

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____.

Commission File Number 001-37656

SEQUENTIAL BRANDS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

47-4452789
(I.R.S. Employer Identification No.)

601 West 26th Street, 9th Floor
New York, New York 10001
(Address of principal executive offices) (Zip Code)

(646) 564-2577
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 2, 2018, the registrant had 64,125,747 shares of common stock, par value \$0.01 per share, outstanding.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q

	<u>Page</u>
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3. Quantitative and Qualitative Disclosures About Market Risk	40
Item 4. Controls and Procedures	41
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	41
Item 1A. Risk Factors	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 6. Exhibits	43

Forward-Looking Statements

This quarterly report on Form 10-Q (this “Quarterly Report”), including the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We use words such as “future,” “seek,” “could,” “can,” “predict,” “believe,” “intend,” “expect,” “anticipate,” “plan,” “may,” “will,” “should,” “estimate,” “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 following: (i) risks and uncertainties discussed in the reports that the Company has filed with the Securities and Exchange Commission (the “SEC”); (ii) general economic, market or business conditions; (iii) the Company’s ability to identify suitable targets for acquisitions and to obtain financing for such acquisitions on commercially reasonable terms; (iv) the Company’s ability to timely achieve the anticipated results of recent acquisitions and any potential future acquisitions; (v) the Company’s ability to successfully integrate acquisitions into its ongoing business; (vi) the potential impact of the consummation of recent acquisitions or any potential future acquisitions on the Company’s relationships, including with employees, licensees, customers and competitors; (vii) the Company’s ability to achieve and/or manage growth and to meet target metrics associated with such growth; (viii) the Company’s ability to successfully attract new brands and to identify suitable licensees for its existing and newly acquired brands; (ix) the Company’s substantial level of indebtedness, including the possibility that such indebtedness and related restrictive covenants may adversely affect the Company’s future cash flows, results of operations and financial condition and decrease its operating flexibility; (x) the Company’s ability to achieve its guidance; (xi) continued market acceptance of the Company’s brands; (xii) changes in the Company’s competitive position or competitive actions by other companies; (xiii) licensees’ ability to fulfill their financial obligations to the Company; (xiv) concentrations of the Company’s licensing revenues with a limited number of licensees and retail partners; and (xv) other circumstances beyond the Company’s control.

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

Where You Can Find Other Information

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

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

**SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)**

	June 30, 2018	December 31, 2017
	(Unaudited)	(Note 2)
<u>Assets</u>		
Current Assets:		
Cash	\$ 13,607	\$ 18,902
Restricted cash	2,033	1,531
Accounts receivable, net	61,738	60,102
Prepaid expenses and other current assets	12,717	8,635
Total current assets	90,095	89,170
Property and equipment, net	9,892	7,035
Intangible assets, net	983,393	995,170
Other assets	6,757	5,836
Total assets	\$ 1,090,137	\$ 1,097,211
<u>Liabilities and Equity</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 13,264	\$ 19,126
Current portion of long-term debt	28,300	28,300
Current portion of deferred revenue	12,603	8,102
Total current liabilities	54,167	55,528
Long-term debt, net of current portion	589,430	602,297
Long-term deferred revenue, net of current portion	10,035	11,845
Deferred income taxes	69,746	67,799
Other long-term liabilities	9,712	6,204
Total liabilities	733,090	743,673
Commitments and Contingencies		
Equity:		
Preferred stock Series A, \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding at June 30, 2018 and December 31, 2017	-	-
Common stock, \$0.01 par value; 150,000,000 shares authorized; 65,369,906 and 63,652,721 shares issued at June 30, 2018 and December 31, 2017, respectively, and 63,915,385 and 63,227,727 shares outstanding at June 30, 2018 and December 31, 2017, respectively	651	635
Additional paid-in capital	512,043	508,444
Accumulated other comprehensive income	293	80
Accumulated deficit	(222,916)	(225,369)
Treasury stock, at cost; 1,454,521 and 424,994 shares at June 30, 2018 and December 31, 2017, respectively	(3,801)	(1,799)
Total Sequential Brands Group, Inc. and Subsidiaries stockholders' equity	286,270	281,991
Noncontrolling interests	70,777	71,547
Total equity	357,047	353,538
Total liabilities and equity	\$ 1,090,137	\$ 1,097,211

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net revenue	\$ 42,207	\$ 42,144	\$ 80,311	\$ 81,544
Operating expenses	18,449	17,900	36,499	41,308
Loss on sale of assets	1,975	-	7,117	-
Income from operations	21,783	24,244	36,695	40,236
Other expense (income)	31	1,801	(104)	1,767
Interest expense, net	15,647	14,877	31,039	29,363
Income before income taxes	6,105	7,566	5,760	9,106
Provision for income taxes	1,416	3,115	1,375	3,700
Net income	4,689	4,451	4,385	5,406
Net income attributable to noncontrolling interests	(1,102)	(1,921)	(3,062)	(4,056)
Net income attributable to Sequential Brands Group, Inc. and Subsidiaries	<u>\$ 3,587</u>	<u>\$ 2,530</u>	<u>\$ 1,323</u>	<u>\$ 1,350</u>
Earnings per share attributable to Sequential Brands Group, Inc. and Subsidiaries:				
Basic	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Weighted-average common shares outstanding:				
Basic	<u>63,583,280</u>	<u>62,925,565</u>	<u>63,408,679</u>	<u>62,693,925</u>
Diluted	<u>64,029,972</u>	<u>62,980,508</u>	<u>64,329,308</u>	<u>62,911,394</u>

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousands, except share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Treasury Stock		Total Sequential Brands Group, Inc. and Subsidiaries Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount		Income	Deficit	Shares	Amount			
Balance at January 1, 2018	- \$	-63,652,721	\$ 635	\$ 508,444	\$ 80	(225,369)	(424,994)	\$ (1,799)	\$ 281,991	\$ 71,547	\$ 353,538	
Cumulative effect of revenue recognition accounting change	-	-	-	-	-	-	1,130	-	-	1,130	355	1,485
Stock-based compensation	-	-	1,717,185	16	3,599	-	-	-	-	3,615	-	3,615
Unrealized loss on available-for-sale securities	-	-	-	-	-	(228)	-	-	-	(228)	-	(228)
Unrealized gain on interest rate cap	-	-	-	-	-	441	-	-	-	441	-	441
Repurchase of common stock	-	-	-	-	-	-	(1,029,527)	(2,002)	(2,002)	-	-	(2,002)
Noncontrolling interest distributions	-	-	-	-	-	-	-	-	-	-	(4,187)	(4,187)
Net income attributable to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	3,062	3,062
Net income attributable to common stockholders	-	-	-	-	-	-	1,323	-	-	1,323	-	1,323
Balance at June 30, 2018	- \$	-65,369,906	\$ 651	\$ 512,043	\$ 293	(222,916)	(1,454,521)	\$ (3,801)	\$ 286,270	\$ 70,777	\$ 357,047	

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash Flows From Operating Activities		
Net income	\$ 4,385	\$ 5,406
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	-	121
Depreciation and amortization	1,628	2,415
Stock-based compensation	3,615	5,020
Amortization of deferred financing costs	1,889	1,974
Income from equity method investment	-	(31)
Loss on disposal of property and equipment	-	2
Realized loss on sale of available-for-sale securities	-	1,916
Loss on sale of assets	7,117	-
Deferred income taxes	1,484	3,610
Changes in operating assets and liabilities:		
Accounts receivable	4,699	3,843
Prepaid expenses and other assets	(4,790)	(167)
Accounts payable and accrued expenses	(6,240)	(4,569)
Deferred revenue	(1,696)	(4,267)
Other liabilities	4,633	768
Cash Provided By Operating Activities	16,724	16,041
Cash Flows From Investing Activities		
Investments in intangible assets, including registration and renewal costs	(143)	(215)
Proceeds from sale of available-for-sale securities	-	5,757
Purchases of property and equipment	(3,735)	(239)
Proceeds from sale of property and equipment	-	2
Proceeds from sale of trademarks	4,356	-
Cash Provided By Investing Activities	478	5,305
Cash Flows From Financing Activities		
Stock registration costs	-	(20)
Payment of long-term debt	(14,756)	(14,150)
Guaranteed payments in connection with acquisitions	(1,050)	(1,300)
Repurchases of common stock	(2,002)	(1,064)
Noncontrolling interest distributions	(4,187)	(4,211)
Cash Used In Financing Activities	(21,995)	(20,745)
Cash and Restricted Cash:		
Net (Decrease) Increase In Cash and Restricted Cash	(4,793)	601
Balance — Beginning of period	20,433	20,654
Balance — End of period	\$ 15,640	\$ 21,255
Supplemental Disclosures Of Cash Flow Information		
Cash paid for:		
Interest	\$ 29,566	\$ 27,281
Taxes	\$ -	\$ 90
Non-cash Investing And Financing Activities		
Accrued purchases of property and equipment at period end	\$ 303	\$ 593
Unrealized loss on available-for-sale securities during the period	\$ 228	\$ -
Unrealized gain (loss) on interest rate cap, net during the period	\$ 441	\$ (411)

See Notes to Condensed Consolidated Financial Statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

1. Organization and Nature of Operations

Overview

Sequential Brands Group, Inc. (the “Company”) owns a portfolio of consumer brands in the fashion, active and home categories. The Company aims to maximize the strategic value of its brands by promoting, marketing and licensing its global brands through various distribution channels, including to retailers, wholesalers and distributors in the United States and in certain international territories. The Company’s core strategy is to enhance and monetize the global reach of its existing brands, and to pursue additional strategic acquisitions to grow the scope of and diversify its portfolio of brands. The Company licenses brands to both wholesale and direct-to-retail licensees. In a wholesale license, a wholesale supplier is granted rights (typically on an exclusive basis) to a single or small group of related product categories for a particular brand for sale to multiple accounts within an approved channel of distribution and territory. In a direct-to-retail license, a single retailer is granted the right (typically on an exclusive basis) to sell branded products in a broad range of product categories through its brick and mortar stores and e-commerce sites. As of June 30, 2018, the Company had more than one-hundred twenty-five licensees, with wholesale licensees comprising a significant majority.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 16, 2018, which contains the audited consolidated financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations, for the years ended December 31, 2017, 2016 and 2015. The financial information as of December 31, 2017 is derived from the audited consolidated financial statements presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The interim results for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any future interim periods.

