

ICONIX BRAND GROUP, INC.  
Form 10-Q  
December 22, 2017

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2017

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 (State or other jurisdiction of incorporation or organization)	11-2481903 (I.R.S. Employer Identification No.)
1450 Broadway, New York, NY (Address of principal executive offices)	10018 (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company) 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- 57,213,279 shares as of December 20, 2017.

## Part I. Financial Information

## Item 1. Financial Statements

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Balance Sheets

(in thousands, except par value)

	September 30,  2017	December 31,  2016
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$50,966	\$137,114
Restricted cash	279,759	177,269
Accounts receivable, net	64,855	64,376
Other assets – current	23,229	31,676
Current assets held for sale	—	302,342
<b>Total Current Assets</b>	<b>418,809</b>	<b>712,777</b>
<b>Property and equipment:</b>		
Furniture, fixtures and equipment	21,600	20,508
Less: Accumulated depreciation	(15,102 )	(13,827 )
	6,498	6,681
<b>Other Assets:</b>		
Other assets	8,179	10,719
Deferred income tax asset	6,122	884
Trademarks and other intangibles, net	468,520	1,003,895
Investments and joint ventures	114,080	99,309
Goodwill	63,882	171,250
	660,783	1,286,057
<b>Total Assets</b>	<b>\$1,086,090</b>	<b>\$2,005,515</b>
<b>Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$36,518	\$60,401
Deferred revenue	8,780	8,399
Current portion of long-term debt	553,549	160,435
Other liabilities – current	8,648	1,311
Current liabilities held for sale	—	28,583
<b>Total Current Liabilities</b>	<b>607,495</b>	<b>259,129</b>
Deferred income tax liability	52,762	86,099
Other tax liabilities	1,078	5,243
Long-term debt, less current maturities	459,769	1,093,725
Other liabilities	11,918	9,946
<b>Total Liabilities</b>	<b>1,133,022</b>	<b>1,454,142</b>

Redeemable Non-Controlling Interest, net of installment payments due from

non-controlling interest holders, redemption value of \$30,729

and \$60,665, respectively	30,729	56,729
Commitments and contingencies		
Stockholders' (Deficit) Equity:		
Common stock, \$.001 par value shares authorized 150,000; shares issued 90,129 and		
89,717, respectively	90	89
Additional paid-in capital	1,039,538	1,033,729
Retained (loss) earnings	(248,053 )	257,704
Accumulated other comprehensive loss	(50,153 )	(70,428 )
Less: Treasury stock – 32,810 and 32,680 shares at cost, respectively	(844,030 )	(842,952 )
Total Iconix Brand Group, Inc. Stockholders' (Deficit) Equity	(102,608 )	378,142
Non-Controlling Interest, net of installment payments due from non-controlling		
interest holders	24,947	116,502
Total Stockholders' (Deficit) Equity	(77,661 )	494,644
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	\$ 1,086,090	\$ 2,005,515

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Licensing revenue	\$53,165	\$60,457	\$173,535	\$196,342
Selling, general and administrative expenses	21,509	29,870	73,702	91,976
Loss on termination of licenses	2,750	—	25,980	—
Depreciation and amortization	592	233	1,814	2,093
Equity earnings on joint ventures	(483 )	(574 )	(2,475 )	(3,130 )
Gain on deconsolidation of joint venture	—	—	(3,772 )	—
Gain on sale of trademarks	(875 )	(147 )	(875 )	(9,991 )
Trademark impairment	521,653	—	521,653	—
Goodwill impairment	103,877	—	103,877	—
Operating (loss) income	(595,858)	31,075	(546,369)	115,394
Other expenses (income):				
Interest expense	16,911	18,334	45,787	59,751
Interest income	(150 )	(140 )	(417 )	(687 )
Other income	(2,648 )	(10,164)	(2,649 )	(10,180 )
Loss (gain) on extinguishment of debt	1,539	(4,186 )	20,939	(8,473 )
Foreign currency translation loss (gain)	(1,091 )	733	2,755	617
Other expenses – net	14,561	4,577	66,415	41,028
(Loss) income from continuing operations before income taxes	(610,419)	26,498	(612,784)	74,366
Provision (benefit) for income taxes	(29,606 )	9,433	(29,220 )	25,157
Net (loss) income from continuing operations	(580,813)	17,065	(583,564)	49,209
Less: Net income attributable to non-controlling interest from				
continuing operations	(30,242 )	2,885	(23,857 )	9,802
Net (loss) income from continuing operations attributable to				
Iconix Brand Group, Inc.	(550,571)	14,180	(559,707)	39,407
(Loss) income from discontinued operations before income taxes	(2,308 )	3,231	(26,232 )	13,857
Gain (loss) on sale of Entertainment segment	(228 )	—	104,099	—
Provision (benefit) for income taxes	(406 )	497	28,555	3,074
Net income (loss) from discontinued operations	(2,130 )	2,734	49,312	10,783
Less: Net income attributable to non-controlling interest from				
discontinued operations	—	1,698	2,943	4,778
Net income (loss) from discontinued operations attributable to				
Iconix Brand Group, Inc.	(2,130 )	1,036	46,369	6,005

