Differential Brands Group Inc.
Form 10-K
April 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

Commission file number: 0 18926

DIFFERENTIAL BRANDS GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	11 2928178
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1231 South Gerhart Avenue, Commerce, California 90022

(Address of principal executive offices, including zip code)

Registrant’s telephone number, including area code: (323) 890 1800

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.10 par value

(Title of Class)

The Nasdaq Stock Market LLC

(NASDAQ Capital Market)

(Name of exchange on which registered)

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Smaller reporting company
(Do not check if a 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 by Rule 12b 2 of the Act.) Yes No

The aggregate market value of the voting and non voting common stock held by non affiliates of the registrant based on the closing price of the registrant's common stock on The Nasdaq Stock Market LLC as of June 30, 2017, was approximately $20,269,000.

The number of shares of the registrant's common stock outstanding as of April 2, 2018 was 13,599,284.

Documents incorporated by reference: None.

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DIFFERENTIAL BRANDS GROUP INC.

FORM 10 K ANNUAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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PART I

Certain Definitions

As used in this Annual Report on Form 10 K ("Annual Report"), unless the context indicates otherwise, the terms "Differential Brands Group," "we," "us," "our," and "the Company" refer to Differential Brands Group Inc. (formerly Joe's Jeans Inc.) and our subsidiaries and affiliates, which includes our wholly owned subsidiary Hudson Clothing Holdings, Inc. and its subsidiaries ("Hudson"), a designer and marketer of women's and men's premium branded denim apparel that bear the brand name Hudson® (the "Hudson Business"), our wholly owned subsidiary RG Parent LLC and its subsidiaries ("Robert Graham" or "RG"), a business engaged in the design, development, sales and licensing of lifestyle apparel products and accessories that bear the brand name Robert Graham® (the "Robert Graham Business") that was acquired pursuant to the RG Merger, and our wholly owned subsidiary DFBG Swims, LLC and its subsidiary ("SWIMS"), a business engaged in the design, development, sales and licensing of footwear, apparel and accessories that bear the brand name SWIMS® (the "SWIMS Business"). The "RG Merger" refers to the merger transaction completed on January 28, 2016, pursuant to which our wholly owned subsidiary JJ Merger Sub, LLC ("RG Merger Sub") merged with and into RG, with RG surviving as our wholly owned subsidiary. The term "Joe's Business" refers to our business that was operated under the brand names "Joe's Jeans," "Joe's," "Joe's JD" and "else." The operating and intellectual property assets associated with the Joe's Business were sold on September 11, 2015 pursuant to two separate asset purchase agreements, which we refer to as the "Joe's Asset Sale."

Forward Looking Statements

Statements contained in this Annual Report that are not purely historical facts are forward looking statements. Statements looking forward in time are included in this Annual Report pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995 and are based on our management's beliefs and assumptions and on information currently available to our management. Such forward looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words, "believe," "anticipate," "expect," "estimate," "intend," "plan," "project," "will be," "will continue," "will likely resu variations of such words with similar meanings. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward looking statements.

Factors that would cause or contribute to such differences include, but are not limited to, the factors contained or referenced under the headings "Part I, Item 1. Business," "Part I, Item 1A. Risk Factors" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report. In particular, certain risks and uncertainties that we face include, but are not limited to:

- the risk of intense competition in the denim, footwear and premium lifestyle apparel industries;
- the risk associated with our substantial indebtedness, which could adversely affect our financial performance and impact our ability to service our indebtedness;
- the risks associated with our foreign sourcing of our products in light of potential changes in international trade relations being implemented by the U.S. presidential administration;
- risks associated with our third-party distribution system;
- risks associated with changing fashion trends, business environment and our customer base;
- risks associated with leasing retail space and operating our own retail stores;
- the risk that we will be unsuccessful in gauging fashion trends and changing consumer preferences;

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- the risk that the credit ratings of the combined company or its subsidiaries, including the Hudson, RG and SWIMS businesses, may be different from what we expect;
- the risk that changes in general economic conditions, consumer confidence, or consumer spending patterns, including consumer demand for denim and premium lifestyle apparel, will have a negative impact on our financial performance or strategies and our ability to generate cash flows from our operations to service our indebtedness;
- our ability to respond to the business environment and fashion trends;
- continued acceptance of our brands in the marketplace;
- our reliance on a small number of large customers;
- our ability to successfully implement any growth or strategic plans;
- our ability to manage our inventory effectively;
- the risk of cyber-attacks and other system risks;
- our ability to continue to have access on favorable terms to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations or new acquisitions;
- the risk that we pledged all our tangible and intangible assets as collateral under our financing agreements;
- our ability to generate positive cash flow from operations;
- a possible oversupply of denim in the marketplace; and
- other risks.

Since we operate in a rapidly changing environment, new risk factors can arise and it is not possible for our management to predict all such risk factors, nor can our management assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance, events and circumstances reflected in the forward-looking statements will be achieved or will occur. Given these risks and uncertainties, readers are cautioned not to place undue reliance on forward looking statements.

Any forward-looking statement in this Annual Report speaks only as of the date of this filing. We undertake no obligation to publicly update these forward looking statements to reflect events, circumstances or the occurrence of unanticipated events that occur subsequent to the date of this Annual Report, except as may be required by law.

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ITEM 1. BUSINESS

Overview

Our principal business activity is the design, development and worldwide marketing of apparel, footwear and lifestyle products, including denim jeans, related casual wear, footwear and accessories under our Hudson®, Robert Graham® and SWIMS® labels. We aim to fill a void in the U.S. public market landscape by focusing exclusively on brands that develop products for consumers shopping at premium retailers.

We began our operations in April 1987 as Innovo, Inc., or Innovo, a Texas corporation, to manufacture and domestically distribute cut and sewn canvas and nylon consumer products for the utility, craft, sports licensed and advertising specialty markets. We have evolved from producing craft and accessory products to designing and selling apparel products bearing various brand names. In 1990, Innovo merged into Elorac Corporation, a Delaware corporation, and was renamed Innovo Group Inc., which was then renamed Joe's Jeans Inc. in October 2007. In September 2013, we acquired the Hudson Business, a designer and marketer of women's and men's premium branded denim apparel. In September 2015, we sold the Joe's Business (as discussed below). In January 2016, we acquired the Robert Graham Business, which is engaged in the design, development, sales and licensing of sophisticated, eclectic apparel products and accessories, and in connection with the RG Merger (as discussed below), we also changed our name from Joe's Jeans Inc. to Differential Brands Group Inc. In July 2016, we acquired the SWIMS Business, a Scandinavian-based business engaged in the design, development, sales and licensing of footwear, apparel and accessories.

Hudson® Acquisition

On September 30, 2013, we acquired all of the outstanding equity interests in Hudson for an aggregate purchase price consisting of $65.4 million in cash and $27.5 million in convertible notes, net of discount. We also issued promissory notes, bearing no interest, for $1.2 million in aggregate principal amount that were paid on April 1, 2014 to certain option holders of Hudson.

Joe's Sale

During fiscal 2014 and 2015, we believed that our growth potential relied on the integration of the Hudson Business and Joe's Business. We did not achieve the desired level of integration on our original timetable. In turn, we failed to meet certain financial covenants set forth in the credit agreement (the "Garrison Term Loan Credit Agreement") with Garrison Loan Agency Services LLC ("Garrison"), and, on November 6, 2014, we received a notice of default and demand for payment of default interest from Garrison, as term loan agent, under that credit agreement. As a result of this default, we were also in default under the terms of our revolving credit agreement (the "CIT Revolving Credit Agreement") with CIT Commercial Services, Inc. ("CIT"), a unit of CIT Group, and our factoring facility with CIT and we were prohibited from making payments under the above-referenced convertible notes issued in the Hudson acquisition.

After exploring various strategic alternatives to remedy the defaults, we decided to sell the Joe's Business. On September 11, 2015, we completed the sale of (i) certain of our intellectual property assets used or held for use in the Joe's Business for an aggregate purchase price of $67 million pursuant to that certain asset purchase agreement, dated as of September 8, 2015, by and among us, Joe's Holdings LLC, a Delaware limited liability company (the "Joe's IP Assets Purchaser"), and solely for the purpose of its related guarantee, Sequential Brands Group, Inc., a Delaware corporation (the "Joe's IP Asset Purchase Agreement"), and (ii) among other things, certain inventory and other assets and liabilities related to the Joe’s Business for an aggregate purchase price of $13 million pursuant to that certain asset purchase agreement, dated as of September 8, 2015, by and between us and GBG USA Inc., a Delaware corporation (“Joe’s Operating Assets Purchaser”) (the “Joe’s Operating Asset Purchase Agreement” and together with the Joe’s IP Asset Purchase Agreement the “Joe’s Asset Purchase Agreements”). We operated the Joe’s Business, which included certain inventory and other assets operated under the brand name “Joe’s Jeans,” “Joe’s,” “Joe’s JD” and “else,” from 2001 to 2015.

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The proceeds of the Joe's Asset Sale were used to repay all of our indebtedness outstanding under the Garrison Term Loan Credit Agreement and a portion of our indebtedness outstanding under the CIT Revolving Credit Agreement. As a result, the Garrison Term Loan Credit Agreement was paid in full and terminated on September 11, 2015 and we entered into the amended and restated revolving credit agreement (the "CIT Amended and Restated Revolving Credit Agreement"), dated September 11, 2015, which provided for a maximum credit availability of $7.5 million and waived certain defaults. On January 28, 2016, all outstanding loans under the Amended and Restated Revolving Credit Agreement were repaid and it was terminated in connection with entering into (i) a new credit and security agreement (the "ABL Credit Agreement") with Wells Fargo Bank, National Association, as lender, and (ii) a new credit and security agreement with TCW Asset Management Company, as agent, and the lenders party thereto (the "Term Credit Agreement", and together with the ABL Credit Agreement, the "New Credit Agreements") and (iii) an amended and restated deferred purchase factoring agreement with CIT. These credit agreements, including certain amendments made to them since the closing date of the RG Merger, are discussed further in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

After the closing of the Joe's Operating Asset Purchase Agreement and the Joe's IP Asset Purchase Agreement, we retained and operated 32 Joe's® brand retail stores, of which, pursuant to the Joe's Operating Asset Purchase Agreement, we transferred 18 retail stores to the Joe's Operating Assets Purchaser on January 28, 2016 for no additional consideration and closed the remaining 14 Joe's® brand retail stores on February 29, 2016. The retail stores transferred or closed are reported as discontinued operations for 2016 as presented in this Annual Report.

Robert Graham® Merger

On January 28, 2016, we completed the acquisition of all of the outstanding equity interests of RG, as contemplated by the Agreement and Plan of Merger, dated as of September 8, 2015 (the "RG Merger Agreement"), by and among RG, RG Merger Sub and us, for an aggregate of $81.0 million in cash and 8,825,461 shares of our common stock, par value $0.10 per share ("common stock") (after giving effect to the Reverse Stock Split (as defined below)). Pursuant to the RG Merger Agreement, among other things, RG Merger Sub was merged with and into RG, so that RG, as the surviving entity, became our wholly owned subsidiary. RG is engaged in the design, development, sales and licensing of lifestyle apparel products and accessories that bear the brand name Robert Graham®.

Effective upon consummation of the RG Merger, we also changed our name to "Differential Brands Group Inc." and effected the reverse stock split (the "Reverse Stock Split") of our issued and outstanding common stock such that each 30 shares of our issued and outstanding common stock were reclassified into one share of our issued and outstanding common stock. The Reverse Stock Split did not change the par value or the amount of authorized shares of our common stock. The primary purpose of the Reverse Stock Split was to increase the per share market price of our common stock in order to maintain our listing on The Nasdaq Capital Market maintained by The Nasdaq Stock Market LLC ("NASDAQ"). Unless otherwise indicated, all share amounts in this Annual Report have been adjusted to reflect the Reverse Stock Split.

In connection with the RG Merger, on January 28, 2016, we completed the issuance and sale of an aggregate of fifty thousand (50,000) shares of our preferred stock, par value $0.10 per share, designated as Series A Convertible Preferred Stock (the "Series A Preferred Stock"), for an aggregate purchase price of $50 million in cash, as contemplated by the stock purchase agreement, dated as of September 8, 2015 (the "RG Stock Purchase Agreement"), by and between us and TCP Denim, LLC, a Delaware limited liability company (the "Series A Purchaser"). As further described in "Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," the Series A Purchaser is affiliated with our major stockholders Tengram Capital Associates, LLC, Tengram Capital Associates II, LLC and other Tengram entities.

We used the proceeds from the RG Stock Purchase Agreement and the debt financing provided by the credit facilities under the New Credit Agreements to, among other things, consummate the RG Merger and the transactions contemplated by the RG Merger Agreement. Under the acquisition method, RG is deemed the accounting acquirer for financial reporting purposes, with the Company, as the legal acquirer, being viewed as the accounting acquiree. As a result, the assets, liabilities and operations reflected in the historical consolidated financial statements and in other disclosures in this Annual Report prior to the RG Merger only reflect RG's historical financial condition and results of

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operations for comparative purposes. For more information, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Introduction” and “Notes to Consolidated Financial Statements—Note 1.”

Also in connection with the completion of the RG Merger, on January 28, 2016, we completed the exchange of our outstanding convertible notes for (i) 1,167,317 shares of common stock (after giving effect to the Reverse Stock Split); (ii) a cash payment of approximately $8.6 million; and (iii) an aggregate principal amount of approximately $16.5 million of modified convertible notes (the “Modified Convertible Notes”), as contemplated by the rollover agreement, dated September 8, 2015 (the “Rollover Agreement”), between us and the holders of our convertible notes. The Modified Convertible Notes and Rollover Agreement are discussed further in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

On January 28, 2016, we entered into a registration rights agreement (the “Registration Rights Agreement”) with the Series A Purchaser and certain of its affiliates, the noteholders party to the Rollover Agreement (including Peter Kim and Fireman Capital CPF Hudson Co-Invest LP) and Michael Buckley, our Chief Executive Officer. Pursuant to the Registration Rights Agreement, and subject to certain limitations described therein, we will provide certain demand and piggyback registration rights with respect to shares of common stock (i) issued to the parties to the Registration Rights Agreement in connection with the RG Merger Agreement and the Rollover Agreement and (ii) issuable upon conversion of the Series A Preferred Stock and the Modified Convertible Notes.

In connection with the RG Merger, we changed our fiscal year end to December 31st.

SWIMS® Acquisition

On July 18, 2016, we completed the acquisition of all of the outstanding share capital of Norwegian private limited company (aksjeselskap) SWIMS AS. We purchased SWIMS for aggregate consideration of (i) $12.0 million in cash, (ii) 702,943 shares of our common stock and (iii) warrants to purchase an aggregate of 150,000 shares of our common stock with an exercise price of $5.47 per share. The acquisition was completed pursuant to the Purchase Agreement, dated as of July 18, 2016 (the “SWIMS Purchase Agreement”), between us, our wholly-owned subsidiary DFBG Swims, the shareholders of SWIMS named therein (the “SWIMS Sellers”), Øystein Alexander Eskeland and Atle Søvik, acting jointly as the representatives of the SWIMS Sellers, and, for certain limited purposes, TCP Denim, LLC, TCP RG, LLC and TCP RG II, LLC.

