

Edgar Filing: CANDIES INC - Form 8-K

CANDIES INC  
Form 8-K  
May 27, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): May 12, 2003

CANDIE'S, INC.

-----  
(Exact name of Registrant as specified in its charter)

DELAWARE	001-10593	11-2481903
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

400 Columbus Avenue,	Valhalla, New York	10595
-----		-----
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code: (914) 769-8600  
-----

-----  
(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets

On May 12, 2003, Candie's, Inc. (the "Company") granted Steven Madden, Ltd. ("Madden") the exclusive worldwide license to design, manufacture, sell, distribute and market footwear under the Candie's(r) brand. The license agreement expires on December 31, 2009, subject to renewal options for four additional terms of three years each contingent on Madden meeting certain performance and minimum sale standards. The terms of the license agreement were determined by negotiations between representatives of the Company and Madden.

## Edgar Filing: CANDIES INC - Form 8-K

Notwithstanding such terms which provided for, among other things, Madden to commence shipment of Candie's branded footwear for the Fall 2003 season, the Company currently anticipates that, with respect to the transition of this footwear business, the Company will make shipments of Spring 2003 Candie's branded footwear products and will continue shipments of Candie's branded footwear products for the Fall 2003 season.

### Item 5. Other Events

In connection with the Company's transition from a designer and distributor of Candie's branded footwear products to a licensor of such rights, the Company has evaluated its retail operations and is planning to close its 11 concept stores which have not performed to the Company's expectations. The Company will continue to operate 10 outlet stores at least through the end of 2003.

### Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Not applicable

(b) Pro Forma Financial Information

	Page No.
Introduction	PF-1
Pro forma condensed consolidated balance sheet as of January 31, 2003	PF-2
Pro forma condensed consolidated statement of operations for the year ended January 31, 2003	PF-3

(c) Exhibits

10.1 License Agreement dated May 12, 2003 among IP Holdings, LLC, Candie's, Inc. and Steven Madden, Ltd.\*

-----  
\*Portions of this document have been omitted and filed separately with the Securities and Exchange Commission pursuant to the Company's request for confidential treatment of such information.

(b) Pro Forma Financial Information

#### Introduction

In May 2003, Candie's, Inc. (the "Company") entered into agreements to license the rights to its primary footwear brands, Candie's and Bongo, to Steven Madden, Ltd. and Kenneth Cole Productions, Inc., respectively. The following unaudited pro forma condensed consolidated financial statements give effect to the transition of the Company from a manufacturer and distributor of these

## Edgar Filing: CANDIES INC - Form 8-K

footwear products to a licensor of said products. This will result in a substantial reduction of the Company's footwear operations, including the termination of employees and closing of offices. In addition, in connection with the transition and because of the current retail environment, the Company plans to close its eleven concept retail stores which have been performing below expectations. The pro forma financial information reflects these matters and has been prepared utilizing the historical financial statements of the Company included in its Annual Report on Form 10-K for the year ended January 31, 2003.

The pro forma condensed consolidated statement of operations for the year ended January 31, 2003 assumes that the transition of the Company to a licensor and the closing of the eleven retail stores had occurred as of February 1, 2002. The pro forma condensed consolidated balance sheet at January 31, 2003 assumes these events occurred on that date.

The pro forma condensed consolidated statement of operations also reflects the full year's operations of Unzipped Apparel, LLC ("Unzipped"), a company acquired by the Company as of April 30, 2002.

After the transition to a licensor for its primary footwear brands, the operations of the Company will consist of: (i) distribution of jeanswear products through Unzipped; (ii) sale of men's footwear; (iii) outlet retail stores; and (iv) licensing of footwear and other products.

The pro forma financial information does not purport to be indicative of the results which actually would have been obtained had the footwear license transition or retail store closings occurred on the dates indicated or the results which may be obtained in the future.

PF - 1

Candie's, Inc  
 Pro Forma Condensed Consolidated Balance Sheet  
 as of January 31, 2003  
 (000's omitted)

	Reported Consolidated January 31, 2003 -----	Pro Forma Adjustment -----
Current Assets		
Cash	\$ 1,899	\$ 1,000
Accounts receivable, net	8,456	-
Due from factors and accounts receivable, net	17,966	-
Due from affiliate	230	-
Inventories	19,016	-
Deferred income taxes	3,109	-
Prepaid advertising and other	1,140	-
	-----	-----
Total Current Assets	51,816	1,000
Property and equipment, at cost		
Furniture, fixtures and equipment	9,157	-
Less: Accumulated depreciation and amortization	6,514	-