Reclassification of Prior Year Presentation

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

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

Principles of Consolidation

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Use of Estimates

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

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

Revenue Recognition

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

- Step 1: Identify the Contract(s) with a Customer
- Step 2: Identify the Performance Obligation(s) in the Contract
- Step 3: Determine the Transaction Price
- Step 4: Allocate the Transaction Price to the Performance Obligation(s) in the Contract
- Step 5: Recognize Revenue when (or as) the Entity Satisfies a Performance Obligation

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

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

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

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

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

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

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

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

Commission revenues are recorded in the period the commission is earned.

The Company entered into a transaction with a media company for which it receives advertising credits as part of the consideration exchanged. These transactions are recorded at the estimated fair value of the advertising credits received, as their fair value is deemed more readily determinable than the fair value of the trademark licensing right provided by the Company, in accordance with ASC 845, *Nonmonetary Transactions*. The fair value of the advertising credits are recorded as revenue and in other assets when earned, and expensed when the advertising credits are utilized. The Company recorded \$0.4 million of revenue for the three and six months ended June 30, 2018 related to the advertising credits. The Company recorded \$0.2 million of expense related to the advertising credits utilized for the three and six months ended June 30, 2018.

Restricted Cash

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

Accounts Receivable

Accounts receivable are recorded net of allowances for doubtful accounts, based on the Company's ongoing discussions with its licensees and other customers and its evaluation of their creditworthiness, payment history and account aging. Accounts receivable balances deemed to be uncollectible are written off after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was \$0.5 million and \$0.6 million as of June 30, 2018 and December 31, 2017, respectively.

The Company's accounts receivable, net amounted to \$61.7 million and \$60.1 million as of June 30, 2018 and December 31, 2017, respectively. Two licensees accounted for approximately 38% (19% each) of the Company's total consolidated accounts receivable balance as of June 30, 2018 and three licensees accounted for approximately 53% (25%, 15% and 13%) of the Company's total consolidated accounts receivable balance as of December 31, 2017. The Company does not believe the accounts receivable balance from these licensees represents a significant collection risk based on past collection experience.

Investments

The Company had marketable securities that were classified as available-for-sale securities under ASC 320, *Investments – Debt and Equity Securities*. Such available-for-sale securities are reported at fair value in the condensed consolidated balance sheets and, at the time of purchase, were reported in the unaudited condensed consolidated statements of cash flows as an investing activity. The Company reviewed its available-for-sale securities at each reporting period to determine whether a decline in fair value is other-than-temporary. Any decline in fair value that was determined to be other-than-temporary would result in an adjustment for an impairment charge in the accompanying unaudited condensed consolidated statements of operations. The primary factors the Company considers in its determination are (i) the length of time that the fair value of the available-for-sale security is below the Company's carrying value, (ii) the financial condition and operating performance of the available-for-sale security, (iii) the reason for decline in fair value and (iv) the Company's intent and ability to hold the investment in available-for-sale security for a period of time sufficient to allow for a recovery in fair value. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific-identification basis. The Company did not hold any material investments at June 30, 2018 or December 31, 2017.

Equity Method Investment

For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation, the Company uses the equity method of accounting. On July 1, 2016, the Company acquired a 49.9% noncontrolling interest in Gaiam Pty. Ltd. in connection with its acquisition of Gaiam Brand Holdco, LLC, which is included in other assets in the condensed consolidated balance sheets. The Company's share of earnings from its equity method investee, which was not material for the three and six months ended June 30, 2018 and 2017, is included in other income in the unaudited condensed consolidated statements of operations.

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method of accounting. On an annual basis (October 1st) and as needed, the Company tests goodwill and indefinite lived trademarks for impairment through the use of discounted cash flow models. Other intangibles with determinable lives, including certain trademarks, customer agreements, patents and a favorable lease, are evaluated for the possibility of impairment when certain indicators are present, and are otherwise amortized on a straight-line basis over the estimated useful lives of the assets (currently ranging from 2 to 15 years). Assumptions used in our discounted cash flow models are as follows: (i) discount rates; (ii) projected average revenue growth rates; and (iii) projected long-term growth rates. Our estimates also factor in economic conditions and expectations of management, which may change in the future based on period-specific facts and circumstances. The Company does not have any goodwill reported on its consolidated balance sheets at June 30, 2018 and December 31, 2017.

Treasury Stock

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

Stock-Based Compensation

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

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

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

Leases

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

Income Taxes

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin (“SAB”) No. 118 which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (“TCJA”). The purpose of SAB No. 118 was to address any uncertainty or diversity of view in applying “ASC Topic 740”, Income Taxes in the reporting period in which the TCJA was enacted. SAB No. 118 addresses situations where the accounting is incomplete for certain income tax effects of the TCJA upon issuance of a company’s financial statements for the reporting period that includes the enactment date. SAB No. 118 allows for a provisional amount to be recorded if it is a reasonable estimate of the impact of the TCJA. Additionally, SAB No. 118 allows for a measurement period to finalize the impacts of the TCJA, not to extend beyond one year from the date of enactment. The Company’s accounting for certain elements of the TCJA was incomplete as of the period ended December 31, 2017, and remains incomplete as of June 30, 2018. However, the Company was able to make reasonable estimates of the effects and, therefore, recorded provisional estimates for these items at December 31, 2017.

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

Earnings Per Share

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Basic weighted-average common shares outstanding	63,583,280	62,925,565	63,408,679	62,693,925
Warrants	-	-	-	-
Stock options	-	-	-	-
Performance based restricted stock	12,138	-	40,094	131,253
Unvested restricted stock	434,554	54,943	880,535	86,216
Diluted weighted-average common shares outstanding	<u>64,029,972</u>	<u>62,980,508</u>	<u>64,329,308</u>	<u>62,911,394</u>

The computation of diluted EPS for the three and six months ended June 30, 2018 and 2017 excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Warrants	332,000	801,760	332,000	801,760
Stock options	58,500	84,000	58,500	84,000
Performance based restricted stock	-	-	-	-
Unvested restricted stock	840,066	519,489	357,501	419,489
Total	<u>1,230,566</u>	<u>1,405,249</u>	<u>748,001</u>	<u>1,305,249</u>

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Concentration of Credit Risk

Financial instruments which potentially expose the Company to credit risk consist primarily of cash, restricted cash and accounts receivable. Cash is held to meet working capital needs and future acquisitions. Restricted cash is pledged as collateral for a comparable amount of irrevocable standby letters of credit for certain of the Company's leased properties. Substantially all of the Company's cash and restricted cash are deposited with high quality financial institutions. At times, however, such cash and restricted cash may be in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit. The Company has not experienced any losses in such accounts as of June 30, 2018.

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

Customer Concentrations

The Company recorded net revenues of \$42.2 million and \$42.1 million during the three months ended June 30, 2018 and 2017, respectively. During the three months ended June 30, 2018, one licensee represented at least 10% of net revenue, accounting for 14% of the Company's net revenue. During the three months ended June 30, 2017, two licensees represented at least 10% of net revenue, accounting for 12% and 11% of the Company's net revenue.

The Company recorded net revenues of \$80.3 million and \$81.5 million during the six months ended June 30, 2018 and 2017, respectively. During the six months ended June 30, 2018, two licensees represented at least 10% of net revenue, accounting for 13% and 10% of the Company's net revenue. During the six months ended June 30, 2017, two licensees represented at least 10% of net revenue, accounting for 12% and 11% of the Company's net revenue.

Loss Contingencies

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

Contingent Consideration

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

Noncontrolling Interest

Noncontrolling interest recorded for the three and six months ended June 30, 2018 represents income (loss) allocations to Elan Polo International, Inc., a member of DVS Footwear International, LLC, JALP, LLC ("JALP"), a member of FUL IP Holdings, LLC ("FUL IP") and With You, Inc., a member of With You LLC (the partnership between the Company and Jessica Simpson). Noncontrolling interest recorded for the three and six months ended June 30, 2017 represents income allocations to Elan Polo International, Inc., With You, Inc. and JALP.

Reportable Segment

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

3. Fair Value Measurement of Financial Instruments

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

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

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

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

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820-10 requires that assets and liabilities recorded at fair value be classified and disclosed in one of the following three categories:

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

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

As of June 30, 2018 and December 31, 2017, there were no assets or liabilities that are required to be measured at fair value on a recurring basis, except for interest rate caps and Legacy Payments (as defined below) to Ms. Martha Stewart. The following table sets forth the carrying value and the fair value of the Company’s financial assets and liabilities required to be disclosed at June 30, 2018 and December 31, 2017:

Financial Instrument	Level	Carrying Value		Fair Value		
		6/30/2018	12/31/2017	6/30/2018	12/31/2017	
		(in thousands)				
Interest rate caps	2	\$ 1,348	\$ 1,239	\$ 1,348	\$ 1,239	
2016 Term Loans	3	\$ 537,157	\$ 551,913	\$ 527,845	\$ 542,655	
2016 Revolving Loan	3	\$ 92,787	\$ 92,787	\$ 92,352	\$ 92,389	
Legacy Payments	3	\$ 2,391	\$ 2,256	\$ 2,391	\$ 2,256	

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

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

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

The components of the 2016 Cap Agreements as of June 30, 2018 are as follows:

	Notional Value	Derivative Asset	Derivative Liability
	(in thousands)		
LIBOR based loans	\$ 500,000	\$ 652	\$ -

For purposes of this fair value disclosure, the Company based its fair value estimate for the 2016 Term Loans and 2016 Revolving Loan (each, as defined in Note 7) on its internal valuation whereby the Company applied the discounted cash flow method to its expected cash flow payments due under the loan agreements based on interest rates as of June 30, 2018 and December 31, 2017 for debt with similar risk characteristics and maturities.

