

ICONIX BRAND GROUP, INC.

Form 10-Q/A

June 29, 2016

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q/A

Amendment No.1

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2015

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From _____ to _____.

Commission file number 1-10593

ICONIX BRAND GROUP, INC.

(Exact name of registrant as specified in its charter)

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

(212) 730-0030

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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-52,095,106 shares as of June 29, 2016.

Unless the context requires otherwise, references in this Form 10-Q/A to the “Company”, “Iconix”, “we”, “us”, “our”, or similar pronouns refer to Iconix Brand Group, Inc. and its consolidated subsidiaries.

EXPLANATORY NOTE – RESTATEMENT OF FINANCIAL INFORMATION

Iconix Brand Group, Inc. (the “Company”) is filing this Amendment No. 1 to the Company’s Quarterly Report on Form 10-Q/A (the “Amended Filing”) to amend certain parts of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, originally filed with the U.S. Securities and Exchange Commission, (“SEC”) on November 13, 2015 (the “Original Filing”), to restate the Company’s unaudited condensed consolidated financial statements and related footnote disclosures as of September 30, 2015 and for the three months and nine months ended September 30, 2015 and 2014.

Background and Effects of the Restatement

SEC Comment Letter Process.

As previously disclosed, the Company has been engaged in a comment letter process with the Staff of the SEC relating to an ongoing review of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Company has responded to the Staff with a Confirming Letter on all of the questions the Staff has raised, and remains in a dialogue with the SEC Staff relating to those and certain other comments related to the Company’s future disclosures. As a result of the comment letter process, the Company’s management team, Audit Committee (the “Audit Committee”) and the Board of Directors (the “Board”) have reviewed the Company’s financial statements and assessed the accounting treatment applied by the Company to its joint ventures and other sales of intellectual property.

Based on this review and assessment, the Board, the Audit Committee and the Company’s management team, on February 11, 2016, concluded that the Company would restate its historical financial statements (the “Restatement”) to address the following accounting matters: (i) consolidate the financial statements of the Iconix Canada, Iconix Israel, Iconix Southeast Asia, Iconix MENA and LC Partners US joint ventures with the Company’s financial statements, and eliminate the previously reported gains on sale which were recorded at the time these transactions were consummated (including subsequent June 2014 and September 2014 transactions with respect to Iconix Southeast Asia), (ii) record the recalculated cost basis of the trademarks contributed to certain joint ventures which are recorded under the equity method of accounting at the time of consummation of the transactions (which also affected years prior to FY 2013 and is effectuated in the consolidated balance sheets contained herein), (iii) record the recalculated cost basis of the Umbro brand in the territory of Korea (which closed in December 2013) and the e-commerce and U.S. catalog rights in respect of the Sharper Image brand (which closed in June 2014) to determine the amount of the gain that should have been recorded at the time of the sale, (iv) reclassify the presentation of its statement of operations to reflect gains on sales of trademarks (to joint ventures or third parties) as a separate line item above the Operating Income line, and not as revenue as historically reflected, and (v) reclassify the Equity Earnings on Joint Ventures line to above the Operating Income line, from its previous location within the Other Expenses section.

In conjunction with the Company's consolidation of the joint ventures noted above, the Company also adjusted its historical financial statements to properly reflect the consideration from joint venture partners ("the redemption value") as redeemable non-controlling interest for the Iconix Southeast Asia, Iconix MENA and LC Partners US joint ventures as of the date of the formation of the applicable joint venture. For each period subsequent to the formation of the applicable joint venture, the Company will accrete the change in redemption value up to the date that the Company's joint venture partner has the right to redeem its respective put option. Additionally, in accordance with the applicable accounting guidance, the notes receivable, net of discount, received from the Company's joint venture partners as part of the consideration related to the formation of consolidated joint ventures will be netted against non-controlling interest or redeemable non-controlling interest, as applicable.

Other.

In addition, through the Company's review of various historical transactions, management determined that it would record adjustments to reflect the following: (i) a reduction of revenue and remeasurement gains associated with certain transactions whereby the Company was not able to establish the fair value of the purchase transaction and subsequent guaranteed minimum royalties, and (ii) record a liability for a royalty credit earned by a specific licensee in fiscal years 2006 through 2008 that will be utilized in fiscal years 2016 through 2020.

This Amended Filing includes the restated condensed consolidated financial statements, as described above. See Note 18 – Restatement to the accompanying condensed consolidated financial statements for additional information.