Edgar Filing: CANDIES INC - Form 8-K

	-----	-----
	2,643	-
Other assets:		
Goodwill, net	25,241	-
Intangibles, net	17,818	-
Restricted cash	2,900	-
Deferred finance fees	2,326	-
Deferred income taxes	513	-
Other	180	-
	-----	-----
	48,978	-
	-----	-----
Total Assets	\$ 103,437	\$ 1,000
	=====	=====
Liabilities and Stockholders' Equity		
Current Liabilities:		
Revolving notes payable - banks	\$ 21,577	\$ -
Accounts payable and accrued expenses	15,493	2,464
Due to affiliates	6,203	-
Current portion of long-term debt	2,648	-
	-----	-----
Total Current Liabilites	45,921	2,464
Deferred revenue	-	1,000
Other liabilities	11,000	-
Long-term liabilities	17,505	-
Stockholders' Equity		
Common stock	25	-
Additional paid-in capital	69,812	-
Retained earnings (deficit)	(40,159)	(2,464)
Less: Treasury stock	(667)	-
	-----	-----
Total Stockholders' Equity	29,011	(2,464)
	-----	-----
Total Liabilities and Stockholders Equity	\$ 103,437	\$ 1,000
	=====	=====

- (1) \$1 million cash received from Steven Madden, Ltd. upon signing the license agreement.  
(2) Restructuring expenses related to employee terminations and office and retail store closings (primarily estimates of lease termination liabilities).

PF -2

Candie's Inc  
Pro Forma Condensed Consolidated Statement of Operations  
for the Year ended January 31, 2003  
(000's omitted, except per share data)

Historical Reported @ 1/31/03	Historical Unzipped 2/1/02-4/30/02	Pro Forma Unzipped Adjustments	Adjusted Historical
-------------------------------------	--	--------------------------------------	------------------------

Edgar Filing: CANDIES INC - Form 8-K

	-----	-----	-----	-----
Net sales	\$ 151,643	\$ 13,175	\$ -	\$ 164,818
Licensing income	5,140	-	(414) (1)	4,726
	-----	-----	-----	-----
Net revenue	156,783	13,175	(414)	169,544
Cost of goods sold	116,306	10,863	-	127,169
	-----	-----	-----	-----
Gross profit	40,477	2,312	(414)	42,375
Selling, general and administrative expenses	37,872	2,087	(358) (2)	39,601
Special charges	3,566	-	-	3,566
	-----	-----	-----	-----
Operating income	(961)	225	(56)	(792)
Other expenses:				
Interest expense	3,373	260	220 (3)	3,853
Equity (income) in joint venture	(250)	-	250 (1)	-
	-----	-----	-----	-----
	3,123	260	470	3,853
	-----	-----	-----	-----
Income before income taxes	(4,084)	(35)	(526)	(4,645)
(Benefit) Provision for income taxes	(139)	13	-	(126)
	-----	-----	-----	-----
Net income	\$ (3,945)	\$ (48)	\$ (526)	\$ (4,519)
	=====	=====	=====	=====
Earnings per share:				
Basic	\$ (0.17)			
	=====			
Diluted	\$ (0.17)			
	=====			
Weighted average number of common shares outstanding:				
Basic	23,681			
	=====			
Diluted	23,681			
	=====			

- (1) Reversal of licensing income (\$414) and equity income (\$250) from Unzipped Joint Venture.
- (2) Includes \$414 expense reduction related to the reversal of licensing income, and first quarter intangibles in connection with Unzipped acquisition.
- (3) Includes first quarter interest expense of \$220 on the \$11 million notes for the first quarter.
- (4) Represents elimination of Candie's wholesale business and all concept stores.
- (5) Includes 7% (amount specified in each license agreement) of wholesales branded revenue and amount prepaid licensing fee by Steven Madden Ltd over the six year term of the agreement.
- (6) Includes an estimate of the expenses that will remain upon transitioning to a licensor for first quarter expenses of \$2,464 have not been included in this adjustment.

Edgar Filing: CANDIES INC - Form 8-K

- (7) Income taxes have not been adjusted due to prior years' net operating loss carryforwards and deferred tax assets related thereto.
- (8) Includes shares issued in connection with Unzipped acquisition for the full year and, for the calculation also includes the stock equivalents.

PF - 3

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CANDIE'S, INC.  
(Registrant)

By: /s/Richard Danderline  
-----  
Richard Danderline  
Executive Vice President,  
Finance and Operations

Date: May 27, 2003

Exhibits

10.1 License Agreement dated May 12, 2003 among IP Holdings, LLC, Candie's, Inc. and Steven Madden, Ltd.\*

-----  
\*Portions of this document have been omitted and filed separately with the Securities and Exchange Commission pursuant to the Company's request for confidential treatment of such information.