In connection with the acquisition of Martha Stewart Living Omnimedia (“MSLO”), beginning with calendar years commencing on or after January 1, 2026, the Company will pay Ms. Stewart three and one-half percent (3.5%) of Gross Licensing Revenues (as defined in Ms. Stewart’s employment agreement) for each such calendar year for the remainder of Ms. Stewart’s life (with a minimum of five (5) years of payments, to be made to Ms. Stewart’s estate if Ms. Stewart dies before December 31, 2030) (the “Legacy Payments”). The Company recorded \$0.1 million of accretion during each of the three and six-month periods ended June 30, 2018 and 2017 related to the Legacy Payments and recorded the expense within interest expense, net in the unaudited condensed consolidated statements of operations.

4. Revenues

Adoption

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

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

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

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

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

The impact to revenue for the three and six months ended June 30, 2018 was a decrease of \$0.8 million and \$2.0 million, respectively, due to the adoption of ASC 606. The impact to the provision for income taxes for the three and six months ended June 30, 2018 was a decrease of \$0.2 million and \$0.4 million, respectively, due to the adoption of ASC 606. The tables below summarize the impact of the adoption on the condensed consolidated statement of operations for the three and six months ended June 30, 2018:

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Three Months Ended June 30,
2018

	(in thousands)		
	As Reported	Adjustments due to ASC 606	Under previous guidance (ASC 605)
Net revenue	\$ 42,207	\$ (778)	\$ 42,985
Operating expenses	18,449	-	18,449
Loss on sale of asset	1,975	-	1,975
Income from operations	21,783	(778)	22,561
Other expense	31	-	31
Interest expense, net	15,647	-	15,647
Income before income taxes	6,105	(778)	6,883
Provision for income taxes	1,416	(165)	1,581
Net income	4,689	(613)	5,302
Net income attributable to noncontrolling interests	(1,102)	183	(1,285)
Net income attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ 3,587	\$ (430)	\$ 4,017

Earnings per share attributable to Sequential Brands Group, Inc. and Subsidiaries:

Basic	\$ 0.06	\$ (0.00)	\$ 0.06
Diluted	\$ 0.06	\$ (0.00)	\$ 0.06

Weighted-average common shares outstanding:

Basic	63,583,280	63,583,280	63,583,280
Diluted	64,029,972	64,029,972	64,029,972

Six Months Ended June 30,
2018

	(in thousands)		
	As Reported	Adjustments due to ASC 606	Under previous guidance (ASC 605)
Net revenue	\$ 80,311	\$ (2,045)	\$ 82,356
Operating expenses	36,499	-	36,499
Loss on sale of assets	7,117	-	7,117
Income from operations	36,695	(2,045)	38,740
Other (income) expense	(104)	-	(104)
Interest expense, net	31,039	-	31,039
Income before income taxes	5,760	(2,045)	7,805
Provision for income taxes	1,375	(422)	1,797

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Net income	4,385	(1,623)	6,008
Net income attributable to noncontrolling interests	(3,062)	180	(3,242)
Net income attributable to Sequential Brands Group, Inc. and Subsidiaries	<u>\$ 1,323</u>	<u>\$ (1,443)</u>	<u>\$ 2,766</u>

Earnings per share attributable to Sequential Brands Group, Inc. and Subsidiaries:

Basic	\$ 0.02	\$ (0.02)	\$ 0.04
Diluted	<u>\$ 0.02</u>	<u>\$ (0.02)</u>	<u>\$ 0.04</u>

Weighted-average common shares outstanding:

Basic	63,408,679	63,408,679	63,408,679
Diluted	<u>64,329,308</u>	<u>64,329,308</u>	<u>64,329,308</u>

Disaggregated Revenue

The following table presents revenue disaggregated by source for the three and six months ended June 30, 2018:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>
	<u>2018</u>		<u>2018</u>
	(in thousands)		
Licensing Agreements	\$ 38,187	\$	75,326
Other	<u>4,020</u>		<u>4,985</u>
Total	<u>\$ 42,207</u>	\$	<u>80,311</u>

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Contract Balances

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

The below table summarizes the net change in contract assets and contract liabilities from the date of adoption to June 30, 2018:

	January 1, 2018	Changes	June 30, 2018
	(in thousands)		
Contract assets	\$ 6,335	\$ (1,905)	\$ 4,430
Contract liabilities	4,387	141	4,528

Performance Obligations

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

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

The below table summarizes amounts related to future performance obligations under fixed contractual arrangements as of June 30, 2018 and the periods in which they are expected to be earned and recognized as revenue:

	Remainder of 2018	2019	2020	2021	2022 and Thereafter
Future Performance Obligations	\$ 40,727	\$ 62,971	\$ 48,119	\$ 31,973	\$ 51,975

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

5. Goodwill

The changes in goodwill are summarized as follows (in thousands):

Balance at January 1, 2017	\$	307,744
(Adjustment for) acquisition of Gaiam Brand Holdco, LLC (a)		(3,621)
Impairment charges		(304,123)
Balance at December 31, 2017	\$	<u>-</u>

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

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

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

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

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

6. Intangible Assets

Intangible assets are summarized as follows:

<u>June 30, 2018</u>	<u>Useful Lives (Years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
(in thousands)				
Finite-lived intangible assets:				
Trademarks	15	\$ 5,470	\$ (2,127)	\$ 3,343
Customer agreements	4	2,832	(2,470)	362
Favorable lease	2	537	(537)	-
Patents	10	361	(316)	45
		<u>\$ 9,200</u>	<u>\$ (5,450)</u>	<u>3,750</u>
Indefinite-lived intangible assets:				
Trademarks				<u>979,643</u>
Intangible assets, net				<u>\$ 983,393</u>

<u>December 31, 2017</u>	<u>Useful Lives (Years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
(in thousands)				
Finite-lived intangible assets:				
Trademarks	15	\$ 5,462	\$ (1,913)	\$ 3,549
Customer agreements	4	2,832	(2,257)	575
Favorable lease	2	537	(537)	-
Patents	10	665	(296)	369
		<u>\$ 9,496</u>	<u>\$ (5,003)</u>	<u>4,493</u>
Indefinite-lived intangible assets:				
Trademarks				<u>990,677</u>
Intangible assets, net				<u>\$ 995,170</u>

Estimated future annual amortization expense for intangible assets in service as of June 30, 2018 is summarized as follows:

<u>Years ending December 31,</u>	(in thousands)
Remainder of 2018	\$ 386
2019	626
2020	439
2021	436
2022	413
Thereafter	1,450
	<u>\$ 3,750</u>

Amortization expense amounted to \$0.2 million for each of the three months ended June 30, 2018 and 2017. Amortization expense amounted to \$0.4 million and \$0.5 million for the six months ended June 30, 2018 and 2017, respectively.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

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

During the three months ended June 30, 2018, the Company sold both the *Revo* and *FUL* trademarks. During the three and six months ended June 30, 2018, the Company incurred a loss on the sale of the assets of \$2.0 million and \$7.1 million, respectively. The following table shows the change in indefinite-lived intangible assets for the six months ended June 30, 2018 (in thousands):

Balance at January 1, 2018	\$	995,170
Sale of trademarks		(11,473)
Amortization		(447)
Additions		143
Balance at June 30, 2018	\$	<u>983,393</u>

7. Long-Term Debt

The components of long-term debt are as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
2016 Term Loans	\$ 537,157	\$ 551,913
2016 Revolving Loan	92,787	92,787
Unamortized deferred financing costs	(12,214)	(14,103)
Total long-term debt, net of unamortized deferred financing costs	617,730	630,597
Less: current portion of long-term debt	28,300	28,300
Long-term debt	<u>\$ 589,430</u>	<u>\$ 602,297</u>

July 2016 Debt Facilities

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

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

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

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

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

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

The Company may request an increase in (i) the Revolving Credit Facility and Tranche A Loans as would not cause the consolidated first lien leverage ratio, determined on a pro forma basis after giving effect to any such increase, to exceed 2.33:1.00 and (ii) the Tranche A-1 Loans, as would not cause the consolidated first lien leverage ratio, determined on a pro forma basis after giving effect to any such increase, to exceed (a) with respect to any increase, the proceeds of which will be used solely to finance an acquisition, 2.50:1.00 and (b) with respect to any other increase, 2.40:1.00, subject to the satisfaction of certain conditions in the Amended BoA Credit Agreement. At June 30, 2018, the Company is in compliance with the covenants included in the Amended BoA Credit Agreement.

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

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

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

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

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

The Company may request one or more additional term loan facilities or the increase of term loan commitments under the FS/KKR Credit Agreement as would not cause the consolidated total leverage ratio, determined on a pro forma basis after giving effect to any such addition and increase, to exceed 6.00:1.00, subject to the satisfaction of certain conditions in the FS/KKR Credit Agreement.

Interest Rate Caps

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

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

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

8. Commitments and Contingencies

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 six months ended June 30, 2018:

	<u>Number of Options</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (in Years)</u>	<u>Aggregate Intrinsic Value</u>
	(in thousands, except share and per share data)			
Outstanding - January 1, 2018	84,001	\$ 8.65	2.1	\$ -
Granted	-	-		
Exercised	-	-		
Forfeited or canceled	(25,500)	(6.36)		
Outstanding at June 30, 2018	<u>58,501</u>	<u>\$ 9.66</u>	<u>2.6</u>	<u>\$ -</u>
Exercisable - June 30, 2018	<u>58,501</u>	<u>\$ 9.66</u>	<u>2.6</u>	<u>\$ -</u>

The Company did not grant any stock options during the three and six months ended June 30, 2018 and 2017.