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Net (loss) income attributable to Iconix Brand Group, Inc.	\$(552,701)	\$15,216	\$(513,338)	\$45,412
<b>(Loss) earnings per share - basic:</b>				
Continuing operations	\$(9.64	) \$0.26	\$(9.83	) \$0.77
Discontinued operations	\$(0.04	) \$0.02	\$0.81	\$0.12
(Loss) earnings per share - basic	\$(9.67	) \$0.27	\$(9.02	) \$0.89
<b>(Loss) earnings per share - diluted:</b>				
Continuing operations	\$(9.64	) \$0.25	\$(9.83	) \$0.75
Discontinued operations	\$(0.04	) \$0.02	\$0.81	\$0.11
(Loss) earnings per share - diluted	\$(9.67	) \$0.27	\$(9.02	) \$0.86
<b>Weighted average number of common shares outstanding:</b>				
Basic	57,189	55,584	57,081	51,060
Diluted	57,189	57,355	57,081	52,802

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net (loss) income from continuing operations	\$ (580,813 )	\$ 17,065	\$(583,564)	\$49,209
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	6,353	3,000	20,900	7,955
Change in fair value of available for sale securities	46	47	(625 )	(2,179 )
Total other comprehensive income	6,399	3,047	20,275	5,776
Comprehensive (loss) income	\$ (574,414 )	\$ 20,112	\$(563,289)	\$54,985
Less: comprehensive income attributable to non-controlling				
interest from continuing operations	(30,242 )	2,885	(23,857 )	9,802
Comprehensive (loss) income from continuing operations				
attributable to Iconix Brand Group, Inc.	\$ (544,172 )	\$ 17,227	\$(539,432)	\$45,183

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statement of Stockholders' (Deficit) Equity

Nine Months Ended September 30, 2017

(in thousands)

	Common Stock Shares	Additional Paid- Amount In Capital	Retained Earnings	Accumulated Comprehensive Loss	Other Treasury Stock	Non-Controlling Interest	Total	
Balance at January 1, 2017	89,717	\$ 89	\$1,033,729	\$257,704	\$ (70,428 )	\$(842,952)	\$ 116,502	\$494,644
Shares issued on vesting of								
restricted stock	412	1	—	—	—	—	—	1
Shares repurchased on vesting of								
restricted stock and exercise of								
stock options	—	—	—	—	—	(1,078 )	—	(1,078 )
Compensation expense in								
connection with restricted stock								
and stock options	—	—	4,248	—	—	—	—	4,248
Write off of accretion expense due to								
deconsolidation of joint venture	—	—	—	4,527	—	—	—	4,527
Payments from non-controlling								
interest holders, net of imputed								
interest	—	—	—	—	—	—	2,925	2,925
Elimination of non-controlling	—	—	—	—	—	—	(36,907 )	(36,907 )



interest related to sale of the Entertainment segment								
Additional paid in capital associated with purchase of additional interest in Iconix Canada joint venture	—	—	1,473	—	—	—	—	1,473
Elimination of non-controlling interest related to purchase of additional interest in Iconix Canada joint venture	—	—	—	—	—	—	(19,530 )	(19,530 )
Elimination of non-controlling interest related to the sale of NGX	—	—	—	—	—	—	(2,529 )	(2,529 )
Change in redemption value of redeemable non-controlling interest	—	—	—	3,054	—	—	—	3,054
Change in fair value of available for sale securities	—	—	—	—	(625 )	—	—	(625 )
Net (loss) income	—	—	—	(513,338)	—	—	(20,914 )	(534,252)
Tax benefit related to amortization of convertible notes' discount	—	—	78	—	—	—	—	78
Foreign currency translation	—	—	10	—	20,900	—	—	20,910
Distributions to joint ventures	—	—	—	—	—	—	(14,600 )	(14,600 )
	90,129	\$ 90	\$ 1,039,538	\$(248,053)	\$ (50,153 )	\$(844,030)	\$ 24,947	\$(77,661 )

Balance at  
September 30, 2017

See Notes to Unaudited Condensed Consolidated Financial Statements.

5

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## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net (loss) income from continuing operations	\$(583,564)	\$49,209
Income from discontinued operations	\$49,312	\$10,783
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of property and equipment	1,247	1,129
Amortization of trademarks and other intangibles	567	964
Amortization of deferred financing costs and debt discount	2,299	7,233
Amortization of convertible note discount	13,225	17,789
Stock-based compensation expense	3,825	4,498
Provision for doubtful accounts	5,386	8,348
Earnings on equity investments in joint ventures	(2,475 )	(3,130 )
Distributions from equity investments	2,824	3,412
Gain on deconsolidation of joint venture	(3,772 )	—
Gain on sale of trademarks, net	(875 )	(9,991 )
Loss on sale of NGX	79	—
Gain on sale of Complex Media	(2,728 )	(10,164 )
Loss (gain) on extinguishment of debt	20,939	(8,473 )
Goodwill impairment	103,877	—
Trademark impairment	521,653	—
Deferred income tax (benefit) provision	(31,721 )	16,528
Loss (gain) on foreign currency translation	2,755	617
<b>Changes in operating assets and liabilities, net of business acquisitions:</b>		
Accounts receivable	(4,596 )	(7,043 )
Other assets – current	(9,541 )	(1,198 )
Other assets	2,543	6,188
Deferred revenue	(13 )	(4,588 )
Accounts payable and accrued expenses	(34,375 )	(6,537 )
Other tax liabilities	(4,165 )	—
Other liabilities	(297 )	1,190
Net cash provided by continuing operating activities	3,097	65,981
Net cash (used in) provided by discontinued operating activities	(6,966 )	12,980
Net cash (used in) provided by operating activities	(3,869 )	78,961
<b>Cash flows provided by (used in) investing activities:</b>		
Purchases of property and equipment	(829 )	(844 )
Acquisition of additional interest in Iconix MENA	(1,800 )	—
Acquisition of interest in Galore Media	—	(500 )
Acquisition of remaining interest in Iconix Canada	(11,177 )	—
Proceeds received from note due from American Greetings	1,250	3,750