To finance the acquisition, we issued the following to our major stockholder Tengram Capital Partners Fund II, L.P. (“Tengram II”): (i) a warrant for the purchase of 500,000 shares of our common stock at an exercise price of $3.00 per share (the “SWIMS Warrant”); and (ii) a convertible promissory note with principal of $13.0 million (the “SWIMS Convertible Note”). As discussed further below, the SWIMS Convertible Note was fully converted into shares of Series A-1 Preferred Stock in January 2018. The SWIMS Convertible Note accrued interest at a rate of 3.75% per annum, compounding on the first day of each month starting August 1, 2016, and was convertible, at Tengram II’s option or on its maturity date if not already repaid in cash on or prior to that date, into newly issued shares of our Series A-1 Preferred Stock at a conversion price of $3.00 per share. The Company and Tengram II subsequently amended the maturity date to January 18, 2018. On January 18, 2018, the Convertible Note matured and automatically converted into newly issued shares of the Company’s Series A-1 Preferred Stock, par value $0.10 per share, at a conversion price of $3.00 per share. The outstanding balance of the Convertible Note, together with any accrued and unpaid interest thereon, converted into 4,587,964 shares of Series A-1 Preferred Stock. For more information, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations— Liquidity and Capital Resources” and “Notes to Consolidated Financial Statements—Note 8.”

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Our Brands

As of December 31, 2017, our principal business activity is the design, development and worldwide marketing of apparel, footwear and lifestyle products bearing the Hudson®, Robert Graham® and SWIMS® labels. As a result of the RG Merger and related transactions (the "Merger Transactions"), our strategy has evolved to focus on owning, managing and operating a diversified portfolio of complementary premium consumer brands. We intend to organically grow our current brands and seek opportunities to acquire accretive and complementary premium brands.

Hudson®

Hudson® was established in 2002 and is recognized as a premier designer and marketer of women's and men's premium branded denim apparel, an industry term for denim jeans with price points generally of $120 or more, known for its quality, fit and fashion forward designs. We sell our products to numerous retailers, which include major department stores, specialty stores, and ecommerce stores in the U.S., Canada and Europe. As of December 31, 2017, our product line included women's, men's and children's denim jeans, bottoms, tops, jackets and other related apparel and accessories. We are also working on the launch of a new sportswear line for Fall 2018. We continue to evaluate offering an additional range of products under the Hudson® brand name.

Robert Graham®

RG's principal business activity is the design, development, sales and licensing of lifestyle apparel products and accessories that bear the brand name Robert Graham®. Robert Graham® can be described as "American Eclectic." Since its launch in 2001, Robert Graham® was created based upon the premise of introducing sophisticated, eclectic style to the fashion market as an American based company with an intention of inspiring a global fashion movement. Robert Graham® received the 2014 "Menswear Brand of the Year" award from the American Apparel & Footwear Association. During 2016, Robert Graham added the Modern Americana label which targets a younger man requiring a more tailored athletic fit with a fashion basics taste and modestly lower opening price point. This label has been well received among new target customers. Robert Graham® offers a cohesive lifestyle collection that includes knits, polos, sport shirts, t shirts, sweaters, sport coats, outerwear, jeans, bottoms, shorts, swimwear and accessories.

SWIMS®

SWIMS's principal business activity is the design, development, sales and licensing of footwear and apparel products and accessories that bear the brand name SWIMS®. Founded in Norway in 2006, SWIMS is a Scandinavian lifestyle brand best known for its range of fashion-forward, water-friendly footwear for men that artfully balances performance, comfort and style. SWIMS® product line includes women's and men's footwear, swimwear, outerwear, ready-to-wear, and accessories.

Reportable Segments

We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our reportable segments are Wholesale, Consumer Direct and Corporate and other. Our Wholesale segment is comprised of sales of products to premium department stores, boutiques, retailers, specialty stores, ecommerce stores, international retailers and select off-price retailers. The Wholesale segment also includes expenses from sales and customer service departments, trade shows, warehouse distribution, design and production, and product samples. Our Consumer Direct segment is comprised of sales to consumers through our Robert Graham® brand full-price retail stores, Robert Graham® outlet stores, our SWIMS® brand outlet stores and our online ecommerce sites at www.hudsonjeans.com, www.robertgraham.us and www.swims.com. The information contained, or that can be accessed through these websites is not incorporated by reference in this Annual Report. The Corporate and other segment is comprised of revenue from trademark licensing agreements and overhead expenses from corporate operations, which include the executive, finance, legal, information technology, and human resources departments. For more information about our reportable segments, including in connection with our accounting treatment following the

RG Merger, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Executive Overview—Reportable Segments.”

For a breakdown of net sales and gross profits by reportable segment for the last two fiscal years, see “Results of Operations” under “Fiscal 2017 compared to Fiscal 2016” in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our Principal Products

Our Hudson® product line includes women’s, men’s and children’s denim jeans, bottoms, tops, jackets and other related apparel and accessories. Hudson’s new sportswear line is expected to launch in Fall 2018. We continue to evaluate offering an additional range of products in the future under the Hudson® brand name. The Hudson® children’s product offerings are produced under a license from us. Hudson sells its merchandise through its retail internet site, premium department stores, specialty stores, ecommerce stores and select off-price retail stores.

The Robert Graham® product line includes premium priced men’s sport shirts, knits, sweaters, polos, t shirts, denim jeans, bottoms, shorts, sport coats, outerwear and swimwear. RG also offers a line of women’s apparel, mainly in its own retail stores. Additionally, men’s shoes, belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eye and sun glasses, jewelry, hosiery, underwear, loungewear and fragrances are produced by third parties under various license agreements and RG receives royalty payments based upon net sales from licensees. RG sells its current season merchandise through its retail stores, its retail internet site, premium department stores, specialty stores, ecommerce stores and international stores that display and merchandise its products in a way that supports its brand image and is in sync with the lifestyle and shopping experience expected by its customers. RG sells its prior season merchandise and some “designed for outlet” product through its own outlet stores and through select off price retail stores.

SWIMS® product line includes footwear, swimwear, outerwear, ready-to-wear and accessories. SWIMS sells its products worldwide across various channels, including high-end department stores, specialty stores, luxury resorts, and its own website.

Because we focus on design, development and marketing, we rely on third parties to directly manufacture our products for all three of our brands.

Product Design, Development and Sourcing

For all of our brands, our product development is managed internally by key designers for each brand. The key designers lead the respective design teams responsible for the creation, development and coordination of the product group offerings. We typically develop four collections per year for (i) spring, (ii) summer, (iii) fall/back to school, and (iv) winter/holiday (in the case of Hudson®) or resort/cruise (in the case of Robert Graham® and SWIMS®), with certain core basic styles offered throughout the year. The key designers are an instrumental part of our design process. The loss of any key designer would not change any rights we have to the designs or intellectual property. We believe that if any key designers terminate, alternative sources are available for the development and design of the brands product, as applicable.

Our products are primarily produced by, and purchased or procured from, independent manufacturing contractors, many of whom are located outside of the United States. For fiscal 2017, substantially all of the product for our brands was attributable to manufacturing contractors located outside of the United States, with approximately 25 percent of purchases attributable to manufacturing contractors located in Mexico and approximately 38 percent of purchases attributable to manufacturing contractors located in Asia, including India. Five of our manufacturing contractors represented approximately 59 percent of our total purchases of our products for fiscal 2017. We do not have a long term supply agreement with any of our third party manufactures or contractors, and we believe that there are available resources of overseas and domestic contractors that could fulfill our requirements in the event that one of our existing manufacturers would not be able to do so. We control production schedules in order to ensure quality and timely deliveries and conduct all aspects of inventory, warehousing, picking and packing services internally. See “Part I, Item

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1A. Risk Factors—Problems with sourcing, along with the extent of our foreign sourcing, may adversely affect our business," "Risk Factors—Our business could suffer as a result of a manufacturer's inability to produce our goods on time and to our specifications or if we need to replace manufacturers" and "Risk Factors—Problems with the third party distribution system could harm our ability to meet customer expectations, manage inventory, complete sales and achieve targeted operating efficiencies."

For our brands, we identify fabrics and trims, but primarily have the factories that produce the final product purchase the raw materials. We do not enter into any long term agreements with our suppliers, nor are we substantially dependent on any one of them. We have not experienced any material shortage of raw material to meet our needs. We continue to explore alternate inventory production strategies designed to improve our gross margins. However, there can be no assurance that any change in sourcing will result in enhanced profit margins, similar quality or timely deliveries, but we do believe that continuing to monitor this expense can be beneficial for the growth of our brands. See "Part I, Item 1A. Risk Factors—Increases in the price of raw materials or their reduced availability could increase our cost of goods and decrease our profitability." and "Risk Factors—We are dependent on our relationships with our vendors."

In the event we terminate any of our relationships with third parties or the economic climate or other factors result in a significant reduction in the number of contractors, our business could be negatively impacted. At this time, we believe that we would be able to find alternative sources for production if this were to occur; however, no assurances can be given that a transition would not involve a disruption to our business.

We generally purchase our products in United States dollars. However, because we use some overseas or non United States suppliers, the cost of these products may be affected by changes in the value of the relevant currencies. Certain of our apparel purchases in the international markets will be subject to the risks associated with the importation of these types of products. See "Business—Import and Export Restrictions and Other Governmental Regulations."

While we attempt to mitigate our exposure to manufacturing risks, the use of independent suppliers reduces our control over production and delivery and exposes us to customary risks associated with sourcing products from independent suppliers. Transactions with foreign manufacturers and suppliers are subject to the typical risks of doing business abroad, generally, such as the cost of transportation and the imposition of import duties and restrictions. The countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariff levels, which could affect our operations and our ability to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring. See "Business—Import and Export Restrictions and Other Governmental Regulations." Furthermore, the inability of a manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices. Due to the seasonality of our business, and the apparel and fashion business in particular, the dates on which customers require shipments of products from us are critical, as styles and consumer tastes change so rapidly. Because quality is a leading factor when customers and retailers accept or reject goods, any decline in quality by our third party manufacturers could be detrimental, not only to a particular order, but also to our future relationship with that particular customer.

We also require our independent manufacturers to operate in compliance with applicable laws and regulations; however, we have no control over the ultimate actions of our independent manufacturers. Despite our lack of control, we have internal operating guidelines to promote ethical business practices and our employees periodically visit and monitor the operations of our independent manufacturers. See "Part I, Item 1A. Risk Factors—If an independent manufacturer of ours fails to use acceptable labor practices, our business could suffer."

Trademarks and License Agreements

We own a variety of pending applications and registrations throughout the world for a variety of trademarks and service marks, in addition to the common law rights associated therewith for our various brands.

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For our Hudson® brand, trademarks include the “Hudson” and “Hudson Jeans” word mark and “Hudson” logo and “Let Yourself Go” as applied to apparel, as well as for online retail store services for such goods.

As of April 2, 2018, we own three United States registered trademarks and have three pending U.S. trademark applications in connection with our Hudson® brand. We also own a variety of registrations and pending applications for the above referenced marks as applied to apparel, footwear, and related fashion accessories in various foreign jurisdictions throughout the world. More specifically, 13 registrations have been issued in jurisdictions such as Australia, Canada, the European Community which comprises 28 member countries, Hong Kong, Japan, Macao, South Korea, New Zealand and Taiwan. In addition, we have a perpetual license for the use of the “Hudson” mark in Europe and certain other countries on our main product categories under a license agreement whereby we pay a minimum annual royalty and/or a percentage of net sales.

For our Robert Graham® brand, trademarks include the “Robert Graham” and “Knowledge Truth and Wisdom” word mark and “Robert Graham,” “R by Robert Graham” and “Robert Graham Modern Americana” logo. As of April 2, 2018, we own 15 United States registered trademarks and have three pending United States trademark applications in connection with our Robert Graham® brand. We also own a variety of registrations and pending applications for the above referenced marks as applied to apparel, footwear, and related fashion accessories in various foreign jurisdictions throughout the world. More specifically, 52 registrations have been issued in jurisdictions such as Australia, Bangladesh, Canada, China, Egypt, the European Community which comprises 28 member countries, Hong Kong, Iceland, India, Israel, Japan, Mexico, Morocco, Norway, Panama, Peru, Korea, Russia, Switzerland, Taiwan, the United Arab Emirates and Vietnam.

For our SWIMS® brand, trademarks include the “SWIMS” logo and shoe designs. As of April 2, 2018, we own one United States registered trademark and have five pending United States trademark and design applications in connection with our SWIMS® brand. We also own a variety of registered marks and had pending applications for marks and our designs as applied to apparel, footwear, and related fashion accessories in various foreign jurisdictions throughout the world. More specifically, 41 registrations are pending or have been issued in jurisdictions such as Australia, Brazil, Canada, Costa Rica, Ecuador, the European Union which comprises 28 member countries, Hong Kong, Jordan, Japan, Kuwait, Lebanon, Mexico, Norway, Panama, Peru, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

We also selectively license our brands for certain product categories or for retail stores in foreign jurisdictions. Licensing product categories broadens and enhances the products available under the brand name. In addition, by licensing certain product categories, we receive royalty payments on net sales or purchases of products for sale at the retail stores without incurring significant capital investments or incremental operating expenses. There are certain minimum net sales that the licensees are required to meet, and the agreements generally have renewal rights. As of April 2, 2018, we had two active license agreements for Hudson® and nine for Robert Graham®. Our licensing arrangements for our Hudson® brand are for children’s apparel and the production and distribution of men’s and women’s apparel in Europe and other select countries. For our Robert Graham® brand, our licensing arrangements are for men’s dress shirts, neckwear, tailored clothing, hosiery, leather goods (including bags, belts and small leathers), sun and optical eyewear, headwear, home furnishings, footwear, underwear and loungewear and fragrances. In the future, we may enter into select additional licensing arrangements for product offerings which require specialized expertise. We have historically and may continue to enter into select licensing agreements pursuant to which we may grant third parties the right to distribute and sell our products in certain geographic areas for our brands in exchange for royalty payments and certain minimum guarantees.

See “Part I, Item 1A. Risk Factors—Our licensing arrangements may not be successful and may make us susceptible to the actions of third parties who may not comply with our product quality, manufacturing standards, marketing and other requirements, which may have an adverse effect on our brand equity, reputation or business.”

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Sales and Distribution

Wholesale

Domestically, we sell all of our brands' products through our own showrooms, as well as through independent sales representatives who may have their own showrooms. At our showrooms, retailers review the latest collections offered and place orders. The showroom representatives provide us with purchase orders from retailers and other customers they call upon.

We also sell our products internationally through distributors in various countries that are managed by us, through licensed stores and licensed distributors. As we develop the internal structure to support our international business, we continue to evaluate our options and review relationships in the marketplace to create a strategy to improve and grow international sales.

Consumer Direct

We also sell our products to consumers through our 30 Robert Graham® brand full-price retail stores and outlet stores, our Robert Graham® catalogs, our 2 SWIMS® brand outlet stores and our online ecommerce sites at www.hudsonjeans.com, www.robertgraham.us and www.swims.com.

Advertising, Marketing and Promotion

At all of our brands, we utilize highly effective marketing tools through our website, mobile application, email campaigns, search engines, affiliates, influencers and various other social media. We refresh our marketing daily to effect the most cutting edge changes in fashion and culture. We rely on these features, as well as the brand recognition criteria by our direct marketing activity, to draw customers to our distribution channels.

In addition, for our Hudson® brand, we utilize marketing campaigns including strategic placement of advertising in areas of high concentration of consumer traffic through outdoor media advertisements in Los Angeles, California and New York City, print and digital advertising with publications and on specialty online websites. We are increasing our efforts in social media advertising to encourage brand awareness and drive traffic to our ecommerce website at www.hudsonjeans.com. In addition, we utilize various public relations initiatives to strategically place our products in magazines, editorials, and working with stylists to place product on celebrities and influencers. We also have internal visual merchandisers who work with our customers to create the presentation of our products in their stores to enhance sales and bring the brand DNA to life.