There was no compensation expense related to stock options for the three and six months ended June 30, 2018. Total compensation expense related to stock options for each of the three and six months ended June 30, 2017 was less than \$0.1 million. At June 30, 2018 there is no unrecognized compensation expense related to stock options and no unvested stock options.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Warrants

The following table summarizes the Company's outstanding warrants for the six months ended June 30, 2018:

	<u>Number of Warrants</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (in Years)</u>	<u>Aggregate Intrinsic Value</u>
	(in thousands, except share and per share data)			
Outstanding - January 1, 2018	770,160	\$ 7.95	2.2	\$ -
Granted	-	-		
Exercised	-	-		
Forfeited or canceled	(438,160)	(6.17)		
Outstanding at June 30, 2018	<u>332,000</u>	<u>\$ 10.32</u>	<u>4.3</u>	<u>\$ -</u>
Exercisable - June 30, 2018	<u>332,000</u>	<u>\$ 10.32</u>	<u>4.3</u>	<u>\$ -</u>

The Company did not issue any warrants during the three and six months ended June 30, 2018 and 2017.

There was no compensation expense related to warrants for the three and six months ended June 30, 2018. Total compensation expense related to warrants for each of the three and six months ended June 30, 2017 was less than \$0.1 million. At June 30, 2018, there is no unrecognized compensation expense related to warrants and no unvested warrants.

Restricted Stock

A summary of the time-based restricted stock activity for the six months ended June 30, 2018 is as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Weighted-Average Remaining Contractual Life (in Years)</u>
	(in thousands, except share and per share data)		
Unvested - January 1, 2018	195,536	\$ 7.23	1.8
Granted	235,296	1.70	
Vested	(118,612)	(4.17)	
Unvested - June 30, 2018	<u>312,220</u>	<u>\$ 4.23</u>	<u>1.5</u>

During the three and six months ended June 30, 2018, the Company granted 235,296 shares of time-based restricted stock to members of the Company's board of directors. These shares had a grant date fair value of \$0.4 million and vest over a period of one year. The Company recorded \$0.1 million during each of the three and six months ended June 30, 2018 as compensation expense pertaining to these grants.

During the three and six months ended June 30, 2017, the Company granted 111,112 shares of time-based restricted stock to members of the Company's board of directors. These shares had a grant date fair value of \$0.4 million and vest over a period of one year. The Company recorded less than \$0.1 million and \$0.1 million during the three months ended June 30, 2018 and 2017, respectively, as compensation expense pertaining to these grants. The Company recorded \$0.1 million during each of the six months ended June 30, 2018 and 2017 as compensation expense pertaining to these grants.

Total compensation expense related to time-based restricted stock grants for the three months ended June 30, 2018 and 2017 was \$0.1 million and \$0.2 million, respectively. Total compensation expense related to time-based restricted stock grants for the six months ended June 30, 2018 and 2017 was \$0.3 million and \$0.2 million, respectively. Total unrecognized compensation expense related to time-

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

based restricted stock grants at June 30, 2018 amounted to \$0.5 million and is expected to be recognized over a weighted-average period of 1.5 years.

Restricted Stock Units

A summary of the time-based restricted stock units activity for the six months ended June 30, 2018 is as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Weighted-Average Remaining Contractual Life (in Years)</u>
	(in thousands, except share and per share data)		
Unvested - January 1, 2018	736,400	\$ 3.89	2.2
Granted	2,153,743	1.76	
Vested	(1,214,731)	(1.97)	
Forfeited or canceled	(16,667)	(7.61)	
Unvested - June 30, 2018	<u>1,658,745</u>	<u>\$ 2.50</u>	<u>2.5</u>

During the three months ended March 31, 2018, the Company granted 165,000 time-based restricted stock units to certain employees for future services and 588,679 time-based restricted stock units to certain consultants for future services. These shares of time-based restricted stock units had a grant date fair value of \$1.3 million and vest over a period of three to five years. The Company recorded \$0.1 million and \$0.3 million during the three and six months ended June 30, 2018, respectively, as compensation expense pertaining to these grants.

During the three months ended June 30, 2018, the Company granted 106,578 time-based restricted stock units to certain employees for future services and 300,000 time-based restricted stock units to a consultant for future services. These shares of time-based restricted stock units had a grant date fair value of \$0.7 million and vest immediately to over a period of three years. The Company recorded \$0.2 million during the three months ended June 30, 2018 as compensation expense pertaining to these grants.

During the six months ended June 30, 2018, the Company granted 75,000 time-based restricted stock units to the Company's Chief Financial Officer pursuant to an employment agreement, dated March 5, 2018. These shares of time-based restricted stock units had a grant date fair value of \$0.2 million and vest over a period of three years. The Company recorded less than \$0.1 million during the three and six months ended June 30, 2018 as compensation expense pertaining to this grant.

During the six months ended June 30, 2018, the Company granted 75,000 time-based restricted stock units to certain employees. These shares of time-based restricted stock units had a grant date fair value of \$0.1 million and vested immediately. The Company recorded \$0.1 million during the six months ended June 30, 2018 as compensation expense pertaining to these grants.

During the six months ended June 30, 2018, the Company issued 843,486 time-based restricted stock units to an employee for a 2017 performance-based bonus pursuant to their employment agreement. The bonus was paid in restricted stock in the first quarter of 2018, based on the average closing stock price for the 30 days preceding March 1, 2018. Compensation expense was fully recognized in 2017 related to this grant.

During the three and six months ended June 30, 2017, the Company granted 100,000 time-based restricted stock units to the Company's Chief Executive Officer pursuant to an employment agreement, dated April 3, 2017. These shares of time-based restricted stock units had a grant date fair value of \$0.4 million and vest over a period of three years. The Company recorded less than \$0.1 million during the each of the three and six months ended June 30, 2018 and 2017 as compensation expense pertaining to this grant.

During the six months ended June 30, 2017, the Company accelerated the vesting of 66,667 shares of time-based restricted stock units for the Company's former Chief Executive Officer in connection with the CEO transition. Total compensation expense related to these shares of \$0.7 million was recorded as operating expenses in the unaudited condensed consolidated statement of operations for the six months ended June 30, 2017.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

During the six months ended June 30, 2017, the Company granted 60,000 time-based restricted stock units to the Company's former Chief Financial Officer pursuant to an amended employment agreement, dated January 3, 2017. These shares of time-based restricted stock units had a grant date fair value of \$0.3 million and a vesting period of two years. The Company recorded less than \$0.1 million and \$0.1 million during the three and six months ended June 30, 2017, respectively, as compensation expense pertaining to this grant. Upon the former Chief Financial Officer's departure, these shares were forfeited prior to vesting during the year ended December 31, 2017. Compensation expense previously recognized was reversed during the year ended December 31, 2017.

Total compensation expense related to time-based restricted stock unit grants for the three months ended June 30, 2018 and 2017 was \$0.6 million and \$0.2 million, respectively. Total compensation expense related to time-based restricted stock unit grants for each of the six months ended June 30, 2018 and 2017 was \$1.1 million. Total unrecognized compensation expense related to time-based restricted stock unit grants at June 30, 2018 amounted to \$3.4 million and is expected to be recognized over a weighted-average period of 2.5 years.

Performance Stock Units

A summary of the PSUs activity for the six months ended June 30, 2018 is as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Weighted-Average Remaining Contractual Life (in Years)</u>
	(in thousands, except share and per share data)		
Unvested - January 1, 2018	2,045,634	\$ 5.83	2.0
Granted	650,000	1.99	
Vested	(267,158)	(5.58)	
Forfeited or canceled	(252,141)	(7.35)	
Unvested - June 30, 2018	<u>2,176,335</u>	<u>\$ 4.54</u>	<u>1.2</u>

During the three and six months ended June 30, 2018, the Company granted 200,000 PSUs to an employee upon their commencement of employment with the Company. These PSUs had a grant date fair value of \$0.4 million, vest over a period of three years and require achievement of certain of the Company's performance metrics within each fiscal year for such PSUs to be earned. The Company did not record any compensation expense during the three and six months ended June 30, 2018 as the likelihood of these PSUs being earned was not considered probable.

During the six months ended June 30, 2018, the Company granted 200,000 PSUs to an employee upon their commencement of employment with the Company. These PSUs had a grant date fair value of \$0.5 million, vest over a period of two years and require achievement of certain of the Company's performance metrics within each fiscal year for such PSUs to be earned. The Company did not record any compensation expense during the three and six months ended June 30, 2018 as the likelihood of these PSUs being earned was not considered probable.

During the six months ended June 30, 2018, the Company granted 250,000 PSUs to a consultant pursuant to their endorsement agreement. The PSUs had a grant date fair value of \$0.5 million, vest over a period of five years and require achievement of certain sales targets within each fiscal year for such PSUs to be earned. The Company did not record any compensation expense during the three and six months ended June 30, 2018 as the likelihood of these PSUs being earned was not considered probable.

On February 20, 2018, the Compensation Committee voted to approve, on a discretionary basis, vesting of 208,883 PSUs to employees and consultants previously granted during the years ended December 31, 2016 and 2017 subject to achievement of certain of the Company's performance metrics within each fiscal year. The fair value and expense recorded for such PSUs was based on the closing price of the Company's common stock on the date the modification of the performance metric was communicated to employees and consultants. Total compensation expense related to these PSUs of \$0.5 million was recorded as operating expenses in the unaudited condensed consolidated statements of operations for the six months ended June 30, 2018.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

During the three and six months ended June 30, 2017, the Company granted 175,000 PSUs to the Company's Chief Executive Officer pursuant to an employment agreement, dated April 3, 2017. These PSUs had a grant date fair value of \$0.7 million, vest over a period of three years and require achievement of certain of the Company's performance metrics within each fiscal year for such PSUs to be earned. The Company recorded \$0.2 million in compensation expense during the six months ended June 30, 2018 as the performance metrics were achieved pursuant to fiscal year end results. The Company recorded \$0.1 million in compensation expense during each of the three and six months ended June 30, 2018 as the likelihood of these PSUs being earned was considered probable for the current fiscal year.

During the six months ended June 30, 2017, the Company accelerated the vesting of 200,000 PSUs for the Company's former Chief Executive Officer in connection with the CEO transition. Total compensation expense related to these PSUs of \$2.9 million was recorded as operating expenses in the unaudited condensed consolidated statement of operations for the six months ended June 30, 2017.

