Sequential Brands Group, Inc.
Form 10-Q
May 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

.. **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 10018

(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 x 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 x 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 x

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 x

As of April 29, 2016, the registrant had 62,111,140 shares of common stock, par value $.01 per share, outstanding.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

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Forward-Looking Statements

In addition to historical information, this quarterly report on Form 10-Q (this “Quarterly Report”) 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”). Forward-looking statements may appear throughout this Quarterly Report, including, without limitation, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section. We use words such as “believe,” “intend,” “expect,” “anticipate,” “plan,” “may,” “will,” “should,” “estim “potential,” “project” and similar expressions to identify forward-looking statements. Such 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 risks identified in our Annual Report on Form 10-K for the year ended December 31, 2015 and our subsequent Quarterly Reports on Form 10-Q.

Forward-looking statements speak only as of the date they are made. 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 Securities and Exchange Commission (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 and other information 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," or similar pronouns refer to Sequential Brands Group, Inc. and its subsidiaries.

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, 2016 (Unaudited)	December 31, 2015 (Note 2)
Assets		
Current Assets:		
Cash	$41,379	$41,560
Accounts receivable, net	34,603	42,026
Available-for-sale securities	6,613	5,611
Prepaid expenses and other current assets	5,154	5,276
Current assets held for disposition from discontinued operations of wholesale business	103	113
Total current assets	87,852	94,586
Property and equipment, net	7,529	6,547
Intangible assets, net	872,002	872,277
Goodwill	313,533	314,288
Other assets	1,796	2,139
Total assets	$1,282,712	$1,289,837
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$18,301	$23,722
Deferred revenue	1,023	2,157
Current portion of long-term debt	20,000	19,000
Total current liabilities	39,324	44,879
Long-term debt, net of current portion	518,497	523,065
Deferred tax liability	185,249	184,881
Other long-term liabilities	11,560	10,686
Long-term liabilities held for disposition from discontinued operations of wholesale business	667	677
Total liabilities	755,297	764,188

Commitments and Contingencies		
Equity:		
Preferred stock Series A, $0.01 par value; 10,000,000 shares authorized; none issued and outstanding at March 31, 2016 and December 31, 2015	-	-
Common stock, $0.01 par value; 150,000,000 shares authorized; 62,610,960 and 60,991,127 shares issued at March 31, 2016 and December 31, 2015, respectively, and 62,111,140 and 60,480,474 shares outstanding at March 31, 2016 and December 31, 2015, respectively	621	605
Additional paid-in capital	497,943	496,179
Accumulated other comprehensive loss	(5,477)	(6,466)
Accumulated deficit	(39,906)	(38,830)
Treasury stock, at cost; 71,646 shares at March 31, 2016 and none at December 31, 2015	(501)	-
Total Sequential Brands Group, Inc. and Subsidiaries stockholders' equity	452,680	451,488
Noncontrolling interest	74,735	74,161
Total equity	527,415	525,649
Total liabilities and equity	$ 1,282,712	$ 1,289,837

See Notes to Condensed Consolidated Financial Statements.

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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, 2016		2015	
Net revenue	$ 34,008		$ 13,617	
Operating expenses	21,977		8,676	
Income from operations	12,031		4,941	
Other income	93		700	
Interest expense, net	10,690		3,160	
Income before income taxes	1,434		2,481	
Provision for income taxes	399		919	
Net income	1,035		1,562	
Net income attributable to noncontrolling interest	(2,111	)	(118	)
Net (loss) income attributable to Sequential Brands Group, Inc. and Subsidiaries	$ (1,076	)	$ 1,444	
(Loss) earnings per share attributable to Sequential Brands Group, Inc. and Subsidiaries:				
Basic	$ (0.02	)	$ 0.04	
Diluted	(0.02	)	0.04	
Weighted-average common shares outstanding:				
Basic	61,209,868		39,039,993	
Diluted	61,209,868		41,187,458	

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net income	$1,035	$1,562
Other comprehensive income (loss):		
Unrealized gain on available-for-sale securities, net of tax	1,002	-
Unrealized loss on interest rate hedging transactions, net of tax	(13)	(106)
Other comprehensive income (loss), net of tax	989	(106)
Comprehensive income	2,024	1,456
Comprehensive income attributable to noncontrolling interest	(2,111)	(118)
Comprehensive (loss) income attributable to Sequential Brands Group, Inc. and Subsidiaries	$(87)	$1,338

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)

	Common Stock		Preferred Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Treasury Stock		Total Sequential Brands Group, Inc. and Subsidiaries Stockholders'	Noncontrolling	Tota
	Shares	Amount	Shares	Amount	Capital	Loss	Deficit	Shares	Amount	Equity	Interest	Equi
Balance at January 1, 2016	60,480,474	$605	-	$-	$496,179	$(6,466)	$(38,830)	-	$-	$451,488	$74,161	$52
Stock-based compensation	255,666	2	-	-	1,778	-	-	-	-	1,780	-	1,7
Issuance of Galaxy Brand Holdings, Inc. holdback shares	1,375,000	14	-	-	(14)	-	-	-	-	-	-	-
Unrealized loss on interest rate hedging transactions	-	-	-	-	-	(13)	-	-	-	(13)	-	(13
Unrealized gain on available-for-sale securities	-	-	-	-	-	1,002	-	-	-	1,002	-	1,0
Repurchase of common stock	-	-	-	-	-	-	-	(71,646)	(501)	(501)	-	(50
Noncontrolling interest distribution	-	-	-	-	-	-	-	-	-	-	(1,537)	(1,
Net income attributable to noncontrolling	-	-	-	-	-	-	-	-	-	-	2,111	2,1

interest												
Net loss attributable to common stockholders	-	-	-	-	-	-	(1,076)	-	-	(1,076)	-	(1,0
Balance at March 31, 2016	62,111,140	$621	-	$-	$497,943	$(5,477)	$(39,906)	(71,646)	$(501)	$452,680	$74,735	$527

See Notes to Condensed Consolidated Financial Statements.

