Sequential Brands Group, Inc.
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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 001-37656

SEQUENTIAL BRANDS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	47-4452789
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

601 West 26th Street, 9th Floor
New York, New York 10001

(Address of principal executive offices) (Zip Code)

(646) 564-2577

(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 (§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, 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

As of May 2, 2018, the registrant had 63,574,769 shares of common stock, par value $0.01 per share, outstanding.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

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Forward-Looking Statements

This quarterly report on Form 10-Q (this “Quarterly Report”), including the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We use words such as “future,” “seek,” “could,” “can,” “predict,” “believe,” “intend,” “expect,” “anticip “may,” “will,” “should,” “estimate,” “potential,” “project” and similar expressions to identify forward-looking statements. Suc statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to the following: (i) risks and uncertainties discussed in the reports that the Company has filed with the Securities and Exchange Commission (the “SEC”); (ii) general economic, market or business conditions; (iii) the Company’s ability to identify suitable targets for acquisitions and to obtain financing for such acquisitions on commercially reasonable terms; (iv) the Company’s ability to timely achieve the anticipated results of recent acquisitions and any potential future acquisitions; (v) the Company’s ability to successfully integrate acquisitions into its ongoing business; (vi) the potential impact of the consummation of recent acquisitions or any potential future acquisitions on the Company’s relationships, including with employees, licensees, customers and competitors; (vii) the Company’s ability to achieve and/or manage growth and to meet target metrics associated with such growth; (viii) the Company’s ability to successfully attract new brands and to identify suitable licensees for its existing and newly acquired brands; (ix) the Company’s substantial level of indebtedness, including the possibility that such indebtedness and related restrictive covenants may adversely affect the Company’s future cash flows, results of operations and financial condition and decrease its operating flexibility; (x) the Company’s ability to achieve its guidance; (xi) continued market acceptance of the Company’s brands; (xii) changes in the Company’s competitive position or competitive actions by other companies; (xiii) licensees’ ability to fulfill their financial obligations to the Company; (xiv) concentrations of the Company’s licensing revenues with a limited number of licensees and retail partners; and (xv) other circumstances beyond the Company’s control.

Forward-looking statements speak only as of the date they are made and are based on current expectation and assumptions. You should not put undue reliance on any forward-looking statement. We are not under any obligation, and we expressly disclaim any obligation, to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to such or other forward-looking statements.

Where You Can Find Other Information

Our corporate website address is www.sequentialbrandsgroup.com. The information contained on our website is not part of this Quarterly Report. We file our annual, quarterly and current reports and other information with the SEC. These reports, and any amendments to these reports, are made available on our website and can be viewed and downloaded free of charge as soon as reasonably practicable after such reports are filed with or furnished to the SEC. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, which is available at www.sec.gov.

Unless otherwise noted, references in this Quarterly Report to the "Sequential Brands Group," "Company," "our Company," "we," "us," "our" or similar pronouns refer to Sequential Brands Group, Inc. and its subsidiaries. References to other companies may include their trademarks, which are the property of their respective owners.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	March 31, 2018 (Unaudited)	December 31, 2017 (Note 2)
Assets		
Current Assets:		
Cash	$ 23,337	$ 18,902
Restricted cash	2,029	1,531
Accounts receivable, net	55,909	60,102
Assets held for sale	2,721	-
Prepaid expenses and other current assets	12,256	8,635
Total current assets	96,252	89,170
Property and equipment, net	9,246	7,035
Intangible assets, net	987,143	995,170
Other assets	4,125	5,836
Total assets	$ 1,096,766	$ 1,097,211
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 18,075	$ 19,126
Current portion of long-term debt	28,300	28,300
Current portion of deferred revenue	13,240	8,102
Total current liabilities	59,615	55,528
Long-term debt, net of current portion	596,166	602,297
Long-term deferred revenue, net of current portion	10,940	11,845
Deferred income taxes	68,209	67,799
Other long-term liabilities	6,756	6,204
Total liabilities	741,686	743,673
Commitments and Contingencies		

Equity:		
Preferred stock Series A, \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding at March 31, 2018 and December 31, 2017	-	-
Common stock, \$0.01 par value; 150,000,000 shares authorized; 64,949,136 and 63,652,721 shares issued at March 31, 2018 and December 31, 2017, respectively, and 63,537,283 and 63,227,727 shares outstanding at March 31, 2018 and December 31, 2017, respectively	645	635
Additional paid-in capital	511,279	508,444
Accumulated other comprehensive income	759	80
Accumulated deficit	(226,503)	(225,369)
Treasury stock, at cost; 1,411,852 and 424,994 shares at March 31, 2018 and December 31, 2017, respectively	(3,718)	(1,799)
Total Sequential Brands Group, Inc. and Subsidiaries stockholders' equity	282,462	281,991
Noncontrolling interests	72,618	71,547
Total equity	355,080	353,538
Total liabilities and equity	\$ 1,096,766	\$ 1,097,211

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2018	2017
Net revenue	$ 38,104	$ 39,400
Operating expenses	18,050	23,408
Loss on asset held for sale	5,142	-
Income from operations	14,912	15,992
Other income	(135)	(34)
Interest expense, net	15,392	14,486
(Loss) income before income taxes	(345)	1,540
(Benefit from) provision for income taxes	(41)	585
Net (loss) income	(304)	955
Net income attributable to noncontrolling interests	(1,960)	(2,135)
Net loss attributable to Sequential Brands Group, Inc. and Subsidiaries	$ (2,264)	$ (1,180)
Loss per share attributable to Sequential Brands Group, Inc. and Subsidiaries:		
Basic and diluted	$ (0.04)	$ (0.02)
Weighted-average common shares outstanding:		
Basic and diluted	63,232,138	62,459,711