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Proceeds received from note due from Buffalo International	—	4,100
Proceeds from sale of BBC Ice Cream	—	3,500
Proceeds from sale of Badgley Mischka	—	14,000
Proceeds from sale of interest in TangLi International Holding Ltd.	—	11,352
Proceeds from sale of interest in Mecox Lane Limited	—	363
Proceeds from sale of Galore Media	250	—
Proceeds from sale of Complex Media	2,728	35,284
Proceeds from sale of NGX	2,561	—
Proceeds from sale of interest in certain Badgley Mischka related assets in respect of the Greater China territory	—	1,200
Proceeds from sale of minority interest in Umbro trademarks in the Greater China territory	—	2,500
Proceeds from sale of interest in Badgley Mischka Canada	375	—
Proceeds from sale of interest in Sharper Image Canada	500	—
Proceeds from sale of trademarks and related notes receivable	—	1,172
Proceeds from sale of discontinued operation, net of cash sold	336,675	—
Decrease in cash and cash equivalents from deconsolidation of joint venture	(1,853 )	—
Additions to trademarks	(109 )	(134 )
Net cash provided by continuing investing activities	328,571	75,743
Net cash used in discontinued investing activities	(84 )	(305 )
Net cash provided by investing activities	328,487	75,438
Cash flows provided by (used in) financing activities:		
Prepaid financing costs	(7,145 )	(35,754 )
Proceeds from Variable Funding Notes, net of discount and fees	73,437	—
Proceeds from long-term debt, net of discount and fees	288,000	300,000
Payment of long-term debt	(583,157)	(209,428)
Repurchase of convertible notes	(58,810 )	(178,973)
Payment of make-whole premium on repayment of long-term debt	(13,933 )	—
Payment to Purim	—	(2,000 )
Proceeds from sale of trademarks and related notes receivable from consolidated JVs	6,927	4,965
Distributions to non-controlling interests	(3,850 )	(9,321 )
Tax benefit related to amortization of convertible notes' discount	78	222
Cost of shares repurchased on vesting of restricted stock and exercise of stock options	(1,078 )	(563 )
Restricted cash	(102,490)	(68,262 )
Net cash used in continuing financing activities	(402,021)	(199,114)
Net cash used in discontinued financing activities	(23,873 )	(4,592 )
Net cash provided used in financing activities	(425,894)	(203,706)
Effect of exchange rate changes on cash	2,831	1,433
Net decrease in cash and cash equivalents	(98,445 )	(47,874 )
Cash and cash equivalents from continuing operations, beginning of period	137,114	156,053
Cash and cash equivalents from discontinued operations, beginning of period	12,297	13,918
Cash and cash equivalents, beginning of period	149,411	169,971
Cash and cash equivalents, end of period	50,966	122,097
Less: Cash and cash equivalents from discontinued operations, end of period	—	14,315
Cash and cash equivalents of continuing operations, end of period	\$50,966	\$107,782

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30,	
	2017	2016
Cash paid during the period:		
Income taxes (net of refunds received)	\$34,836	\$5,479
Interest	\$51,657	\$31,911
Non-cash investing and financing activities:		
Issuance of shares in connection with repurchase of convertible notes	\$—	\$24,324

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2017

(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 September 30, 2017 (“Current Quarter”) and the nine months ended September 30, 2017 (“Current Nine Months”) 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, 2016.

During the Current Nine Months, the Company’s Board of Directors approved a plan to sell the businesses underlying our Entertainment segment representing the intellectual property of both the Peanuts and Strawberry Shortcake brands. As a result, the Company has classified the results of its Entertainment segment as discontinued operations in its condensed consolidated statement of operations for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale in its condensed consolidated balance sheet as of December 31, 2016. On May 9, 2017, the Company signed definitive agreements to sell its Entertainment segment. The sale of the Entertainment segment was completed on June 30, 2017. See Note 2 for further details.

On June 30, 2017, the Company deconsolidated its Iconix SE Asia, Ltd. joint venture due to the receipt of the final purchase price installment payment from its joint venture partner, in respect of such partner’s interest in the joint venture. As a result, as of June 30, 2017, the Company is accounting for its investment in Iconix SE Asia, Ltd. as an equity method investment. Refer to Note 4 for further details.