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SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31	
	2016	2015
Cash Flows From Operating Activities		
Net income	$1,035	$1,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	75	63
Depreciation and amortization	1,143	377
Stock-based compensation	1,780	2,531
Amortization of deferred financing costs	432	303
Gain on sale of trademark	-	(700)
Loss on disposal of fixed assets	501	-
Deferred income taxes	368	806
Changes in operating assets and liabilities:		
Accounts receivable	7,348	776
Prepaid expenses and other assets	1,291	(45)
Accounts payable and accrued expenses	(5,461)	(612)
Deferred revenue	(1,134)	(285)
Other liabilities	(887)	(424)
Cash Provided By Operating Activities From Continuing Operations	6,491	4,352
Cash Used In Operating Activities From Discontinued Operations	-	(75)
Cash Provided By Operating Activities	6,491	4,277
Cash Flows From Investing Activities		
Acquisition of intangible assets	(72)	(113)
Acquisition of property and equipment	(607)	(207)
Proceeds from sale of property and equipment	45	-
Proceeds from sale of trademark	-	140
Cash Used In Investing Activities	(634)	(180)
Cash Flows From Financing Activities		
Proceeds from options exercised	-	13
Proceeds from warrants exercised	-	58
Repayment of long-term debt	(4,000)	(3,000)
Repurchase of common stock	(501)	(660)
Noncontrolling interest distribution	(1,537)	-
Cash Used In Financing Activities	(6,038)	(3,589)
Net (Decrease) Increase In Cash	(181)	508

Cash — Beginning of period	41,560	22,521
Cash — End of period	$41,379	$23,029
Supplemental Disclosures Of Cash Flow Information		
Cash paid for:		
Interest	$10,000	$2,932
Taxes	$81	$542
Non-cash Investing And Financing Activities		
Receivable for sale of trademark	$-	$560

See Notes to Condensed Consolidated Financial Statements.

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SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

(UNAUDITED)

1. Organization and Nature of Operations

Overview

Sequential Brands Group, Inc. (the "Company" or "New Sequential") owns a portfolio of consumer brands in the fashion, home, athletic and lifestyle 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, 2016, the Company had more than one-hundred fifty licensees, with wholesale licensees comprising a significant majority.

The Company was formed on June 5, 2015, for the purpose of effecting the merger of Singer Merger Sub, Inc. with and into SQBG, Inc. (formerly known as Sequential Brands Group, Inc.) ("Old Sequential") and the merger of Madeline Merger Sub, Inc. with and into Martha Stewart Living Omnimedia, Inc. ("MSLO"), with Old Sequential and MSLO each surviving the merger as wholly owned subsidiaries of the Company (the "Mergers"). Prior to the Mergers, the Company did not conduct any activities other than those incidental to its formation and the matters contemplated in the Agreement and Plan of Merger, dated as of June 22, 2015, as amended, by and among the Company, MSLO, Old Sequential, Singer Merger Sub, Inc., and Madeline Merger Sub, Inc. (the "Merger Agreement"). On December 4, 2015, pursuant to the Merger Agreement, Old Sequential and MSLO completed the strategic combination of their respective businesses and became wholly owned subsidiaries of the Company. Old Sequential was the accounting acquirer in the Mergers; therefore, the historical consolidated financial statements for Old Sequential for periods prior to the Mergers are considered to be the historical financial statements of the Company and thus, the Company's consolidated financial statements reflect Old Sequential's consolidated financial statements for the period from January 1, 2015 through December 4, 2015, and the Company's thereafter. References to "the Company" when referring to periods prior to the consummation of the Mergers on December 4, 2015 are references to Old Sequential.

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, 2015, as filed with the SEC on March 14, 2016, 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, 2015, 2014 and 2013. The financial information as of December 31, 2015 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, 2015. The interim results for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or for any future interim periods.

Reclassification of Prior Year Presentation

On January 1, 2016, the Company adopted Accounting Standards Update ("ASU") No. 2015-03 – "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs on the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The standard's core principle is that debt issuance costs related to a note are reflected in the balance sheet as a direct deduction from the face amount of that note and amortization of debt issuance costs is reported in interest expense.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

(UNAUDITED)

As a result of the adoption of ASU 2015-03, the Company has reclassified certain balance sheet accounts for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations. The Company reclassified approximately $7.9 million between Other assets and Long-term debt, net of current portion in the Company’s condensed consolidated balance sheet at December 31, 2015.

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.

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 period.

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.