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands, except share data)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock Shares
Balance at January 1, 2018	-	$ -	63,652,721	$ 635	$ 508,444	$ 80	$ (225,369)	(424,99
Cumulative effect of revenue recognition accounting change	-	-	-	-	-	-	1,130	-
Stock-based compensation	-	-	1,296,415	10	2,835	-	-	-
Unrealized gain on interest rate cap	-	-	-	-	-	679	-	-
Repurchase of common stock	-	-	-	-	-	-	-	(986,85
Noncontrolling interest distributions	-	-	-	-	-	-	-	-
Net income attributable to noncontrolling interests	-	-	-	-	-	-	-	-
Net loss attributable to common stockholders	-	-	-	-	-	-	(2,264)	-
	-	$ -	64,949,136	$ 645	$ 511,279	$ 759	$ (226,503)	(1,411,8

Balance at
March 31,
2018

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS 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 (loss) income	$ (304)	$ 955
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for bad debts	-	38
Depreciation and amortization	906	1,293
Stock-based compensation	2,845	4,550
Amortization of deferred financing costs	944	987
Income from equity method investment	-	(31)
Loss on disposal of property and equipment	-	2
Loss on asset held for sale	5,142	-
Deferred income taxes	(53)	573
Changes in operating assets and liabilities:		
Accounts receivable	10,528	8,278
Prepaid expenses and other assets	(1,231)	(222)
Accounts payable and accrued expenses	(2,165)	(1,504)
Deferred revenue	(154)	(1,752)
Other liabilities	1,202	244
Cash Provided By Operating Activities	17,660	13,411
Cash Flows From Investing Activities		
Investments in intangible assets, including registration and renewal costs	(47)	(130)
Purchases of property and equipment	(1,792)	(133)
Proceeds from sale of property and equipment	-	2
Cash Used In Investing Activities	(1,839)	(261)
Cash Flows From Financing Activities		
Stock registration costs	-	(3)
Payment of long-term debt	(7,075)	(7,075)
Guaranteed payments in connection with acquisitions	(650)	(575)
Repurchases of common stock	(1,919)	(1,064)
Noncontrolling interest distributions	(1,244)	(2,109)
Cash Used In Financing Activities	(10,888)	(10,826)

Cash and Restricted Cash:		
Net Increase In Cash and Restricted Cash	4,933	2,324
Balance — Beginning of period	20,433	20,654
Balance — End of period	$ 25,366	$ 22,978
Supplemental Disclosures Of Cash Flow Information		
Cash paid for:		
Interest	$ 14,513	$ 13,393
Non-cash Investing And Financing Activities		
Accrued purchases of property and equipment at period end	$ 1,114	$ 28
Unrealized loss on available-for-sale securities during the period	$ -	$ (1,495)
Unrealized gain on interest rate cap during the period	$ 679	$ 16

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(UNAUDITED)

1. Organization and Nature of Operations

Overview

Sequential Brands Group, Inc. (the "Company") owns a portfolio of consumer brands in the fashion, active and home categories. The Company aims to maximize the strategic value of its brands by promoting, marketing and licensing its global brands through various distribution channels, including to retailers, wholesalers and distributors in the United States and in certain international territories. The Company's core strategy is to enhance and monetize the global reach of its existing brands, and to pursue additional strategic acquisitions to grow the scope of and diversify its portfolio of brands. The Company licenses brands to both wholesale and direct-to-retail licensees. In a wholesale license, a wholesale supplier is granted rights (typically on an exclusive basis) to a single or small group of related product categories for a particular brand for sale to multiple accounts within an approved channel of distribution and territory. In a direct-to-retail license, a single retailer is granted the right (typically on an exclusive basis) to sell branded products in a broad range of product categories through its brick and mortar stores and e-commerce sites. As of March 31, 2018, the Company had more than one-hundred twenty-five licensees, with wholesale licensees comprising a significant majority.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the United States Securities and Exchange Commission (the "SEC"). Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all of the information and footnotes necessary for a comprehensive presentation of financial position, results of operations or cash flows. It is the Company's opinion, however, that the accompanying unaudited condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, which are necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 16, 2018, which contains the audited consolidated financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, for the years ended December 31, 2017, 2016 and 2015. The financial information as of December 31, 2017 is derived from the audited consolidated financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The interim results for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any future interim periods.

Reclassification of Prior Year Presentation

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which changes the presentation of restricted cash on the statement of cash flows. ASU 2016-18 requires an entity to show the changes in total cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows.

As a result of the adoption of ASU 2016-18, the Company no longer shows the changes in restricted cash on the statement of cash flows and reconciles to the total cash and restricted cash balance, which are presented separately on the condensed consolidated balance sheets.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

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SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(UNAUDITED)

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited condensed consolidated financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from estimates.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, "Revenue from Contracts with Customers" ("ASC 606"), which became effective for the Company as of January 1, 2018 (See Note 4 for impact of adoption and other related disclosures).   ASC 606 requires a five-step approach to determine the appropriate method of revenue recognition for each contractual arrangement:

Step 1: Identify the Contract(s) with a Customer

Step 2: Identify the Performance Obligation(s) in the Contract

Step 3: Determine the Transaction Price

Step 4: Allocate the Transaction Price to the Performance Obligation(s) in the Contract

Step 5: Recognize Revenue when (or as) the Entity Satisfies a Performance Obligation

The Company has entered into various license agreements for trademarks. Under ASC 606, the Company's agreements are generally considered symbolic licenses, which contain the characteristics of a right-to-access license since the customer is simultaneously receiving the intellectual property ("IP") and benefiting from it throughout the license period. The Company assesses each license agreement at inception and determines the performance obligation(s) and appropriate revenue recognition method. As part of this process, the Company applies judgments based on historical trends when estimating future revenues and the period over which to recognize revenue.

The Company generally recognizes revenue for license agreements under the following methods:

1. Licenses with guaranteed minimum royalties ("GMRs"): Generally, guaranteed minimum royalty payments (fixed revenue) are recognized on a straight-line basis over the term of the contract, as defined in each license agreement.
2. Licenses with both GMRs (fixed revenue) and earned royalties (variable revenue): Earned royalties in excess of fixed revenue are only recognized when the Company is reasonably certain that the guaranteed minimum payments for the period, as defined in each license agreement, will be exceeded. Additionally, the Company has categorized certain contracts as variable when there is a history and future expectation of exceeding GMRs. The Company recognizes income for these contracts during the period corresponding to the licensee's sales.
3. Licenses that are sales-based only or earned royalties: Earned royalties (variable revenue) are recognized as income during the period corresponding to the licensee's sales.