In July 2017, the Company purchased the remaining 50% ownership interest in both Iconix Canada L.P. and Ico Brands L.P (together with Iconix Canada L.P., collectively, “Iconix Canada”) owned by its joint venture partner for \$19.0 million plus 50% of the net asset value of Iconix Canada (estimated to be approximately \$2.0 million), in cash. Refer to Note 4 for further details.

In the Current Nine Months, the Company recognized a loss of \$26.0 million due to the early termination of licenses and a litigation settlement related to license terminations which has been recorded within loss on termination of licenses in the Company’s condensed consolidated statement of operations.

During the Current Nine Months, the Company adopted four new accounting pronouncements. Refer to Note 18 for further details.

The Company's principal Ocean Pacific ("OP") direct-to-retail ("DTR") license agreement at Walmart was not renewed upon expiration in June 2017. The Company's Starter DTR license agreement at Walmart will not be renewed upon expiration in December 2017. In October 2017 the Company also announced that Starter is now available on Amazon exclusively to Amazon Prime members. Additionally, the Company has learned that its Danskin Now license agreement with Walmart will not be renewed upon its expiration in January 2019 and royalty revenue for the Danskin Now brand at Walmart is estimated to decline approximately \$15.5 million in 2018. The Company's Mossimo DTR license agreement at Target will not be renewed upon expiration in October 2018 and royalty revenue for the Mossimo brand at Target is estimated to decline approximately \$10.0 million in 2018. The Company is actively seeking to place OP, Danskin and Mossimo with new or existing licensees. At this time, the Company is uncertain how the terms and conditions of any potential replacement licensing arrangements could affect its future revenues and cash flows.

As of September 30, 2017, as a result of a combination of factors, including the DTR non-renewals discussed above, the Company's revised forecasted future earnings and an overall decline in sales in the retail industry during 2017, the Company conducted an interim indefinite-lived intangible impairment test in accordance with FASB Accounting Standards Codification Topic 350 – Intangibles – Goodwill and Other ("ASC 350"). In addition, as a result of the recent decline in the Company's stock price and related market capitalization, the Company determined that there existed a further indication of potential impairment across all of the Company's intangible assets. Consequently, the Company accelerated the timing of annual impairment testing of goodwill and intangible assets that is customarily performed in connection with the preparation of its year-end financial statements, and completed such testing in connection with the preparation of its financial statements for the Current Quarter.

In the Current Quarter, the Company recorded a total non-cash asset impairment charge of \$521.7 million which is comprised of \$135.9 million in the men's segment, \$227.6 million in the women's segment, \$69.5 million in the home segment, and \$88.8 million in the international segment to reduce various trademarks in those segments to fair value. Additionally, the Company recorded a total non-cash goodwill impairment charge of \$103.9 million which is comprised of \$73.9 million in the women's segment, \$1.5 million in the men's segment and \$28.4 million in the home segment.

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

#### Assessment of Going Concern

These condensed 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, 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 DanskinNow license agreement following its expiration in January 2019, and the Company's revised forecasted future earnings, the Company forecasted that it would unlikely be in compliance with certain of its financial debt covenants in 2018 and that it may otherwise face possible liquidity challenges in 2018 as further described below.

As a result, the Company recently engaged in discussions with its lenders to provide relief under its financial debt covenants and on October 27, 2017 entered into an amendment (the "First Amendment") of its senior secured term loan facility with Deutsche Bank (the "DB Credit Agreement"). As a result of those negotiations, Deutsche Bank provided the Company with amended financial debt covenants and the Company agreed, among other things, to reduce the size of the credit facility by approximately \$75 million to \$225 million.

The proceeds of the original senior secured term loan facility were escrowed to be utilized to refinance the Company's 1.50% Convertible Notes (the "1.50% Convertible Notes") when they come due in March 2018. Prior to entering into the First Amendment, the Company had already used \$59 million of the escrowed proceeds made available under the original senior secured term loan facility to repay a portion of the 1.50% Convertible Notes and accrued interest. In connection with the First Amendment, the remaining escrowed funds from the original senior secured term loan facility were returned to Deutsche Bank and the bank agreed to provide the Company with a delayed draw term loan. The delayed draw term loan consists of (1) a \$25 million First Delayed Draw Term Loan which amount was funded in full in accordance with the terms of the DB Credit Agreement, as amended (the "First Delayed Draw Term Loan") and (ii) a \$140.7 million Second Delayed Draw Term Loan to be drawn on March 15, 2018 (the "Second Delayed Draw Term Loan" and together with the First Delayed Draw Term Loan, the "Delayed Draw Term Loan Facility").

Pursuant to the amendment, in order to receive the net proceeds of the Second Delayed Draw Term Loan on March 15, 2018, the Company will have to raise net cash proceeds of at least \$100 million (and/or achieving a reduction in the outstanding principal amount of the 1.50% Convertible Notes) which would provide sufficient funds with the amounts drawn under the Second Delayed Draw Term Loan for the Company to retire the 1.50% Convertible Notes outstanding on their maturity date. If the Company cannot secure additional funds or otherwise satisfy the requirements for availability of the First Delayed Draw Term Loan, the Company will not have sufficient liquidity to repay its 1.50% Convertible Notes which will become due in March 2018, which default may result in a cross-default and acceleration of the Company's other outstanding indebtedness, which could ultimately force the Company into bankruptcy or liquidation. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements contained in this Quarterly Report on Form 10-Q (this "Quarterly Report") are issued.