In addition, for our Robert Graham® brand, our advertising is focused on areas of high traffic around our stand alone retail locations, in key zip codes, through short-term billboard advertisements, center publications, in center advertising stands, ads within hotel publications and websites that cater to the local marketplace for the purpose of increasing traffic into our stores and to our ecommerce website. We also use event driven marketing (hosted within our owned-retail footprint space) to drive traffic which involves thematic activations and experiences to entice new traffic in the door and retain our current customer base. Windows and in-store displays are merchandised to tell thematic stories aligning to key products and categories we are standing for as a brand in the season. Robert Graham also circulates approximately 700,000 catalogs annually mailed directly to customers' homes. The catalogs are also utilized for organic and localized prospecting efforts. We work with fashion stylists and celebrity agents to strategically place our products on celebrities for broadcast or within print publications as the opportunities arise. Our social channels also promote content stories that help drive brand awareness and traffic to the brand channels overall and invite a younger demographic to the brand. We also partner with our retailer partners through cooperative advertising programs to promote the brand, where we share the cost of advertising space. Finally, we forge partnerships for relevant brand adjacencies such as Barrett-Jackson, the car auction company and Concours d’elegance car shows, among other partnerships that correspond to our customers' lifestyle.

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For our SWIMS® brand, we engage with our customers in the U.S. and Norwegian direct markets via primary digital media channels, including Facebook and Instagram. In addition, we utilize public relations firms to strategically place our products in magazines and editorials and with stylists.

Store Operations

We have organized our retail store operations into geographic areas or districts that each have a district manager. District managers are responsible for several stores and monitor and supervise individual store managers. Each store manager is responsible for overseeing the daily operations of one of our stores. In addition to a store manager, the staff of a typical store includes a combination of some or all of the following positions: an assistant store manager and full and part-time sales associates.

An essential requirement for the success of our stores is our ability to attract, train and retain talented, highly motivated area managers, store managers and other key employees. In addition to management training programs for both newly hired and existing employees, we have a number of retention programs that offer qualitative and quantitative performance-based incentives to district-level managers, store managers and full-time sales associates.

Company Operations

Distribution

We utilize approximately 76,000 square feet and 35,000 square feet at two third party logistics facilities in New Jersey and California, respectively, to distribute merchandise to our domestic customers. Operations at these facilities include direct to consumer and wholesale fulfillment services, including inventory warehousing, receiving and customer shipping.

We utilize two third party logistics companies in Canada and Germany to support distribution to approximately one-third of our international customers. Operations at these facilities include wholesale fulfillment services, including inventory warehousing, receiving and customer shipping. Effective December 31, 2017, we terminated our agreement with the third party logistics company in Germany and changed our Hudson European distributor business model to a licensor model.

We also lease approximately 11,000 square feet and 26,000 square feet of space in two fulfillment and distribution facilities in China and Sweden, respectively. Operations at these facilities support distribution to the remaining two-thirds of our international customers and includes direct to consumer and wholesale fulfillment services, including inventory warehousing, receiving and customer shipping.

Information Systems

We recognize the need for high-quality information in order to manage merchandise planning, buying, and inventory management and control functions. Robert Graham has invested in a retail software package that meets its processing and reporting requirements. We utilize point-of-sale register systems connected by a secure data network to our home office. Our ecommerce channel, which includes our websites, maintains separate software systems that manage the merchandise and customer information for customer contact and fulfillment functions. In March 2017, we moved our Hudson website to a new platform which is expected to help us better manage and grow their ecommerce business. Our Wholesale segment uses a separately appropriate software system for customer service, order entry, production planning and inventory management.

Customers

Our products are sold to consumers through better department stores and boutiques located throughout the world and, for Robert Graham, through its catalog, website and its stores; for Hudson its website; and for SWIMS, its stores and websites.

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For our Hudson® brand, we currently sell to domestic department stores such as Nordstrom, Neiman Marcus, Saks Fifth Avenue, Von Maur, Lord & Taylor, Macy's Inc. (which includes Bloomingdale's and Macy's) and Belk stores and approximately 1,000 better specialty retailers, which include American Rag, Revolve Clothing, Shopbop and Amazon in the United States. We sell internationally to distributors, through a licensee subsequent to December 31, 2017, and our products can be found in major retailers in countries such as France, Japan, Italy, Germany, Russia, Spain, Sweden and Turkey. In addition, we also sell prior season or excess merchandise to off price retailers.

For our Robert Graham® brand, we currently sell to approximately 560 "doors" through domestic department stores including Bloomingdale's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Von Maur and specialty retailers, which include, Amazon, DXL/Casual Male, Patrick James and The Club in the United States. We sell internationally to a distributor in Canada and our products can be found in better major retailers. In addition, we sell prior season or excess merchandise to off price retailers.

For our SWIMS® brand, we currently sell to domestic department stores such as Bloomingdale's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, and approximately 300 better specialty retailers, which include Sid Mashburn, St. Bernard's Sports, Onward Reserve and The Breakers in the United States. We sell internationally directly in the Canadian and Norwegian market and through distributors and agents in countries such as UK, France, Italy, Germany, Spain, UAE and Saudi Arabia. In addition, we also sell prior season or excess merchandise to off price retailers.

The Hudson® website, www.hudsonjeans.com, the Robert Graham® website, www.robertgraham.us, and the SWIMS® website, www.swims.com, are currently key areas of brand growth and also promote and advance the image of the Hudson®, Robert Graham®, and SWIMS® brands. The sites allow customers to review and purchase online the latest collection of lifestyle fashion. We currently use both online and print advertising to create and reinforce brand awareness.

We do not enter into long term agreements with any of our customers. Instead, we receive individual purchase order commitments. A decision by the controlling owner of a group of stores or any other significant customer, including our limited number of private label customers, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, to change their manner of doing business with us, to cancel orders previously placed in advance of shipment dates or a decision to cease carrying our products could have a material adverse effect on our financial condition and results of operations. See "Part I, Item 1A. Risk Factors—A substantial portion of our net sales and gross profit is derived from a small number of large customers, and the loss of any of these large customers could have a material adverse effect on our financial condition and results of operations."

For fiscal 2017, the ten largest customers and customer groups for our business, in the aggregate, accounted for approximately 46 percent of our net sales. We believe that we would be able to find alternative customers or increase sales to our existing customer base to purchase our products in the event of the loss of any of these existing customers. During fiscal 2017, our largest customer, Nordstrom, Inc., represented the only customer that was over 10 percent of our net sales.

Seasonality of Business and Working Capital

Products are designed and marketed primarily for the following principal selling seasons: spring, summer, fall/back to school, winter/holiday and resort/cruise. Typically we have, approximately, a 12 to 14 week turnaround time between the time we book an order at a show and when we ship it. Our primary wholesale booking periods for the retail sales seasons are as follows:

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Hudson®

Retail Sales Season	Primary Booking Period
Spring	September November
Summer	November March
Fall/Back to School	February May
Winter/Holiday	June August

Robert Graham®

Retail Sales Season	Primary Booking Period
Spring	July September
Summer	October December
Fall/Back to School	January March
Resort/Cruises	April June

SWIMS®

Retail Sales Season	Primary Booking Period
Spring/Summer	July September
Cruise	December - January
Fall/Winter	January March

We have historically experienced, and expect to continue to experience seasonal fluctuations in our net sales. A significant amount of our net sales are realized during the third and fourth quarter when we ship orders taken during earlier months and during the Back-to-School and Holiday seasons. For fiscal 2017, we funded our liquidity needs through cash available under our financing agreements. In fiscal 2018, we plan to continue to fund our liquidity needs through cash from operations and cash available under our financing arrangements. If sales are materially different from seasonal norms, our annual operating results could be materially affected. Accordingly, our results for the individual quarters are not necessarily indicative of the results to be expected for the entire year. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for further discussion of our financing agreements and our liquidity position.

Credit and Collection

We currently extend credit to a majority of our larger customers, who purchase our products from us at wholesale prices. Our decision to extend credit is based on factors such as credit approval by CIT under our factoring arrangements, past credit history, reputation of creditworthiness within our industry and timelines of payments made to us. The majority of our accounts are guaranteed through credit insurance purchased through CIT. As such, we generally extend this credit without requiring collateral. A small percentage of our customers are required to pay by either cash before delivery, credit card or cash on delivery ("C.O.D."), which is also based on such factors as lack of credit history, reputation (or lack thereof) within our industry and/or prior payment history. For those customers to whom we extend credit, typical terms are net 30 to 60 days. Based on industry practices, financial awareness of the customers with whom we conduct business and business experience of our industry, our management exercises professional judgment in determining which customers will be extended credit. We are exposed to some collection risk for receivables which were factored with recourse where CIT did not accept the credit risk and receivables that were provided house credit. However, the aggregate amount of exposure is generally low and, therefore, we believe that the credit risk associated with our extension of credit is minimal. Retail and ecommerce sales carry no material credit risk as payment is tendered at or before product is taken or delivered by/ to the customer.

Backlog

Although we may, at any given time, have significant business booked in advance of ship dates, customers' purchase orders are typically filled and shipped within two to six weeks. As of December 31, 2017, we had future

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bookings of $30.1 million compared to $38.9 million as of December 31, 2016. The amount of outstanding customer purchase orders at a particular time is influenced by numerous factors, including the product mix, timing of the receipt and processing of customer purchase orders, shipping schedules for the product and specific customer shipping windows. Due to these factors, a comparison of outstanding customer purchase orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

Competition

The apparel industry in which we operate is fragmented and highly competitive in the United States and on a worldwide basis. We compete for consumers with a large number of apparel companies similar to ours. We do not hold a dominant competitive position, and our ability to sell our products is dependent upon the anticipated popularity of our designs and brand name, the price and quality of our products and our ability to meet our customers' delivery schedules. We believe the range of fits and uniqueness of our designs differentiates us from our competitors and we believe that we are competitive with companies producing goods of like quality and pricing. We believe that we can maintain our competitive position through new product development, creating product identity and brand awareness and competitive pricing. Many of our competitors may possess greater financial, technical and other resources, and the intense competition and the rapid changes in consumer preferences constitute significant risk factors in our operations. As we expand globally, we will continue to encounter additional sources of competition. See "Part I, Item 1A. Risk Factors—We face intense competition in the denim, footwear and premium lifestyle apparel industries. If we are unable to compete effectively, our business, financial condition and results of operations may be negatively impacted."

Import and Export Restrictions and Other Governmental Regulations

Transactions with our foreign manufacturers and suppliers are subject to the general risks of doing business abroad. Imports into the United States are affected by, among other things, the cost of transportation and the imposition of import duties and restrictions. The countries in which our products might be manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariff levels, which could affect our operations and our ability to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring. The enactment of any additional duties, quotas or restrictions could result in increases in the cost of our products generally and might adversely affect our sales and profitability.

Our import operations are subject to international trade agreements and regulations such as the North American Free Trade Agreement ("NAFTA") and other bilateral textile agreements between the United States and a number of foreign countries, including China, Hong Kong, India, Indonesia, Italy, Jordan, Korea, Morocco, Peru, Philippines, Portugal, Taiwan, Turkey and Vietnam. Some of these agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Such agreements also allow the United States to impose, at any time, restraints on the importation of categories of merchandise that, under the terms of the agreements, are not subject to specified limits. Some of our imported products are also subject to United States customs duties and, in the ordinary course of business, we are from time to time subject to claims by the United States Customs Service for duties and other charges. In addition, exports of our products to certain countries are subject to quotas, duties, tariffs or other restrictions that could result in increases in the cost of our products generally and might adversely affect our sales and profitability. For more information, see "Part I, Item 1A. Risk Factors—Risks Related to our Business and Industry—Potential changes in international trade relations implemented by the new U.S presidential administration could have a material adverse effect on our business, cash flows and operating results" and "Part I, Item 1A. Risk Factors—Risks Related to our Business and Industry—Problems with sourcing, along with the extent of our foreign sourcing, may adversely affect our business."

Employees

As of April 2, 2018, we have 421 total employees, which includes 247 full time, 161 part time employees and 13 temporary employees. Of our total employees, approximately 37% work in our Wholesale segment, 52% work in our Direct to Consumer segment, and the remaining 11% work in our Corporate and other segment. None of our employees are covered by a collective bargaining agreement, and we believe that our relationships with our employees are good.

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Manufacturing and Distribution Relationships

Our products are manufactured by contractors primarily located in the United States, Mexico, the United Kingdom, Peru, and Asia, including Hong Kong, China, India, Jordan, and Vietnam. Our products are distributed out of California, New Jersey, Canada, Germany, China, Sweden, or directly from the factory to the customer. The following table represents the percentage of products manufactured in the various countries or on the geographic continent as a percentage of all products manufactured during the fiscal year.

	2017		2016	
Asia	39	%	39	%
United States	33	%	30	%
Mexico	25	%	28	%
Europe	2	%	1	%
Other	1	%	2	%
	100	%	100	%

Available Information

Our primary corporate website address is www.differentialbrandsgroup.com. We make available on or through our website, without charge, our Annual Report, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. Additionally, we routinely post additional important information including press releases, investor presentations and notices of upcoming events, under the "Investor Relations" section of our website and we recognize our website as a channel of distribution to reach public investors and as a means of disclosing material non public information for complying with disclosure obligations under SEC Regulation FD. Investors may be notified of postings to the website by signing up for email alerts. Although we maintain a website at www.differentialbrandsgroup.com, the information contained on or that can be accessed through our website is not incorporated by reference into this Annual Report. In addition, any materials filed with, or furnished to, the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or viewed on line at www.sec.gov. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1 800 SEC 0330.

Executive Officers and Directors

The following table sets forth certain information regarding our executive officers and directors as of April 2, 2018:

Executive Officers

Name	Age	Position
Michael Buckley	54	Chief Executive Officer and Director of the Company (Principal Executive Officer)
Bob Ross	49	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Peter Kim	47	Founder and Vice Chairman of Hudson subsidiary

Michael Buckley has served as Chief Executive Officer and a member of our Board of Directors since January 2016. Prior to the RG Merger, Mr. Buckley served as Chief Executive Officer of Robert Graham since June 2011. From 2006 to 2010, Mr. Buckley served as the President of True Religion Apparel Inc. From 2001 to 2005, Mr. Buckley served as President and Chief Executive of North American operations for the Ben Sherman Group. From 1996 to 2001, Mr. Buckley served as Vice President of Diesel USA, a retail apparel company, where he oversaw all U.S. based retail and financial operations of Diesel® Jeans U.S.A.

Bob Ross has served as our Chief Financial Officer since January 2017. From October 2013 until October 2016,

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Mr. Ross served as Chief Financial Officer of Nasty Gal, Inc. From April 2010 to January 2013, Mr. Ross served as Chief Financial Officer at Ideeli Inc. From October 1997 to December 2009, Mr. Ross held various financial and operational executive roles at Urban Outfitters.

Peter Kim has served as the Chief Executive Officer of our Hudson subsidiary since its acquisition by us in September 2013 until June 2017 and presently serves as Founder and Vice Chairman of our Hudson subsidiary. Mr. Kim founded Hudson and has been a member of its board of directors since 2002 and was its Chief Executive Officer until June 2017.

Board of Directors

For more information on our board of directors, see "Part III, Item 10. Directors, Executive Officers and Corporate Governance."

ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward looking statements contained in this Annual Report. Any of the following risks could materially adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward looking statements are made in this Annual Report.

Risks Related to our Business and Industry

We face intense competition in the denim, footwear and premium lifestyle apparel industries. If we are unable to compete effectively, our business, financial condition and results of operations may be negatively impacted.

We face a variety of competitive challenges from other domestic and foreign fashion oriented apparel producers, some of whom may be significantly larger and more diversified and have greater financial and marketing resources than we have. We do not currently hold a dominant competitive position in any market. We compete primarily on the basis of:

- anticipating and responding to changing consumer demands in a timely manner,
- maintaining favorable brand recognition,
- developing innovative, high quality products in sizes, colors and styles that appeal to consumers,
- appropriately pricing products,
- providing strong and effective marketing support,
- creating an acceptable value proposition for retail customers,
- ensuring product availability and optimizing supply chain efficiencies with manufacturers and retailers, and
- obtaining sufficient retail floor space and effective presentation of our products at retail.