On February 28, 2017, the Compensation Committee voted to approve, on a discretionary basis, an award of 164,978 PSUs to employees and consultants. Included in the above award were 60,000 PSUs and 36,000 PSUs for the Company's former Chief Executive Officer and Chief Financial Officer, respectively. The fair value and expense recorded for such PSUs were based on the closing price of the Company's common stock on the date the modification of the performance metric was communicated to employees and consultants. Total compensation expense related to these PSUs of \$0.6 million was recorded as operating expenses in the unaudited condensed consolidated statements of operations for the six months ended June 30, 2017.

Total compensation expense related to the PSUs for the three months ended June 30, 2018 was \$0.1 million. The Company did not record compensation expense related to the PSUs for the three months ended June 30, 2017. Total compensation expense related to the PSUs for the six months ended June 30, 2018 and 2017 was \$0.8 million and \$3.5 million, respectively.

10. Related Party Transactions

Consulting Services Agreement with Tengram Capital Partners, L.P. (f/k/a Tengram Capital Management L.P.)

Pursuant to an agreement with Tengram Capital Partners, L.P., formerly known as Tengram Capital Management, L.P. ("TCP"), an affiliate of Tengram Capital Partners Gen2 Fund, L.P., which is one of the Company's largest stockholders, the Company has engaged TCP, effective as of January 1, 2013, to provide services to the Company pertaining to (i) mergers and acquisitions, (ii) debt and equity financing and (iii) such other related areas as the Company may reasonably request from time to time (the "TCP Agreement"). The TCP Agreement remains in effect for a period continuing through the earlier of five years or the date on which TCP and its affiliates cease to own in excess of 5% of the outstanding shares of common stock in the Company. On August 15, 2014, the Company consummated transactions pursuant to an agreement and plan of merger, dated as of June 24, 2014 (the "Galaxy Merger Agreement") with SBG Universe Brands LLC, a Delaware limited liability company and the Company's direct wholly-owned subsidiary ("LLC Sub"), Universe Galaxy Merger Sub, Inc., a Delaware corporation and direct wholly-owned subsidiary of LLC Sub, Galaxy Brand Holdings, Inc. and Carlyle Galaxy Holdings, L.P. (such transactions, collectively, the "Galaxy Acquisition"). In connection with the Galaxy Merger Agreement, the Company and TCP entered into an amendment to the TCP Agreement (the "Amended TCP Agreement"), pursuant to which, among other things, TCP is entitled to receive annual fees of \$0.9 million beginning with fiscal 2014.

The Company paid TCP \$0.5 million for services under the Amended TCP Agreement during each of the three and six months ended June 30, 2018 and 2017. At June 30, 2018 and December 31, 2017, there were no amounts due to TCP for services.

Additionally, in July 2013, the Company entered into a consulting arrangement with an employee of TCP (the "TCP Employee"), pursuant to which the TCP Employee provides legal and other consulting services at the request of the Company from time to time. The TCP Employee was also issued 125,000 shares of restricted stock, vesting over a four-year period and 180,000 PSUs, vesting over three years in increments of 20% for 2014, 20% for 2015 and 60% for 2016. In 2016, the TCP employee was granted 200,000 PSUs, vesting over three years in increments of 33.3% for 2017, 33.3% for 2018 and 33.4% for 2019. In 2018, the TCP employee was granted 150,000 shares of time-based restricted stock units, vesting over a three year period and 300,000 shares of time-based restricted stock units, vesting over a three year period with 25% vesting immediately. The Company paid the TCP Employee \$0.1 million for services under the consulting arrangement during each of the three-month periods ended June 30, 2018 and 2017. The Company paid the TCP Employee \$0.2 million for services under the consulting arrangement during each of the six-month periods ended June 30, 2018 and 2017. These amounts are included in operating expenses in the Company's unaudited condensed consolidated financial statements. At June 30, 2018 and December 31, 2017, less than \$0.1 million was due to the TCP Employee.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

Transactions with Tommie Copper, Inc.

The Company entered into an agreement with Tommie Copper, Inc. (“TCI”), an affiliate of TCP, under which the Company received a fee for facilitating certain distribution arrangements. The Company recorded \$3.1 million of revenue for the three and six months ended June 30, 2018. At June 30, 2018, the Company recorded a current receivable of \$1.0 million from TCI in other current assets and a long-term receivable of \$2.1 million from TCI in other assets in the condensed consolidated balance sheets.

Transactions with E.S. Originals, Inc.

A division president of the Company maintains a passive ownership interest in one of the Company’s licensees, E.S. Originals, Inc. (“ESO”). The Company receives royalties from ESO under license agreements for certain of the Company’s brands in the footwear category. The Company recorded \$1.6 million and \$4.0 million of revenue for the three months ended June 30, 2018 and 2017, respectively, for royalties and advertising revenue earned from ESO license agreements. The Company recorded \$3.5 million and \$7.7 million of revenue for the six months ended June 30, 2018 and 2017, respectively, for royalties and advertising revenue earned from ESO license agreements. At June 30, 2018, the Company had \$0.9 million recorded as other current assets in the condensed consolidated balance sheets. At June 30, 2018 and December 31, 2017, the Company had \$4.7 million and \$7.2 million recorded as accounts receivable from ESO in the condensed consolidated balance sheets, respectively.

In addition, the Company entered into a license-back agreement with ESO under which the Company reacquired the rights to certain international territories in order to re-license these rights to an unrelated party. The Company recorded less than \$0.1 million and \$0.1 million in license-back expense for the three and six months ended June 30, 2018, respectively.

Acquisition of FUL

On November 17, 2014, the Company made a strategic investment in FUL IP. FUL IP is a collaborative investment between the Company and JALP. FUL IP was formed for the purpose of licensing the *FUL* trademark to third parties in connection with the manufacturing, distribution, marketing and sale of *FUL* branded bags, backpacks, duffels, luggage and apparel accessories. JALP contributed the *FUL* trademark with a fair value of \$8.9 million. In exchange for a 50.5% economic interest in FUL IP the Company paid JALP \$4.5 million. JALP’s minority member interest in FUL IP has been reflected as noncontrolling interest on the Company’s condensed consolidated balance sheets. One of the Company’s directors, Mr. Al Gossett, has a partial ownership interest in JALP. During the three months ended June 30, 2018, the Company sold the *FUL* trademark and incurred a loss on the sale of the trademark of \$2.0 million. There was \$0.7 million of noncontrolling interest loss recorded during the three and six months ended June 30, 2018. No noncontrolling interest was recorded during the three and six months ended June 30, 2017.

Investment in Available-for-Sale Securities

In September 2015, the Company purchased available-for-sale securities of an unaffiliated third-party publicly traded company from Tengram Capital Partners, L.P., which is an affiliate of Tengram Capital Partners Gen2 Fund, L.P., one of the Company’s largest stockholders, for an aggregate purchase price of \$12.0 million (plus related transaction expenses), which was the purchase price paid by Tengram Capital Partners, L.P. upon the acquisition of such available-for-sale securities in open market transactions. The Company did not pay a fee or any compensation to Tengram Capital Partners, L.P. in connection with the Company’s investment in the available-for-sale securities. During the three and six months ended June 30, 2017, the Company sold its available-for-sale securities for \$5.8 million.

IP License Agreement and Intangible Asset Agreement

In connection with the transactions contemplated by the acquisition of MSLO (the “Mergers”), MSLO entered into an Amended and Restated Asset License Agreement (“Intangible Asset Agreement”) and Amended and Restated Intellectual Property License and Preservation Agreement (“IP License Agreement”) and, together with the Intangible Asset Agreement, the “IP Agreements”) pursuant to which Ms. Martha Stewart licensed certain intellectual property to MSLO. The IP Agreements grant the Company the right to use of certain properties owned by Ms. Stewart.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

The Intangible Asset Agreement has an initial term commencing at December 4, 2015 and ending on December 31, 2020, provided that the term will automatically be renewed for five additional calendar years ending December 31, 2025 (subject to earlier termination as provided in Ms. Stewart's employment agreement) if either the aggregate gross licensing revenues (as defined in Ms. Stewart's employment agreement) for calendar years 2018 through 2020 exceed \$195 million or the gross licensing revenues for calendar year 2020 equal or exceed \$65 million. During the term of the Intangible Asset Agreement with the Company, Lifestyle Research Center LLC will be entitled to receive a guaranteed annual payment of \$1.7 million, which amounts are being paid in connection with the Mergers regardless of Ms. Stewart's continued employment with the Company plus reimbursable expenses. The Company has paid Lifestyle Research Center LLC \$0.2 million and less than \$0.1 million in connection with other related services during the three months ended June 30, 2018 and 2017, respectively. The Company has paid Lifestyle Research Center LLC \$0.3 million and \$0.6 million in connection with other related services during the six months ended June 30, 2018 and 2017, respectively.

During the term of the IP Agreement with the Company, Ms. Stewart will be entitled to receive a guaranteed annual payment of \$1.3 million, which amounts are being paid in connection with the Mergers regardless of Ms. Stewart's continued employment with the Company. During each of the three months ended June 30, 2018 and 2017, the Company made payments of \$0.4 million to Ms. Stewart in connection with the terms of the IP Agreement. During each of the six months ended June 30, 2018 and 2017, the Company made payments of \$0.7 million to Ms. Stewart in connection with the terms of the IP Agreement. The IP License Agreement is perpetual.

During the three month periods ended June 30, 2018 and 2017, the Company expensed non-cash interest of \$0.1 million and \$0.1 million, respectively, related to the accretion of the present value of these guaranteed contractual payments. During the six month periods ended June 30, 2018 and 2017, the Company expensed non-cash interest of \$0.2 million and \$0.3 million, respectively, related to the accretion of the present value of these guaranteed contractual payments. At June 30, 2018, there was \$6.0 million due under the IP Agreements of which \$2.8 million is recorded in accounts payable and accrued expenses and \$3.2 million is recorded in other long-term liabilities. At December 31, 2017, there was \$6.4 million due under the IP Agreements of which \$2.8 million is recorded in accounts payable and accrued expenses and \$3.6 million is recorded in other long-term liabilities.