In order to continue its operations, the Company continues to actively evaluate various capital raising options to repay debt and add additional liquidity to the Company's balance sheet, as well as considering strategic alternatives, which could include the sale of certain assets or of the entire company, to sufficiently extend its cash and liquidity. There can be no assurance, however, that any of these alternatives will be successfully completed on terms acceptable to the Company to extend its cash and liquidity. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## 2. Discontinued Operations

During the Current Nine Months, the Company's Board of Directors approved a plan to sell the businesses underlying its Entertainment segment. On May 9, 2017, the Company signed definitive agreements to sell its Entertainment segment for \$349.1 million in cash, which includes 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 all periods presented. Additionally, the assets and liabilities associated with the discontinued operations were classified as held for sale in our condensed consolidated balance sheet as of December 31, 2016. The Company has recorded a pre-tax gain of \$104.1 million (net of transaction costs of \$7.8 million) on the sale of the Entertainment segment which is recorded within discontinued operations in its condensed consolidated statement of operations for the Current Nine Months.

The financial results of the Entertainment segment through September 30, 2017 are presented as income from discontinued operations, net of income taxes, in our condensed consolidated statement of operations. The following table presents financial results of the Entertainment segment for the Current Quarter, Current Nine Months, the three months ended September 30, 2016 (“Prior Year Quarter”) and the nine months ended September 30, 2016 (“Prior Year Nine Months”):

	Three Months Ended		Nine Months Ended	
	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)
Licensing revenue	\$—	\$30,487	\$53,129	\$84,977
Selling, general and administrative expenses	—	20,761	34,542	57,281
Depreciation and amortization	—	139	303	408
Operating income	—	9,587	18,284	27,288
Other expenses (income):				
Interest expense	—	6,543	12,973	14,726
Interest income	—	(189 )	(180 )	(548 )
Loss on extinguishment of debt	2,308	—	31,554	—
Foreign currency translation loss (gain)	—	2	169	(747 )
Other expenses – net	2,308	6,356	44,516	13,431
(Loss) Income from operations of discontinued operations before income taxes	(2,308)	3,231	(26,232 )	13,857
Gain (loss) on sale of Entertainment segment	(228 )	—	104,099	—
Provision (benefit) for income taxes	(406 )	497	28,555	3,074
Net income (loss) from discontinued operations	(2,130)	2,734	49,312	10,783
Less: Net income attributable to non-controlling interest from discontinued operations	—	1,698	2,943	4,778
Income (loss) from discontinued operations, net of income taxes	\$(2,130)	\$1,036	\$46,369	\$6,005

The cash proceeds from the sale of the Company’s Entertainment segment were utilized by the Company to make mandatory principal prepayments on both its Senior Secured Notes and Senior Secured Term Loan (as well as a corresponding prepayment premium). As a result, and in accordance with ASC 205-20-45-6, the Company has allocated interest expense of \$6.5 million (which includes \$1.0 million of amortization of the original issue discount on the Senior Secured Term Loan) for the Prior Year Quarter from continuing operations to discontinued operations. For the Current Nine Months and Prior Year Nine Months, the Company has allocated interest expense of \$12.9 million (which includes \$1.7 million of amortization of the original issue discount on the Senior Secured Term Loan) and \$14.5 million (which includes \$1.9 million of amortization of the original issue discount on the Senior Secured Term Loan), respectively, from continuing operations to discontinued operations. Given the completion of

the sale on June 30, 2017, there were no corresponding allocations of interest expense for the Current Quarter. For the Current Quarter, given the mandatory principal prepayment of \$152.2 million on the Senior Secured Notes paid in July 2017, the Company has allocated the associated prepayment penalty of \$0.3 million as well as the write-off of the pro-rata portion of deferred financing costs of \$2.0 million related to the Senior Secured Notes from continuing operations to discontinued operations on the Company's condensed consolidated statement of operations. Additionally, for the Current Nine Months, the Company has allocated the prepayment premium of \$15.2 million related to the Senior Secured Term Loan as well as the write-off of the pro-rata portion of deferred financing costs and original issue discount of \$9.4 million and \$4.7 million, respectively, from continuing operations to discontinued operations on the Company's condensed consolidated statement of operations. Refer to Note 7 for further details.

During the Current Quarter, the Company recorded an additional \$0.2 million of transaction costs associated with the sale of the Entertainment segment which has been allocated to discontinued operations and recorded within Gain on sale of Entertainment segment on the Company's condensed consolidated statement of operations resulting in a reduction of the pre-tax gain to \$104.1 million.