Disclosure Controls and Procedures

In connection with the Original Filing, the Company's then interim Principal Executive Officer and Principal Financial Officer determined that the Company's disclosure controls and procedures were not effective as of September 30, 2015 due to inadequate review controls related to the preparation of timely and accurate financial statements in its internal control over financial reporting. In connection with this Amended Filing, management reassessed its evaluation of the effectiveness of its Disclosure Controls and Procedures as of September 30, 2015 and identified additional material weaknesses in internal controls over financial reporting. The Company's Principal Executive Officer and Principal Financial Officer concluded that the Company did not maintain effective disclosure controls and procedures as of September 30, 2015. The material weaknesses relate to inadequate management review controls which caused the restatement adjustments noted above. For a description of the material weaknesses in internal control over financial reporting and actions taken, and to be taken, to remediate the material weaknesses, see the Company's most recently filed Form 10-K and Item 4. Controls and Procedures of this Amended Filing.

Items Amended in This Filing

This Amended Filing amends and restates the following items of the Company's Original Filing as of, and for the period ended September 30, 2015.

Part I - Item 1. Financial Statements

Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I - Item 4. Controls and Procedures

Part II – Item 1A. Risk Factors

Part II - Item 6. Exhibits

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

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

Part I. Financial Information

Item 1. Financial Statements

Iconix Brand Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except par value)

	September 30, 2015 (restated) (unaudited)	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$ 136,720	\$ 128,039
Restricted cash	51,911	59,560
Accounts receivable, net	104,828	112,347
Deferred income tax assets	20,383	10,328
Other assets – current	39,557	44,088
Total Current Assets	353,399	354,362
Property and equipment:		
Furniture, fixtures and equipment	23,749	22,704
Less: Accumulated depreciation	(16,248)	(14,946)
	7,501	7,758
Other Assets:		
Other assets	32,673	51,865
Trademarks and other intangibles, net	2,105,628	1,996,334
Deferred financing costs, net	16,188	19,842
Investments and joint ventures	145,465	110,105
Goodwill	293,849	232,776
	2,593,803	2,410,922
Total Assets	\$ 2,954,703	\$ 2,773,042
Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,994	\$ 38,655
Deferred revenue	27,535	25,868
Current portion of long-term debt	351,544	61,123
Other liabilities – current	3,727	6,403
Total current liabilities	426,800	132,049
Deferred income tax liability	342,086	299,982
Long-term debt, less current maturities	1,120,098	1,332,954
Other liabilities	15,689	16,924
Total Liabilities	1,904,673	1,781,909

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Redeemable Non-Controlling Interest	52,523	39,696
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$.001 par value shares authorized 150,000; shares issued 80,491 and		
79,263, respectively	80	79
Additional paid-in capital	967,541	940,922
Retained earnings	783,767	713,819
Accumulated other comprehensive loss	(51,396)	(24,186)
Less: Treasury stock – 31,997 and 31,310 shares at cost, respectively	(837,424)	(812,429)
Total Iconix Brand Group, Inc. Stockholders' Equity	862,568	818,205
Non-controlling interest	134,939	133,232
Total Stockholders' Equity	997,507	951,437
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	\$2,954,703	\$2,773,042

See Notes to Unaudited Condensed Consolidated Financial Statements.

Unaudited Condensed Consolidated Statement of Operations

(in thousands, except earnings per share data)

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,	
	2015 (restated)	2014 (restated)	2015 (restated)	2014 (restated)
Licensing revenue	\$ 91,332	\$ 89,965	\$284,544	\$295,481
Selling, general and administrative expenses	63,900	46,827	151,961	138,413
Gains on sale of trademarks	—	—	—	(6,399)
Equity earnings on joint ventures	(350)	(2,639)	(3,000)	(8,683)
Operating income	27,782	45,777	135,583	172,150
Other expenses (income):				
Interest expense	22,252	21,130	64,950	63,533
Interest income	(874)	(746)	(3,030)	(2,439)
Other income	—	(125)	(50,780)	(29,022)
Foreign currency translation loss (gain)	1,083	269	(7,686)	636
Other expenses (income) – net	22,461	20,528	3,454	32,708
Income before income taxes	5,321	25,249	132,129	139,442
Provision for income taxes	6,275	8,867	45,083	43,078
Net (loss) income	\$ (954)	\$ 16,382	\$87,046	\$96,364
Less: Net income attributable to non-controlling interest	\$ 4,433	\$ 3,527	\$13,335	\$10,165
Net (loss) income attributable to Iconix Brand Group, Inc.	\$ (5,387)	\$ 12,855	\$73,711	\$86,199
Earnings (loss) per share:				
Basic	\$ (0.11)	\$ 0.27	\$1.53	\$1.77
Diluted	\$ (0.11)	\$ 0.22	\$1.46	\$1.48
Weighted average number of common shares outstanding:				
Basic	48,310	47,991	48,238	48,682
Diluted	48,310	58,457	50,486	58,306

