

Differential Brands Group Inc.  
Form 10-Q  
May 15, 2018  
Table of Contents

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 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: 0-18926

DIFFERENTIAL BRANDS GROUP INC.

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of incorporation or organization)

11-2928178  
(I.R.S. Employer Identification No.)

1231 South Gerhart Avenue, Commerce, California 90022  
(Address of principal executive offices) (Zip Code)

(323) 890-1800

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a 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 by Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock outstanding as of May 15, 2018 was 13,974,535.

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Table of Contents

DIFFERENTIAL BRANDS GROUP INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2018, December 31, 2017 and March 31, 2017</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2018 and 2017</u>	4
<u>Condensed Consolidated Statements of Equity for the three months ended March 31, 2018 and 2017</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	30
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	40
<b><u>Item 4. Controls and Procedures</u></b>	40
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	41
<b><u>Item 1A. Risk Factors</u></b>	41
<b><u>Item 6. Exhibits</u></b>	42
<b><u>SIGNATURES</u></b>	43

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## DIFFERENTIAL BRANDS GROUP INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	March 31, 2018 (unaudited)	December 31, 2017 (Note 1)	March 31, 2017 (unaudited)
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 4,331	\$ 8,250	\$ 4,038
Accounts receivable, net	24,513	22,246	22,723
Inventories	33,921	31,733	28,490
Prepaid expenses and other current assets	6,170	4,832	3,708
Total current assets	68,935	67,061	58,959
Property and equipment, net	8,120	8,417	10,170
Goodwill	8,536	8,380	8,284
Intangible assets, net	89,162	89,332	91,199
Other assets	1,914	484	467
Total assets	\$ 176,667	\$ 173,674	\$ 169,079
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 24,939	\$ 22,204	\$ 20,810
Short-term convertible note	—	13,694	13,308
Current portion of long-term debt	2,813	2,813	1,875
Total current liabilities	27,752	38,711	35,993
Line of credit	22,915	21,254	16,287
Convertible notes	14,189	13,866	12,947
Long-term debt, net of current portion	44,035	44,896	46,538
Deferred income taxes, net	7,308	6,650	11,054
Other liabilities	3,924	3,554	3,619
Total liabilities	120,123	128,931	126,438
Commitments and contingencies (Note 14)			
Equity			
Series A convertible preferred stock, \$0.10 par value: 50,000 shares authorized, issued and outstanding at March 31, 2018,	5	5	5

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December 31, 2017 and March 31, 2017

Series A-1 convertible preferred stock, \$0.10 par value: 4,587,964, 0 and 0 shares authorized, issued and outstanding at March 31, 2018, December 31, 2017 and March 31, 2017, respectively	459	—	—
Common stock, \$0.10 par value: 100,000,000 shares authorized, 13,599,285, 13,488,366 and 13,297,688 shares issued and outstanding at March 31, 2018, December 31, 2017 and March 31, 2017, respectively	1,360	1,349	1,330
Additional paid-in capital	75,192	61,314	59,531
Accumulated other comprehensive income (loss)	1,034	271	(137)
Accumulated deficit	(21,506)	(18,196)	(18,088)
Total equity	56,544	44,743	42,641
Total liabilities and equity	\$ 176,667	\$ 173,674	\$ 169,079

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

Table of Contents

## DIFFERENTIAL BRANDS GROUP INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

## COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

(unaudited)

	Three months ended	
	March 31,	
	2018	2017
Net sales	\$ 38,818	\$ 40,103
Cost of goods sold	22,563	21,499
Gross profit	16,255	18,604
Operating expenses		
Selling, general and administrative	15,348	17,411
Depreciation and amortization	1,463	1,498
Total operating expenses	16,811	18,909
Operating loss	(556)	(305)
Interest expense	2,215	2,047
Other (income) expense, net	(1)	24
Loss before income taxes	(2,770)	(2,376)
Income tax provision (benefit)	1,315	(26)
Net loss	\$ (4,085)	\$ (2,350)
Net loss attributable to common stockholders	\$ (5,847)	\$ (3,701)
Net loss	\$ (4,085)	\$ (2,350)
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	763	84
Other comprehensive income	763	84
Comprehensive loss	\$ (3,322)	\$ (2,266)
Loss per common share - basic	\$ (0.43)	\$ (0.28)
Loss per common share - diluted	\$ (0.43)	\$ (0.28)
Weighted average shares outstanding		
Basic	13,550	13,287
Diluted	13,550	13,287

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





Table of Contents

## DIFFERENTIAL BRANDS GROUP INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(in thousands, unaudited)

	Common Stock		Preferred Series A		Preferred Series B		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Equity
	Shares	Par Value	Shares	Par Value	Shares	Par Value		(Loss)		
Balance, January 1, 2017	13,239	\$ 1,324	50	\$ 5	—	\$ —	\$ 59,154	\$ (221)	\$ (15,738)	\$ 44,524
Stock-based compensation	—	—	—	—	—	—	439	—	—	439
Issuance of restricted common stock, net of taxes withheld	59	6	—	—	—	—	(62)	—	—	(56)
Foreign currency translation	—	—	—	—	—	—	—	84	—	84
Net loss	—	—	—	—	—	—	—	—	(2,350)	(2,350)
Balance, March 31, 2017	13,298									