Furthermore, some of our competitors are larger and may have resources available to them that we do not have or are privately held without the restraint of a public company and with limited reporting of their results of operations. Therefore, it may be difficult for us to effectively gauge consumer response to our products and how our products are competing with these and other competitors in the marketplace. Our brands also compete against brands sold by e-commerce companies, which are able to quickly adapt to consumer demands and are generally subject to lower operating costs than traditional brick-and-mortar retailers. We cannot be certain that we will be able to compete successfully

against current and future competitors, or that competitive pressure will not have a material adverse effect on our business, financial condition or results of operations.

Our business depends on a strong brand image, and if we are not able to maintain or enhance our brand, particularly in new markets where we have limited brand recognition, we may be unable to sell sufficient quantities of our merchandise, which would harm our business and cause our results of operations to suffer.

Maintaining and enhancing our brands is critical to maintaining and expanding our customer base, and requires us to make substantial investments in areas such as visual merchandising, marketing and advertising, employee training and store operations. We anticipate that, as our business expands into new markets and new product classifications and further penetrates existing markets, and as the markets in which we operate become increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Certain of our competitors in the apparel industry have faced adverse publicity surrounding the quality, attributes and performance of their products. Our brand may similarly be adversely affected if our public image or reputation is tarnished by failing to maintain high standards for merchandise quality and integrity. Any negative publicity about these types of concerns may reduce demand for our merchandise. Maintaining and enhancing our brand will depend largely on our ability to be a leader in the contemporary apparel industry and to continue to provide high quality products. If we are unable to maintain or enhance our brand image, our results of operations may suffer and our business may be harmed.

We have a significant amount of indebtedness, which could adversely affect our financial performance and impact our ability to service our indebtedness. In addition, we may require additional capital to finance our growth strategy, and our inability to raise such capital on commercially acceptable terms or at all could limit our growth.

After giving effect to the RG Merger and related Merger Transactions, the acquisition of SWIMS, and the incurrence of indebtedness in connection therewith, we have approximately $96.5 million in indebtedness, including $68.6 million of indebtedness under the New Credit Agreements and $27.6 million of indebtedness under the Modified Convertible Notes and SWIMS Convertible Note. In January 2018, the outstanding balance of the SWIMS Convertible Note of $13.8 million, together with any accrued and unpaid interest thereon, converted into 4,587,964 shares of Series A-1 Preferred Stock

If we incur additional debt, the risks associated with our leverage, including the risk that we will be unable to service our debt obligations, will increase. The degree to which we, together with our subsidiaries, are leveraged or incur additional debt could have important consequences to our ability to meet debt obligations. For example, the degree of our consolidated leverage:

- may limit our ability to obtain additional financing for working capital, capital expenditures or general corporate purposes, particularly if, as discussed further in the following risk factors, (1) the ratings assigned to our debt securities by nationally recognized credit rating organizations are revised downward or (2) we seek capital during periods of turbulent or unsettled market conditions;
- may require us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal on our debt, reducing the funds available to us for other purposes, including acquisitions, capital expenditures, marketing and other growth initiatives;
- may increase our future borrowing costs;
- may limit our flexibility to adjust to changing business and market conditions and make us more vulnerable to a downturn in general economic conditions as compared to our competitors;
- may put us at a competitive disadvantage to competitors that are not as leveraged;
- may increase the risk that third parties will be unwilling or unable to engage in hedging or other financial or commercial arrangements with us;

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- may increase the risk that we will need to sell securities or assets, possibly on unfavorable terms, or take other unfavorable actions to meet payment obligations; or
- may increase the risk that we will not meet the financial covenants contained in our current or future debt agreements or timely make all required debt payments.

Our ability to make cash payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate significant operating cash flow in the future. This ability is, to a significant extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that will be beyond our control.

Our business may not generate sufficient cash flow from operations to enable us to pay our indebtedness or to fund our other liquidity needs. In any such circumstance, we may need to refinance all or a portion of our indebtedness, on or before maturity. We may not be able to refinance any indebtedness on commercially reasonable terms or at all. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions and investments. Any such action, if necessary, may not be effected on commercially reasonable terms or at all. The instruments governing our indebtedness may restrict our ability to sell assets and our use of the proceeds from such sales.

In addition, we may, in the future, require additional capital to help fund our growth strategy, including potential acquisitions and investments. If we do not have sufficient cash to finance those additional capital needs at the time required, we will need to raise additional funds through equity and/or debt financing. When such additional financing is needed, we cannot guarantee that such financing will be available to us on commercially acceptable terms or at all. In addition, our ability to obtain additional financing is limited by the terms of the agreements governing our secured indebtedness and in some cases requires the consent of our lenders. For a description of certain limitations related to the operation of our business contained in such agreements, see the immediately following risk factor. If additional capital is needed and is either unavailable or cost-prohibitive, our growth may be limited as we may need to alter our business strategy and/or forgo consummating such acquisitions or making such investments, or divest one or more of our existing brands. In addition, any additional funding may restrict our operating flexibility by imposing additional covenants upon us. Furthermore, the issuance of additional equity securities may dilute the ownership or voting rights of our existing stockholders, or the new securities may have rights senior to those of our common stock.

The agreements governing our secured indebtedness contain restrictive covenants that may limit our operational flexibility. Furthermore, if we default on our obligations under such agreements, our operations may be interrupted and our business and financial results could be adversely affected.

The agreements governing our secured indebtedness restrict our ability to, among other things: incur indebtedness; create liens; consolidate, merge, liquidate or dissolve; sell, lease or otherwise transfer any assets; substantially change the nature of the business; make investments or acquisitions; pay dividends; enter into transactions with affiliates; amend material documents, prepay indebtedness and make capital expenditures. Such agreements also require us to comply with various financial maintenance covenants to be tested monthly and quarterly depending on the definitions. In addition, substantially all of our assets, including our trademarks, secure our obligations under such agreements. For more information, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Agreements and Other Financing Arrangements.”

The restrictive covenants contained in the agreements governing our secured indebtedness and the degree to which we are leveraged could have important consequences to our shareholders, including, but not limited to, potentially:

- reducing our flexibility to respond to changing business and economic conditions, thereby placing us at a competitive disadvantage compared to competitors that have less indebtedness;
- making us more vulnerable to general adverse economic and industry conditions and changes in our business;

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- increasing borrowing costs and limiting our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions or general corporate requirements;
- requiring the dedication of a larger portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including working capital, capital expenditures and general corporate purposes;
- restricting us from making strategic acquisitions or causing us to make non strategic divestitures; and
- making it more difficult for us to repay, refinance, or satisfy our obligations with respect to our debt.

In addition, any failure by us to comply with the various covenants could have material adverse consequences. Such noncompliance may result in our inability to borrow under such agreements, which we utilize to access our working capital, and as a result may adversely affect our ability to finance our operations or pursue any expansion plans. An event of default under such agreements could also result in the acceleration of all of our indebtedness. If the financing under our material indebtedness becomes due and payable, we may be required to refinance, restructure, or otherwise amend some or all of such obligations, sell assets, or raise additional cash through the sale of our equity. We cannot make any assurances that we would be able to obtain such refinancing in a timely manner, on favorable terms or at all, or that such restructuring activities, sales of assets, or issuances of equity can be accomplished or, if accomplished, would raise sufficient funds to meet these obligations. Additionally, upon the occurrence of an "event of default" under such agreements, all of our assets could be subject to liquidation by the creditors, which liquidation could result in no assets being left for our stockholders until the creditors receive their required payment.

Our success will further depend on implementing a shift in Hudson's denim production from primarily domestic production to foreign production and customer reception to Hudson producing non United States denim products.

The Hudson® brand has historically produced substantially all of its denim apparel in Los Angeles, California. Our ability to improve operational efficiencies and profitability will depend in part upon the successful implementation of shifting all or substantially all of Hudson's® denim production to Asia, Mexico, Turkey and other foreign countries to achieve better production costs and margin improvement. There are risks and uncertainties when undertaking large scale changes in denim production and sourcing, particularly in a foreign country. In addition, Hudson® has a loyal customer following of its U.S. produced denim products. There can be no assurances that such a large scale move of production will not affect the fit, quality or construction or timely deliveries to retailers of our Hudson® branded denim or that we may experience negative reaction from the Hudson® customer base and negative reception for denim not produced in the United States.

Problems with sourcing, along with the extent of our foreign sourcing, may adversely affect our business.

We primarily source our products from independent manufacturing contractors, which create, sell or procure our products for us. A manufacturing contractor's failure to ship products to us in a timely manner or to meet the required quality standards could cause us to miss the delivery date requirements of our customers for those items. The failure to make timely deliveries may cause customers to cancel orders, refuse to accept deliveries or demand reduced prices, any of which could have a material adverse effect on us.

Additionally, as a result of the magnitude of our foreign sourcing, our business is subject to certain risks, including:

- political and economic instability in countries or regions, including heightened terrorism and other security concerns, which could subject imported or exported goods to additional or more frequent inspections, leading to delays in deliveries or impoundment of goods;
- labor union strikes at ports through which our products enter the United States;

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- labor shortages in countries where contractors and suppliers are located;
- a significant decrease in availability or an increase in the cost of raw materials;
- changes in tariffs, quotas, duties, taxes, charges on imports, fund transfers and other regulations imposed by foreign countries or by the United States;
- disease epidemics and health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials, and scrutiny or embargoing of goods produced in infected areas;
- the migration and development of manufacturing contractors, which could affect where our products are or planned to be produced;
- increases in the costs of fuel, travel and transportation;
- reduced manufacturing flexibility because of geographic distance between our foreign manufacturers and us, increasing the risk that we may have to mark down unsold inventory as a result of misjudging the market for a foreign made product; and
- violations by foreign contractors of labor and wage standards and resulting adverse publicity.

If these risks limit or prevent us from manufacturing products in any significant international market, prevent us from acquiring products from foreign suppliers, or significantly increase the cost of our products, our operations could be seriously disrupted until alternative suppliers are found or alternative markets are developed, which could negatively impact our business.

We do not have written agreements with any of our third party manufacturing contractors. As a result, any single manufacturing contractor could unilaterally terminate its relationship with us at any time. Supply disruptions from any of our third party manufacturing contractors could have a material adverse effect on our ability to meet customer demands, if we are unable to source suitable replacement materials in a timely manner, at acceptable prices or at all. Our inability to promptly replace manufacturing contractors that terminate their relationships with us or cease to provide high quality products in a timely and cost efficient manner could have a material adverse effect on our business, financial condition and operating results.

Potential changes in international trade relations implemented by the U.S presidential administration could have a material adverse effect on our business, cash flows and operating results.

Our products are primarily produced by, and purchased or procured from, independent manufacturing contractors, many of whom are located outside of the United States, such as Mexico, Italy, Peru, and Asia, including Hong Kong, China, India, Jordan, and Vietnam. For fiscal 2017, approximately 67 percent of total purchases for our brands was attributable to manufacturing contractors located outside of the United States, with approximately 25 percent of purchases attributable to manufacturing contractors located in Mexico and approximately 39 percent of purchases attributable to manufacturing contractors located in Asia, including India.

Due to these high levels of foreign sourcing, our import operations are subject to international trade regulations, including import charges, and free trade agreements such as the North American Free Trade Agreement (“NAFTA”) and other bilateral textile agreements among the United States and its trading partners, including China. U.S. President Donald J. Trump, certain members of Congress and other U.S. officials have indicated that they may advocate and/or enact key policy shifts in diplomatic and commercial relations among the United States and other countries where our manufacturing contractors are found. These include the renegotiation of proposed and existing trade agreements like NAFTA, the implementation of border taxes or other measures affecting the level of U.S.-Mexican trade, a reduction in trade with China, the raising of tariffs on Chinese imports and a reversal of the long-standing position that Taiwan is part of “one China.”

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It remains unclear what President Trump's administration may do with respect to these trade agreements and other restrictive measures, and we cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the United States or other countries upon the import or export of our products in the future. President Trump has recently announced plans to impose tariffs on certain imports, and it is unclear what effects such tariffs (including any retaliatory tariffs imposed by other countries on U.S. exports) would have on retail markets. If the United States were to withdraw from or materially modify NAFTA, or other international trade agreements to which it is a party, or if tariffs or other import charges were raised on foreign-sourced goods that we sell, it could substantially affect our ability to source goods at commercially attractive prices, thus having a material adverse effect on our business and results of operations. Increased restrictions on fund transfers to or from foreign countries and quotas imposed by bilateral textile agreements between the United States and foreign countries could also hurt the economic viability of our foreign sourcing or cause our foreign counterparties to terminate their relationships with us, thus increasing our cost of goods sold or exposing us to additional capital expenses if we must find replacement manufacturing contractors or repatriate certain production to the United States. Changes in regulatory or geopolitical policies and other factors may adversely affect our business in the future or may require us to modify our current business practices.

Problems with the third party distribution system could harm our ability to meet customer expectations, manage inventory, complete sales and achieve targeted operating efficiencies.

The Hudson®, Robert Graham®, and SWIMS® brands rely on distribution facilities operated by third parties. Our ability to meet the needs of our wholesale partners and our own retail stores depends on the proper operation of these distribution facilities. These third parties will continue to provide distribution services until we elect to terminate such services. There can be no assurance that we will be able to enter into other contracts for alternate or replacement distribution centers on acceptable terms or at all. Such an event could disrupt our operations. In addition, because substantially all of our products are distributed from a limited number of locations, our operations could also be interrupted by labor difficulties, or by floods, fires, earthquakes or other natural disasters near such facilities. We maintain business interruption insurance; however, this coverage may not adequately protect us from the adverse effects that could result from significant disruptions to our distribution system. If we encounter problems with our distribution system, our ability to meet customer expectations, manage inventory, complete sales and achieve targeted operating efficiencies could be harmed. Any of the foregoing factors could have a material adverse effect on our business, financial condition and operating results.

We face risks associated with constantly changing fashion trends, including consumer response to and demand for our products. If we are unable to adapt to changing fashion trends as to our existing or new products, our business and financial condition could be adversely affected.

Our success depends on our ability to anticipate, gauge and respond to changing consumer demand and fashion trends in a timely manner, both as to existing products and as to other product classifications we may initiate. Any failure on our part to anticipate, identify and respond effectively to changing consumer demands and fashion trends could adversely affect the acceptance of our existing or new products and leave us with a substantial amount of unsold inventory or missed opportunities in the marketplace. If that occurs, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow moving inventory, which may negatively affect our ability to achieve profitability. At the same time, a focus on tight management of inventory may result, from time to time, in our not having an adequate supply of products to meet consumer demand and may cause us to lose sales.

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We attempt to minimize our risk associated with delivering items through early order commitments by retailers. We generally place production orders with manufacturers before we have received all of a season's orders and orders may be cancelled by retailers before shipment. Therefore, if we fail to anticipate accurately and respond to consumer preferences, we could experience lower sales, excess inventories or lower profit margins, any of which could have a material adverse effect on our results of operations and financial condition.

We are subject to risks associated with leasing retail space, are generally subject to long term non cancelable leases and are required to make substantial lease payments under our operating leases, and any failure to make these lease payments when due would likely harm our business, profitability and results of operations.

We do not own any of our retail stores, but instead lease all of our retail stores under retail store leases and are subject to all of the risks associated with leasing real estate. Our leases generally have terms of 10 years with an option to renew. The leases are generally terminable after three to five years, and all leases have restrictions in connection with assigning or subletting them. All of our leases require a fixed annual rent, and most require the payment of additional "percentage" rent if store sales exceed a negotiated amount. Most of the retail store leases are "net" leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. Additionally, certain of the leases may allow the lessor to terminate the lease or not renew if we do not achieve a specified gross sales threshold in a particular year. We cannot assure you that we will achieve any of these thresholds. Any loss of our store locations due to underperformance may harm our results of operations, stock price and reputation.