Discontinued Operations

The Company accounted for the decisions to close down its wholesale operations as discontinued operations in accordance with the guidance provided in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360, *Accounting for Impairment or Disposal of Long-Lived Assets*, and ASC 205, *Presentation of Financial Statements*, which requires that only a component of an entity or a group of components of an entity, that represents a strategic shift that has, or will have, a major effect on the reporting entity's operations that has been disposed of or is classified as held for sale and has operations and cash flows that can be clearly distinguished from the rest of the entity be reported as assets held for sale and discontinued operations. In the period a component of an entity has been disposed of or classified as held for sale, the results of operations for the periods presented are reclassified into separate line items in the statements of operations. Assets and liabilities are also reclassified into separate line items on the related balance sheets for the periods presented. The statements of cash flows for the periods presented are also reclassified to reflect the results of discontinued operations as separate line items.

Revenue Recognition

The Company has entered into various license agreements that provide revenues based on guaranteed minimum royalty payments and advertising/marketing fees with additional royalty revenues based on a percentage of defined sales. Guaranteed minimum royalty payments and advertising/marketing revenue are recognized on a straight-line basis over the term of each contract year, as defined in each license agreement. Royalty payments exceeding the guaranteed minimum royalty payments are recognized as income during the period corresponding to the licensee's sales. Payments received as consideration for the grant of a license are recorded as deferred revenue at the time payment is received and recognized ratably as revenue over the term of the license agreement. Advanced royalty payments are recorded as deferred revenue at the time payment is received and recognized as revenue as earned. Revenue is not recognized unless collectability is reasonably assured.

If license agreements are terminated prior to the original licensing period, the Company recognizes revenue in the amount of any contractual termination fees, unless such amounts are deemed non-recoverable.

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.

Television sponsorship revenues are generally recorded ratably across the period when new episodes initially air.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

(UNAUDITED)

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 charged to the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was approximately $0.3 million as of each of March 31, 2016 and December 31, 2015.

The Company's accounts receivable amounted to approximately $34.6 million and approximately $42.0 million as of March 31, 2016 and December 31, 2015, respectively. Two licensees accounted for approximately 26% (14% and 12%) of the Company's total consolidated accounts receivable balance as of March 31, 2016 and two licensees accounted for approximately 26% (15% and 11%) of the Company's total consolidated accounts receivable balance as of December 31, 2015. 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 has marketable securities that are 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 accompanying condensed consolidated balance sheets and at the time of purchase in the unaudited condensed consolidated statements of cash flows as an investing activity. The Company reviews 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 is 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 unrealized gains and losses on the available-for-sale securities held by the Company as of March 31, 2016 and December 31, 2015 are set forth below.

	March 31, 2016			
			Gross Unrealized	
	Historical Cost	Estimated Fair Value	Gains	Losses
	(in thousands)			
Available-for-sale securities	$12,048	$6,613	$ -	$ (5,435)

	December 31, 2015			
			Gross Unrealized	
	Historical Cost	Estimated Fair Value	Gains	Losses
	(in thousands)			
Available-for-sale securities	$12,048	$5,611	$ -	$ (6,437)

At March 31, 2016 and December 31, 2015, the Company has concluded that the decline in fair value of its available-for-sale securities is not other-than-temporary.

Goodwill and Intangible Assets

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 will first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) 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, then the Company will perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to be recognized, if any.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

(UNAUDITED)

In the first step, the Company will compare the estimated fair value of the reporting unit with its carrying value. Since the Company has determined that it has a single reporting unit, the Company considers its market capitalization (calculated as total common shares outstanding multiplied by the common equity price per share, as adjusted for a control premium factor) to represent its estimated fair value. 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 proceed to the second step and calculate the implied fair value of the reporting unit goodwill to determine whether any impairment is required. The implied fair value of the reporting unit goodwill is calculated by allocating the estimated fair value of the reporting unit to all of the unit's assets and liabilities as if the unit had been acquired in a business combination. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in the amount of that excess.

Intangible assets represent trademarks, customer agreements and patents related to the Company's brands and a favorable lease. Finite-lived intangible 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 intangible assets and other finite-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indefinite-lived intangible assets are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that indicate that the carrying amount of the indefinite-lived intangible asset may not be recoverable. When conducting its impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that the asset is impaired. If it is determined by a qualitative evaluation that it is more likely than not that the asset is impaired, the Company then tests the asset for recoverability. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

During the three months ended March 31, 2016, the Company changed its annual impairment testing date from December 31 to October 1. The Company believes this new date is preferable because it allows for more timely completion of the annual impairment test prior to the end of its annual financial reporting period. The Company has concluded that this change in accounting principle is not material to its financial statements, in part because the change does not delay, accelerate or avoid an impairment charge. The Company has determined that it will be impracticable to objectively determine projected cash flow and related valuation estimates that would have been used as of each October 1 of prior reporting periods without the use of hindsight. As such, the Company will apply the change in annual impairment testing date prospectively beginning October 1, 2016.

Treasury Stock

Treasury stock is recorded at cost as a reduction of equity in the accompanying 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, for which restrictions lapse with the passage of time (“time-based restricted stock”), compensation cost is recognized on a straight-line basis, reduced for estimated forfeitures, 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 performance stock units is recognized on a straight-line basis, reduced for estimated forfeitures, 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 granted 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.

Compensation cost for stock options and warrants, in accordance with accounting for stock-based payment under GAAP, is calculated using the Black-Scholes valuation model based on awards ultimately expected to vest, reduced for estimated forfeitures, and expensed on a straight-line basis over the requisite service period of the grant. Forfeitures are estimated at the time of grant based on the Company’s historical forfeiture experience and are revised in subsequent periods if actual forfeitures differ from those estimates.