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended	
	2015	2014 (restated)	September 30,	September 30,
	(restated)		2015 (restated)	2014 (restated)
Net (loss) income	\$ (954)	\$ 16,382	\$87,046	\$96,364
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	4,051	(24,905)	(26,560)	(28,348)
Change in fair value of available for sale securities	(948)	—	(650)	—
Total other comprehensive income (loss)	3,103	(24,905)	(27,210)	(28,348)
Comprehensive income (loss)	\$ 2,149	\$ (8,523)	\$59,836	\$68,016
Less: comprehensive income attributable to non-controlling interest	4,433	3,527	13,335	10,165
Comprehensive (loss) income attributable to Iconix Brand Group, Inc.	\$ (2,284)	\$ (12,050)	\$46,501	\$57,851

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statement of Stockholders' Equity

Nine Months Ended September 30, 2015

(in thousands)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Comprehensive Loss	Other Treasury Stock	Non-Controlling Interest	Total
Balance at January 1, 2015 -								
Restated	79,263	\$ 79	\$ 940,922	\$ 713,819	\$ (24,186)	\$(812,429)	\$ 133,232	\$ 951,437
Issuance of common stock								
related to acquisition of interest								
in joint venture	465	—	15,703	—	—	—	—	15,703
Shares issued on vesting of								
restricted stock	748	1	—	—	—	—	—	1
Purchase of minority interest in								
consolidated joint venture			750				(6,750)	(6,000)
Shares issued on exercise of								
stock options and warrants	15	—	245	—	—	—	—	245
Tax benefit of stock option								
exercises	—	—	97	—	—	—	—	97
Compensation expense in								
connection with restricted								
stock	—	—	9,824	—	—	—	—	9,824

Shares repurchased on
the

open market	—	—	—	—	—	(12,391)	—	(12,391)
Cost of shares repurchased on								
vesting of restricted stock and								
exercise of stock options	—	—	—	—	—	(12,604)	—	(12,604)
Change in redemption value of								
redeemable non-controlling								
interest, net of imputed interest	—	—	—	(3,763)	—	—	—	(3,763)
Change in fair value of available								
for sale securities	—	—	—	—	(650)	—	—	(650)
Change in non-controlling								
interest, net of imputed interest							3,356	3,356
Net income	—	—	—	73,711	—	—	13,335	87,046
Foreign currency translation	—	—	—	—	(26,560)	—	—	(26,560)
Distributions to joint ventures	—	—	—	—	—	—	(20,567)	(20,567)
Non-controlling interest of								
acquired companies	—	—	—	—	—	—	12,333	12,333
Balance at September 30, 2015 -								
Restated	80,491	\$ 80	\$ 967,541	\$ 783,767	\$ (51,396)	\$ (837,424)	\$ 134,939	\$ 997,507

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
	(restated)	(restated)
Cash flows from operating activities:		
Net income	\$87,046	\$96,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	1,222	2,154
Amortization of trademarks and other intangibles	2,414	3,394
Amortization of deferred financing costs and debt discount	3,654	3,997
Amortization of convertible note discount	23,408	22,040
Stock-based compensation expense	9,824	14,726
Non-cash gain on re-measurement of equity investment	(49,990)	(28,897)
Provision for doubtful accounts	16,117	5,530
Earnings on equity investments in joint ventures	(3,000)	(8,683)
Distributions from equity investments	3,273	6,303
Gain on sale of fixed assets	(225)	—
Gain on sale of securities	—	(125)
Gain on sale of trademarks	—	(6,399)
Deferred income tax provision	22,627	31,492
(Gain) loss on foreign currency translation	(7,686)	636
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(5,416)	(15,791)
Other assets – current	15,150	(19,144)
Other assets	5,514	(10,069)
Deferred revenue	2,091	2,065
Accounts payable and accrued expenses	8,991	23,148
Net cash provided by operating activities	135,014	122,741
Cash flows used in investing activities:		
Purchases of property and equipment	(1,134)	(1,086)
Acquisition of interest in Iconix China, net of cash acquired	(20,400)	—
Acquisition of interest in iBrands	—	(2,500)
Acquisition of interest in Pony	(