11. New Accounting Pronouncements

ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU No. 2018-07 "Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"). ASU 2018-07 aligns the accounting for share-based payment awards to employees and non-employees. Under ASU 2018-07 the existing employee guidance will apply to nonemployee share-based transactions, except for specific guidance related to the attribution of compensation cost. ASU 2018-07 should be applied to all new awards granted after the date of adoption.

ASU 2018-07 is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company does not expect the adoption of ASU 2018-07 to have a material impact on the Company's condensed consolidated financial statements.

ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). ASU 2018-02 permits a company to reclassify the disproportionate income tax effects ("stranded tax effects") of the Tax Cuts and Jobs Act of 2017 on items within accumulated other comprehensive income to retained earnings.

ASU 2018-02 is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company does not expect the adoption of ASU 2018-02 to have a material impact on the Company's condensed consolidated financial statements.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

ASU No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities”

In August 2017, the FASB issued ASU No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”). ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815, *Derivatives and Hedging*. The amendments in ASU 2017-12 are intended to improve the transparency and understandability of information about an entity’s risk management activities and simplify the application of hedge accounting.

ASU 2017-12 is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company does not expect the adoption of ASU 2017-12 to have a material impact on the Company’s condensed consolidated financial statements.

ASU No. 2016-02, “Leases”

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU 2016-02”). The core principle of ASU 2016-02 is that an entity should recognize on its balance sheet assets and liabilities arising from a lease. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying leased asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on the lease classification as a finance or operating lease. In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” (“ASU 2018-10”) and ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements” (“ASU 2018-11”) to improve certain aspects of ASU 2016-02.

ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the Company’s condensed consolidated financial statements.

12. Subsequent Events

On August 7, 2018, the Company and certain of its subsidiaries amended its (i) Third Amended and Restated First Lien Credit Agreement (the “New Amended BoA Credit Agreement”) with Bank of America, N.A., as administrative agent and collateral agent and the lenders party thereto and (ii) the Third Amended and Restated Credit Agreement (the “New Amended FS/KKR Credit Agreement”) with Wilmington Trust, National Association, as administrative agent and collateral agent and the lenders party thereto.

The New Amended BoA Credit Agreement provides for several five-year senior secured credit facilities, consisting of (i) Tranche A Term Loans in an aggregate principal amount of \$150.0 million (the “Amended Tranche A Loans”), (ii) Tranche A-1 Term Loans in an aggregate principal amount of \$70.0 million (the “Amended Tranche A-1 Loans” and, together with the Tranche A Loans, the “Amended BoA Term Loans”) and (iii) revolving credit commitments in the aggregate principal amount of \$130.0 million (the “Amended Revolving Credit Commitments” and, the loans under the Revolving Credit Commitments, the “Amended Revolving Loans”). On the Closing Date, the total amount outstanding under the New Amended BoA Credit Agreement was \$335.0 million, including (i) \$150.0 million of Amended Tranche A Loans, (ii) \$70.0 million of Amended Tranche A-1 Loans and (iii) \$115.0 million of Amended Revolving Loans.

The loans under the New Amended BoA Credit Agreement bear interest, at the Company’s option, at a rate equal to (i) with respect to the Amended Revolving Loans and the Amended Tranche A Loans (a) the LIBOR rate plus 3.50% per annum or (b) the base rate plus 2.50% per annum and (ii) with respect to the Amended Tranche A-1 Loans (a) the LIBOR rate plus 7.00% per annum or (b) the base rate plus 6.00% per annum. The loans under the New Amended BoA Credit Agreement provide for interest rate reductions if certain leverage ratios are achieved, with minimum interest rates equal to (i) with respect to the Amended Revolving Loans and the Amended Tranche A Loans (a) the LIBOR rate plus 3.00% per annum or (b) the base rate plus 2.00% per annum and (ii) with respect to the Amended Tranche A-1 Loans (a) the LIBOR rate plus 6.00% per annum or (b) the base rate plus 5.00% per annum. The undrawn portions of the Revolving Credit Commitments are subject to a commitment fee of 0.375% per annum. The Amended BoA Term Loans will continue to amortize in quarterly installments of \$5.0 million.

The New Amended BoA Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the BoA Facility Loan Parties and their subsidiaries. Moreover, the New Amended BoA Credit Agreement contains financial covenants that require the BoA Facility Loan Parties and their subsidiaries to (i) maintain a positive net income, (ii) satisfy a maximum loan to value ratio initially set at 50.0% (applicable to the Amended Revolving Loans and Amended Tranche A Loans) decreasing over the term of the New Amended BoA Credit Agreement until reaching a final maximum loan to value ratio of 42.5% and (iii) satisfy a maximum consolidated first lien leverage ratio, initially set at 3.875:1.00, decreasing over the term of the New Amended BoA Credit Agreement until reaching a final maximum ratio of 2.875:1.00 for the fiscal quarter ending September 30, 2022 and thereafter.

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(UNAUDITED)

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

The New Amended FS/KKR Credit Agreement provides for a five and a half-year \$314.0 million senior secured term loan facility.

The loans under the New Amended FS/KKR Credit Agreement bear interest, at the Company's option, at a rate equal to either (i) the LIBOR rate plus 8.75% per annum or (ii) the base rate plus 7.75% per annum. The loans under the New Amended FS/KKR Credit Agreement will continue to amortize in quarterly installments of approximately \$2.1 million.

The New Amended FS/KKR Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the FS/KKR Facility Loan Parties and their subsidiaries. Moreover, the New Amended FS/KKR Credit Agreement contains financial covenants that require the FS/KKR Facility Loan Parties and their subsidiaries to satisfy (i) a maximum consolidated total leverage ratio, initially set at 7.25:1.00, decreasing over the term of the New Amended FS/KKR Credit Agreement until reaching a final maximum ratio of 6.25:1.00 for the fiscal quarter ending September 30, 2022 and thereafter and (ii) a maximum consolidated first lien leverage ratio, initially set at 3.875:1.00, decreasing over the term of the New Amended FS/KKR Credit Agreement until reaching a final maximum ratio of 2.875:1.00 for the fiscal quarter ending September 30, 2022 and thereafter.

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

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

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" or MD&A, should be read in conjunction with our accompanying unaudited condensed consolidated financial statements and related notes and with the MD&A in our Annual Report on Form 10-K for the year ended December 31, 2017. The various sections of this MD&A contain a number of forward-looking statements that involve a number of risks and uncertainties. See the cautionary statement regarding forward-looking statements on page 3 of this Quarterly Report for a description of important factors that could cause actual results to differ from expected results.

Licensing and Brand Management Business

We own a portfolio of consumer brands in the home, active and fashion categories, including *Martha Stewart*, *Jessica Simpson*, *AND1*, *Avia*, *Joe's Jeans* and *GALAM*. We aim to maximize the value of our brands by promoting, marketing and licensing the brands through various distribution channels, including to retailers, wholesalers and distributors in the United States and in certain international territories. Our core strategy is to enhance and monetize the global reach of our existing brands, and to pursue additional strategic acquisitions to grow the scope of and diversify our portfolio of brands.

We aim to acquire well-known consumer brands with high potential for growth and strong brand awareness. We additionally seek to diversify our portfolio by evaluating the strength of targeted brands and the expected viability and sustainability of future royalty streams. Upon the acquisition of a brand, we partner with leading wholesalers and retailers to drive incremental value and maximize brand equity. We focus on certain key initiatives in our licensing and brand management business. These initiatives include:

- *Maximizing the value of our existing brands* by creating efficiencies, adding additional product categories, expanding distribution and retail presence and optimizing sales through innovative marketing that increases consumer brand awareness and loyalty;
- *Expanding through e-commerce channels*;
- *Developing international expansion* through additional licenses, partnerships and other arrangements with leading retailers and wholesalers outside the United States; and
- *Acquiring consumer brands (or the rights to such brands)* with high consumer awareness, broad appeal and applicability to a wide range of product categories.

Our business is designed to maximize the value of our brands through license agreements with partners that are responsible for manufacturing and distributing our licensed products and, with the exception of our *Martha Stewart* brand, primarily responsible for the design of such licensed products. Our brands are licensed for a broad range of product categories, including apparel, footwear, eyewear, fashion accessories and home goods, as well as, with respect to our *Martha Stewart* brand, food, wine, and a variety of media related assets, such as magazines, books and other print and digital content. We seek to select licensees who have demonstrated the ability to produce and sell quality products in their respective licensed categories and have the capability to meet or exceed the minimum sales thresholds and guaranteed minimum royalty payments that we generally require.

We license our 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 June 30, 2018, we had more than one-hundred twenty-five licensees, with wholesale licensees comprising a significant majority.

Our license agreements typically require a licensee to pay us royalties based upon net sales and, in most cases, contain guaranteed minimum royalties. Our license agreements also require licensees to support the brands by either paying or spending contractually guaranteed minimum amounts for the marketing and advertising of the respective licensed brands. As of June 30, 2018, we had contractual rights to receive an aggregate of \$340.8 million in minimum royalty and marketing and advertising revenue from our licensees through the balance of the current terms of such licenses, excluding any renewal option periods.

Fiscal Year

Our fiscal year ends on December 31. Each quarter of each fiscal year ends on March 31, June 30, September 30 and December 31.

Critical Accounting Policies and Estimates

The preparation of our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to exercise its judgment. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and our disclosure of commitments and contingencies at the date of the financial statements. On an on-going basis, we evaluate our estimates and judgments. We base our estimates and judgments on a variety of factors, including our historical experience, knowledge of our business and industry and current and expected economic conditions, that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary. While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 16, 2018, for a discussion of our critical accounting policies. During the six months ended June 30, 2018, there were no material changes to these policies, except for the adoption of ASC 606, “Revenue from Contracts with Customers.”

