

ICONIX BRAND GROUP, INC.

Form 10-Q/A

November 20, 2018

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2018

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 1-10593

ICONIX BRAND GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	11-2481903
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
1450 Broadway, New York, NY	10018
(Address of principal executive offices)	(Zip Code)

(212) 730-0030

(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 Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, \$.001 Par Value- 75,192,597 shares as of November 19, 2018.

EXPLANATORY NOTE – RESTATEMENT OF FINANCIAL INFORMATION

Iconix Brand Group, Inc. (“the Company”) is filing this Amendment No. 1 on Form 10-Q/A (the “Amended Filing”) to amend its Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, originally filed with the U.S. Securities and Exchange Commission (the “SEC”) on May 10, 2018 (the “Original Filing”).

Background and Effects of the Restatement

As previously disclosed, subsequent to the issuance of the Original Filing, the Company determined that the calculation of diluted earnings per share included therein did not reflect the dilutive impact of the potential conversion of the Company’s 5.75% convertible senior subordinated notes due August 2023 (the “5.75% Convertible Notes”). In accordance with Accounting Standards Codification 260, “Earnings Per Share,” when calculating diluted earnings per share, the dilutive effect of convertible securities shall be reflected as an adjustment to the income available to common stockholders and as an adjustment to the weighted average shares outstanding. This adjustment for the convertible securities is required when the net effect of the adjustment is dilutive to the Company’s earnings per share. For the three months ended March 31, 2018, diluted earnings per share was restated from the previously reported diluted earnings per share of \$0.51 to a restated diluted earnings per share of \$0.11.

Additionally, during the six months ended June 30, 2018, the Company determined that the debt issuance costs associated with the Company’s issuance of its 5.75% Convertible Notes had been incorrectly capitalized in the Company’s consolidated balance sheet as of March 31, 2018. Management evaluated the materiality of the error from a quantitative and qualitative perspective and concluded that this adjustment was not material to the Company’s presentation and disclosures, and had no material impact on the Company’s financial position, results of operations and cash flows. Accordingly, no amendment to the previously filed report was deemed necessary at that time. However, the Company has corrected this adjustment in this Amended Filing.

Refer to Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements in this Amended Filing.

Disclosure Controls and Procedures

Management has reassessed its evaluation of the effectiveness of its Disclosure Controls and Procedures as of March 31, 2018, and has concluded that there was a previously identified material weakness in the Company’s management review controls related to the financial reporting for the modification of our debt. For a description of the material weakness in our internal control over financial reporting and our plan to remediate the material weakness, see Part II – Item 4. Controls and Procedures of this Amended Filing.

Items Amended in This Filing

This Amended Filing amends and restates the following items of the Company's Original Filing as of, and for the period ended March 31, 2018.

Part I – Item 1. Financial Statements

Part II – Item 6. Exhibits

In accordance with applicable SEC rules, this Amended Filing includes certifications as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") from the Company's Principal Executive Officer and Principal Financial Officer dated as of the date of this Amended Filing.

Except for the items noted above, no other information included in the Original Filing is being amended by this Amended Filing. The Amended Filing speaks as of the date of the Original Filing and the Company has not updated the Original Filing to reflect events occurring subsequent to the date of the Original Filing. Accordingly, this Amended Filing should be read in conjunction with the Company's filings made with the SEC subsequent to the date of the Original Filing.

Part I. Financial Information

Item 1. Financial Statements

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except par value)

	March 31, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$52,017	\$65,927
Restricted cash	43,719	48,766
Accounts receivable, net	47,470	66,625
Other assets – current	56,514	51,850
Total Current Assets	199,720	233,168
Property and equipment:		
Furniture, fixtures and equipment	22,012	21,661
Less: Accumulated depreciation	(16,145)	(15,567)
	5,867	6,094
Other Assets:		
Other assets	17,925	6,268
Deferred income tax asset	4,486	4,492
Trademarks and other intangibles, net	468,675	465,722
Investments and joint ventures	91,182	90,887
Goodwill	63,882	63,882
	646,150	631,251
Total Assets	\$851,737	\$870,513
Liabilities, Redeemable Non-Controlling Interest and Stockholders' Deficit		
Current Liabilities:		
Accounts payable and accrued expenses	\$32,918	\$49,191
Deferred revenue	8,726	5,525
Current portion of long-term debt	46,549	44,349
Other liabilities – current	10,236	13,581
Total Current Liabilities	98,429	112,646
Deferred income tax liability	11,892	11,466
Other tax liabilities	492	531
Long-term debt, less current maturities (includes \$109,455 and \$0, respectively, at fair value)	716,111	756,493
Other liabilities	9,847	10,066
Total Liabilities	836,771	891,202
Redeemable Non-Controlling Interest	29,792	30,287

