logistics Department at Trans-CityMCS@MFRM.com to request shipping instructions. Provide the total number of pieces, the total weight, shipment dimensions and available pick up date.

MFRM's Logistics Department will reply with 2 business days and provide the name of the servicing Carrier & the Shipping Bill of Lading. Also included in the response will be our Transportation Partner's SCAC code and tracking number.

When confirming the order has shipped, you must issue an EDI856 ASN which contains the Transportation Partner's SCAC code and tracking number.

FedEx Ground

FedEx Ground® shipments that weigh up to 150 lbs. per carton must be non-palletized, individually packaged and individually labeled. FedEx Ground provides pickup service upon request, for an additional charge. For regular-scheduled-pickup customers, a weekly pickup fee is assessed to the account number associated with the regular scheduled pickup. For customers who do not have a regular scheduled pickup, there is a per-package on-call pickup charge. Pickup charges do not apply if you drop off your package at a FedEx shipping location, All FedEx shipments must be prepared using an automated shipping solution. If you do not have a regularly scheduled FedEx Ground pickup, the FedEx Ground pickup needs to be scheduled one day in advance.

FedEx Express

Use FedEx Express® for time-sensitive shipments using the Bill Recipient billing option and via the specific Express Shipping method requested or approved by your Buyer, in writing, or as stated on your purchase order. A charge applies when you request a pickup, including requests made using FedEx automated shipping solutions or by calling 1.800.GoFedEx 1.800.463.3339 (say “schedule a pickup”). The charge is itemized separately on your invoice. If you pay by cash (which is not accepted at all pickup locations), check, money order or credit card, the charge will be collected when you tender the package. This charge does not apply if you drop off your package at a FedEx shipping location or if you have regular scheduled pickup.

For more information about FedEx services, including account setup, shipping supplies and electronic shipping solutions, please contact FedEx New Account Services at 1.800.GoFedEx 1.800.463.3339 and say “new account setup.”

Please follow the routing instructions below for fulfillment of MRFM drop-ship Purchase Orders requiring LTL service.

LTL shipments are those with an aggregate weight up to 150 lbs. Parcel shipments exceeding standard specs (i.e., greater than 130”, length + girth) should also be routed as LTL.

Exhibit B to Master Retailer Agreement

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Section 4: EX-31.1 (CERTIFICATION)

EXHIBIT 31.1

CERTIFICATIONS

I, Joseph B. Megibow, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Purple Innovation, Inc.;

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

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

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

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

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

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

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

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to

the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Dated: May 7, 2019

/s/ Joseph B. Megibow
Joseph B. Megibow, Chief Executive Officer
(Principal Executive Officer)

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Section 5: EX-31.2 (CERTIFICATION)

EXHIBIT 31.2

CERTIFICATIONS

I, Craig L. Phillips, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Purple Innovation, Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: May 7, 2019

/s/ Craig L. Phillips
Craig L. Phillips, Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

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Section 6: EX-32.1 (CERTIFICATION)

EXHIBIT 32.1

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Purple Innovation, Inc. (the "Corporation") for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph B. Megibow, Chief Executive Officer of the Corporation, hereby certifies, pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

Dated: May 7, 2019

/s/ Joseph B. Megibow
Joseph B. Megibow, Chief Executive Officer
(Principal Executive Officer)

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Section 7: EX-32.2 (CERTIFICATION)

EXHIBIT 32.2

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Purple Innovation, Inc. (the "Corporation") for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Craig L. Phillips, Interim Chief Financial Officer of the Corporation, hereby certifies, pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

Dated: May 7, 2019

/s/ Craig L Phillips
Craig L. Phillips, Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

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