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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 stock price at the end of such reporting period and revises the straight-line recognition of compensation cost in-line with such remeasured amount.

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.

The Company applies the 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. At March 31, 2016 and December 31, 2015, the Company had $0.6 million of certain unrecognized tax benefits, included as a component of long-term liabilities held for disposition from discontinued operations of wholesale business and does not expect a material change in the twelve months following March 31, 2016. 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, 2012 through 2015.

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 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,	
	2016	2015
Basic weighted-average common shares outstanding	61,209,868	39,039,993
Acquisition hold back shares	-	1,375,000
Warrants	-	488,826
Stock options	-	143,425
Unvested restricted stock	-	140,214
Diluted weighted-average common shares outstanding	61,209,868	41,187,458

The computation of diluted EPS for the three months ended March 31, 2016 and 2015 excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

	Three Months Ended March 31,	
	2016	2015
Warrants	330,671	-
Acquisition hold back shares	695,055	-
Unvested restricted stock	94,236	-
Performance based restricted stock	408,555	-
Stock options	12,796	41,000
Total	1,541,313	41,000

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Concentration of Credit Risk

Financial instruments which potentially expose the Company to credit risk consist primarily of cash, accounts receivable and marketable securities. Cash is held for use for working capital needs and future acquisitions. Substantially all of the Company's cash and marketable securities are deposited with high quality financial institutions. At times, however, such cash and marketable securities 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, 2016.

Concentration of credit risk with respect to accounts receivable is minimal due to the collection history and the nature of the Company's revenues.

Customer Concentrations

The Company recorded net revenues of approximately $34.0 million and approximately $13.6 million during the three months ended March 31, 2016 and 2015, respectively. During the three months ended March 31, 2016, two licensees represented at least 10% of net revenue, each accounting for 11% of the Company's net revenue. During the three months ended March 31, 2015, two licensees represented at least 10% of net revenue, accounting for 25% and 20% 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 from continuing operations recorded for the three months ended March 31, 2016 represents income allocations to Elan Polo International, Inc., a member of DVS Footwear International, LLC (“DVS LLC”), With You, Inc., a member of With You LLC (the partnership between the Company and Jessica Simpson) and JALP, LLC (“JALP”), a member of FUL IP Holdings, LLC (“FUL IP”). Noncontrolling interest from continuing operations recorded for the three months ended March 31, 2015 represents income allocations to DVS LLC. The following table sets forth the noncontrolling interest from continuing operations for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
With You LLC	$ 1,858	$ -
DVS LLC	140	118
FUL IP	113	-
Net income attributable to noncontrolling interest	$ 2,111	$ 118

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 only 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 domestic 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 and 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 flow.

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, 2016 and December 31, 2015, there were no assets or liabilities that are required to be measured at fair value on a recurring basis, except for the Company's available-for-sale securities (see Note 2), interest rate swap (see Note 7) and the contingent earn outs relating to the *Linens 'N Things* brand and Legacy Payments for Ms. Martha Stewart (see Note 11). 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, 2016 and December 31, 2015:

		Carrying Value		Fair Value	
Financial Instrument	Level	3/31/2016	12/31/2015	3/31/2016	12/31/2015
		(in thousands)			
Available-for-sale securities	1	$6,613	$ 5,611	$6,613	$ 5,611
Interest rate swap	2	$42	$ 29	$42	$ 29
2015 Term Loans	3	$460,000	$ 464,000	$445,591	$ 446,320
2015 Revolving Loan	3	$86,000	$ 86,000	$64,049	$ 62,880
Contingent earn outs	3	$-	$ -	$-	$ -
Legacy Payments	3	$1,816	$ -	$1,816	$ -

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

The Company records its available-for-sale securities on the condensed consolidated balance sheets at fair value using Level 1 inputs. The fair value of the Company’s available-for-sale securities is based upon quoted market prices for identical assets in active markets.

During 2015, the Company entered into an interest rate swap agreement related to $21.0 million notional value. The Company records its interest rate swap on the condensed consolidated balance sheets at fair value using Level 2 inputs. As of March 31, 2016, the fair value of the Company’s interest rate swap is immaterial. The valuation technique used to determine the fair value of the interest rate swap approximates the net present value of future cash flows which is the estimated amount that a bank would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates.

The objective of the swap agreement is to reduce the variability in cash flows for the interest payments associated with the loan agreements, which are based on the 1-month London Interbank Offered Rate (“LIBOR”) rates. The Company has formally documented the swap agreement as a cash flow hedge of the Company’s exposure to 1-month LIBOR. Because the critical terms of the swap agreement and the hedged items coincide (e.g., notional amount, interest rate reset dates, interest rate payment dates, maturity/expiration date and underlying index), the hedge is expected to completely offset changes in expected cash flows due to fluctuations in the 1-month LIBOR rate over the term of the hedge. The effectiveness of the hedge relationship will be periodically assessed during the life of the hedge by comparing the current terms of the swap agreement and the loan agreements to assure they continue to coincide and through an evaluation of the continued ability of the respective counterparties to the 2015 Swap Agreement to honor their obligations under the swap agreement. When the key terms no longer match exactly, hedge effectiveness (both prospective and retrospective) is assessed by evaluating the cumulative dollar offset for the actual hedging instrument relative to a hypothetical derivative whose terms exactly match the terms of the hedged item. Because the notional amounts of the Company’s swap agreement no longer match the notional amounts of the loan agreements exactly, the Company assessed the ineffectiveness of the swap agreement and determined that differences were immaterial as of March 31, 2016 and December 31, 2015.