Commitments and contingencies

Stockholders' (Deficit) Equity:

Common stock, \$.001 par value shares authorized 150,000; shares issued 96,816 and

90,159, respectively	97	90
Additional paid-in capital	1,031,084	1,044,518
Accumulated losses	(182,105)	(223,718)
Accumulated other comprehensive loss	(45,342)	(51,280)
Less: Treasury stock – 32,912 and 32,820 shares at cost, respectively	(844,055)	(844,030)
Total Iconix Brand Group, Inc. Stockholders' Deficit	(40,321)	(74,420)
Non-Controlling Interest, net of installment payments due from non-controlling		
interest holders	25,495	23,444
Total Stockholders' Deficit	(14,826)	(50,976)
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	\$851,737	\$870,513

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except earnings per share data)

	Three Months Ended March 31, 2018 (restated) 2017	
Licensing revenue	\$48,548	\$58,722
Selling, general and administrative expenses	33,599	25,392
Depreciation and amortization	654	653
Equity earnings on joint ventures	(96)	(933)
Gain on sale of trademarks	(1,143)	—
Operating income	15,534	33,610
Other expenses (income):		
Interest expense	14,549	15,049
Interest income	(122)	(126)
Other income	(26,132)	(1)
(Gain) loss on extinguishment of debt	(4,473)	5,482
Foreign currency translation (gain) loss	(551)	429
Other (income) expenses – net	(16,729)	20,833
Income from continuing operations before income taxes	32,263	12,777
Provision for income taxes	1,650	5,887
Net income from continuing operations	30,613	6,890
Less: Net income attributable to non-controlling interest from continuing operations	2,857	2,488
Net income from continuing operations attributable to Iconix Brand Group, Inc.	27,756	4,402
Loss from discontinued operations before income taxes	—	(12,477)
Benefit for income taxes	—	(5,098)
Net loss from discontinued operations	—	(7,379)
Less: Net income attributable to non-controlling interest from discontinued operations	—	1,303
Net loss from discontinued operations attributable to Iconix Brand Group, Inc.	—	(8,682)
Net income (loss) attributable to Iconix Brand Group, Inc.	\$27,756	\$(4,280)
Earnings (loss) per share - basic:		
Continuing operations	\$0.43	\$0.06
Discontinued operations	\$—	\$(0.15)
Earnings (loss) per share - basic	\$0.43	\$(0.09)
Earnings (loss) per share - diluted:		
Continuing operations	\$0.11	\$0.06
Discontinued operations	\$—	\$(0.15)
Earnings (loss) per share - diluted	\$0.11	\$(0.09)
Weighted average number of common shares outstanding:		

Basic	59,117	56,964
Diluted	82,352	56,964

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Income

(in thousands)

	Three Months Ended March	
	31,	
	2018	2017
Net income from continuing operations	\$ 30,613	\$ 6,890
Other comprehensive income:		
Foreign currency translation gain	2,761	2,630
Change in fair value of available for sale securities	—	(571)
Total other comprehensive income	2,761	2,059
Comprehensive income	\$ 33,374	\$ 8,949
Less: comprehensive income attributable to non-controlling		
interest from continuing operations	2,857	2,488
Comprehensive income from continuing operations		
attributable to Iconix Brand Group, Inc.	\$ 30,517	\$ 6,461

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statement of Stockholders' (Deficit) Equity

Three Months Ended March 31, 2018

(in thousands)

	Common Stock Shares	Amount \$	Additional Paid- In Capital	Accumulated Losses	Accumulated Comprehensive Loss	Other Treasury Stock	Non- Controlling Interest	Total
Balance at January 1, 2018	90,159	\$ 90	\$1,044,518	\$(223,718)	\$ (51,280)	\$(844,030)	\$ 23,444	\$(50,976)
Shares issued on vesting of								
restricted stock	245	1	—	—	—	—	—	1
Shares issued on conversion of								
5.75% Convertible Notes	6,412	6	8,740	—	—	—	—	8,746
Writeoff of equity component of								
1.50% Convertible Notes	—	—	(23,250)	—	—	—	—	(23,250)
Cumulative effect of accounting								
change for adoption of ASC 606	—	—	—	16,540	—	—	1,176	17,716
Cumulative effect of accounting change for adoption of ASU 2016-01	—	—	—	(3,177)	3,177	—	—	—
Shares repurchased on vesting of								
restricted stock and exercise of								
stock options	—	—	—	—	—	(25)	—	(25)
Compensation expense in	—	—	1,019	—	—	—	—	1,019

connection with
restricted stock

and stock options
Payments from
non-controlling

interest holders, net
of imputed

interest	—	—	—	—	—	—	195	195
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Change in redemption
value of