Results of Operations

Comparison of the Three Months Ended June 30, 2018 to the Three Months Ended June 30, 2017

The following table sets forth, for the periods indicated, results of operations information from our unaudited condensed consolidated financial statements:

	Three Months Ended June 30,		Change	Change
	2018	2017	(Dollars)	(Percentage)
	(in thousands, except percentages)			
Net revenue	\$ 42,207	\$ 42,144	\$ 63	0.1%
Operating expenses	18,449	17,900	549	3.1%
Loss on sale of asset	1,975	-	1,975	100.0%
Income from operations	21,783	24,244	(2,461)	(10.2%)
Other expense	31	1,801	(1,770)	(98.3%)
Interest expense, net	15,647	14,877	770	5.2%
Income before income taxes	6,105	7,566	(1,461)	(19.3%)
Provision for income taxes	1,416	3,115	(1,699)	(54.5%)
Net income	4,689	4,451	238	5.3%
Net income attributable to noncontrolling interests	(1,102)	(1,921)	819	(42.6%)
Net income attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ 3,587	\$ 2,530	\$ 1,057	(41.8%)

Net revenue. Net revenue for the three months ended June 30, 2018 remained relatively flat as compared to the three months ended June 30, 2017. The period over period changes in net revenue were primarily driven by lower revenues due to the impact of ASC 606 and decreases in *Martha Stewart* due to the expiration of legacy contracts and the absence of *FUL* and *Revo* revenue due to the sale of the trademarks during the three months ended June 30, 2018, offset by revenue earned for facilitating certain distribution arrangements in the second quarter of 2018. Net revenue for the three months ended June 30, 2018 consists primarily of licensing revenue earned from our license agreements relating to the *Martha Stewart*, *Jessica Simpson*, *GAIAM*, *Avia*, *AND1*, *Joe's Jeans* and *Ellen Tracy* brands. Net revenue for the three months ended June 30, 2017 consists primarily of licensing revenue earned from our license agreements relating to the *Martha Stewart*, *Jessica Simpson*, *GAIAM*, *Avia*, *AND1*, *Joe's Jeans* and *Ellen Tracy* brands.

Operating expenses. Operating expenses increased \$0.5 million for the three months ended June 30, 2018 to \$18.4 million compared to \$17.9 million for the three months ended June 30, 2017. This increase was primarily driven by increased advertising costs of \$1.4 million and severance costs of \$0.2 million offset by decreased expenses related to *Martha & Snoop's Potluck Dinner Party* show of \$1.0 million and lower professional fees of \$0.1 million.

Loss on sale of asset. During the three months ended June 30, 2018, the Company recorded a loss on sale of asset of \$2.0 million related to the sale of the *FUL* trademark on May 30, 2018.

Other expense. Other expense during the three months ended June 30, 2018 consists of immaterial items. Other expense during the three months ended June 30, 2017 consists of a \$1.9 million loss recorded in connection with the sale of available-for-sale securities offset by MSLO pre-acquisition sales tax refunds of \$0.1 million.

Interest expense, net. The period-over-period increase in interest expense, net of \$0.8 million is primarily due to an increase in interest incurred under our loan agreements. Interest expense during the three months ended June 30, 2018 includes interest incurred under our loan agreements of \$14.5 million, non-cash interest related to the amortization of deferred financing costs of \$0.9 million and non-cash interest of \$0.2 million related to the accretion of the present value of guaranteed contractual payments assumed through certain of the Company's acquisitions. Interest expense, net during the three months ended June 30, 2017 includes interest incurred under our loan agreements of \$13.7 million, non-cash interest related to the amortization of deferred financing costs of \$1.0 million and non-cash interest of \$0.2 million related to the accretion of the present value of guaranteed contractual payments assumed through certain of the Company's acquisitions.

Income taxes. The provision for income taxes for the three months ended June 30, 2018 differs from the statutory rate primarily for state, local and foreign jurisdiction taxes offset by benefits from taxes attributable to noncontrolling interest and further increased by a provision, discrete to the second quarter, related to vested restricted stock and cancelled stock options. The provision for income taxes for the three months ended June 30, 2017 represents the non-cash deferred tax expense created by the amortization of certain acquired trademarks for tax but not book purposes and taxes for state, local and foreign jurisdictions.

Noncontrolling interests. Noncontrolling interests for the three months ended June 30, 2018 represents net income allocations of \$1.7 million to With You, Inc., a member of With You LLC (the partnership between us and Jessica Simpson), \$0.2 million to Elan Polo International, Inc., a member of DVS LLC, and net loss allocation of \$0.7 million to JALP. Noncontrolling interests for the three months ended June 30, 2017 represents net income allocations of \$1.8 million to With You, Inc. and \$0.1 million to Elan Polo International, Inc.

Comparison of the Six Months Ended June 30, 2018 to the Six Months Ended June 30, 2017

The following table sets forth, for the periods indicated, results of operations information from our unaudited condensed consolidated financial statements:

	<u>Six Months Ended June 30,</u>		<u>Change</u>	<u>Change</u>
	<u>2018</u>	<u>2017</u>		
	(in thousands, except percentages)			
Net revenue	\$ 80,311	\$ 81,544	\$ (1,233)	(1.5%)
Operating expenses	36,499	41,308	(4,809)	(11.6%)
Loss on sale of assets	7,117	-	7,117	100.0%
Income from operations	36,695	40,236	(3,541)	(8.8%)
Other (income) expense	(104)	1,767	(1,871)	(105.9%)
Interest expense, net	31,039	29,363	1,676	5.7%
Income before income taxes	5,760	9,106	(3,346)	(36.7%)
Provision for income taxes	1,375	3,700	(2,325)	(62.8%)
Net income	4,385	5,406	(1,021)	(18.9%)
Net income attributable to noncontrolling interests	(3,062)	(4,056)	994	(24.5%)
Net income attributable to Sequential Brands Group, Inc. and Subsidiaries	<u>\$ 1,323</u>	<u>\$ 1,350</u>	<u>\$ (27)</u>	<u>2.0%</u>

Net revenue. The decrease in net revenue for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 is primarily attributable to the impact of the adoption of ASC 606 resulting in lower revenues, decreases in the *Martha Stewart* brand due to the expiration of legacy contracts, and the absence of *FUL* and *Revo* revenue in the second quarter 2018 due to the sale of the trademarks offset by revenue earned for facilitating certain distribution arrangements included in 2018. Net revenue for the six months ended June 30, 2018 consists primarily of licensing revenue earned from our license agreements relating to the *Martha Stewart*, *Jessica Simpson*, *GAIAM*, *Avia*, *AND1*, *Joe's Jeans* and *Ellen Tracy* brands. Net revenue for the six months ended June 30, 2017 consists primarily of licensing revenue earned from our license agreements relating to the *Martha Stewart*, *Jessica Simpson*, *GAIAM*, *Avia*, *AND1*, *Joe's Jeans* and *Ellen Tracy* brands.

Operating expenses. Operating expenses decreased \$4.8 million for the six months ended June 30, 2018 to \$36.5 million compared to \$41.3 million for the six months ended June 30, 2017. This decrease was primarily driven by the absence of \$6.7 million severance costs in connection with the Company's CEO transition and \$1.0 million of expenses related to *Martha & Snoop's Potluck Dinner Party* show offset by increased advertising costs of \$2.7 million and severance costs of \$0.2 million.

Loss on sale of assets. During the six months ended June 30, 2018, the Company recorded a loss on sale of assets of \$7.1 million related to the sale of the *Revo* trademark on April 19, 2018, recognized during the first quarter of 2018, and the *FUL* trademark on May 30, 2018.

Other (income) expense. Other (income) during the six months ended June 30, 2018 consists of immaterial items. Other expense during the six months ended June 30, 2017 consists of a \$1.9 million loss recorded in connection with the sale of available-for-sale securities offset by MSLO pre-acquisition sales tax refunds.

Interest expense, net. The period-over-period increase in interest expense, net of \$1.7 million is primarily due to an increase in interest incurred under our loan agreements. Interest expense, net during the six months ended June 30, 2018 includes interest incurred under our loan agreements of \$28.8 million, non-cash interest related to the amortization of deferred financing costs of \$1.9 million and non-cash interest of \$0.4 million related to the accretion of the present value of guaranteed contractual payments assumed through certain of the Company's acquisitions. Interest expense, net during the six months ended June 30, 2017 includes interest incurred under our loan agreements of \$26.9 million, non-cash interest related to the amortization of deferred financing costs of \$2.0 million and non-cash interest of \$0.5 million related to the accretion of the present value of guaranteed contractual payments assumed through certain of the Company's acquisitions.

Income taxes. The provision for income taxes for the six months ended June 30, 2018 differs from the statutory rate primarily for state, local and foreign jurisdiction taxes offset by benefits from taxes attributable to noncontrolling interest and increased by provisions, discrete to the first and second quarters, related to vested restricted stock and cancelled stock options. The provision for income taxes for the six months ended June 30, 2017 represents the non-cash deferred tax expense created by the amortization of certain acquired trademarks for tax but not book purposes and taxes for state, local and foreign jurisdictions.

Noncontrolling interest. Noncontrolling interest for the six months ended June 30, 2018 represents net income allocations of \$3.5 million to With You, Inc., a member of With You LLC (the partnership between us and Jessica Simpson), \$0.3 million to Elan Polo International, Inc., a member of DVS LLC, and net loss allocation of \$0.7 million to JALP. Noncontrolling interest for the six months ended June 30, 2017 represents net income allocations of \$3.8 million to With You, Inc., a member of With You LLC (the partnership between us and Jessica Simpson) and \$0.3 million to Elan Polo International, Inc., a member of DVS LLC.

Liquidity and Capital Resources

As of June 30, 2018, we had cash on hand, including restricted cash, of \$15.6 million and a net working capital balance (defined below) of \$33.9 million. Additionally, we had outstanding debt obligations under our loan agreements of \$629.9 million, which is presented net of \$12.2 million of deferred financing fees in the condensed consolidated balance sheets. As of December 31, 2017, we had cash on hand, including restricted cash, of \$20.4 million and a net working capital balance (defined below) of \$32.1 million. Additionally, we had outstanding debt obligations under our loan agreements of \$644.7 million, which is presented net of \$14.1 million of deferred financing fees in the condensed consolidated balance sheets. Net working capital is defined as current assets minus current liabilities, excluding restricted cash. Overall, we do not expect any negative effects to our funding sources that would have a material effect on our liquidity. See Note 7 to our condensed consolidated financial statements for a description of certain financing transactions consummated by us. There are no material capital expenditure commitments as of June 30, 2018.