Payments received as consideration for the grant of a license or advanced royalty payments are recorded as deferred revenue at the time payment is received and recognized into revenue under the methods described above.

Contract assets represent unbilled receivables and are presented within accounts receivable, net on the condensed consolidated balance sheets. Contract liabilities represent unearned revenues and are presented within the current portion of deferred revenue on the condensed consolidated balance sheets.

The Company disaggregates its revenue into two categories: licensing agreements and other, which is comprised of revenue from sources such as editorial content for books and television sponsorships.

With respect to editorial content for books, the Company receives advance payments from the Company's publishers and recognizes revenue when manuscripts are delivered to and accepted by the publishers. Revenue is also earned from book publishing when sales on a unit basis exceed the advanced royalty.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(UNAUDITED)

Television sponsorship revenues are generally recorded ratably across the period when new episodes initially air. Revenue from media content is recognized at a point in time, when the content is delivered and accepted.

The Company entered into a transaction with a media company for which it receives advertising credits as part of the consideration exchanged. These transactions are recorded at the estimated fair value of the advertising credits received, as their fair value is deemed more readily determinable than the fair value of the trademark licensing right provided by the Company, in accordance with ASC 845, Nonmonetary Transactions. The fair value of the advertising credits are recorded as revenue and in other assets when earned, and expensed when the advertising credits are utilized. No revenue was recorded for the three months ended March 31, 2018 related to the advertising credits. The Company recorded less than $0.1 million of expense related to the advertising credits utilized for the three months ended March 31, 2018.

Restricted Cash

Restricted cash consists of cash deposited with a financial institution required as collateral for the Company's cash-collateralized letter of credit facilities.

Accounts Receivable

Accounts receivable are recorded net of allowances for doubtful accounts, based on the Company's ongoing discussions with its licensees and other customers and its evaluation of their creditworthiness, payment history and account aging. Accounts receivable balances deemed to be uncollectible are written off after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was $0.6 million as of March 31, 2018 and December 31, 2017, respectively.

The Company's accounts receivable, net amounted to $55.9 million and $60.1 million as of March 31, 2018 and December 31, 2017, respectively. Three licensees accounted for approximately 49% (22%, 15%, and 12%) of the Company's total consolidated accounts receivable balance as of March 31, 2018 and three licensees accounted for approximately 53% (25%, 15% and 13%) of the Company's total consolidated accounts receivable balance as of

December 31, 2017. The Company does not believe the accounts receivable balance from these licensees represents a significant collection risk based on past collection experience.

Investments

The Company had marketable securities that were classified as available-for-sale securities under ASC 320, Investments – Debt and Equity Securities. Such available-for-sale securities are reported at fair value in the condensed consolidated balance sheets and, at the time of purchase, were reported in the unaudited condensed consolidated statements of cash flows as an investing activity. The Company reviewed its available-for-sale securities at each reporting period to determine whether a decline in fair value is other-than-temporary. Any decline in fair value that was determined to be other-than-temporary would result in an adjustment for an impairment charge in the accompanying unaudited condensed consolidated statements of operations. The primary factors the Company considers in its determination are (i) the length of time that the fair value of the available-for-sale security is below the Company's carrying value, (ii) the financial condition and operating performance of the available-for-sale security, (iii) the reason for decline in fair value and (iv) the Company's intent and ability to hold the investment in available-for-sale security for a period of time sufficient to allow for a recovery in fair value. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific-identification basis. The Company did not hold any investments at March 31, 2018 and December 31, 2017.

Equity Method Investment

For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation, the Company uses the equity method of accounting. On July 1, 2016, the Company acquired a 49.9% noncontrolling interest in Gaiam Pty. Ltd. in connection with its acquisition of Gaiam Brand Holdco, LLC, which is included in other assets in the condensed consolidated balance sheets. The Company's share of earnings from its equity method investee, which was not material for the three months ended March 31, 2018 and 2017, is included in other income in the unaudited condensed consolidated statements of operations.

The Company evaluates its equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investment may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment charge when the loss in value is deemed other-than-temporary.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(UNAUDITED)

Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method of accounting. On an annual basis (October 1st) and as needed, the Company tests goodwill and indefinite lived trademarks for impairment through the use of discounted cash flow models. Other intangibles with determinable lives, including certain trademarks, customer agreements, patents and a favorable lease, are evaluated for the possibility of impairment when certain indicators are present, and are otherwise amortized on a straight-line basis over the estimated useful lives of the assets (currently ranging from 2 to 15 years). Assumptions used in our discounted cash flow models are as follows: (i) discount rates; (ii) projected average revenue growth rates; and (iii) projected long-term growth rates. Our estimates also factor in economic conditions and expectations of management, which may change in the future based on period-specific facts and circumstances.

Treasury Stock

Treasury stock is recorded at cost as a reduction of equity in the condensed consolidated balance sheets.

Stock-Based Compensation

Compensation cost for restricted stock is measured using the quoted market price of the Company's common stock at the date the common stock is granted. For restricted stock and restricted stock units, for which restrictions lapse with the passage of time ("time-based restricted stock"), compensation cost is recognized on a straight-line basis over the period between the issue date and the date that restrictions lapse. Time-based restricted stock is included in total shares of common stock outstanding upon the lapse of applicable restrictions. For restricted stock, for which restrictions are based on performance measures ("performance stock units" or "PSUs"), restrictions lapse when those performance measures have been deemed achieved. Compensation cost for PSUs is recognized on a straight-line basis during the period from the date on which the likelihood of the PSUs being earned is deemed probable and (x) the end of the fiscal year during which such PSUs are expected to vest or (y) the date on which awards of such PSUs may be approved by the compensation committee of the Company's board of directors (the "Compensation Committee") on a discretionary basis, as applicable. PSUs are included in total shares of common stock outstanding upon the lapse of applicable restrictions. PSUs are included in total diluted shares of common stock outstanding when the performance measures have been deemed achieved but the PSUs have not yet been issued.