The components of the swap agreement as of March 31, 2016, are as follows:

	Notional Value	Derivative Asset	Derivative Liability
	(in thousands)		
Secured Term Loans	$21,000	$ -	$ (42)

For purposes of this fair value disclosure, the Company based its fair value estimate for the 2015 Term Loans and 2015 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 market interest rate quotes as of March 31, 2016 and December 31, 2015 for debt with similar risk characteristics and maturities.

On the date of the respective acquisitions, no value was assigned to the contingent earn out based on the remote probability that the *Linens 'N Things* brand will achieve the performance measurements. At March 31, 2016 and December 31, 2015, the contingent earn out has no value. The Company continues to evaluate these performance measurements at each reporting period and determines their fair values if/when the achievement of the performance measurements becomes probable.

The Company determined that the acquisition date fair value of Legacy Payments (as defined in Note 11) to Ms. Martha Stewart was approximately $1.7 million and updated the preliminary purchase price during the three months ended March 31, 2016. The Company recorded approximately $0.1 million of accretion related to the Legacy Payments and recorded the expense within interest expense in the unaudited condensed consolidated statements of operations for the three months ended March 31, 2016.

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4. Discontinued Operations of Wholesale Business

The Company did not record any additional costs relating to discontinued operations of its former wholesale business during the three months ended March 31, 2016 and 2015.

A summary of the Company's assets and liabilities from discontinued operations of its former wholesale business as of March 31, 2016 and December 31, 2015 is as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Prepaid expenses and other current assets	$103	$ 113
Long-term liabilities	$667	$ 677

5. Goodwill

Goodwill is summarized as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Balance at January 1	$314,288	$ 169,786
Acquisition of With You LLC	-	3,480

Acquisition of the Joe's Jeans business	-	1,060
Acquisition of Martha Stewart Living Omnimedia, Inc. (see Note 11)	(755)	139,962
Ending balance	$313,533	$ 314,288

Goodwill from the acquisitions of With You LLC, Joe’s Jeans and Martha Stewart Living Omnimedia, Inc. 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 will first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) 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, then the Company will perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to be recognized, if any.

In the first step, the Company will compare the estimated fair value of the reporting unit with its carrying value. Since the Company has determined that it has a single reporting unit, the Company considers its market capitalization (calculated as total common shares outstanding multiplied by the common equity price per share, as adjusted for a control premium factor) to represent its estimated fair value. 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 proceed to the second step and calculate the implied fair value of the reporting unit goodwill to determine whether any impairment is required. The implied fair value of the reporting unit goodwill is calculated by allocating the estimated fair value of the reporting unit to all of the unit’s assets and liabilities as if the unit had been acquired in a business combination. If the carrying value of the reporting unit’s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in the amount of that excess. No events or circumstances indicate an impairment has been identified subsequent to the Company’s December 31, 2015 impairment testing.

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During the three months ended March 31, 2016, the Company changed its annual impairment testing date from December 31 to October 1. The Company believes this new date is preferable because it allows for more timely completion of the annual impairment test prior to the end of its annual financial reporting period. This change in accounting principle does not delay, accelerate or avoid an impairment charge. The Company has determined that it will be impracticable to objectively determine projected cash flow and related valuation estimates that would have been used as of each October 1 of prior reporting periods without the use of hindsight. As such, the Company will apply the change in annual impairment testing date prospectively beginning October 1, 2016.

6. Intangible Assets

Intangible assets are summarized as follows:

March 31, 2016	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)		
Finite-lived intangible assets:				
Trademarks	15	$4,912	$ (1,310)	$3,602
Customer agreements	4	2,817	(1,207)	1,610
Favorable lease	2	537	(381)	156
Patents	10	665	(180)	485
		$8,931	$ (3,078)	5,853
Indefinite-lived intangible assets:				
Trademarks				866,149
Intangible assets, net				$872,002

December 31, 2015	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

		(in thousands)			
Finite-lived intangible assets:					
Trademarks	15	$4,905	$ (1,228	)	$3,677
Customer agreements	4	2,817	(1,017	)	1,800
Favorable lease	2	537	(322	)	215
Patents	10	665	(164	)	501
		$8,924	$ (2,731	)	6,193
Indefinite-lived intangible assets:					
Trademarks					866,084
Intangible assets, net					$872,277

Estimated future annual amortization expense for intangible assets in service as of March 31, 2016 is summarized as follows:

Years ending December 31,	(in thousands)
Remainder of 2016	$ 980
2017	906
2018	773
2019	585
2020	394
Thereafter	2,215
	$ 5,853

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Amortization expense amounted to approximately $0.3 million for each of the three months ended March 31, 2016 and 2015.

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. Historically, indefinite-lived intangible assets have been tested for impairment on an annual basis at December 31 and between annual tests if an event occurs or circumstances change that indicate that the carrying amount of the indefinite-lived intangible asset may not be recoverable. When conducting its impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that the asset is impaired. If it is determined by a qualitative evaluation that it is more likely than not that the asset is impaired, the Company then tests the asset for recoverability. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No events or circumstances indicate an impairment has been identified subsequent to the Company's December 31, 2015 impairment testing.