The following table presents the aggregate carrying amounts of the classes of held for sale assets and liabilities as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016 (unaudited)
Carrying amounts of assets included as part of		
discontinued operations		
Cash and cash equivalents	\$—	\$12,297
Accounts receivable, net	—	20,811
Other assets – current	—	598
Property and equipment	—	2,664
Other assets	—	8,505
Trademarks and other intangibles, net	—	204,348
Investments and joint ventures	—	90
Goodwill	—	53,029
Total assets classified as held for sale in the condensed		
consolidated balance sheet	\$—	\$302,342
Carrying amounts of liabilities included as part of		
discontinued operations		
Accounts payable and accrued expenses	\$—	\$11,760
Deferred revenue	—	11,767
Other liabilities	—	5,056
Total Liabilities classified as held for sale in the condensed		
consolidated balance sheet	\$—	\$28,583

The following table presents cash flow of the Entertainment segment during the Current Nine Months and Prior Year Nine Months:

	Nine Months Ended	
	September 30, 2017	2016
Net cash (used in) provided by discontinued operating		
activities	\$(6,966 )	\$12,980
Net cash used in discontinued investing	\$(84 )	\$(305 )

activities		
Net cash used in discontinued financing activities	\$(23,873)	\$(4,592)

### 3. Goodwill and Trademarks and Other Intangibles, net

As of September 30, 2017, as a result of a combination of factors, including the DTR non-renewals discussed above, the Company's revised forecasted future earnings and an overall decline in sales in the retail industry during 2017, the Company conducted an interim indefinite-lived intangible impairment test in accordance with ASC 350. In addition, as a result of the recent decline in the Company's stock price and related market capitalization, the Company determined that there existed a further indication of potential impairment across all of the Company's intangible assets. Consequently, the Company accelerated the timing of annual impairment testing of goodwill and intangible assets that is customarily performed in connection with the preparation of its year-end financial statements and completed such testing in connection with the preparation of its financial statements for the Current Quarter.

## Goodwill

Goodwill by reportable operating segment and in total, and changes in the carrying amounts, as of the dates indicated are as follows:

	Women's	Men's	Home	International	Consolidated
Net goodwill at December 31, 2016	\$ 111,749	\$ 1,524	\$ 28,414	\$ 29,563	\$ 171,250
Acquisitions	—	—	—	—	—
Deconsolidation of joint venture	—	—	—	(3,491 )	(3,491 )
Foreign Currency Adjustment	—	—	—	—	—
Impairment	(73,939 )	(1,524 )	(28,414 )	—	(103,877 )
Net goodwill at September 30, 2017	\$ 37,810	\$ —	\$ —	\$ 26,072	\$ 63,882

The annual evaluation of the Company's goodwill, by segment, is typically performed as of October 1, the beginning of the Company's fourth fiscal quarter. In connection with the preparation of the Company's consolidated financial statements for the fourth quarter of fiscal year 2016, the Company recorded a non-cash goodwill impairment charge of \$18.3 million in its men's segment. No goodwill impairment was recognized for the other segments of the Company during the fourth quarter of fiscal 2016.

In June 2017, the Company sold the businesses underlying its Entertainment segment. As a result, goodwill decreased by \$53.0 million which was recorded within current assets held for sale as of December 31, 2016. Refer to Note 2 for further details.

In June 2017, the Company received its final purchase price installment payment from its joint venture partner in respect of such partner's interest in the Iconix SE Asia, Ltd. joint venture. In accordance with ASC 810, the Company deconsolidated the joint venture from its condensed consolidated balance sheet as of June 30, 2017. As a result, goodwill decreased by \$3.5 million. Refer to Note 4 for further details.

As of September 30, 2017, based upon the results of step 1 of the goodwill impairment test in accordance with ASC 350, the Company noted that the carrying value of the women's, men's, home and international segments exceeded their fair values after first reflecting the impairment to trademarks. In accordance with step 2 of the goodwill impairment test, the Company recorded a non-cash impairment charge of \$103.9 million in the Current Quarter which is comprised of \$73.9 million, \$1.5 million, and \$28.4 million in the women's, men's, and home segment, respectively. There was no goodwill impairment in the Company's international segment during the Current Quarter and no goodwill impairment was recognized in the Prior Year Nine Months for any segment.

## Trademarks and Other Intangibles, net

Trademarks and other intangibles, net, consist of the following:

September 30, 2017		December 31, 2016	
Estimated Gross	Accumulated	Gross	Accumulated

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	Lives in	Carrying	Amortization	Carrying	Amortization
	Years	Amount		Amount	
Indefinite-lived trademarks	Indefinite	\$468,016	\$ —	\$1,002,850	\$ —
Definite-lived trademarks	10-15	8,958	8,907	8,958	8,870
Non-compete agreements	2-15	940	940	940	920
Licensing contracts	1-9	3,402	2,949	4,019	3,082
		\$481,316	\$ 12,796	\$1,016,767	\$ 12,872
Trademarks and other intangibles, net			\$ 468,520		\$ 1,003,895

The trademarks of Candie's, Bongo, Joe Boxer, Rampage, Mudd, London Fog, Mossimo, Ocean Pacific, Danskin, Rocawear, Cannon, Royal Velvet, Fieldcrest, Charisma, Starter, Waverly, Ecko, Zoo York, Ed Hardy, Umbro, Modern Amusement, Buffalo, Lee Cooper, Hydraulic and Pony have been determined to have an indefinite useful life. Each of these intangible assets are tested for impairment annually and as needed on an individual basis as separate single units of accounting, with any related impairment charge recorded to the income statement at the time of determining such impairment. The annual evaluation of the Company's indefinite-lived trademarks is typically performed as of October 1, the beginning of the Company's fourth fiscal quarter.