redeemable
non-controlling

interest	—	—	—	494	—	—	—	494
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Net income	—	—	—	27,756	—	—	2,857	30,613
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Tax benefit related to
amortization

of convertible notes'
discount

Foreign currency translation	—	—	35	—	—	—	—	35
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Foreign currency translation	—	—	22	—	2,761	—	—	2,783
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Distributions to joint ventures	—	—	—	—	—	—	(2,177)	(2,177)
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Balance at March 31, 2018	96,816	\$ 97	\$1,031,084	\$(182,105)	\$ (45,342)	\$(844,055)	\$ 25,495	\$(14,826)
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See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income from continuing operations	\$30,613	\$6,890
Loss from discontinued operations	—	(7,379)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	558	434
Amortization of trademarks and other intangibles	96	219
Amortization of deferred financing costs and debt discount	877	1,558
Amortization of convertible note discount	3,298	4,346
Third party fees associated with the issuance of 5.75% Convertible Notes	4,959	—
Stock-based compensation expense	1,019	1,722
Provision for doubtful accounts	507	2,626
Earnings on equity investments in joint ventures	(96)	(933)
Distributions from equity investments	922	1,182
Gain on sale of trademarks, net	(1,143)	—
Settlement of note receivable related to formation of Buffalo joint venture	1,141	—
Mark to market adjustment on convertible note	(25,174)	—
Gain on sale of Complex Media	(958)	—
(Gain) loss\ on extinguishment of debt	(4,473)	5,482
Deferred income tax provision	157	113
(Gain) loss on foreign currency translation	(551)	429
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	19,064	2,013
Other assets – current	(928)	2,239
Other assets	(413)	681
Deferred revenue	3,129	586
Accounts payable and accrued expenses	(11,092)	(21,054)
Other tax liabilities	(39)	3,148
Other liabilities	(272)	220
Net cash provided by continuing operating activities	21,201	11,901
Net cash used in discontinued operating activities	—	(1,352)
Net cash provided by operating activities	21,201	10,549
Cash flows provided by (used in) investing activities:		
Purchases of property and equipment	(282)	(179)
Acquisition of additional interest in Iconix MENA	—	(1,800)
Acquisition of trademarks from Iconix Southeast Asia	(2,125)	—
Acquisition of remaining interest in Iconix Canada	(2,700)	—
Acquisition of Badgley Mischka and Sharper Image trademarks in certain international joint ventures	(1,164)	—

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Proceeds received from note due from American Greetings	—	1,250
Proceeds from sale of interest in Badgley Mischka in certain international joint ventures	1,250	—
Proceeds from sale of Complex Media	958	—
Proceeds from note receivable from formation of Buffalo joint venture	1,409	—
Additions to trademarks	(201)	(11)
Net cash used in continuing investing activities	(2,855)	(740)
Net cash used in discontinued investing activities	—	(31)
Net cash used in investing activities	(2,855)	(771)
Cash flows provided by (used in) financing activities:		
Prepaid financing costs	(5,491)	—
Proceeds from long-term debt, net of discount and fees	95,700	—
Payment of long-term debt	(122,380)	(105,921)
Payment of make-whole premium on repayment of long-term debt	—	(6,751)
Proceeds from sale of trademarks and related notes receivable from consolidated JVs	201	2,947
Distributions to non-controlling interests	(6,587)	(2,917)
Tax benefit related to amortization of convertible notes' discount	35	22
Cost of shares repurchased on vesting of restricted stock	(25)	(843)
Net cash used in continuing financing activities	(38,547)	(113,463)
Net cash used in discontinued financing activities	—	—
Net cash used in financing activities	(38,547)	(113,463)
Effect of exchange rate changes on cash and restricted cash	1,244	508
Net decrease in cash and cash equivalents, and restricted cash	(18,957)	(103,177)
Cash, cash equivalents, and restricted cash from continuing operations, beginning of period	114,693	314,383
Cash and cash equivalents from discontinued operations, beginning of period	—	12,297
Cash, cash equivalents, and restricted cash, beginning of period	114,693	326,680
Cash, cash equivalents, and restricted cash, end of period	95,736	124,778
Less: Cash and cash equivalents from discontinued operations, end of period	—	15,403
Cash, cash equivalents, and restricted cash of continuing operations, end of period	\$95,736	\$109,375

Supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2018	2017
Cash paid during the period:		
Income taxes (net of refunds received)	\$2,619	\$5,763
Interest	\$10,060	\$24,389
Non-cash investing and financing activities:		
Make-whole premium on repayment of long-term debt	\$—	\$15,737
Shares issued upon conversion of debt	\$8,746	\$—

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2018

(dollars in thousands (unless otherwise noted) except per share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Iconix Brand Group, Inc. (the “Company,” “we,” “us,” or “our”), all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2018 (“Current Quarter”) are not necessarily indicative of the results that may be expected for a full fiscal year. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

During the Current Quarter, the Company adopted seven new accounting pronouncements. Refer to Note 20 for further details.