During the three months ended March 31, 2016, the Company changed its annual impairment testing date from December 31 to October 1. The Company believes this new date is preferable because it allows for more timely completion of the annual impairment test prior to the end of its annual financial reporting period. This change in accounting principle does not delay, accelerate or avoid an impairment charge. The Company has determined that it will be impracticable to objectively determine projected cash flow and related valuation estimates that would have been used as of each October 1 of prior reporting periods without the use of hindsight. As such, the Company will apply the change in annual impairment testing date prospectively beginning October 1, 2016.

On February 24, 2015, the Company sold the *People's Liberation* ® brand to a third party for (i) $0.7 million in cash and a note receivable and (ii) an earn-out of $1.0 million in cash in the event that total gross sales of products under the *People's Liberation* ® brand equal or exceed $30.0 million during the 2015 calendar year (the "People's Liberation

Sale Price"). As a result of the sale, the Company recorded a gain of $0.7 million because the *People's Liberation* ® brand had no value on the Company's condensed consolidated balance sheet. The gain is recorded in other income in the accompanying unaudited condensed consolidated statement of operations during the three months ended March 31, 2015. The third party agreed to pay the Company one-fifth of the People's Liberation Sale Price upon closing and one-fifth of the People's Liberation Sale Price on the anniversary of the closing for the next four years. The Company reported the short-term portion of the receivable in prepaid expenses and other current assets and the long-term portion in other assets in the condensed consolidated balance sheet as of March 31, 2016 and December 31, 2015. The earn-out was not achieved during the year ended December 31, 2015, as total gross sales of products under the *People's Liberation* ® brand did not equal or exceed $30.0 million.

7. Long-Term Debt

The components of long-term debt are as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Secured Term Loans	$460,000	$464,000
Revolving Credit Facility	86,000	86,000
Unamortized deferred financing costs	(7,503)	(7,935)
Total long-term debt, net of unamortized deferred financing costs	538,497	542,065
Less: current portion of long-term debt	20,000	19,000
Long-term debt	$518,497	$523,065

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December 2015 Debt Facilities

On December 4, 2015, in conjunction with the acquisition of MSLO, the Company, Old Sequential and certain other subsidiaries of the Company entered into an amendment to the Second Amended and Restated First Lien Credit Agreement (the "Amendment"), dated as of April 8, 2015 (as amended, restated, amended and restated, supplemented or otherwise modified prior to the date hereof, the "BoA Credit Agreement"), by and among, Old Sequential, the guarantors party thereto, the lenders party thereto (the "BoA Lenders") and Bank of America, N.A., as administrative agent and collateral agent (in such capacity, the "BoA Agent").

The Amendment has an effective date of December 4, 2015, and amends certain provisions under the BoA Credit Agreement to, among other things, (i) permit the consummation of the Mergers, (ii) permit, subject to the satisfaction of certain conditions, the increase in the aggregate revolving commitments and term loans under the BoA Credit Agreement by such amounts 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 2.00:1.00, (iii) permit the inclusion of not less than (a) $30.0 million of EBITDA representing EBITDA generation by MSLO, (b) $8.0 million of EBITDA representing EBITDA generation by Joe's Holdings and (c) fees and expenses incurred and associated with the Mergers and the acquisition of Joe's Holdings in certain provisions that relate to calculation of the consolidated first lien leverage ratio, (iv) permit the incurrence of indebtedness under the New Secured Term Loan Agreement (defined below) and (v) designate the Company as the "borrower" under the BoA Credit Agreement. Additionally, the Amendment provides for an additional $8.0 million of Tranche A-1 Term Loans which were made, on December 4, 2015, to the Company by the BoA Lenders.

On December 4, 2015, the Company, Old Sequential and the BoA Agent entered into a Joinder and Assumption Agreement (the "Joinder and Assumption Agreement"), pursuant to which Old Sequential has been discharged from its obligations, liabilities and rights as the "borrower" under the BoA Credit Agreement and the Company has assumed all such obligations, liabilities and rights and has been designated as the "borrower" under the BoA Credit Agreement for all purposes thereunder.

In addition, on December 4, 2015, the Company, Old Sequential and certain other subsidiaries of the Company entered into a new Second Amended and Restated Credit Agreement (the "New Secured Term Loan Agreement") with Wilmington Trust, National Association, as administrative agent and collateral agent (in such capacity, the "New Agreement Agent"), and the lenders party to the existing Amended and Restated Second Lien Credit Agreement, dated as of April 8, 2015 (as amended, restated, amended and restated, supplemented or otherwise modified prior to the date hereof, the "Existing Second Lien Credit Agreement"), by and among, Old Sequential, the guarantors party thereto, the lenders party thereto and Wilmington Trust, National Association, as administrative agent and collateral agent (in such capacity, the "Second Lien Agent").

The New Secured Term Loan Agreement provides for a six-year $368.0 million senior secured term loan facility (the "Facility"), which consists of (i) $215.5 million of loans outstanding under the Existing Second Lien Credit Agreement and (ii) $152.5 million of new term loans which were made, on December 4, 2015, to the Company by the lenders party to the New Secured Term Loan Agreement.

The New Secured Term Loan Agreement, together with the Term Loan A and Term Loan A-1 tranches of BoA Credit Agreement represent the 2015 Term Loans. The revolving credit line of the BoA Credit Agreement represents the 2015 Revolving Loan.