As it relates to the Company's impairment testing of goodwill and intangible assets, assumptions and inputs used in our fair value estimates include the following: (i) discount rates; (ii) royalty rates; (iii) projected average revenue growth rates; and (iv) projected long-term growth rates. Additionally, for those instances where core licenses have not been or will not be renewed and replacement licenses have not yet been identified, the Company's estimate of fair value may incorporate a probability weighted average of projected cash flows based on several scenarios (e.g. DTR license, wholesale license, or direct-to-consumer model). Key inputs to these scenarios, which were selected based on the perspective of a market participant and include estimated future retail and wholesale sales and related royalties, are assessed a probability of occurrence to compensate for the uncertainty of success and timing of completion. The Company will continue to reassess these probabilities and inputs, as well as economic conditions and expectations of management, and may record additional impairment charges as these estimates are updated, all of which is subject to change in the future based on period-specific facts and circumstances.

In connection with the preparation of the Company's financial statements for the fourth quarter of fiscal year 2016 and in accordance with ASC 350, the Company recorded non-cash impairment charges for indefinite-lived intangible assets (consisting of trademarks) of \$424.9 million which is comprised of \$144.6 million in the men's segment, \$31.5 million in the women's segment, \$50.0 million in the home segment, \$5.1 million in the entertainment segment and \$193.7 million in the international segment.

As September 30, 2017, as a result of a combination of factors, including the recent decisions 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 DanskinNow license agreement following its expiration in January 2019 and the Company's revised forecasted future earnings, the Company conducted an interim indefinite-lived intangible impairment test in accordance with ASC 350. As discussed above, as a result of the recent decline in the Company's stock price and related market capitalization, the Company determined that there existed a further indication of potential impairment across all of the Company's intangible assets. Consequently, the Company accelerated the timing of annual impairment testing of goodwill and intangible assets that is customarily performed in connection with the preparation of its year-end financial statements and completed such testing in connection with the preparation of its financial statements for the Current Quarter.

In the Current Quarter, the Company recorded a total non-cash asset impairment charge of \$521.8 million which is comprised of \$135.9 million in the men's segment, \$227.6 million in the women's segment, \$69.5 million in the home segment, and \$88.8 million in the international segment to reduce various trademarks in those segments to fair value.

There was no impairment of the indefinite-lived trademarks during the Prior Year Nine Months. Further, in accordance with ASC 360, there were no impairment charges to the Company's definite-lived trademarks during the Current Nine Months or Prior Year Nine Months.

In July 2017, the Company sold its ownership interest in NGX, LLC. As a result of this transaction, the Company's indefinite-lived trademarks decreased by \$5.0 million. Refer to Note 4 for further details.

In June 2017, the Company deconsolidated Iconix SE Asia, Ltd. which resulted in a decrease in indefinite-lived trademarks of \$22.7 million. Refer to Note 4 for further details.

In June 2017, the Company sold the businesses underlying its Entertainment segment, representing the intellectual property of both the Peanuts and Strawberry Shortcake brands. As a result of this transaction, the Company's indefinite-lived trademarks decreased by \$204.3 million (which represents \$153.6 million and \$50.7 million for the Peanuts and Strawberry Shortcake brand, respectively). These indefinite-lived trademarks were classified as assets held for sale as of December 31, 2016. Refer to Note 2 for further details.



In December 2016, the Company sold the rights to the Sharper Image intellectual property and related assets. As a result of this transaction, the Company's indefinite-lived trademarks decreased by \$55.6 million.

In June 2016, the Company sold the rights to the London Fog intellectual property in the South Korea territory. As a result of this transaction, the Company's indefinite-lived trademarks decreased by \$0.4 million.

In February 2016, the Company sold its rights to the Badgley Mischka intellectual property and related assets. At the time of this transaction, the definite-lived trademarks for Badgley Mischka were fully amortized in the Company's consolidated balance sheet. Refer to Note 5 for further details.

Other amortizable intangibles primarily include non-compete agreements and contracts, which are amortized on a straight-line basis over their estimated useful lives of 1 to 15 years. Certain trademarks are amortized using estimated useful lives of 10 to 15 years with no residual values.

Amortization expense for intangible assets for the Current Quarter was \$0.2 million as compared to amortization expense for intangible assets of \$(0.1) million for the Prior Year Quarter. Amortization expense for intangible assets for the Current Nine Months was \$0.6 million as compared to amortization expense for intangible assets of \$1.0 million for the Prior Year Nine Months.