Certain reclassifications, which were immaterial, have been made to conform prior year data to the current presentation.

Restatement

As previously disclosed, subsequent to the issuance of the Original Filing, the Company determined that the calculation of diluted earnings per share included therein did not reflect the dilutive impact of the potential conversion of the Company’s 5.75% convertible senior subordinated notes due August 2023 (the “5.75% Convertible Notes”). In accordance with Accounting Standards Codification 260, “Earnings Per Share,” when calculating diluted earnings per share, the dilutive effect of convertible securities shall be reflected as an adjustment to the income available to common stockholders and as an adjustment to the weighted average shares outstanding. This adjustment for the convertible securities is required when the net effect of the adjustment is dilutive to the Company’s earnings per share. For the three months ended March 31, 2018, diluted earnings per share was restated from the previously reported diluted earnings per share of \$0.51 to a restated diluted earnings per share of \$0.11.

Additionally, during the six months ended June 30, 2018, the Company determined that the debt issuance costs associated with the Company’s issuance of its 5.75% Convertible Notes had been incorrectly capitalized in the Company’s consolidated balance sheet as of March 31, 2018. Management evaluated the materiality of the error from a quantitative and qualitative perspective and concluded that this adjustment was not material to the Company’s presentation and disclosures, and had no material impact on the Company’s financial position, results of operations and cash flows. Accordingly, no amendment to the previously filed report was deemed necessary at that time. However,

the Company has corrected this adjustment in this Amended Filing. After taking into effect this adjustment, selling, general and administrative expenses is \$33.6 million, operating income is \$15.5 million, and net income from continuing operations attributable to Iconix Brand Group, Inc. is \$27.8 million for the three months ended March 31, 2018.

Assessment of Going Concern

These consolidated financial statements are prepared on a going concern basis that contemplates the realization of assets and discharge of liabilities in the normal course of business. Due to certain developments during the year ended December 31, 2017, including the decision by Target Corporation not to renew the existing Mossimo license agreement following its expiration in October 2018 and by Walmart, Inc. not to renew the existing Danskin Now license agreement following its expiration in January 2019, and the Company's revised projected future earnings, the Company had initially forecasted that it would unlikely be in compliance with certain of its financial debt covenants in 2018 and beyond and that it may otherwise face possible liquidity challenges in 2018 and beyond. As a result, the Company amended its Senior Secured Term Loan to provide relief under certain covenants and implemented a cost savings plan to improve liquidity.

Following the completion of an exchange (the "Exchange") whereby the Company exchanged an aggregate principal amount of approximately \$125 million of our 1.50% convertible senior subordinated notes due March 2018 (the "1.50% Convertible Notes") with the same aggregate principal value of our new 5.75% convertible senior subordinated notes due August 2023 (the "5.75% Convertible Notes"), the Company received proceeds of the Second Delayed Draw Term Loan of \$110 million, and used these proceeds, as well as cash on hand, to extinguish the remaining 1.50% Convertible Notes outstanding as of their maturity date, March 15, 2018. See Note 9 for further information on these financings.

While conditions and events do exist that may raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months, management believes that (i) as a result of the aforementioned amendments to the Senior Secured Term Loan, (ii) the Exchange, (iii) the extinguishment of the 1.50% Convertible Notes at maturity, as well as (iv) implemented and planned cost savings, that its plans alleviate this substantial doubt, and therefore the management believes that it will continue as a going concern for the next twelve months.

For additional information, please refer to Note 1 of Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

2. Discontinued Operations

On May 9, 2017, the Company signed definitive agreements to sell its Entertainment segment for \$349.1 million in cash, which included a customary working capital adjustment. The sale was completed on June 30, 2017. As a result of the sale, the Company has classified the results of its Entertainment segment as discontinued operations in its condensed consolidated statement of operations for the three months ended March 31, 2017 ("Prior Year Quarter").

The following table presents the details of the Entertainment segment for the Prior Year Quarter which were shown as income from discontinued operations, net of income taxes, in our unaudited condensed consolidated statement of operations:

	Three Months Ended
	March 31, 2017 (unaudited)
Licensing revenue	\$—\$27,461
Selling, general and administrative expenses	— 17,850
Depreciation and amortization	— 185
Operating income	— 9,426
Other expenses (income):	
Interest expense	— 6,122
Interest income	— (99)
Loss on extinguishment of debt	— 15,737
Foreign currency translation loss	— 143