Fair value cost for stock options and warrants is calculated using the Black-Scholes valuation model and is expensed on a straight-line basis over the requisite service period of the grant. Compensation cost is reduced for forfeitures as they occur in accordance with ASU 2016-09 “Simplifying the Accounting for Share-Based Payments” (“ASU 2016-09”).

At each subsequent reporting period prior to the lapse of restrictions on warrants, time-based restricted stock and PSUs granted to non-employees, the Company remeasures the aggregate compensation cost of such grants using the Company’s fair value at the end of such reporting period and revises the straight-line recognition of compensation cost in line with such remeasured amount.

Leases

The Company leases certain properties for its offices and showrooms. Certain of the Company's lease agreements contain rent escalation clauses, free rent periods and tenant inducement payments. Rent expense for noncancelable operating leases with scheduled rent increases is recognized on a straight-line basis over the expected lease term. The difference between straight-line rent expense and the scheduled payment amounts is recorded as a deferred rent asset or liability.

Income Taxes

Current income taxes are based on the respective periods’ taxable income for federal, foreign and state income tax reporting purposes. Deferred tax liabilities and assets are determined based on the difference between the financial statement and income tax bases of assets and liabilities, using statutory tax rates in effect for the year in which the differences are expected to reverse. In accordance with ASU No. 2015-17 “Balance Sheet Classification of Deferred Taxes,” all deferred income taxes are reported and classified as non-current. A valuation allowance is required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(UNAUDITED)

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 118 which provides guidance on accounting for the tax effects of the Tax Cuts and Job Act ("TCJA"). The purpose of SAB No. 118 was to address any uncertainty or diversity of view in applying ASC Topic 740, Income Taxes in the reporting period in which the TCJA was enacted. SAB No. 118 addresses situations where the accounting is incomplete for certain income tax effects of the TJCA upon issuance of a company's financial statements for the reporting period that includes the enactment date. SAB No. 118 allows for a provisional amount to be recorded if it is a reasonable estimate of the impact of the TCJA. Additionally, SAB No. 118 allows for a measurement period to finalize the impacts of the TCJA, not to extend beyond one year from the date of enactment. The Company's accounting for certain elements of the TCJA was incomplete as of the period ended December 31, 2017, and remains incomplete as of March 31, 2018. However, the Company was able to make reasonable estimates of the effects and, therefore, recorded provisional estimates for these items at December 31, 2017.

The Company applies the Financial Accounting Standards Board ("FASB") guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with other authoritative GAAP and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also addresses derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interest and penalties related to uncertain tax positions, if any, are recorded in income tax expense. Tax years that remain open for assessment for federal and state tax purposes include the years ended December 31, 2014 through December 31, 2017.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net (loss) income attributable to Sequential Brands Group, Inc. and Subsidiaries by the weighted-average number of common shares outstanding during the reporting period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the reporting period, including stock options, PSUs and warrants, using the treasury stock method, and convertible debt, using the if-converted method. Diluted EPS excludes all potentially dilutive shares of common stock if their effect is anti-dilutive. The shares used to calculate basic and diluted EPS consist of the following:

	Three Months Ended March 31, 2018	2017
Basic weighted-average common shares outstanding	63,232,138	62,459,711
Warrants	-	-
Stock options	-	-
Performance based restricted stock	-	-
Unvested restricted stock	-	-
Diluted weighted-average common shares outstanding	63,232,138	62,459,711

The computation of diluted EPS for the three months ended March 31, 2018 and 2017 excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

	Three Months Ended March 31, 2018	2017
Warrants	-	-
Stock options	-	-
Performance based restricted stock	-	263,964
Unvested restricted stock	502,283	88,941
Total	502,283	352,905

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Concentration of Credit Risk

Financial instruments which potentially expose the Company to credit risk consist primarily of cash, restricted cash and accounts receivable. Cash is held to meet working capital needs and future acquisitions. Restricted cash is pledged as collateral for a comparable amount of irrevocable standby letters of credit for certain of the Company's leased properties. Substantially all of the Company's cash and restricted cash are deposited with high quality financial institutions. At times, however, such cash and restricted cash may be in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit. The Company has not experienced any losses in such accounts as of March 31, 2018.

Concentration of credit risk with respect to accounts receivable is minimal due to the collection history. The Company performs periodic credit evaluations of its customers' financial condition. The allowance for doubtful accounts is based upon the expected collectability of all accounts receivable.

Customer Concentrations

The Company recorded net revenues of $38.1 million and $39.4 million during the three months ended March 31, 2018 and 2017, respectively. During the three months ended March 31, 2018, two licensees represented at least 10% of net revenue, accounting for 11% and 10% of the Company's net revenue. During the three months ended March 31, 2017, three licensees represented at least 10% of net revenue, accounting for 11%, 10% and 10% of the Company's net revenue.

Loss Contingencies

The Company recognizes contingent losses that are both probable and estimable. In this context, probable means circumstances under which events are likely to occur. The Company records legal costs pertaining to contingencies as incurred.

Contingent Consideration

The Company recognizes the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree or assets of the acquiree in a business combination. The contingent consideration is classified as either a liability or equity in accordance with ASC 480-10, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. If classified as a liability, the liability is remeasured to fair value at each subsequent reporting date until the contingency is settled. Increases in fair value are recorded as losses, while decreases are recorded as gains. If classified as equity, contingent consideration is not remeasured and subsequent settlement is accounted for within equity.

Noncontrolling Interest

Noncontrolling interest recorded for the three months ended March 31, 2018 represents income allocations to Elan Polo International, Inc., a member of DVS Footwear International, LLC and With You, Inc., a member of With You LLC (the partnership between the Company and Jessica Simpson). Noncontrolling interest recorded for the three months ended March 31, 2017 represents income allocations to Elan Polo International, Inc. and With You, Inc.