Additional sites that we lease are likely to be subject to similar long term leases. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term if we cannot negotiate a mutually acceptable termination payment. In addition, as our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations. If we are unable to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for stores that we close, our business, profitability and results of operations may be harmed.

Our ability to attract customers to our stores depends heavily on successfully placing our stores in suitable locations and any impairment of a store location, including any decrease in customer traffic, could cause our sales to be less than expected.

Our approach to identifying locations for our retail stores typically favors street and mall locations near premium and contemporary retailers that we believe are consistent with our key customers' demographics and shopping preferences. Sales at these stores are derived, in part, from the volume of foot traffic in these locations. Changes in areas around our existing retail locations that result in reductions in customer foot traffic or otherwise render the locations unsuitable could cause our sales to be less than expected and the related leases are generally non cancelable. Store locations may become unsuitable due to, and our sales volume and customer traffic generally may be harmed by, among other things:

- economic downturns in a particular area;
- competition from nearby retailers selling similar apparel;
- changing consumer demographics in a particular market;
- changing preferences of consumers in a particular market;
- the closing or decline in popularity of other businesses located near our store; and
- store impairments due to acts of God, natural disasters, climate change or terrorism.

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Our ability to successfully open and operate new retail stores depends on many factors, including, among others, our ability to:

- identify new markets where our products and brand image will be accepted or the performance of our retail stores will be successful;
- obtain desired locations, including store size and adjacencies, in targeted malls or streets;
- negotiate acceptable lease terms, including desired rent and tenant improvement allowances, to secure suitable store locations;
- achieve brand awareness, affinity and purchase intent in the new markets;
- hire, train and retain store associates and field management;
- assimilate new store associates and field management into our corporate culture;
- source and supply sufficient inventory levels; and
- successfully integrate new retail stores into our existing operations and information technology systems.

As of April 2, 2018, we had 30 Robert Graham® brand stores, which consisted of 18 full price stores and 12 outlet stores, and two SWIMS® brand outlet stores. Lack of availability, of desired store locations, delays in the acquisition or opening of new stores, delays or costs resulting from a decrease in commercial development due to capital restraints, difficulties in staffing and operating new store locations or a lack of customer acceptance of stores in new market areas may negatively impact our new store growth and the costs or the profitability associated with new stores. There can be no assurance that we will open new stores in fiscal 2018 or thereafter. Any failure to successfully open and operate new stores may adversely affect our business, financial condition and operating results.

We may be unable to grow comparable store sales or average sales per square foot in our retail stores, which could cause our share price to decline.

We may not be able to grow our comparable store sales or average sales per square foot in our retail stores. If our future comparable store sales or average sales per square foot decline or fail to meet market expectations, the price of our common stock could decline. In addition, the aggregate results of operations through our wholesale partners and at our retail locations have fluctuated in the past and can be expected to continue to fluctuate in the future. The continued operation of our retail locations depends on our ability to hire, train and retain associates and field management. A variety of factors affect both comparable store sales and average sales per square foot, including, among others, consumer spending patterns, fashion trends, competition, current economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our product assortment, the success of marketing programs and weather conditions. If we misjudge the market for our products, we may incur excess inventory for some of our products and miss opportunities for other products. These factors may cause our comparable store sales results and average sales per square foot in the future to be materially lower than recent periods or our expectations, which could harm our results of operations and result in a decline in the price of our common stock.

Uncertain economic conditions in the United States and other parts of the world can affect consumer confidence and consumer spending patterns and our business could be negatively impacted by the financial health of our retail customers.

The economy in the United States and abroad continues to be in the midst of uncertainty. The apparel industry has historically been subject to cyclical variations, recessions in the general economy or uncertainties regarding future economic prospects that affect consumer spending habits which could negatively impact our business overall, the carrying value of our tangible and intangible assets, sales, gross margins and profitability.

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Our business depends on the general economic environment and levels of consumer spending that affect not only the ultimate consumer, but also retailers, our largest direct customers. Purchases of high fashion apparel and accessories tend to decline in periods of recession or uncertainty regarding future economic prospects, when consumer spending, particularly on discretionary items, and disposable income decline. Many factors affect the level of consumer spending in the apparel industry, including, among others: prevailing economic conditions, levels of employment, salaries and wage rates, energy costs, interest rates, the availability of consumer credit, taxation and consumer confidence in future economic conditions. During periods of recession or economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new retail stores, or maintain or improve our earnings from operations as a percentage of net sales.

In addition, we sell our products primarily to retail and distribution companies in the U.S., Canada and Europe based on pre qualified payment terms. Financial difficulties of a customer could cause us to curtail business with that customer. We may also assume more credit risk relating to that customer's receivables. We are dependent primarily on lines of credit that we establish from time to time with customers, and should a substantial number of customers become unable to pay to us their respective debts as they become due, we may be unable to collect some or all of the monies owed by those customers. In particular, because of the concentration of our customer and customer groups, our results of operations could be adversely affected if any one of these customers fails to satisfy its payment obligations to us when due.

In recent years, the retail industry has experienced consolidation, restructurings, reorganizations and other ownership changes that have resulted in one entity controlling several different stores or the elimination of stores. This consolidation can result in fewer customers for our products or the closing of some stores or the number of "doors" which carry our products. As a result, the potential for consolidation or ownership changes, closing of retail outlets and fewer customers could negatively impact sales of our products and have a material adverse effect on our financial condition and results of operations.

Economic conditions have also led to a highly promotional environment and strong discounting pressure from both our wholesale partners and retail customers, which could lead to a negative impact on our revenues and profitability. This promotional environment may continue even after economic growth returns, as we expect consumer spending trends are expected to remain at historically depressed levels for the foreseeable future. The domestic and international political situation also affects consumer confidence. The threat, outbreak or escalation of terrorism, military conflicts, civil unrest or other hostilities around the world could lead to further decreases in consumer spending.

A substantial portion of our net sales and gross profit is derived from a small number of large customers, and the loss of any of these large customers could have a material adverse effect on our financial condition and results of operations.

Our business is substantially dependent on its 10 largest customers and customer groups, which accounted for approximately 46 percent and 48 percent of net sales during fiscal 2017 and 2016, respectively. The largest customer for our business, Nordstrom, Inc., accounted for 15 percent and 18 percent of our net sales in fiscal 2017 and 2016, respectively. We do not enter into any type of long term agreements or firm commitment orders with any of our customers. Instead, we enter into a number of individual purchase order commitments with our customers. Although we reasonably believe that we would be able to find alternative customers or increase sales to our existing customer base to purchase our products in the event of the loss of any of these existing customers, the loss of a customer could have a material adverse effect on our business. A decision by the controlling owner of a group of stores or any other significant customer, including our limited number of private label customers, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, to change their manner of doing business with us, to cancel orders previously placed in advance of shipment dates or a decision to cease carrying our products could have a material adverse effect on our financial condition and results of operations.

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Our plans to improve and expand our product offerings may not be successful, and the implementation of these plans may divert our operational, managerial and administrative resources, which could harm our competitive position and reduce our net revenue and profitability.

We plan to grow our business by increasing our core product offerings, which includes expanding our Hudson® brand, Robert Graham® brand, and SWIMS® brand product collection, including into new product classifications. We will continue to evaluate our plan to develop and introduce select new product categories and pursue select additional licensing opportunities in other categories.

If our expected product offerings fail to maintain and enhance our brand identity, our image may be diminished or diluted. The expansion into new products and classifications may require the establishment of new sourcing relationships, increasing our sourcing risk. See "Risk Factors—Problems with sourcing, along with the extent of our foreign sourcing, may adversely affect our business." As we expand our licensing activities, we increase risks associated with having a limited ability to conduct comprehensive final quality checks on merchandise, which could affect product quality.

In addition, our ability to successfully carry out our plans to improve and expand our product offerings may be affected by economic and competitive conditions, changes in consumer spending patterns and changes in consumer preferences and style trends. These plans could be abandoned, could cost more than anticipated and could divert resources from other areas of our business, any of which could impact our competitive position and reduce our net sales and profitability.

Our licensing arrangements may not be successful and may make us susceptible to the actions of third parties who may not comply with our product quality, manufacturing standards, marketing and other requirements, which may have an adverse effect on our brand equity, reputation or business.

We license our Hudson® brand to third parties for manufacturing, marketing and distribution of children's products. Additionally, on June 8, 2017, Hudson entered into a licensing agreement for the production and distribution of Hudson® product in the European Union and Switzerland. We also license trademarks associated with our Robert Graham® brand to third parties for manufacturing, marketing and distribution of apparel and accessories. We believe that licensing our brands for certain product categories and in certain geographic areas will broaden and enhance the products available under these brand names.

Our licensing arrangements may not be successful and may make us susceptible to the actions of third parties over whom we have limited control. We have also entered into certain license agreements for our Robert Graham® brand in the following categories: men's dress shirts, neckwear, tailored clothing, hosiery, leather goods (including bags and belts and small leathers), sun and optical eyewear, headwear, jewelry, footwear, underwear and loungewear and fragrances. In the future, we may enter into select additional licensing arrangements for product offerings which require specialized expertise. We may also enter into select licensing agreements pursuant to which we may grant third parties the right to distribute and sell our products in certain additional geographic areas.

Although we have taken and will continue to take steps to select potential licensing partners carefully and to monitor the activities of our licensing partners (through, among other things, approval rights over product design, production quality, packaging, merchandising, marketing, distribution and advertising), such arrangements may not be successful. Our licensing partners may fail to fulfill their obligations under their license agreements or have interests that differ from or conflict with our own, such as the pricing of our products and the offering of competitive products. In addition, the risks applicable to the business of our licensing partners may be different than the risks applicable to our business, including risks associated with each such partner's ability to:

- obtain capital;
- exercise operational and financial control over its business;
- manage its labor relations;

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- maintain relationships with suppliers;
- manage its credit and bankruptcy risks; and
- maintain customer relationships.

Any of the foregoing risks, or the inability of any of our licensing partners to successfully market our products or otherwise conduct the licensing partners’ business, may result in loss of revenue and competitive harm to our operations and reputation in regions or product categories where we have entered into such licensing arrangements.

If we are unable to accurately forecast customer demand for our products, our manufacturers may not be able to deliver products to meet our requirements, and this could result in delays in the shipment of products to our stores and to wholesale customers.

We stock our stores, and provide inventory to our wholesale customers, based on our wholesale customers’ estimates of future demand for particular products. Our inventory management and production planning teams determine the number of pieces of each product that we will order from our manufacturers based upon past sales of similar products, sales trend information and anticipated demand at our suggested retail prices. However, if our inventory and planning team fails to accurately forecast customer demand, we may experience excess inventory levels or a shortage of products. There can be no assurance that we will be able to successfully manage our inventory or production at a level appropriate for future customer demand.

Factors that could affect our inventory management and production planning teams’ ability to accurately forecast customer demand for our products include:

- a substantial increase or decrease in demand for our products or for products of our competitors;
- our failure to accurately forecast customer acceptance for our new products;
- new product introductions or pricing strategies by competitors;
- more limited historical store sales information for our newer products and markets;
- weakening of economic conditions or consumer confidence in the future; and
- acts or threats of war or terrorism or civil unrest which could adversely affect consumer confidence and spending or our international sales.

If we were to experience rapid growth, we may place insufficient levels of desirable product with our wholesale customers and in our retail locations such that we would be unable to fully satisfy customer demand at those locations. We cannot guarantee that we will be able to match supply with demand in all cases in the future, whether as a result of our inability to produce sufficient levels of desirable product or our failure to forecast demand accurately. As a result of these inabilities or failures, we may encounter difficulties in filling customer orders or in liquidating excess inventory at discount prices and may experience significant write offs. Additionally, if we over produce a product based on an aggressive forecast of demand, retailers may not be able to sell the product and cancel future orders or require returns or markdown allowances. These outcomes could have a material adverse effect on our brand image and adversely impact sales, gross margins and profitability.

If we are unable to manage our operations at our current size or are unable to manage any future growth effectively, our business results and financial performance may suffer.

We have made and are making investments to support our near and longer term growth. If our operations continue to grow over the longer term, of which there can be no assurance, we will be required to expand our sales and

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marketing, product development and distribution functions, to upgrade our management information systems and other processes, and to obtain more space for our expanding administrative support and other headquarters personnel. The integration of our Hudson Business, our Robert Graham Business, and our SWIMS Business could strain our existing resources. As a result, we could experience operating difficulties, including obtaining sufficient raw materials at acceptable prices, securing manufacturing capacity to produce our products and experiencing delays in production and shipments. These difficulties would likely lead to a decrease in net revenue, income from operations and the price of our common stock, and such decreases could be significant.

Our business could suffer as a result of a manufacturer's inability to produce our goods on time and to our specifications or if we need to replace manufacturers.

We do not own or operate any manufacturing facilities and therefore depend upon independent third parties for the manufacture of all of our products. We enter into a number of purchase order commitments each season specifying a time for delivery, method of payment, design and quality specifications and other standard industry provisions, but do not have long term contracts with any manufacturer. None of the manufacturers we use produces our products exclusively. The inability of a certain manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on our financial condition and results of operations. Because of the seasonality of our business, and the apparel and fashion business in particular, the dates on which customers need and require shipments of products from us are critical, as styles and consumer tastes change rapidly in the apparel and fashion business. Further, because quality is a leading factor when customers and retailers accept or reject goods, any decline in quality by our third party manufacturers could be detrimental not only to a particular order, but also to our future relationship with that particular customer.

We compete with other companies for the production capacity of our manufacturers. Some of these competitors have greater financial and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if an existing manufacturer of ours must be replaced, we may have to expand our third party manufacturing capacity. We cannot provide assurance that this additional capacity will be available when required on terms that are acceptable to us or similar to any existing terms which we have with our manufacturers, either from a production standpoint or a financial standpoint.

If an independent manufacturer of ours fails to use acceptable labor practices, our business could suffer.

While we require our independent manufacturers to operate in compliance with applicable laws and regulations, we have no control over the ultimate actions of our independent manufacturers. Despite our lack of control, we have internal and vendor operating guidelines to promote ethical business practices and our staff periodically visits and monitors the operations of our independent manufacturers. We also use the services of a third party independent labor consulting service to conduct on site audits where required by state labor laws to help minimize our risk and exposure to unacceptable labor practice violations. The violation of labor or other laws by one of our independent manufacturers or the divergence of an independent manufacturer's labor practices from those generally accepted as ethical in the United States, could interrupt or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. In particular, the laws governing garment manufacturers in the State of California impose joint liability upon us and our independent manufacturers for the labor practices of those independent manufacturers. As a result, should one of our independent manufacturers be found in violation of California labor laws, we could suffer adverse financial or other unforeseen adverse consequences.

Increases in the price of raw materials or their reduced availability could increase our cost of goods and decrease our profitability.

The principal fabrics used in our business are cotton, blends, synthetics and wools. The prices we pay our suppliers for our products are dependent in part on the market price for the raw materials—primarily cotton—used to produce them. The price and availability of cotton may fluctuate substantially, depending on a variety of factors,

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including demand, crop yields, weather, supply conditions, transportation costs, work stoppages, government regulation, economic climates and other unpredictable factors. Increases in raw material costs, together with other factors, could result in a decrease of our profitability unless we are able to pass higher prices on to our customers. Moreover, any decrease in the availability of cotton could impair our ability to meet our production requirements in a timely manner, which could adversely affects our revenues and working capital requirements.

We are dependent on our relationships with our vendors.

We purchase our raw materials, including fabric, yarns, threads and trims, such as zippers, buttons and tags from a variety of vendors. While we are not reliant exclusively on one or more particular vendor for the supply of the raw materials or component parts required to meet our manufacturing needs, we depend on our relationships and these vendors to ensure our supply of these raw materials or component parts. Any problems or disputes with these vendors could result in us having to source these raw materials or component parts from another vendor, which could delay production, and in turn have a material adverse effect on our financial condition and results of operations.