#### 4. Joint Ventures and Investments

##### Joint Ventures

As of September 30, 2017, the following joint ventures are consolidated with the Company:

Entity Name	Date of Original Formation / Investment	Iconix's Ownership % as of September 30, 2017	Joint Venture Partner	Put / Call Options, as applicable <sup>(2)</sup>
Danskin China Limited <sup>(5)</sup>	October 2016	100%	Li-Ning (China) Sports Goods Co. Ltd.	—
Umbro China Limited <sup>(4)</sup>	July 2016	95%	Hong Kong MH Umbro International Co. Ltd.	Call Options
US Pony Holdings, LLC	February 2015	75%	Anthony L&S Athletics, LLC	—
Iconix MENA Ltd. <sup>(1)(6)</sup>	December 2014	55%	Global Brands Group Asia Limited	Put / Call Options
Iconix Israel, LLC <sup>(1)(3)</sup>	November 2013	50%	MGS	Call Option <sup>(3)</sup>
Iconix Europe LLC <sup>(1)</sup> Hydraulic IP Holdings	December 2009	51%	Global Brands Group Asia Limited	Put / Call Options
LLC <sup>(1)</sup>	December 2014	51%	Top On International	—
Diamond Icon <sup>(1)</sup> Buffalo brand joint	March 2013	51%	Albion Agencies Ltd.	—
venture <sup>(1)</sup>	February 2013	51%	Buffalo International	—
Icon Modern Amusement, LLC <sup>(1)</sup>	December 2012	51%	Dirty Bird Productions	—
Hardy Way, LLC	May 2009	85%	Donald Edward Hardy	—

<sup>(1)</sup>The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and its respective joint venture partner, the entity is a variable interest entity (VIE) and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company

has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

- (2) Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for material terms of the put and call options associated with certain of the Company's joint ventures.
- (3) The call option associated with Iconix Israel expired on May 14, 2016. However, in December 2016, the Company amended the Iconix Israel joint venture agreement to obtain the sole discretion and power to direct the activities of the Iconix Israel joint venture that most significantly impact its economic performance which requires the Company to continue to consolidate this joint venture its consolidated financial statements in accordance with ASC 810.
- (4) In July 2016, the Company executed an agreement with MH Umbro International Co. Limited ("MHMC") to sell up to an aggregate 50% interest in a newly registered company in Hong Kong which holds the Umbro intellectual property in respect of the Greater China territory for total cash consideration of \$25.0 million. The acquisition of such equity is expected to occur over a four-year period. As stipulated in the agreement, on each anniversary subsequent to the close of the transaction, MHMC will pay a portion of the total cash consideration to the Company in return for a percentage of the total potential 50% equity interest. In July 2016, the Company received \$2.5 million in cash from MHMC for a 5% interest in Umbro China. In accordance with ASC 810, the Company has recorded noncontrolling interest of \$1.8 million for the sale of 5% interest in Umbro China to MHMC and the corresponding gain associated with the sale of this interest is recorded in additional paid in capital on the Company's consolidated balance sheet as of September 30, 2017.

(5) In October 2016, the Company entered into an agreement with Li-Ning (China) Sports Goods Co., Ltd. (“LiNing”) to sell up to a 50% interest (and no less than a 30% interest) in its wholly-owned indirect subsidiary, Danskin China Limited (“Danskin China”), a new Hong Kong registered company, which holds the Danskin trademarks and related assets in respect of mainland China and Macau. LiNing’s purchase of the equity interest in Danskin China is expected to occur over a three-year period commencing on March 31, 2019 (the “First Closing”) for cash consideration of \$5.4 million. The aggregate cash consideration paid by LiNing for its ownership of Danskin China may, based on the percentage interest in Danskin China and LiNing elects to purchase on each anniversary of the First Closing, increase to up to \$8.6 million.

(6) In December 2016, the Company irrevocably exercised its call right to acquire an additional 5% equity interest in Iconix MENA from GBG for total cash consideration of \$1.8 million. After taking into effect this transaction and as of December 31, 2016, the Company’s ownership interest in Iconix MENA effectively increased to 55%. Such acquisition closed in February 2017. In addition to the increase in ownership interest, the joint venture agreement gives the Company the sole discretion and power to direct the activities of the Iconix MENA joint venture that most significantly impact the joint venture’s economic performance. As a result of this transaction, the Company continues to consolidate this joint venture in its consolidated financial statements in accordance with ASC 810.

In July 2017, the Company purchased the 50% ownership interest in both Iconix Canada L.P. and Ico Brands L.P. (together with Iconix Canada L.P., collectively, “Iconix Canada”) owned by its joint venture partner for \$19.0 million plus 50% of the net asset value of Iconix Canada (estimated to be approximately \$2.0 million), in cash, of which \$9.0 million was paid at closing and the remaining \$10.0 million will be paid over a two-year period through the Company’s distributions from its 51% interest in the Buffalo brand joint venture. The Company also paid 50% of the estimated net asset value of Iconix Canada at closing, subject to a post-closing reconciliation based on 50% of the actual net asset value of Iconix Canada. Additionally, as part of this transaction, the remaining outstanding purchase price installment payment of \$2.9 million due from the Company’s joint venture partner, in respect of such partner’s interest in the joint venture at inception was paid to the Company.

In July 2017, the Company sold its 51% ownership interest in NGX, LLC for a purchase price of \$2.4 million in cash. As a result of this transaction, the Company recognized a loss of less than \$0.1 million which has been recorded within Other Income on the Company’s condensed consolidated statement of operations during the Current Quarter.

As part of the formation of certain joint ventures, the Company entered into arrangements whereby the joint venture partner paid for its investment in the joint venture entity through payment of a portion of the purchase price in cash at closing and the remainder due over a pre-determined period of time.

As of September 30, 2017, the following amounts due from such joint venture partners remain recorded on the Company’s consolidated balance sheet:

Entity	Joint Venture Partner	Amount
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