Reportable Segment

An operating segment, in part, is a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker (the "CODM") to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to a limited extent. The Company's CODM, the Chief Executive Officer, reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues for purposes of making operating decisions and assessing financial performance. Accordingly, the Company has determined that it has a single operating and reportable segment. In addition, the Company has no foreign operations or any assets in foreign locations. Nearly all of the Company's operations consist of a single revenue stream, which is the licensing of its trademark portfolio, with an immaterial portion of revenues derived from television, book, café operations and certain commissions.

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3. Fair Value Measurement of Financial Instruments

ASC 820-10, Fair Value Measurements and Disclosures (“ASC 820-10”), defines fair value, establishes a framework for measuring fair value in GAAP and provides for expanded disclosure about fair value measurements. ASC 820-10 applies to all other accounting pronouncements that require or permit fair value measurements.

The Company determines or calculates the fair value of financial instruments using quoted market prices in active markets when such information is available or using appropriate present value or other valuation techniques, such as discounted cash flow analyses, incorporating available market discount rate information for similar types of instruments while estimating for non-performance and liquidity risk. These techniques are significantly affected by the assumptions used, including the discount rate, credit spreads and estimates of future cash flows.

Assets and liabilities typically recorded at fair value on a non-recurring basis to which ASC 820-10 applies include:

- non-financial assets and liabilities initially measured at fair value in an acquisition or business combination, and
- long-lived assets measured at fair value due to an impairment assessment under ASC 360-10-15, Impairment or Disposal of Long-Lived Assets.

This topic defines fair value as 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 and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820-10 requires that assets and liabilities recorded at fair value be classified and disclosed in one of the following three categories:

- Level 1 - inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 - inputs utilize other-than-quoted prices that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 - inputs are unobservable and are typically based on the Company’s own assumptions, including situations where there is little, if any, market activity. Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 classification.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the Company classifies such financial assets or liabilities based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

As of March 31, 2018 and December 31, 2017, there were no assets or liabilities that are required to be measured at fair value on a recurring basis, except for interest rate caps and Legacy Payments (as defined below) to Ms. Martha Stewart. The following table sets forth the carrying value and the fair value of the Company’s financial assets and liabilities required to be disclosed at March 31, 2018 and December 31, 2017:

		Carrying Value		Fair Value	
Financial Instrument	Level	3/31/2018	12/31/2017	3/31/2018	12/31/2017
		(in thousands)			
Interest rate caps	2	$ 1,740	$ 1,239	$ 1,740	$ 1,239
2016 Term Loans	3	$ 544,838	$ 551,913	$ 535,507	$ 542,655
2016 Revolving Loan	3	$ 92,787	$ 92,787	$ 92,368	$ 92,389
Legacy Payments	3	$ 2,322	$ 2,256	$ 2,322	$ 2,256

The carrying amounts of the Company’s cash, restricted cash, accounts receivable and accounts payable approximate fair value due to their short-term maturities.

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During 2016, the Company entered into interest rate cap agreements related to its 1-month London Interbank Offered Rate ("LIBOR") rates related to the Company's loan agreements (the "2016 Cap Agreements") with certain financial institutions. The 2016 Cap Agreements have a $500 million notional value, strike rate of 1.50% and mature on November 23, 2018. The Company recorded its interest rate caps on the condensed consolidated balance sheets at fair value using Level 2 inputs. The valuation technique used to determine the fair value of the 2016 Cap Agreements approximated the net present value of future cash flows, taking into account current interest rates.

The Company's risk management objective and strategy with respect to the 2016 Cap Agreements is to reduce its exposure to variability in expected future cash outflows (forecasted interest payments) attributable to changes in 1-month LIBOR rates, the designated benchmark interest rate being hedged, relating to a portion of its outstanding floating-rate debt. The 2016 Cap Agreements protect the Company from increases in hedged cash flows on its floating-rate debt attributable to changes in 1-month LIBOR rates above the strike rate. Should 1-month LIBOR rates exceed 1.50% on a rate reset date during the terms of the 2016 Cap Agreements, the financial institutions will pay the Company for an amount equivalent to the excess interest over the strike rate. To the extent the hedging relationship is perfectly effective, changes in the fair value of the hedging instrument each period will be deferred in accumulated other comprehensive loss in the condensed consolidated statement of changes in equity, and the upfront hedging instrument purchase price will be reclassified to interest expense, net in the unaudited condensed consolidated statements of operations according to its caplet values. If hedge ineffectiveness exists, accumulated other comprehensive loss will be adjusted to a balance that reflects the lesser of either the cumulative change in the fair value of the hedging or the cumulative change in the fair value of the hypothetically "perfect" derivative. The amount of ineffectiveness, if any, recorded in earnings would be equal to the excess of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the hypothetical derivative.

The components of the 2016 Cap Agreements as of March 31, 2018 are as follows:

	Notional Value	Derivative Asset	Derivative Liability
	(in thousands)		
LIBOR based loans	$ 500,000	$ 759	$ -

For purposes of this fair value disclosure, the Company based its fair value estimate for the 2016 Term Loans and 2016 Revolving Loan (each, as defined in Note 7) on its internal valuation whereby the Company applied the discounted cash flow method to its expected cash flow payments due under the loan agreements based on interest rates as of March 31, 2018 and December 31, 2017 for debt with similar risk characteristics and maturities.

In connection with the acquisition of Martha Stewart Living Omnimedia (“MSLO”), beginning with calendar years commencing on or after January 1, 2026, the Company will pay Ms. Stewart three and one-half percent (3.5%) of Gross Licensing Revenues (as defined in Ms. Stewart’s employment agreement) for each such calendar year for the remainder of Ms. Stewart’s life (with a minimum of five (5) years of payments, to be made to Ms. Stewart’s estate if Ms. Stewart dies before December 31, 2030) (the “Legacy Payments”). The Company recorded less than $0.1 million of accretion during each of the three-month periods ended March 31, 2018 and 2017 related to the Legacy Payments and recorded the expense within interest expense, net in the unaudited condensed consolidated statements of operations.

