Differential Brands Group Inc.
Form 10-Q
May 16, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

o 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)

Delaware	**11-2928178**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1231 South Gerhart Street, Commerce, California	**90022**
(Address of principal executive offices)	(Zip Code)

(323) 890-1800

(Registrant s telephone number, including area code)

Joe s Jeans Inc.

2340 South Eastern Avenue, Commerce, California 90040

November 30

(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. x Yes o 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). x Yes o 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant s common stock outstanding as of May 16, 2016 was 12,379,716.

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DIFFERENTIAL BRANDS GROUP INC.

QUARTERLY REPORT ON FORM 10-Q

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EXPLANATORY NOTE

Differential Brands Group Inc. (***we***, ***us***, ***our***, the ***Company*** or ***Differential***) began operations in 1987 as Innovo, Inc. Since our founding, we have evolved from producing craft and accessory products to designing and selling apparel products bearing the Hudson® and Robert Graham® brand names. Prior to the Asset Sale discussed below, we also designed and sold apparel products bearing the various Joe s ® brand names.

As previously reported, on September 11, 2015, we completed the sale of certain of our operating and intellectual property assets related to the business operated under the brand names Joe s Jeans, Joe s, Joe s JD and else (the ***Joe s Business***) to GBG USA Inc., a Delaware corpora ***Operating Assets Purchaser***), and the sale of certain of our intellectual property assets related to the Joe s Business to Joe s Holdings LLC, a Delaware limited liability company (the ***IP Assets Purchaser***), for an aggregate purchase price of $80 million (the ***Asset Sale***). The proceeds of the Asset Sale were used to repay all of our indebtedness outstanding under the term loan credit agreement, dated September 30, 2013 (the ***Garrison Term Loan Credit Agreement***), with Garrison Loan Agency Services LLC (***Garrison***) and a portion of our indebtedness outstanding under our revolving credit agreement (the ***CIT Revolving Credit Agreement***), dated September 30, 2013, as amended, with CIT Commercial Services, Inc. (***CIT***), a unit of CIT Group. In November 2014, we had received an initial notice of default and event of default and demand for payment of default interest from Garrison under the Garrison Term Loan Credit Agreement, which also triggered a default and event of default under the terms of the CIT Revolving Credit Agreement and our separate factoring facility with CIT. On February 10, 2015, we had received additional notices of default and events of default for failure to comply with certain financial and other covenants and a demand for continued payment of default interest from both Garrison and CIT. As a result of the repayment based on the proceeds of the Asset Sale, the Garrison Term Loan Credit Agreement was paid in full and terminated on September 11, 2015, and we entered into the amended and restated revolving credit agreement (the ***CIT Amended and Restated Revolving Credit Agreement***), dated September 11, 2015, which provided for a maximum credit availability of $7.5 million and waived certain defaults that remained in effect until the closing of the Merger (as defined below).

Additionally, as previously reported, on January 28, 2016, we completed the acquisition (the ***Merger***) of all of the outstanding equity interests of RG Parent LLC and its subsidiaries (***Robert Graham*** or ***RG***), a business engaged in the design, development, sales and licensing of apparel products and accessories that bear the brand name Robert Graham® (the ***Robert Graham Business***), as contemplated by the Agreement and Plan of Merger, dated as of September 8, 2015 (the ***Merger Agreement***), by and among RG, JJ Merger Sub, LLC (***Merger Sub***) and us, for an aggregate of $81.0 million in cash and 8,825,461 shares of our common stock, par value $0.10 per share (***common stock***) (after giving effect to the Reverse Stock Split (as defined below)). Pursuant to the Merger Agreement, among other things, Merger Sub was merged with and into RG, so that RG, as the surviving entity, became our wholly-owned subsidiary. The aggregate cash consideration received was reduced by $19.0 million to repay all of RG s outstanding loans and indebtedness under its revolving credit agreement with J.P. Morgan Chase Bank, N.A. On the Merger s closing date, all outstanding loans under the CIT Amended and Restated Revolving Credit Agreement were repaid and it was terminated in connection with entering into (i) a new credit and security agreement (the ***ABL Credit Agreement***) with Wells Fargo Bank, National Association, as lender, (ii) a new credit and security agreement with TCW Asset Management Company, as agent, and the lenders party thereto (the ***Term Credit Agreement***), and (iii) an amended and restated deferred purchase factoring agreement with CIT.