We believe cash on hand and cash from operations will be sufficient to meet our capital requirements for the twelve months following the filing of these financial statements. We intend to continue financing future brand acquisitions through a combination of cash from operations, bank financing and the issuance of additional equity or debt securities. The extent of our future capital requirements will depend on many factors, including our results of operations and growth through the acquisition of additional brands, and we cannot be certain that we will be able to obtain additional financing in sufficient amounts or on acceptable terms in the near future, if at all.

Cash Flows from Operations

Cash flows from operations for operating, financing and investing activities for the six months ended June 30, 2018 and 2017 are summarized in the following table:

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Operating activities	\$ 16,724	\$ 16,041
Investing activities	478	5,305
Financing activities	(21,995)	(20,745)
Net (decrease) increase in cash and restricted cash	\$ (4,793)	\$ 601

Operating Activities

Net cash provided by operating activities increased \$0.7 million to \$16.7 million for the six months ended June 30, 2018 as compared to \$16.0 million for the six months ended June 30, 2017. The \$0.7 million increase was primarily attributable to more favorable changes in deferred revenue of \$2.5 million, accounts payable, accrued expenses, and other liabilities of \$2.2 million, accounts receivable of \$0.9 million and non-cash expenses of \$0.7 million partially offset by a decrease in net income of \$1.0 million and less favorable changes in prepaid expenses and other assets of \$4.6 million period-over-period.

Investing Activities

Net cash provided by investing activities decreased \$4.8 million to \$0.5 million for the six months ended June 30, 2018 compared to net cash provided by investing activities of \$5.3 million for the six months ended June 30, 2017. This decrease is driven primarily by \$3.7 million of cash used for purchases of property and equipment during the six months ended June 30, 2018 compared to \$0.2 million during the six months ended June 30, 2017. The increase in cash used for purchases of property and equipment was primarily related to leasehold improvements as we reconfigured and reduced our office space at the Company's headquarters. During the six months ended June 30, 2018, we sold the *FUL* and *Revo* trademarks and received cash proceeds of \$4.4 million. During the six months ended June 30, 2017, we sold our available-for-sale securities for \$5.8 million.

Financing Activities

Net cash used in financing activities for the six months ended June 30, 2018 increased \$1.3 million to \$22.0 million as compared to \$20.7 million for the six months ended June 30, 2017. During the six months ended June 30, 2018, we made principal payments of \$14.8 million under our loan agreements in accordance with contractual terms and \$4.2 million of distributions to certain noncontrolling interest partners. During the six months ended June 30, 2017, we made principal payments of \$14.2 million under our loan agreements in accordance with contractual terms and \$4.2 million of distributions to certain noncontrolling interest partners. During the six months ended June 30, 2018, we repurchased common stock from employees for tax withholding purposes related to the vesting of restricted stock of \$2.0 million as compared to \$1.1 million during the six months ended June 30, 2017.

Debt

As of June 30, 2018, we were party to a Third Amended and Restated First Lien Credit Agreement with Bank of America, N.A. as administrative and collateral agent (the "Amended BoA Credit Agreement") and a Third Amended and Restated Credit Agreement with Wilmington Trust, National Association as administrative agent and collateral agent (the "FS/KKR Credit Agreement"), referred to as our loan agreements. Refer to Note 7 to our condensed consolidated financial statements for a discussion of our borrowings and the terms of these debt facilities. As of June 30, 2018 and December 31, 2017, our long-term debt, including current portion, was \$629.9 million and \$644.7 million, which is presented net of \$12.2 million and \$14.1 million of deferred financing fees, respectively, in the condensed consolidated balance sheets. As of June 30, 2018 and December 31, 2017, we had \$1.5 million and \$5.5 million, respectively, of availability under the current revolving credit facility (the "Revolving Credit Facility"), subject to meeting certain leverage ratios. We may request an increase in (i) the Revolving Credit Facility and Tranche A Loans as would not cause the consolidated first lien leverage ratio, determined on a pro forma basis after giving effect to any such increase, to exceed 2.33:1.00 and (ii) the Tranche A-1 Loans, as would not cause the consolidated first lien leverage ratio, determined on a pro forma basis after giving effect to any such increase, to exceed (a) with respect to any increase, the proceeds of which will be used solely to finance an acquisition, 2.50:1.00 and (b) with respect to any other increase, 2.40:1.00, subject to the satisfaction of certain conditions in the Amended BoA Credit Agreement. We may request one or more additional term loan facilities or the increase of term loan commitments under the FS/KKR Credit Agreement as would not cause the consolidated total leverage ratio, determined on a pro forma basis after giving effect to any such addition and increase, to exceed 6.00:1.00, subject to the satisfaction of certain conditions in the FS/KKR Credit Agreement. We made \$14.8 million of principal repayments under our loan agreements during the six months ended June 30, 2018.

On August 7, 2018, the Company and certain of its subsidiaries amended its (i) Third Amended and Restated First Lien Credit Agreement with Bank of America, N.A., as administrative agent and collateral agent and the lenders party thereto and (ii) the Third Amended and Restated Credit Agreement with Wilmington Trust, National Association, as administrative agent and collateral agent and the lenders party thereto. Refer to Note 12 to our condensed consolidated financial statements for a discussion of our borrowings and the amended terms of these debt facilities.

Contractual Obligations

On February 21, 2017, we amended the lease of our corporate headquarters, which extends the lease through December 31, 2033 and effective in February 2018, lowers the rented square footage to approximately 63,000 square feet of corporate office space and 7,000 square feet of other rentable space. On January 12, 2018, we further amended the lease of our corporate headquarters, effective in February 2018, to increase the rented square footage by approximately 12,300 square feet. Our contractual obligation as of June 30, 2018 for the amended lease is summarized as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Corporate Headquarters Lease	\$ 85,086	\$ 2,750	\$ 11,001	\$ 11,001	\$ 60,334

Off-Balance Sheet Arrangements

At June 30, 2018 and December 31, 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As a result, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We limit exposure to foreign currency fluctuations by requiring payment under the majority of our licenses to be denominated in U.S. dollars. One of our license agreements is denominated in Canadian dollars. If there were an adverse change in the exchange rate from Canadian to U.S. dollars of 10%, the expected effect on net income would be immaterial.

Our earnings may also be affected by changes in LIBOR interest rates as a result of our loan agreements. As further discussed in Notes 3 and 7 to our accompanying unaudited condensed consolidated financial statements, we have entered into interest rate caps to mitigate the effects of a change in LIBOR interest rates. An increase in LIBOR interest rates of one percent affecting the loan agreements would not have had a material effect on our results of operations during the three and six months ended June 30, 2018 and 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2018, the end of the period covered by this report. Based on, and as of the date of such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2018 such that the information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Other Matters

From time to time, we are involved in legal matters arising in the ordinary course of business. We record a liability for litigation when we believe that it is probable that a loss has been incurred and the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the possible loss. Significant judgment is required to determine both likelihood of there being and the estimated amount of a loss related to such matters.

With respect to our outstanding legal matters, based on our current knowledge, we believe that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties. Further, regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors. See Note 8 to our unaudited condensed consolidated financial statements for further discussion of legal proceedings to which we are party.

Item 1A. Risk Factors

Cautionary Statements and Risk Factors

This Quarterly Report contains forward-looking statements, which are subject to a variety of risks and uncertainties. Our actual results could differ materially from those anticipated in those forward-looking statements as a result of various factors, including those set forth in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 16, 2018. There have been no material changes to such risk factors during the six months ended June 30, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There have been no unregistered sales of equity securities during the three months ended June 30, 2018.

During the three months ended June 30, 2018, we repurchased 42,669 shares of our common stock from employees for tax withholding purposes related to the vesting of restricted stock. We do not currently have in place a repurchase program with respect to our common stock.

	(a) Total Number of Shares (or Units) Purchased ⁽¹⁾	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Period				
Apr 1 - 30	39,043	\$ 1.94	N/A	N/A
May 1 - 31	3,626	\$ 1.83	N/A	N/A
Jun 1 - 30	-	\$ -	N/A	N/A
Total	42,669		-	-

(1) During the second quarter of 2018, 42,669 shares were purchased from employees for tax withholding purposes related to the vesting of restricted stock. All shares were purchased other than through a repurchase plan or program.

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Exhibit Title
10.1	<u>First Amendment to Third Amended and Restated First Lien Credit Agreement, dated as of August 7, 2018, between Sequential Brands Group, Inc., certain subsidiaries of Sequential Brands Group, Inc. named therein, Bank of America, N.A., as administrative agent and collateral agent and the lenders party thereto. Incorporated by reference to Exhibit 10.1 to Sequential Brands Group, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2018.</u>
10.2	<u>First Amendment to Third Amended and Restated Credit Agreement, dated as of August 7, 2018, between Sequential Brands Group, Inc., certain subsidiaries of Sequential Brands Group, Inc. named therein, Wilmington Trust, National Association, as administrative agent and collateral agent and the lenders party thereto. Incorporated by reference to Exhibit 10.2 to Sequential Brands Group, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2018.</u>
31.1*	<u>Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

**Furnished herewith.

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.

SEQUENTIAL BRANDS GROUP, INC.

Date: August 9, 2018

/s/ Peter Lops

By: Peter Lops

Title: Chief Financial Officer (Principal Financial and Accounting Officer)

Certification of Principal Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Karen Murray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sequential Brands Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2018

/s/ Karen Murray

Karen Murray
Chief Executive Officer

Certification of Principal Financial Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter Lops, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sequential Brands Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2018

/s/ Peter Lops
Peter Lops
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Report") by Sequential Brands Group, Inc. ("Registrant"), the undersigned hereby certifies that, to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: August 9, 2018

/s/ Karen Murray

Karen Murray
Chief Executive Officer (Principal Executive Officer)

Date: August 9, 2018

/s/ Peter Lops

Peter Lops
Chief Financial Officer (Principal Financial and Accounting
Officer)