The Company used the proceeds of the new loans to fund the payment of the purchase price with respect to the Mergers and costs and expenses incurred in connection with the Mergers and related transactions.

The Company has the option to request the addition of one or more additional term loan facilities or the increase of term loan commitments under the Facility by such amounts 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, which additions and increase are subject to the satisfaction of certain conditions set forth in the New Secured Term Loan Agreement.

The loans under the Facility bear interest, at the Company's option, at a rate equal to either (i) LIBOR rate plus an applicable margin ranging from 8.00% to 8.75% per annum or (ii) the base rate plus an applicable margin ranging from 7.00% to 7.75% per annum, in each case based upon the consolidated total leverage ratio and/or the consolidated net leverage ratio. Specifically, the applicable margin with respect to LIBOR loans under the New Secured Term Loan Agreement is as set forth below:

Consolidated Total Leverage Ratio	Consolidated Net Leverage Ratio	Applicable Margin – LIBOR Loans	
> 6.00 : 1.00	≥ 5.75 : 1.00	8.75	%
≥ 4.75 : 1.00 ≤ 6.00 : 1.00	≥ 4.50 : 1.00 < 5.75 : 1.00	8.25	%
< 4.75 : 1.00	< 4.50 : 1.00	8.00	%

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The Company's obligations under the New Secured Term Loan Agreement and any hedging or cash management obligations entered into by the Company or any of its current and future domestic restricted subsidiaries (the "Subsidiary Guarantors" and, together with the Company, the "Loan Parties") with a lender under the New Secured Term Loan Agreement, the New Agreement Agent or an affiliate of any such person are guaranteed by the Company and each Subsidiary Guarantor. The Company's and the Subsidiary Guarantors' obligations under the New Secured Term Loan Agreement are secured by substantially all of their assets, subject to certain customary exceptions.

The Company is required to make mandatory prepayments of loans outstanding under the Facility (without payment of a premium or penalty) (i) in the case of any disposition of intellectual property, the then applicable LTV Percentage (as defined in the BoA Credit Agreement) of the orderly liquidation value thereof, (ii) in the case of any other disposition of any other assets, 100% of the net proceeds thereof, subject to certain reinvestment rights, and (iii) in the case of any Consolidated Excess Cash Flow (as defined in the New Secured Term Loan Agreement), 50% thereof, which shall decrease to 0% if the consolidated total leverage ratio is less than 3.00:1.00. The loans under the Facility are not subject to amortization.

The Company may make, in whole or in part, voluntarily prepayments of the loans outstanding under the Facility. Such voluntarily prepayments are 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 New Secured Term Loan Agreement.

The New Secured Term Loan Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Loan Parties and their subsidiaries, including, without limitation, restrictions on liens, investments, indebtedness, fundamental changes, dispositions, restricted payments and prepayment of indebtedness. The New Secured Term Loan Agreement contains financial covenants that require the Loan Parties and their subsidiaries to (i) not exceed a maximum consolidated total leverage ratio initially set at 7.25:1.00, which decreases periodically over the term of the New Secured Term Loan Agreement until the final maximum ratio of 6.75:1.00 is reached for the fiscal quarter ending September 30, 2019 and thereafter and (ii) not exceed a maximum consolidated first lien leverage ratio initially set at 2.47:1.00, which decreases periodically over the term of the New Secured Term Loan Agreement until the final maximum ratio of 2.30:1.00 is reached for the fiscal quarter ending September 30, 2019 and thereafter.

The New Secured Term Loan Agreement contains customary events of default, including, without limitation, payment defaults, covenant defaults, breaches of certain representations and warranties, cross defaults to certain material indebtedness, certain events of bankruptcy and insolvency, certain events under the Employee Retirement Income Security Act of 1974, material judgments and a change of control. If an event of default occurs and is not cured within any applicable grace period or is not waived, the New Agreement Agent, at the request of the lenders under the New Secured Term Loan Agreement, is required to take various actions, including, without limitation, the acceleration of amounts due thereunder. At March 31, 2016, the Company is in compliance with the covenants included in the New Secured Term Loan Agreement.

In connection with the BoA Credit Agreement and the New Secured Term Loan Agreement, the BoA Agent and the New Agreement Agent have entered into an Intercreditor Agreement, dated as of the December 4, 2015 (the “Intercreditor Agreement”), which was acknowledged by the Company and the guarantors party thereto. The Intercreditor Agreement establishes various inter-lender terms, including, without limitation, priority of liens, permitted actions by each party, application of proceeds, exercise of remedies in the case of a default, incurrence of additional indebtedness, releases of collateral and limitations on the amendment of the BoA Credit Agreement and the New Secured Term Loan Agreement without the consent of the other party.