Effective upon consummation of the Merger, we changed our name from Joe s Jeans Inc. to Differential Brands Group Inc. and our trading symbol from JOEZ to DFBG, and effected a reverse stock split (the ***Reverse Stock Split***) of our issued and outstanding common stock such that each 30 shares of our issued and outstanding common stock was reclassified into one share of our issued and outstanding common stock, which Reverse Stock Split did not change the par value or the amount of authorized shares of our common stock. The primary purpose of the Reverse Stock Split was to increase the per-share market price of our common stock in order to maintain our listing on The Nasdaq Capital Market maintained by The Nasdaq Stock Market LLC (***NASDAQ***). Unless otherwise indicated, all share amounts in this Quarterly Report on Form 10-Q (this ***Quarterly Report***) have been adjusted to reflect the Reverse Stock Split.

After the closing of the Asset Sale on September 11, 2015, we retained and operated 32 Joe s® brand retail stores, of which we transferred 18 retail stores to the Operating Assets Purchaser on January 28, 2016 for no additional consideration. As of February 29, 2016, the remaining 14 Joe s® brand retail stores were closed. The Operating Assets Purchaser supplied Joe s® branded merchandise to the retail stores for resale under a license from the IP Assets Purchaser until the stores were transferred or closed.

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The Merger has been accounted for as a reverse merger and recapitalization. Following the Merger, RG is a wholly-owned subsidiary of the Company, the Company no longer owns certain assets and intellectual property of the Joe s Business and the Company retains ownership of the businesses associated with its Hudson® brand (the ***Hudson Business***). RG members own a majority of our issued and outstanding equity after the Merger. Under the acquisition method, RG is deemed the accounting acquirer for financial reporting purposes, with the Company, as the legal acquirer, being viewed as the accounting acquiree. As a result, the assets, liabilities and operations reflected in the historical consolidated financial statements and elsewhere in this Quarterly Report prior to the Merger are those of RG and will be recorded at the historical cost basis and the Company s future periodic reports will reflect RG s historical financial condition and results of operations for comparative purposes. For the three months ended March 31, 2016, the Company s consolidated financial statements include: (i) from January 1, 2016 up to the day prior to the closing of the Merger on January 28, 2016, the assets, liabilities and results of operations of RG; and (ii) from and after the Merger s closing date on January 28, 2016, the assets, liabilities and results of operations of the combined company, comprising the Company s Hudson Business, RG and the Joe s® brand retail stores that were not transferred to the Operating Assets Purchaser but that closed as of February 29, 2016.

Prior to the Merger, RG and the Company had different fiscal year ends, with RG s fiscal year ending on December 31 and the Company s fiscal year ending on November 30. In connection with the Merger, the Company changed its fiscal year end to December 31. The accounting policies of the Company are similar in all material respects to those of RG.

The Company continues to be a smaller reporting company, as defined under the Securities Exchange Act of 1934, as amended (the ***Exchange Act***) following the Merger.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

DIFFERENTIAL BRANDS GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

		March 31, 2016 (unaudited)		December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	$	11,351	$	1,966
Factor accounts receivable, net		17,214		4,917
Accounts receivable, net		2,009		1,836
Royalties receivable		758		547
Inventories, net		27,395		15,353
Prepaid expenses and other current assets		1,708		1,351
Total current assets		60,435		25,970
Property and equipment, net		13,505		13,406
Deferred financing and other costs		620		1,161
Goodwill		7,046		2,286
Intangible assets		85,648		39,823
Other assets		726		213
Total assets	$	167,980	$	82,859
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued expenses	$	23,339	$	13,084
Current portion of long term debt		375		
Current portion of loan payable				1,167
Total current liabilities		23,714		14,251
Long term debt, net of current portion		48,254		
Line of credit		16,092		17,013
Convertible notes		11,946		
Deferred income taxes, net		10,439		
Deferred rent		3,475		3,568
Other liabilities		1,332		
Loan payable, net of current portion				486
Total liabilities		115,252		35,318
Commitments and contingencies				
Equity				

Preferred members		24,798
Common members		22,743
Convertible preferred stock, $0.10 par value: 50 shares authorized,	5	
Common stock, $0.10 par value: 100,000 shares authorized, 12,379 shares issued and 12,379 outstanding (2016)	1,239	
Additional paid-in capital	55,781	
Accumulated deficit	(4,297)	