Our trademark and other intellectual property rights may not be adequately protected and some of our products are targets of counterfeiting.

We believe that our trademarks and other proprietary rights are important to our success and our competitive position. We may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks as we expand our product offerings and expand the number of countries where we sell our products. We cannot ensure that any actions taken to establish and protect these trademarks and other proprietary rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of their trademarks and proprietary rights. Also, we cannot assure that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States.

Our products are sometimes the target of counterfeiters. As a result, there are often products that are imitations or “knock offs” of our products that can be found in the marketplace or consumers can find products that are confusingly similar to ours. We intend to continue to vigorously defend our trademarks and products bearing our trademarks, however, we cannot assure you that our efforts will be adequate to prosecute and block all sales of infringing products from the marketplace.

Any potential future acquisitions, strategic investments or mergers may subject us to significant risks, any of which may harm our business and may lead to substantial dilution or negative effects on the market price of our common stock.

Our strategy includes identifying and acquiring, investing in or merging with suitable candidates on acceptable terms in order to grow or complement our business. Acquisitions would involve a number of risks and present financial, managerial and operational challenges, including:

- diversion of management attention from running our existing business;
- possible material weaknesses in internal controls over financial reporting;
- increased expenses including legal, administrative and compensation expenses related to newly hired employees;
- increased costs to integrate the technology, personnel, customer base and business practices of the acquired company with us;

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- potential exposure to material liabilities not discovered in the due diligence process, including cyber security risks;
- potential adverse effects on our reported operating results due to possible write down of goodwill and other intangible assets associated with acquisitions;
- acquisition financing may not be available on reasonable terms or at all; and
- any acquired business, technology, service or product may significantly under perform relative to our expectations, and we may not achieve the benefits we expect from the acquisition.

For any or all of these reasons, our pursuit of an acquisition, investment or merger may cause our actual results to differ materially from those anticipated. In addition, the success of our strategy to pursue potential future acquisitions will depend on our ability to achieve savings from the elimination of duplicative expenses or the realization of other efficiencies associated with such acquisitions. Failure to implement our strategic plan with success, including our ability to achieve anticipated savings in connection with any potential future acquisitions, could result in increased costs and could adversely affect our business, financial condition, operating results and prospects.

Because we are highly levered, we expect that we may need to issue additional equity to support our growth. However, the addition of a substantial number of shares of our common stock into the market or the registration of any other securities may significantly and negatively affect the prevailing market price for our common stock and would dilute the ownership of our then existing stockholders.

The seasonal nature of our business makes management more difficult, severely reduces cash flow and liquidity during parts of the year and could force us to curtail our operations.

Our business is seasonal. The majority of our marketing and sales activities take place from late fall to early spring. The greatest volume of shipments and sales typically occurs from late spring through the early fall, which coincides with our third and fourth fiscal quarters. This requires us to build up inventories during our first and second fiscal quarters when our cash flow is weakest. Cash flow is typically strongest in the third and fourth fiscal quarters. Unfavorable economic conditions affecting retailers during the fall and holiday seasons in any year could have a material adverse effect on our results of operations for the year. We are likely to experience periods of negative cash flow throughout each year, including, a drop off in business commencing each December, which could force us to curtail operations if adequate liquidity is not available. We cannot assure you that the effects of such seasonality will diminish in the future.

Computer system disruption and cyber security threats, including a privacy or data security breach, could damage our relationships with our customers, harm our reputation, expose us to litigation and adversely affect our business. We may also incur an increase in costs in an effort to minimize those risks.

We depend on technology systems and networks for a significant portion of our direct-to-consumer sales, including sales of our Hudson®, Robert Graham® and SWIMS® products via ecommerce channels, retail business credit and debit card transaction authorizations and processing at our Robert Graham® and SWIMS® stores, and repeat customer sales via our online Collector’s Club Loyalty Program. Information technology systems are integral to other aspects of other business, such as corporate email communications to and from employees, customers and retail stores, the design, manufacture and distribution of our apparel products, digital marketing efforts, collection and retention of customer data and employee information, and our interaction with the public in the social media space. Given the nature of our ecommerce presence and digital strategy, it is imperative that we and our ecommerce partners maintain uninterrupted operation of our computer hardware, software systems, customer marketing databases, and email servers.

The retail industry, in particular, has been the target of many recent cyber-attacks, and a security breach could expose us to a risk of loss or misuse of this information, litigation, and potential liability. We have confidential

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security measures in place to protect both our physical facilities and digital systems from attacks. However, we may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. Additionally, although many of our third-party service providers use reasonable security measures, we cannot control third parties and cannot guarantee that a security breach will not occur in the future either at their location or within their systems. Attacks may be targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur costs to deploy additional personnel and protection technologies, train employees, and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. In addition, data and security breaches can also occur as a result of non technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

Although we expect the U.S. federal tax reform to have a favorable impact on our overall U.S federal tax liability, the effects of the tax reform are uncertain and include limitations on interest deductions which may adversely affect our results.

On December 22, 2017, the Tax Cut and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the U.S. Internal Revenue Code of 1986, as amended. The Tax Act reduced the maximum U.S. statutory corporate income tax rate from 35% to 21%, effective for tax years including or beginning January 1, 2018, and made other changes that could have a favorable impact on our overall U.S. federal tax liability in a given period. However, the Tax Act also included a number of provisions that limit or eliminate various deductions which could adversely affect our U.S. federal income tax position. For example, the Tax Act may, for future years, limit our ability to deduct interest expense to the extent that such expenses exceed 30% of our adjusted taxable income in a given year. We continue to examine the impact the Tax Act may have on our business, which is uncertain and may be adverse. There can be no assurance that changes in tax laws or regulations, both within the U.S. and the other jurisdictions in which we operate, will not materially and adversely affect our effective tax rate, tax payments, financial condition and results of operations. See "Notes to Consolidated Financial Statements – Note 12 – Income Taxes" for further discussion.

Risks Related to our Common Stock

If our common stock's closing bid price falls and subsequently remains below the minimum price of $1.00 per share, our common stock may be delisted from the The Nasdaq Capital Market maintained by The Nasdaq Stock Market LLC ("NASDAQ").

As recently as February 14, 2018, the closing price of our common stock fell below $1.00 per share. If our common stock were to trade below $1.00 per share, which is the minimum closing bid price required for continued listing on NASDAQ, for 30 consecutive business days, we will receive a notification letter from NASDAQ and will have 180 calendar days (subject to extension in some circumstances) to regain compliance with the minimum bid price rule. To regain compliance, the closing bid price of our common stock must be at least $1.00 per share for a minimum of ten consecutive business days (or such longer period of time as the NASDAQ may require in some circumstances). If we fail to regain compliance with the minimum bid price rule or fail to maintain compliance with all other applicable NASDAQ continued listing requirements, NASDAQ may determine to delist our common stock, at which time our common stock would be quoted on the OTC markets. The delisting of our common stock could adversely impact us by, among other things, reducing the liquidity and market price of our common stock, reducing the number of investors willing to hold or acquire our common stock, limiting our ability to issue additional securities in the future, and limiting our ability to fund our operations.

Our common stock price is volatile and may decrease.

The market price of our common stock may continue to fluctuate significantly and investors in our common stock could lose the value of their investment. In addition, the stock market has experienced significant price and volume fluctuations in recent times, which could have a material adverse effect on the market for, or liquidity of, our common stock, regardless of our actual operating performance.

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The trading price and volume of our common stock has historically been subject to fluctuations in response to factors such as the following, some of which are beyond our control:

- annual and quarterly variations in actual or anticipated operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- changes in market valuations of other premium denim apparel companies;
- announcements of new product lines by us or our competitors, announcements by us or our competitors of significant contracts, acquisitions or dispositions of assets, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel or members of our board of directors;
- changes in governmental regulation applicable to us and our products; and
- general conditions in the apparel industry.

In the 52 week period prior to the filing of this Annual Report, the closing price of our common stock has ranged from $0.70 to $2.45. In addition, stock markets generally have experienced price and volume trading volatility in recent years. This volatility has had an effect on the market prices of securities of many companies for reasons unrelated to the operating performance of the specific companies. These broad market fluctuations may negatively affect the market price of our common stock.

Ownership of our common stock is concentrated among affiliates of Tengram Capital Partners and certain other large holders, which substantially reduces the ability of other stockholders to influence management, including through the election of directors, and may result in decisions that do not always coincide with the interests of other stockholders.

As of April 2, 2018, based upon the Amendment No. 3 to Schedule 13D dated January 18, 2018, the largest beneficial owners of our common stock—entities and individuals affiliated with TCP Denim, LLC and Tengram II (the “Tengram Affiliates”)—beneficially own in the aggregate approximately 49.8% of our common stock and voting power. This includes, in addition to shares of common stock owned outright by various Tengram Affiliates, (i) shares of common stock issuable upon (a) conversion of the Series A Convertible Preferred Stock held by TCP Denim, LLC and (b) exercise of the SWIMS Warrant held by Tengram II and (ii) shares of Series A-1 Convertible Preferred Stock which were issued upon the conversion of the SWIMS Convertible Note on January 18, 2018, which may then convert into shares of common stock. For more information, see “Part III, Item 12. Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters.” The holders of the Series A and Series A-1 Convertible Preferred Stock are entitled to vote, on an as-converted basis, on all matters presented to the common stockholders for approval, and will, for so long as the shares of preferred stock remain outstanding, have certain rights and privileges different from our common stockholders, such as the election of up to three directors to our board of directors. Additionally, our Amended and Restated Bylaws (the “Bylaws”) permit any action required or permitted to be taken by stockholders at a meeting to be effect by written consent, if the request is signed by record holders holding at least 20% of the voting power of our then-outstanding common stock entitled to vote on the matter.

Our largest shareholders, and particularly the Tengram Affiliates, are thus in a position to exert significant control over us and have the ability to substantially influence all matters submitted to our stockholders for approval, including the election and removal of directors, any merger, consolidation or sale of all or substantially all of our assets, an increase in the number of shares authorized for issuance under our stock option plans, and to exert significant control

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over our management and affairs. This concentration of beneficial ownership may have the effect of delaying, deferring or preventing a change in or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would be beneficial to other stockholders.

The market price of our common stock could be negatively affected by future sales of our common stock.

Sales by us or holders of a substantial percentage of our common stock in the public market, or the perception that these sales might occur, could cause the market price of our common stock to decline or could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities. If we or our existing stockholders, particularly our largest stockholders, our directors, their affiliates, or our executive officers, sell a substantial number of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that we or these stockholders might sell our common stock could also depress the market price of our common stock and could impair our future ability to obtain capital, especially through an offering of equity securities.

If we do not meet the expectations of equity research analysts, if they do not continue to publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that equity research analysts publish about us and our business. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If our results of operations or financial condition are below the estimates or expectations of public market analysts and investors, our share price could decline. Moreover, the price of our common stock could decline if one or more securities analysts downgrade our common stock or if those analysts issue other unfavorable commentary or do not publish research or reports about us or our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal place of business is located in Commerce, Los Angeles County, California, where we have a lease that expires on August 31, 2019 for approximately 30,915 square feet of design and administrative offices at 1231 South Gerhart Avenue, Commerce, California. We also have leased corporate offices located in New York City, New York and Long Beach, California.

We operate retail store locations under operating lease agreements expiring on various dates through 2026, which are generally non cancelable. As of April 2, 2018, we had 30 Robert Graham® brand stores, which consisted of 18 full price stores and 12 outlet stores in the United States, and two SWIMS® brand outlet stores in Norway. Our retail square footage as of April 2, 2018 was approximately 51,794 gross square feet in the aggregate. Our retail stores range in size from 743 to 3,014 gross square feet with an average of 1,619 gross square feet. For more information on our operating leases, see "Part I, Item 1A. Risk Factors—We are subject to risks associated with leasing retail space, are generally subject to long term non-cancelable leases and are required to make substantial lease payments under our operating leases. Any failure to make these lease payments when due would likely harm our business, profitability and results of operations." and "Notes to Consolidated Financial Statements—Note 14—Commitments and Contingencies." All of our Joe's® brand retail stores were closed as of February 29, 2016 and are reported in this Annual Report as discontinued operations.

We do not maintain manufacturing facilities, and our products are otherwise sold in our own showrooms or in third-party showrooms, via distributors internationally or through the online ecommerce sites of our brands. For more information, see "Part I, Item 1. Business." We believe that our existing facilities are well maintained, in good operating condition and are adequate for our present level of operations.

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ITEM 3. LEGAL PROCEEDINGS

(a) We are a party to lawsuits and other contingencies in the ordinary course of our business. We do not believe that we are currently a party to any material pending legal proceedings. Additionally, in the opinion of management, based upon advice of legal counsel, the likelihood is remote that the impact of any pending legal proceedings and claims, either individually or in the aggregate, would have a material adverse effect on our consolidated financial condition, results of operations or cash flows. For more information, see "Notes to Consolidated Financial Statements—Note 14."
(b) None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information
Our common stock is currently traded under the symbol "DFBG" on The Nasdaq Capital Market maintained by NASDAQ. Effective January 28, 2016, we adopted our Eighth Amended and Restated Certificate of Incorporation to effect the Reverse Stock Split of our issued and outstanding common stock. The primary purpose of the reverse stock split was to increase the per share market price of our common stock in order to maintain our listing on The Nasdaq Capital Market. As of April 2, 2018, we had an aggregate of 13,599,284 shares of our common stock outstanding and the closing price on March 29, 2018 was $1.25. The following chart sets forth the high and low inter-day quotations for our common stock on The Nasdaq Capital Market for the periods indicated, as adjusted for the Reverse Stock Split. This information reflects inter dealer prices, without retail mark up, mark down or commissions, and may not necessarily represent actual transactions. No representation is made by us that the following quotations necessarily reflect an established public trading market in our common stock:

	High	Low
Fiscal 2017		
Quarter ended March 31,	$ 2.75	$ 1.75
Quarter ended June 30,	$ 2.25	$ 1.80
Quarter ended September 30,	$ 2.10	$ 1.35
Quarter ended December 31,	$ 1.50	$ 0.81
Fiscal 2016		
Quarter ended March 31,	$ 8.00	$ 4.24
Quarter ended June 30,	$ 5.25	$ 2.95
Quarter ended September 30,	$ 7.92	$ 2.52
Quarter ended December 31,	$ 5.71	$ 2.35

Holders

As of April 2, 2018, there were approximately 722 record holders of our common stock.

Dividends

We have never declared or paid a cash dividend and do not anticipate paying cash dividends on our common stock in the foreseeable future. In deciding whether to pay dividends on our common stock in the future, our board of

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directors (the “Board” or the “Board of Directors”) will consider certain factors it may deem relevant, including our earnings and financial condition and our capital expenditure requirements.

Equity Compensation Plan Information

See “Part III, Item 12—Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters—Equity Compensation Plan Information.”

Stock Performance Graph

Not applicable. The registrant is relying on smaller reporting company disclosure requirements.

Sales of Unregistered Equity Securities by the Issuer

There are no transactions that have not been previously included in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

(b) Not applicable.