4. Revenues

Adoption

On January 1, 2018, the Company adopted ASC 606 on a modified retrospective basis for all open contracts as of January 1, 2018. The core principle of the new guidance is the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to in exchange for those goods or services. The new guidance defines a five-step approach to achieve this core principle and, in doing so, requires greater use of judgment and estimates and requires expanded disclosures related to the amounts of revenue recognized and judgements made. Under the modified retrospective basis, results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with ASC 605, “Revenue Recognition” (“ASC 605”).

In connection with the adoption of the new guidance, the Company recorded a net increase of $1.1 million to the opening balance of retained earnings (a reduction of the accumulated deficit). The adjustments consisted of increases of $6.3 million to accounts receivable (resulting in unbilled receivables) and $4.4 million to deferred revenue (contract liability) offset by a noncontrolling interests opening balance adjustment of $0.4 million and an income tax impact of $0.5 million. The adjustments are recorded in the condensed consolidated financial statements as the cumulative effect of revenue recognition accounting change.

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Changes to the balances at January 1, 2018 resulting from the adoption of ASC 606 are as follows:

	December 31, 2017 (As Reported) (in thousands)	Impact of Adoption of ASC 606	January 1, 2018
Assets			
Current Assets:			
Accounts receivable, net	$ 60,102	$ 6,335	$ 66,437
Liabilities			
Current Liabilities:			
Current portion of deferred revenue	$ 8,102	$ 4,387	$ 12,489
Deferred income taxes	67,799	463	68,262
Equity			
Accumulated deficit	$ (225,369)	$ 1,130	$ (224,239)
Noncontrolling interests	71,547	355	71,902

Deferred revenue will be recognized as the Company fulfills its performance obligations over periods of approximately one to five years.

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Revenue and the provision for income taxes for the three months ended March 31, 2018 decreased $1.3 million and $0.3 million, respectively, due to the impact of adoption. The table below summarizes the impact of the adoption on the condensed consolidated statement of operations for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018		
	As Reported	Adjustments due to ASC 606	Under previous guidance (ASC 605)
Net revenue	$ 38,104	$ (1,267)	$ 39,371
Operating expenses	18,050	-	18,050
Loss on asset held for sale	5,142	-	5,142
Income from operations	14,912	(1,267)	16,179
Other income	(135)	-	(135)
Interest expense, net	15,392	-	15,392
(Loss) income before income taxes	(345)	(1,267)	922
(Benefit from) provision for income taxes	(41)	(257)	216
Net (loss) income	(304)	(1,010)	706
Net income attributable to noncontrolling interest	(1,960)	(3)	(1,957)
Net loss attributable to Sequential Brands Group, Inc. and Subsidiaries	$ (2,264)	$ (1,013)	$ (1,251)
Loss per share attributable to Sequential Brands Group, Inc. and Subsidiaries:			
Basic and diluted	$ (0.04)	$ (0.02)	$ (0.02)
Weighted-average common shares outstanding:			
Basic and diluted	63,232,138	63,232,138	63,232,138

Disaggregated Revenue

The following table presents revenue disaggregated by source for the three months ended March 31, 2018:

	March 31, 2018
Licensing Agreements	$ 37,527
Other	577
Total	$ 38,104

The Company has entered into various license agreements that provide revenues in exchange for use of the Company's IP. Licensing agreements are the Company's primary source of revenue. The Company also derives revenue from other sources such as editorial content for books and television sponsorships.

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Contract Balances

Contract assets represent unbilled receivables and are presented within accounts receivable, net on the condensed consolidated balance sheets. Contract liabilities represent unearned revenues and are presented within the current portion of deferred revenue on the condensed consolidated balance sheets.

The below table summarizes the net change in contract assets and contract liabilities from the date of adoption to March 31, 2018:

	January 1, 2018	Changes	March 31, 2018
Contract assets	$ 6,335	$ (728)	$ 5,607
Contract liabilities	4,387	539	4,926

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company has reviewed its various revenue streams for its existing contracts under the five-step approach. The Company has entered into various license agreements that provide revenues based on guaranteed minimum royalty payments with additional royalty revenues based on a percentage of defined sales. Guaranteed minimum royalty payments (fixed revenue) are recognized on a straight-line basis over the term of the contract, as defined in each license agreement. Earned royalties and earned royalties in excess of the fixed revenue (variable revenue) are recognized as income during the period corresponding to the licensee’s sales. Earned royalties in excess of fixed revenue are only recognized when the Company is reasonably certain that the guaranteed minimums payments for the period, as defined in each license agreement, will be exceeded.

Licensing for trademarks is the Company’s largest revenue source. Under ASC 606, the Company’s agreements are generally considered symbolic licenses which contain the characteristics of a right-to-access license since the customer is simultaneously receiving the IP and benefiting from it throughout the license period. As such, the Company primarily records revenue from licenses on a straight-line basis over the license period as the performance obligation is satisfied over time. The Company applies its judgment based on historical trends when estimating future revenues and the period over which to recognize revenue when evaluating its licensing contracts.

The below table summarizes amounts related to future performance obligations under fixed contractual arrangements as of March 31, 2018 and the periods in which they are expected to be earned and recognized as revenue:

		Remainder of 2018	2019	2020	2021	2022 and Thereafter
Future Performance Obligations	$	59,401	60,851	45,446	31,511	51,708

The Company does not disclose the amount attributable to unsatisfied or partially satisfied performance obligations for variable revenue contracts in accordance with the optional exemption allowed for under ASC 606. The Company has categorized certain contracts as variable when there is a history and future expectation of exceeding guaranteed minimum royalties.

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5. Goodwill

The changes in goodwill are summarized as follows:

	December 31, 2017
Balance at January 1, 2017	$ 307,744
(Adjustment for) and acquisition of Gaiam Brand Holdco, LLC (a)	(3,621)
Impairment charges	(304,123)
Ending balance	$ -

(a) Goodwill from the acquisition of Gaiam Brand Holdco, LLC represents the excess of the purchase price over the fair value of net assets acquired under the acquisition method of accounting.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired under the acquisition method of accounting. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. In evaluating goodwill for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Qualitative factors considered include, for example, macroeconomic and industry conditions, overall financial performance and other relevant entity-specific events. If the Company bypasses the qualitative assessment, or concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, it then performs a goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to be recognized, if any.