8. Commitments and Contingencies

MSLO Stockholder Complaint

In connection with the Mergers, the following 13 putative stockholder class action lawsuits have were been filed in the Court of Chancery of the State of Delaware: (1) *David Shaev Profit Sharing Plan f/b/o David Shaev v. Martha Stewart Living Omnimedia Inc. et. al.* filed on June 25, 2015; (2) *Malka Raul v. Martha Stewart Living Omnimedia Inc. et. al.* filed on June 26, 2015; (3) *Daniel Lisman v. Martha Stewart Living Omnimedia Inc. et. al.*filed on June 29, 2015; (4) *Matthew Sciabacucchi v. Martha Stewart Living Omnimedia Inc. et. al.* filed on July 2, 2015; (5) *Harold Litwin v. Martha Stewart Living Omnimedia Inc. et. al.* filed on July 5, 2015; (6) *Richard Schiffrin v. Martha Stewart* filed on July 7, 2015; (7) *Cedric Terrell v. Martha Stewart Living Omnimedia Inc. et. al.* filed on July 8, 2015; (8) *Dorothy Moore v. Martha Stewart Living Omnimedia Inc. et. al.* filed on July 8, 2015; (9) *Paul Dranove v. Pierre De Villemejane. et. al.* filed on July 8, 2015; (10) *Phuc Nguyen v. Martha Stewart Living Omnimedia Inc. et. al.* filed on July 10, 2015; (11) *Kenneth Steiner v. Martha Stewart Living Omnimedia Inc. et. al.* filed on July 16, 2015; (12) *Karen Gordon v. Martha Stewart et. al.* filed on July 27, 2015; and (13) *Anne Seader v. Martha Stewart Living Omnimedia, Inc. et. al.* filed on July 28, 2015. All of the 13 class action lawsuits name the Old Sequential, MSLO, the MSLO board of directors, Madeline Merger Sub, Inc., Singer Merger Sub, Inc. and New Sequential as defendants and allege that (a) members of the MSLO board of directors breached their fiduciary duties and (b) Old Sequential, MSLO, Madeline Merger Sub, Inc., Singer Merger Sub Inc. and New Sequential aided and abetted such alleged breaches of fiduciary duties by the MSLO board of directors. On August 18, 2015, the Delaware Chancery Court issued an order consolidating these actions for all purposes under the caption In re Martha Stewart Living Omnimedia, Inc., et. al. to be the operative complaint in the consolidated action. On January 12, 2016, after the consummation of the Mergers, the plaintiffs filed a Verified Consolidated Amended Class Action Complaint, naming Ms. Martha Stewart, the New Sequential, Old Sequential, Madeline Merger Sub, Inc. and Singer Merger Sub, Inc. and alleging that (a) Ms. Stewart breached her fiduciary duties to MSLO’s stockholders and (b) New Sequential, Old Sequential, Madeline Merger Sub, Inc. and Singer Merger Sub, Inc. aided and abetted Ms. Stewart’s breach of her fiduciary duties. The plaintiffs seek to recover unspecified damages allegedly sustained by the plaintiffs, restitution and disgorgement by Ms. Stewart, the recovery of plaintiff's attorney's fees and other relief. We believe that we have meritorious defenses to the claims made by the plaintiffs, and we are vigorously defending such claims. Litigation costs in this matter may be significant. The Company does not expect that the ultimate resolution of this matter will have a material effect on the Company's unaudited condensed consolidated financial statements.

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General Legal Matters

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations. Contingent liabilities arising from potential litigation are assessed by management based on the individual analysis of these proceedings and on the opinion of the Company's lawyers and legal consultants.

9. Stock-based Compensation

Stock Options

The following table summarizes the Company's stock option activity for the three months ended March 31, 2016:

	Number of Options	Weighted-Average Exercise Price		Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value	
	(in thousands, except share and per share data)					
Outstanding - January 1, 2016	129,501	$	9.65	3.3	$	148
Granted	-		-			
Exercised	-		-			
Forfeited or Canceled	-		-			
Outstanding - March 31, 2016	129,501	$	9.65	3.2	$	34

Exercisable - March 31, 2016	113,501	$	9.52	3.2	$	33

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A summary of the changes in the Company's unvested stock options is as follows:

	Number of Options	Weighted-Average Grant Date Fair Value
Unvested - January 1, 2016	21,000	$ 2.71
Granted	-	-
Vested	(5,000)	(1.96)
Forfeited or Canceled	-	-
Unvested - March 31, 2016	16,000	$ 2.94

The Company did not grant any stock options during the three months ended March 31, 2016 and 2015.

Total compensation expense related to stock options for each of the three months ended March 31, 2016 and 2015 was less than $0.1 million. Total unrecognized compensation expense related to unvested stock options at March 31, 2016 amounted to less than $0.1 million and is expected to be recognized over a weighted-average period of approximately 0.4 years.

Warrants

The following table summarizes the Company's outstanding warrants for the three months ended March 31, 2016:

Number of Warrants	Weighted-Average Exercise Price	Weighted-Average Remaining	Aggregate Intrinsic Value

			Contractual Life (in Years)	
	(in thousands, except share and per share data)			
Outstanding - January 1, 2016	801,760	$ 7.87	4.1	$ 1,377
Granted	-	-		
Exercised	-	-		
Forfeited or Canceled	-	-		
Outstanding - March 31, 2016	801,760	$ 7.87	3.8	$ 652
Exercisable - March 31, 2016	676,760	$ 6.86	2.9	$ 652

A summary of the changes in the Company's unvested warrants is as follows:

	Number of Warrants	Weighted-Average Grant Date Fair Value
Unvested - January 1, 2016	150,000	$ 6.32
Granted	-	-
Vested	(25,000)	6.32
Forfeited or Canceled	-	-
Unvested - March 31, 2016	125,000	$ 6.32

The Company did not issue any warrants during the three months ended March 31, 2016 and 2015.

Total compensation expense related to warrants for the three months ended March 31, 2016 was approximately $0.1 million. The Company did not record any compensation expense related to warrants for the three months ended March 31, 2015.

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