(c) Purchases of Equity Securities by Issuer

We had no share repurchases during the fourth quarter of 2017.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable. The registrant is relying on smaller reporting company disclosure requirements.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

As we are a smaller reporting company, this discussion and analysis summarizes the significant factors affecting our results of operations and financial conditions during the fiscal years ended December 31, 2017 and 2016, respectively. This discussion should be read in conjunction with our Consolidated Financial Statements, Notes to Consolidated Financial Statements and supplemental information in Item 8 of this Annual Report. The discussion and analysis contains statements that may be considered forward looking. These statements contain a number of risks and uncertainties, as discussed under the heading “Forward Looking Statements” of this Annual Report that could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date hereof. Our future results, performance or achievements could differ materially from those expressed or implied in these forward looking statements. We do not undertake to publicly update these forward looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

On January 28, 2016, we completed the acquisition of all of the outstanding equity interests of RG, as contemplated by the RG Merger Agreement, by and among RG, RG Merger Sub and us, for an aggregate of $81.0 million in cash and 8,825,461 shares of our common stock (after giving effect to the Reverse Stock Split (as defined above and discussed below)). Pursuant to the RG Merger Agreement, among other things, our RG Merger Sub was merged with and into RG, so that RG, as the surviving entity, became our wholly-owned subsidiary. Under the acquisition method, RG is deemed the accounting acquirer for financial reporting purposes, with the Company, as the legal acquirer, being viewed as the accounting acquiree. As a result, the assets, liabilities and operations reflected in the historical consolidated financial statements and elsewhere in this Annual Report prior to the RG Merger are those of RG and are recorded at the historical cost basis and reflect RG’s historical financial condition and results of operations for comparative purposes. For more information, see “Notes to Consolidated Financial Statements—Note 1—Business Description and Basis of Presentation.”

Until September 2015, we also had apparel products bearing the Joe’s® brand, a premium denim brand that was established in 2001. After the closing of the Joe’s Asset Sale on September 11, 2015, the Company retained and operated 32 Joe’s® brand retail stores, of which the Company transferred 18 retail stores to GBG on January 28, 2016 for no additional consideration. As of February 29, 2016, the remaining 14 Joe’s® brand retail stores were closed. The retail stores transferred or closed are reported as discontinued operations for 2016 in this Annual Report.

In addition, we completed the acquisition of SWIMS on July 18, 2016 and the information presented includes the results of operations of SWIMS from that date forward.

Our results of operations for the fiscal year 2017 are not necessarily indicative of future results.

Executive Overview

Our principal business activity is the design, development and worldwide marketing of products that bear the brand names, Hudson®, Robert Graham® and SWIMS®. Hudson®, established in 2002, is a designer and marketer of women's and men's premium, branded denim and apparel. Robert Graham®, established in 2001, is a sophisticated, eclectic apparel and accessories brand seeking to inspire a global fashion movement. SWIMS®, established in 2006, is a Scandinavian lifestyle brand best known for its range of fashion-forward, water-resistant footwear, apparel and accessories. Because we focus on design, development and marketing, we rely on third parties to directly manufacture our apparel products. We sell our products through our own retail stores, our websites and to numerous retailers, which include major department stores, specialty stores, and ecommerce stores in the U.S., Canada and Europe.

Our Hudson® product line includes women's, men's and children's denim jeans, bottoms, tops, jackets and other related apparel and accessories, and we continue to evaluate offering a range of new products under the Hudson® brand name. We plan to launch our new Hudson® sportswear line in Fall 2018. Our Robert Graham® product line includes premium priced men's sport shirts, polos, denim jeans, bottoms, shorts, sweaters, knits, t shirts, sport coats, outerwear and swimwear. RG also offers a line of women's apparel, mainly in its own retail stores. Additionally, men's shoes belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eyewear, hosiery, underwear, loungewear and fragrances are produced by third parties under various license agreements and RG receives royalty payments based upon net sales from licensees. Our SWIMS® product line includes men's and women's footwear, outerwear and accessories.

As a solution to resolving the Company's operational, financial and management issues, on September 8, 2015, we entered into various definitive agreements pursuant to which we agreed to (i) the Joe's Asset Sale, which was completed September 11, 2015, whereby we sold certain of our operating and intellectual property assets related to the Joe's Business for a total of $80 million, (ii) combine our remaining business operated under the Hudson brand with RG pursuant to the RG Merger Agreement, (iii) issue and sell $50 million of our Series A Preferred Stock in a private placement to an affiliate of TCP pursuant to the RG Stock Purchase Agreement, (iv) exchange our outstanding Convertible Notes for a combination of cash, shares of our common stock and the Modified Convertible Notes and (v) gain a CEO with public company experience. On September 11, 2015, the proceeds of the Joe's Asset Sale were used to repay all of our indebtedness outstanding under the Garrison Term Loan Credit Agreement and a portion of our indebtedness outstanding under our Revolving Credit Agreement. As a result, the Garrison Term Loan Credit Agreement was paid in full and terminated on September 11, 2015 and we entered into the Amended and Restated Revolving Credit Agreement with CIT, which provided for a maximum credit availability of $7.5 million and waived certain defaults. On January 28, 2016, all outstanding loans under the Amended and Restated Revolving Credit Agreement were repaid and it was terminated in connection with entering into the New Credit Agreements. On January 28, 2016, we completed the RG Merger with RG. Effective upon consummation of the RG Merger, we changed our name to Differential Brands Group Inc. and effected a Reverse Stock Split.

Following the RG Merger, we retained and operated 32 Joe's® brand retail stores until we transferred or closed them in early 2016. The retail stores transferred or closed are reported as discontinued operations for 2016 in this Annual Report.

We currently operate retail stores for our Robert Graham® and SWIMS® brands. As of April 2, 2018, we operated 30 Robert Graham® brand stores, which consisted of 18 full price stores and 12 outlet stores, and two SWIMS® brand outlet stores. We also license the SWIMS® brand name and products for sale in 8 SWIMS® branded retail stores internationally.

As part of our business strategy, we are seeking to create a platform that focuses on branded operating companies in the premium apparel, footwear and accessories sectors. Our focus is on organically growing our brands through a global, omni-channel distribution strategy while continuing to seek opportunities to acquire accretive, complementary, premium brands.

For 2018, we believe that our growth drivers will be dependent upon improving the profitability of our established brands, Hudson® and Robert Graham® by adjusting our costs to improve our return on investment and shifting a portion of our production from Mexico to manufacturers in Asia to improve our margins. Hudson® is also working on the launch of our new sportswear line for Fall 2018, which will increase our product assortment and is expected to grow our customer reach. We also expect to continue to grow our SWIMS Business in the North American and international markets. Overall, we see opportunities for continued margin enhancement if we are successful in growing our Wholesale and Consumer Direct segments, and leveraging our Corporate and other segment, improving product sourcing through growing economies of scale and increasing the proportion of our business derived from our Consumer Direct segment.

Our business is seasonal. The majority of the marketing and sales orders take place from late fall to late spring. The greatest volume of shipments and actual sales are generally made from summer through early fall, which coincides with our third and fourth fiscal quarters and, accordingly, our cash flow is strongest in those quarters. Due to the seasonality of our business, as well as the evolution and changes in our business and product mix, including our acquisition of Hudson, the sale of the Joe's Business, the acquisition of the Robert Graham Business, and the acquisition of the SWIMS Business, our quarterly or yearly results are not necessarily indicative of future results.

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Reportable Segments

Our reportable business segments are Wholesale, Consumer Direct and Corporate and other. We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our Wholesale segment is comprised of sales of products to premium department stores, boutiques, retailers, specialty stores, ecommerce stores and international customers, and includes expenses from sales and customer service departments, trade shows, warehouse distribution, design and production, and product samples. Our Consumer Direct segment is comprised of sales to consumers through our Robert Graham® brand full-price retail stores and outlet stores, through our SWIMS® brand outlet stores and through our ecommerce sites at www.hudsonjeans.com, www.robertgraham.us and www.swims.com. The Corporate and other segment is comprised of revenue from trademark licensing agreements and overhead from corporate operations, which include the executive, finance, legal, information technology, and human resources departments. For periods before the RG Merger's closing date, our discussion of reportable segments reflects only the operations of RG. In addition, the information presented reflects the integration of the SWIMS® brand since its acquisition on July 18, 2016.

Wholesale

Our Wholesale segment is comprised of sales of (i) Robert Graham® products to premium nationwide department stores, specialty retailers, ecommerce stores, boutiques and select off-price retailers, (ii) following the closing of the RG Merger Agreement on January 28, 2016, Hudson® products to retailers, specialty stores, ecommerce stores and international and off-price retailers, and (iii) following the closing of the SWIMS acquisition on July 18, 2016, SWIMS products to retailers, specialty stores and international and off-price retailers, including international licensed store operators. Additionally, our Wholesale segment includes expenses from our sales and customer service departments, trade shows, warehouse distribution, design and production, and product samples. Domestically, we sell our Hudson® and SWIMS® products through our own showrooms, as well as, in the case of our Robert Graham® products, with independent sales representatives who may have their own showrooms. At the showrooms, retailers review the latest collections offered and place orders. The showroom representatives provide us with purchase orders from the retailers and other customers they call upon. Internationally, we sell our products to customers in the U.S., Canada and Europe.

We measure performance of our Wholesale segment primarily based on the diversity of product classifications and number of retail "doors" that sell our products within existing accounts as well as our ability to selectively expand into new accounts having retail customers carrying similar premium-priced products. While growth in our Wholesale segment has been relatively flat since the beginning of 2013 as we have focused on growing our higher margin Consumer Direct segment, our go-forward strategy includes driving sales by improving productivity in existing accounts/doors, selectively expanding into new accounts and continued installation of shop-in-shops. International expansion, largely through wholesale distributors and licensees, is also a strategy that we are pursuing.

Consumer Direct

Our Consumer Direct segment is comprised of sales of our Robert Graham® products directly to consumers in the United States through full-price retail stores, outlet stores, our ecommerce site, www.robertgraham.us and through the circulation of over 700,000 catalogs distributed seasonally throughout the United States. As this segment generates higher gross margins and provides us greater control of our brand product mix and distribution, we have grown from one Robert Graham® brand retail store in 2011 to 30 retail stores as of December 31, 2017, including 18 full price stores and 12 outlet stores. We have expanded the ecommerce part of the Consumer Direct segment through direct digital, creating a larger customer database and generating repeat customer sales through our Collector's Club Loyalty Program. Additionally, following the closing of the RG Merger Agreement on January 28, 2016, our Consumer Direct segment also includes sales of our Hudson® products to consumers through our ecommerce site at www.hudsonjeans.com and following the acquisition of SWIMS® on July 18, 2016, sales of our SWIMS® products to consumers through our ecommerce site at www.swims.com and our two international outlet stores. Net sales from the 14 Joe's® brand retail stores, which we owned and operated until they closed as of February 29, 2016, are reported as discontinued operations.

We measure performance of our Consumer Direct segment primarily based on the profitability of our stores and websites, as well as our ability to acquire and retain customers in our ecommerce business and the site traffic and

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conversion rates on our websites.

Corporate and other

Our Corporate and other segment is comprised of licenses to third parties for the right to use our various trademarks in connection with the manufacture and sale of designated Robert Graham® and Hudson® products in specified geographical areas for specified periods. Our licensing revenues for our Robert Graham® products stem primarily from the following product categories and geographical areas: men’s shoes, belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eyewear, jewelry, hosiery, underwear, loungewear and fragrances, and distribution in Canada. Following the closing of the RG Merger on January 28, 2016, our Corporate and other segment also includes licensing revenue from sales by our licensees of our Hudson® children’s product line, and men’s and women’s apparel in Europe. Our Corporate and other segment also encompassed our corporate operations, including the general brand marketing and advertising, operations, information technology, finance, executive, legal and human resources departments. Similar to our Wholesale segment, we measure performance of our Corporate and other segment primarily based on our licensees’ ability to profitably sell our products in multiple categories to their existing wholesale customers and to add new licensees in brand relevant categories.

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Results of Operations

This table should be read in conjunction with the discussion that follows:

	Year ended December 31,							
	2017		2016		$ Change		% Change	
	(in thousands)							
Net sales	$ 164,053		$ 149,267		$ 14,786		10	%
Cost of goods sold	92,303		87,987		4,316		5	
Gross profit	71,750		61,280		10,470		17	
Profit margin	44	%	41	%	3	%		
Operating expenses								
Selling, general and administrative	64,370		63,244		1,126		2	
Depreciation and amortization	6,061		6,012		49		1	
Retail store impairment	243		2,177		(1,934)		(89)	
Total operating expenses	70,674		71,433		(759)		(1)	
Operating income (loss) from continuing operations	1,076		(10,153)		11,229		(111)	
Interest expense	8,844		7,531		1,313		17	
Other expense, net	21		42		(21)		(50)	
Loss from continuing operations before income taxes	(7,789)		(17,726)		9,937		(56)	
Income tax benefit	(5,331)		(1,200)		(4,131)		344	
Loss from continuing operations	(2,458)		(16,526)		14,068		(85)	
Loss from discontinued operations, net of tax	—		(1,286)		1,286		(100)	
Net loss	$ (2,458)		$ (17,812)		$ 15,354		(86)	%

The following table sets forth certain statements of operations data by our reportable segments for the periods as indicated:

	Year ended December 31,				
	2017	2016	$ Change	% Change	
	(in thousands)				
Net sales:					
Wholesale	$ 119,128	$ 108,829	$ 10,299	9	%
Consumer Direct	42,095	38,622	3,473	9	
Corporate and other	2,830	1,816	1,014	56	
	$ 164,053	$ 149,267	$ 14,786	10	%
Gross profit:					
Wholesale	$ 42,304	$ 34,871	$ 7,433	21	%
Consumer Direct	26,616	24,593	2,023	8	
Corporate and other	2,830	1,816	1,014	56	
	$ 71,750	$ 61,280	$ 10,470	17	%
Operating expenses:					
Wholesale	$ 14,478	$ 13,770	$ 708	5	%
Consumer Direct	25,093	26,809	(1,716)	(6)	

Corporate and other	31,103	30,854	249	1	
	$ 70,674	$ 71,433	$ (759)	(1)	%
Operating income (loss) from continuing operations:					
Wholesale	$ 27,826	$ 21,101	$ 6,725	32	%
Consumer Direct	1,523	(2,216)	3,739	(169)	
Corporate and other	(28,273)	(29,038)	765	(3)	
	$ 1,076	$ (10,153)	$ 11,229	(111)	%

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Fiscal 2017 Compared to Fiscal 2016

Net Sales

Net sales increased by 10% to $164.1 million for fiscal 2017 from $149.3 million for fiscal 2016, reflecting a 9% increase in Wholesale net sales, a 9% increase in Consumer Direct net sales and a 56% increase in licensing revenue. The $14.8 million increase was a result of the Hudson and SWIMS brands being included in performance for the full year, which contributed an additional $17.1 million of net sales for fiscal 2017 that were non-comparable to 2016. This was partially offset by comparable Robert Graham sales declines of $2.3 million year over year, driven by a decline in wholesale sales to its specialty and department store customers.

Wholesale net sales increased by 9% to $119.1 million for fiscal 2017 from $108.8 million last year. The $10.3 million increase was a result of the Hudson and SWIMS brands being included in net sales for the full year, which contributed an additional $14.1 million of Wholesale net sales for fiscal 2017 that were non-comparable to 2016. On a comparable 12 month basis, Hudson net sales increased 3% and SWIMS net sales increased 12% versus the same period in 2016. The addition of the Hudson and SWIMS brands and their comparable net sales performance more than offset a $3.7 million or 11% decline in Robert Graham Wholesale net sales. Robert Graham declines were driven by fewer units shipped in fiscal 2017 compared to last year to both specialty and department store customers. The decline in the Robert Graham Wholesale channel, in part, reflected a migration of traditional wholesale business to its Consumer Direct channel.

Consumer Direct net sales increased by 9% to $42.1 million for fiscal 2017 from $38.6 million for fiscal 2016. The $3.5 million increase was a result of an increase in Robert Graham comparable Consumer Direct net sales of $1.2 million or 4% versus 2016 and the Hudson and SWIMS brands being included in net sales for the full year of 2017 that contributed an additional $2.3 million of Consumer Direct net sales for fiscal 2017 that were in part non-comparable to 2016. Comparable Consumer Direct net sales for Hudson and SWIMS were up 7% and 69% on a 12 month basis. SWIMS opened one outlet store and launched its U.S. based SWIMS website during 2017. For the year 2017, within Consumer Direct, overall ecommerce net sales grew 18% and retail store sales grew 6% versus 2016. This growth was achieved primarily by increases in customer traffic and customer conversion rates at the Company’s stores and websites.