The Company will compare the estimated fair value of the reporting unit with its carrying value. The Company has determined it has a single reporting unit. Fair value for the quantitative assessment is determined under an income approach using estimates of discounted future cash flows (the "Income Approach"). The Income Approach relies on assumptions such as the Company's projected future earnings and appropriate discount rates.

Significant assumptions used in the Income Approach are as follows: (i) discount rates; (ii) projected annual revenue growth rates; and (iii) projected long-term growth rates. The Company's estimates also factor in economic conditions and expectations of management which may change in the future based on period-specific facts and circumstances. The Company will corroborate the results of the Income Approach by reconciling to within a reasonable range of the Company's market capitalization, (calculated as total common shares outstanding multiplied by the common equity price per share, as adjusted for a control premium factor). The control premium is estimated based upon control premiums observed in comparable market transactions.

If the estimated fair value of the reporting unit exceeds its carrying amount, no further analysis is needed. If, however, the estimated fair value of the reporting unit is less than its carrying amount, the Company will recognize an impairment change for the amount by which the carrying value exceeds the reporting unit's fair value.

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6. Intangible Assets

Intangible assets are summarized as follows:

March 31, 2018	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)		
Finite-lived intangible assets:				
Trademarks	15	$ 5,467	$ (2,021)	$ 3,446
Customer agreements	4	2,832	(2,342)	490
Favorable lease	2	537	(537)	-
Patents	10	361	(314)	47
		$ 9,197	$ (5,214)	3,983
Indefinite-lived intangible assets:				
Trademarks				983,160
Intangible assets, net				$ 987,143

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December 31, 2017	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

		(in thousands)		
Finite-lived intangible assets:				
Trademarks	15	$ 5,462	$ (1,913)	$ 3,549
Customer agreements	4	2,832	(2,257)	575
Favorable lease	2	537	(537)	-
Patents	10	665	(296)	369
		$ 9,496	$ (5,003)	4,493
Indefinite-lived intangible assets:				
Trademarks				990,677
Intangible assets, net				$ 995,170

Estimated future annual amortization expense for intangible assets in service as of March 31, 2018 is summarized as follows:

Years ending December 31,	(in thousands)
Remainder of 2018	$ 623
2019	626
2020	438
2021	435
2022	412
Thereafter	1,449
	$ 3,983

Amortization expense amounted to $0.2 million and $0.3 million for the three months ended March 31, 2018 and 2017.

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Finite-lived intangible assets represent trademarks, customer agreements and patents related to the Company’s brands and a favorable lease. Finite-lived assets are amortized on a straight-line basis over the estimated useful lives of the assets. Indefinite-lived intangible assets are not amortized, but instead are subject to impairment evaluation. The carrying value of finite-lived intangible assets and other long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The trademarks of Martha Stewart, Jessica Simpson, Avia, AND1, Heelys, Joe’s Jeans, Gaiam, Emeril, Caribbean Joe, Ellen Tracy and FUL have been determined to have an indefinite useful life and accordingly, consistent with ASC Topic 350, no amortization has been recorded in the Company’s unaudited condensed consolidated statements of operations. Instead, 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 statement of operations at the time of determining such impairment. The annual evaluation of the Company’s indefinite-lived trademarks is performed as of October 1, the beginning of the Company’s fourth fiscal quarter.

On April 19, 2018, the Company sold the Revo trademark. The Company incurred a loss on the sale of the trademark of $5.1 million. As of March 31, 2018, the Company wrote down the value of the trademark to the sale price and reclassified the trademark from intangible assets to asset held for sale. The following table shows the change in indefinite-lived intangible assets for the three months ended March 31, 2018 (in thousands):

Balance at January 1, 2018	$ 995,170
Loss on asset held for sale	(5,142)
Reclassification to asset held for sale	(2,721)
Amortization	(211)
Additions	47
Balance at March 31, 2018	$ 987,143

7. Long-Term Debt

The components of long-term debt are as follows:

	March 31, 2018	December 31, 2017
	(in thousands)	
2016 Term Loans	$ 544,838	$ 551,913
2016 Revolving Loan	92,787	92,787
Unamortized deferred financing costs	(13,159)	(14,103)
Total long-term debt, net of unamortized deferred financing costs	624,466	630,597
Less: current portion of long-term debt	28,300	28,300
Long-term debt	$ 596,166	$ 602,297

July 2016 Debt Facilities

On July 1, 2016 (the "Closing Date"), the Company and certain of its subsidiaries entered into (i) the Third Amended and Restated First Lien Credit Agreement (the "Amended BoA Credit Agreement") with Bank of America, N.A., as administrative agent and collateral agent and the lenders party thereto and (ii) the Third Amended and Restated Credit Agreement (the "Amended GSO Credit Agreement") with Wilmington Trust, National Association, as administrative agent and collateral agent (the "GSO Agent") and the lenders party thereto. Such agreements amended, restated and replaced the Company's previous debt facilities. The Company used a portion of the proceeds of the $287.5 million loans made to the Company under the Amended BoA Credit Agreement and the $415.0 million loans made to the Company under the Amended GSO Credit Agreement to fund the payment of the purchase price with respect to the acquisition of the Gaiam Brand Holdco, LLC and costs and expenses incurred in connection with such acquisition and related transactions.

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The Amended BoA Credit Agreement provides for several five-year credit facilities, consisting of (i) Tranche A Term Loans in an aggregate principal amount of $133.0 million (the “Tranche A Loans”), (ii) Tranche A-1 Term Loans in an aggregate principal amount of $44.5 million (the “Tranche A-1 Loans” and, together with the Tranche A Loans, the “BoA Term Loans”) and (iii) revolving credit commitments in the aggregate principal amount of $110.0 million (the “Revolving Credit Facility” and, the loans under the Revolving Credit Facility, the “Revolving Loans”). On the Closing Date, the total amount outstanding under the Amended BoA Credit Agreement was $258.0 million, including (i) $133.0 million of Tranche A Loans, (ii) $44.5 million of Tranche A-1 Loans and (iii) $80.5 million of borrowing under the Revolving Loans.

The loans under the Amended BoA Credit Agreement bear interest, at the Company’s option, at a rate equal to (i) with respect to the Revolving Loans and the Tranche A Loans (a) the LIBOR rate plus 3.50% per annum or (b) the base rate plus 2.50% per annum and (ii) with respect to the Tranche A-1 Loans (a) the LIBOR rate plus 7.00% per annum or (b) the base rate plus 6.00% per annum. The undrawn portions of the commitments under the Revolving Credit Facility are subject to a commitment fee of 0.375% per annum.

The Company may make voluntary prepayments of the loans outstanding under the Amended BoA Credit Agreement, subject to the payment of customary “breakage” costs with respect to LIBOR-based borrowings and, in certain cases, to the prepayment premium set forth in the Amended BoA Credit Agreement. Additionally, the Company is mandated to make prepayments (without payment of a premium or penalty) under the Amended BoA Credit Agreement amounting to: (i) the loans outstanding under the Amended BoA Credit Agreement plus, (a) where intellectual property is disposed, 50.0% of the disposed intellectual property’s orderly liquidation value, and (b) where any other assets constituting collateral are disposed or upon the receipt of certain insurance proceeds, 100% of the net proceeds thereof, subject to certain reinvestment rights; and (ii) the Tranche A-1 Loans to the extent that the outstanding principal amount thereof exceeds 10.0% of the orderly liquidation value of the registered trademarks owned by the BoA Facility Loan Parties. On September 30, 2016, the BoA Term Loans commenced amortization in quarterly installments of $5.0 million.

The Amended BoA Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the BoA Facility Loan Parties and their subsidiaries. Moreover, the Amended BoA Credit Agreement contains financial covenants that require the BoA Facility Loan Parties and their subsidiaries to (i) maintain a positive net income (as defined in the agreement), (ii) satisfy a maximum loan to value ratio set at 50.0% (applicable to the Revolving Loans and Tranche A Loans) and (iii) satisfy a maximum consolidated first lien leverage ratio, initially set at 2.80:1.00, decreasing over the term of the Amended BoA Credit Agreement until reaching the final maximum ratio of 2.50:1.00 for the fiscal quarter ending September 30, 2018 and thereafter.

The Amended BoA Credit Agreement contains certain customary events of default, including a change of control. If an event of default occurs and is not cured within any applicable grace period or not waived, the Bank of America Agent, at the request of the lenders under the Amended BoA Credit Agreement, must take various actions, including, without limitation, the acceleration of amounts due under the Amended BoA Credit Agreement.

The Company may request an increase in (i) the Revolving Credit Facility and Tranche A Loans as would not cause the consolidated first lien leverage ratio, determined on a pro forma basis after giving effect to any such increase, to exceed 2.33:1.00 and (ii) the Tranche A-1 Loans, as would not cause the consolidated first lien leverage ratio, determined on a pro forma basis after giving effect to any such increase, to exceed (a) with respect to any increase, the proceeds of which will be used solely to finance an acquisition, 2.50:100 and (b) with respect to any other increase, 2.40:1.00, subject to the satisfaction of certain conditions in the Amended BoA Credit Agreement. At March 31, 2018, the Company is in compliance with the covenants included in the Amended BoA Credit Agreement.

The Amended GSO Credit Agreement provides for a six-year $415.0 million senior secured term loan facility. The Company may request one or more additional term loan facilities or the increase of term loan commitments under the Amended GSO Credit Agreement as would not cause the consolidated total leverage ratio, determined on a pro forma basis after giving effect to any such addition and increase, to exceed 6.00:1.00, subject to the satisfaction of certain conditions in the Amended GSO Credit Agreement.

The loans under the Amended GSO Credit Agreement bear interest, at the Company’s option, at a rate equal to either (i) the LIBOR rate plus an applicable margin of 8.25% or 9.00% per annum or (ii) the base rate plus an applicable margin of 7.25% or 8.00% per annum, in each case based upon the consolidated total leverage ratio.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(UNAUDITED)

The Company may make voluntary prepayments of the loans outstanding under the Amended GSO Credit Agreement, subject to the payment of customary “breakage” costs with respect to LIBOR-based borrowings and, in certain cases, to the prepayment premium set forth in the Amended GSO Credit Agreement. The Company is mandated to make prepayments (without payment of a premium or penalty) of loans outstanding under the Amended GSO Credit Agreement amounting to: (i) where intellectual property is disposed, 50.0% of the disposed intellectual property’s orderly liquidation value, (ii) where any other asset constituting collateral is disposed or upon the receipt of certain insurance proceeds, 100% of the net proceeds thereof, subject to certain reinvestment rights, and (iii) any consolidated excess cash flow, in an amount equal to (a) in the event the consolidated total leverage ratio is at least 4.00:1.00, 75% thereof, (b) in the event the consolidated total leverage ratio is less than 4.00:1.00 but at least 3.00:1.00, 50% thereof and (c) in the event the consolidated total leverage ratio is less than 3.00:1.00, 0% thereof. On March 31, 2017, the loans under the Amended GSO Credit Agreement commenced amortization in quarterly installments, equal to 2.00% per annum of the original aggregate principal amount thereof.

The Amended GSO Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the GSO Facility Loan Parties and their subsidiaries. Moreover, the Amended GSO Credit Agreement contains financial covenants that require the GSO Facility Loan Parties and their subsidiaries to satisfy (i) a maximum consolidated total leverage ratio, initially set at 7.25:1.00, decreasing over the term of the Amended GSO Credit Agreement until reaching the final maximum ratio of 6.50:1.00 for the fiscal quarter ending September 30, 2018 and thereafter and (ii) a maximum consolidated first lien leverage ratio, initially set at 2.80:1.00, decreasing over the term of the Amended GSO Credit Agreement until reaching the final maximum ratio of 2.50:1.00 for the fiscal quarter ending September 30, 2018 and thereafter. At March 31, 2018, the Company is in compliance with the cove