Corporate and other net sales increased by 56% to $2.8 million, consisting of licensing revenue, for fiscal 2017 compared to $1.8 million of licensing revenue last year. This includes a $0.8 million increase in licensing revenue from our Hudson business and a $0.3 million increase in licensing revenue from our Robert Graham business.

Gross Profit

Gross profit increased by $10.5 million or 17% to $71.8 million for fiscal 2017 from $61.3 million for fiscal 2016. The increase of $10.5 million in gross profit was attributable to the additional sales reported during the year as well as a 3% improvement in the margin rate, part of which was benefited by $1.7 million related to the Hudson and SWIMS inventory that was stepped up to fair value during the acquisitions in 2016 and sold through in the same year.

Excluding the one-time inventory adjustments, gross margin rates increased approximately 154 basis points for fiscal 2017 compared to last year, primarily due to higher initial margin rates related to strategic changes in factories. Gross profit for fiscal 2017 also includes an addition of $0.3 million due to a change in accounting estimate related to our standard production costs allocated to inventory effective January 1, 2017.

Wholesale gross profit increased 21% to $42.3 million for fiscal 2017 from $34.9 million for fiscal 2016 due to the additional sales and an improvement in margin rates of approximately 3% that includes the 2017 rate benefit for the 2016 inventory adjustments as mentioned above.

Consumer Direct gross profit increased by 8% to $26.6 million for fiscal 2017 from $24.6 million last year due to the additional sales. Margin rates were flat for the year.

Corporate and other gross profit increased by 56% to $2.8 million for fiscal 2017 compared to $1.8 million last year due to the increase in licensing revenue.

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Operating Expenses

Operating expenses include (i) selling, general and administrative expenses related to employee and employee benefits, sales commissions, advertising, merger and acquisition related costs, professional fees, stock-based compensation and factor and bank fees, (ii) depreciation and amortization and (iii) retail store impairment.

Operating expenses decreased 1% to $70.7 million for fiscal 2017 from $71.4 million for fiscal 2016. The $0.8 million decrease was mainly attributable to $5.9 million of one-time acquisition and restructuring costs incurred during fiscal 2016 related to the RG Merger and the SWIMS acquisition and an impairment charge of $2.2 million recorded during fiscal 2016 that were not present in 2017. In addition, the decrease is due to the $1.1 million of additional capitalization of production costs, from selling, general and administrative expenses to the cost of inventory due to a change in sourcing processes that impacted production overhead costs, effective January 1, 2017. The decrease in operating expenses was partially offset by $8.0 million of additional expenses for the Hudson and SWIMS brands for the full period, an impairment charge of $0.2 million recorded in fiscal 2017, and $0.9 million of restructuring costs incurred during fiscal 2017.

Selling, general and administrative expenses were approximately 39.2% and 42.4% of net sales for fiscal 2017 and 2016, respectively. Depreciation and amortization expense, as a percent of net sales, decreased to 3.7% from 4.0% for fiscal 2017 compared to fiscal 2016.

Operating Income (Loss) from Continuing Operations

We had operating income from continuing operations of $1.1 million for fiscal 2017, compared to an operating loss from continuing operations of $10.2 million for fiscal 2016.

Interest Expense

Interest expense increased to $8.8 million for fiscal 2017 from $7.5 million for fiscal 2016, associated with a full period of interest expense on a larger principal balance related to our credit facilities, convertible notes and the amortization of debt discounts and deferred financing costs related to those facilities and notes.

Income Tax Benefit

Our effective tax rate from operations was a benefit of 68% for fiscal 2017 compared to a benefit of 7% for fiscal 2016. The difference in the effective tax rate for fiscal 2017, as compared to fiscal 2016, was primarily due to the impact of the Tax Cuts and Jobs Act (the “Tax Act”). The Company has not completed the accounting for the income tax effects of certain elements of the Tax Act. However, the Company was able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments. In connection with its initial analysis of the impact of the Tax Act, the Company recorded a provisional one-time net tax benefit of $6.3 million for the year ended December 31, 2017. This net tax benefit primarily consists of a $3.8 million net tax benefit from the corporate rate reduction from 34% to 21% and a tax benefit for the reversal of a portion of the valuation allowance related to the indefinite deferred tax liability of $2.5 million. See “Notes to Consolidated Financial Statements—Note 12– Income Taxes” for additional details.

As our subsidiary RG was a limited liability company until the RG Merger on January 28, 2016, it paid taxes only in some jurisdictions since income was generally taxed directly to its members and most taxes were paid directly by its members on the income of RG. However, since some jurisdictions do not recognize the limited liability company status, they required taxes to be paid by RG. After the transaction, all of our entities are subject to corporate entity level taxes, as the transaction resulted in a status change.

Loss from Discontinued Operations

We had a loss from discontinued operations of $1.3 million in fiscal 2016 due to the operation of the Joe’s® brand retail stores, which we operated until their assignment in January 2016 and closure in February 2016.

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Net Loss

We generated a net loss of $2.5 million for fiscal 2017, compared to a net loss of $17.8 million for fiscal 2016.

Liquidity and Capital Resources

Sources of Liquidity and Outlook

Our primary sources of liquidity are: (i) cash proceeds from Wholesale operations sold on account, both managed and insured through factors and internal credit management resources; (ii) cash proceeds from sales through our Consumer Direct segment tendered in cash, credit card, debit card or gift card; (iii) cash proceeds from licenses collected from licensees via check or wire transfer; and (iv) cash proceeds from borrowing under various credit facilities described below. Cash is used to make payments of debt and interest and for payroll and operating disbursements including inventories, operating expenses and capitalized property, software and equipment.

Our primary capital needs are for: (i) working capital; (ii) debt principal and interest; and (iii) trade credit to our customers. We anticipate funding our operations through working capital by generating cash flows from operations and utilization of available lines of credit under our existing credit facilities.

At December 31, 2017 and 2016, our cash and cash equivalent balances were $8.3 million and $6.5 million, respectively. Based on our cash on hand, $19.6 million of non-recourse short term receivables, expected cash flows from operations, the expected borrowing availability under our existing credit facilities and other financing arrangements, and sales forecasts, we believe that we have the working capital resources necessary to meet our projected operational needs beyond the next 12 months from the date of this Annual Report. However, if we require more capital for growth and integration or if we experience a decline in sales and/or operating losses, we believe that it will be necessary to obtain additional working capital through additional credit arrangements, debt and/ or equity issuances and/or other strategic transactions.

We believe that the rate of inflation over the past few years has not had a significant adverse impact on our net sales or income from continuing operations.

Cash Flows for the Years Ended December 31, 2017 and December 31, 2016

For the year ended December 31, 2017, we used $1.7 million of cash flows in operating activities to buy inventory, including that for future sale in 2018 and to fund our working capital. Cash flows used in investing activities during the year ended December 31, 2017 totaled $1.1 million primarily for the purchase of property and equipment. Cash flows from financing activities during the year ended December 31, 2017 totaled $4.7 million. These cash flows from financing activities primarily consisted of a $7.7 million draw down on our line of credit under the ABL Credit Agreement principally to finance inventory, partially offset by repayment of customer cash advances in the amount of $1.7 million, repayment of principal payments under our Term Credit Agreement of $0.9 million and taxes paid in lieu of shares issued for stock-based compensation of $0.3 million.

For the year ended December 31, 2016, we used $16.6 million of cash flows in operating activities to fund our working capital, buy inventory, pay for costs related to the RG Merger and SWIMS acquisition that were incurred through December 31, 2016 and wind down our discontinued operations.

Cash flows used in investing activities during the year ended December 31, 2016 totaled $20.4 million of which $6.5 million was related to cash paid in the RG Merger, $11.8 million was related to cash paid to acquire SWIMS (net of cash acquired), and $2.0 million was for the purchase of property and equipment including the opening of one new retail store.

Cash flows from financing activities during the year ended December 31, 2016 totaled $41.5 million. These cash flows primarily consisted of $49.9 million from the issuance of Series A Preferred Stock, $13.0 million from the issuance of the SWIMS Convertible Note and $62.8 million in funds from our credit facilities, net of the following

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financing costs: (i) $23.3 million for the repayment in full of our CIT Amended and Restated Revolving Credit Agreement and the JPM Loan Agreement; (ii) $58.2 million for the redemption of the units held by our RG members; (iii) $1.4 million as a distribution to RG members, which was accrued at the prior year end; (iv) $0.5 million of principal payments under our Term Loan Credit Agreement and (v) $1.6 million of deferred financing costs.

Credit Agreements and Other Financing Arrangements

In connection with the RG Merger, certain historical credit and financing arrangements were repaid. See “Notes to Consolidated Financial Statements—Note 8 – Debt” to our consolidated financial statements in “Part II, Item 8” of this Annual Report for additional information related to these historical agreements.

ABL Credit Agreement and Term Credit Agreement

On January 28, 2016, in connection with the closing of the RG Merger Agreement, we and certain of our subsidiaries entered into (i) the ABL Credit Agreement and accompanying security agreement with Wells Fargo Bank, National Association, as lender, and (ii) the Term Credit Agreement and accompanying security agreement with TCW Asset Management Company, as agent, and the lenders party thereto. The ABL Credit Agreement provides for an asset-based revolving facility (the “Revolving Facility”) with commitments in an aggregate principal amount of $40 million and matures on October 30, 2020. The amount available to be drawn under the Revolving Facility is based on the borrowing base values attributed to eligible accounts receivable and eligible inventory. Our availability under the Revolving Facility as of December 31, 2017 was $10.2 million. The Term Credit Agreement provides for a senior secured term loan facility with commitments in an aggregate principal amount of $50 million (the “Term Facility”). The Term Facility matures on January 28, 2021.

Certain domestic subsidiaries of the Company are co-borrowers under the ABL Credit Agreement and the Term Credit Agreement. The obligations under the ABL Credit Agreement and Term Credit Agreement are guaranteed by all of our domestic subsidiaries and are secured by substantially all of our assets, including the assets of our domestic subsidiaries. For additional information on the ABL Credit Agreement and Term Credit Agreement, see “Notes to Consolidated Financial Statements—Note 8– Debt.”

To permit the acquisition of SWIMS we also entered into (i) a Consent and Amendment No. 1 to our ABL Credit Agreement and accompanying security agreement with Wells Fargo Bank, National Association, as lender, and (ii) a Consent and Amendment No. 1 to our Term Credit Agreement and accompanying security agreement with TCW Asset Management Company, as agent for the lenders and the lenders party thereto. Additionally, on March 27, 2017, we entered into (i) Amendment No. 2 to our Term Credit Agreement to modify certain defined terms, add a liquidity covenant, revise certain covenants and set an 8.75% base rate and 9.75% LIBOR rate for the period between March 27, 2017 and May 15, 2017 and (ii) Amendment No. 2 to our ABL Credit Agreement to conform certain defined terms to those in Amendment No. 2 to our Term Credit Agreement.

On March 27, 2018, we entered into Amendment No. 3 to the Term Credit Agreement to revise certain covenants and modify the applicable base and LIBOR rates. For more information see “Item 9B. Other Information.” As of December 31, 2017, we were in compliance with the financial and non-financial covenants included in our ABL Credit Agreement and our Term Credit Agreement.

A&R Factoring Agreement

In January 2016, in connection with the RG Merger, we entered into our A&R Factoring Agreement pursuant to which we sell or assign to CIT certain of our accounts receivable, including accounts arising from or related to sales of inventory and the rendering of services. Under the A&R Factoring Agreement, we pay factoring rates based on service type and credit profile of our customers. The A&R Factoring Agreement may be terminated by either party upon 60 days’ written notice or immediately upon the occurrence of an event of default as defined in the agreement.

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SWIMS Factoring Agreement

In connection with the acquisition of SWIMS, SWIMS has maintained its preexisting SWIMS Factoring Agreement between SWIMS and DNB, dated August 26, 2013. The SWIMS Factoring Agreement is a combined credit assurance and factoring agreement, pursuant to which SWIMS is granted financing of up to 80% of its preapproved outstanding invoiced receivables. DNB receives an annual commission based on invoiced revenues and a quarterly commission of the maximum financing amount plus other administrative costs. The SWIMS Factoring Agreement may be terminated by SWIMS upon 14 days' prior written notice for any reason and by DNB upon 14 days' prior written notice for just cause. DNB may also terminate the SWIMS Factoring Agreement without any prior written notice in the event of a material breach by SWIMS.

Modified Convertible Notes and Rollover Agreement

The Company issued convertible notes in connection with the acquisition of Hudson with different interest rates and conversion features for Hudson's management stockholders, including Peter Kim and Fireman Capital CPF Hudson Co-Invest LP. On September 8, 2015, the Company entered into the Rollover Agreement with the holders of those convertible notes, pursuant to which, on January 28, 2016, the holders of the notes contributed their notes to the Company in exchange for the following:

- 1.2 million shares of common stock;
- a cash payment of approximately $8.6 million, before expenses; and
- an aggregate principal amount of approximately $16.5 million of Modified Convertible Notes.

The Modified Convertible Notes are structurally and contractually subordinated to our senior debt and will mature on July 28, 2021. The Modified Convertible Notes accrue interest quarterly on the outstanding principal amount at a rate of 6.5% per annum (increased to 7% as of October 1, 2016 with respect to the Modified Convertible Notes issued to Fireman Capital CPF Hudson Co-Invest LP), which is payable 50% in cash and 50% in additional paid-in-kind notes; provided, however, that the Company may, in its sole discretion, elect to pay 100% of such interest in cash. Beginning on January 28, 2016, the Modified Convertible Notes are convertible by each of the holders into shares of our common stock, cash, or a combination of cash and common stock, at our election.

If we elect to issue only shares of common stock upon conversion of the Modified Convertible Notes, each of the Modified Convertible Notes would be convertible, in whole but not in part, into a number of shares equal to the conversion amount divided by the market price. The conversion amount is (a) the product of (i) the market price, multiplied by (ii) the quotient of (A) the principal amount, divided by (B) the conversion price, minus (b) the aggregate optional prepayment amounts paid to the holder. The market price is the average of the closing prices for our common stock over the 20 trading day period immediately preceding the notice of conversion. If we elect to pay cash with respect to a conversion of the Modified Convertible Notes, the amount of cash to be paid per share will be equal to the conversion amount. We will have the right to prepay all or any portion of the principal amount of the Modified Convertible Notes at any time so long as we make a pro rata prepayment on all of the Modified Convertible Notes.

Short-Term Convertible Note

On July 18, 2016, we issued a convertible promissory note to Tengram II, with principal of $13.0 million in connection with the acquisition of SWIMS, referred to as the SWIMS Convertible Note. As discussed further below, the SWIMS Convertible Note was fully converted into shares of Series A-1 Preferred Stock in January 2018. The SWIMS Convertible Note accrued interest at a rate of 3.75% per annum, compounding on the first day of each month starting August 1, 2016, and was convertible, at Tengram II's option or on the extended maturity date of January 18, 2018 (which had an originally maturity date of January 18, 2017) if not already repaid in cash on or prior to that date, into newly issued shares of our Series A-1 Preferred Stock at a conversion price of $3.00 per share. Additionally, the Series A-1 Preferred Stock will itself be convertible into shares of our common stock at an initial price of $3.00 per share (subject to

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adjustment), will be entitled to dividends at a rate of 10% per annum payable quarterly in arrears, will be senior to the common stock upon liquidation and will have voting rights on an as-converted basis alongside our common stock.

On January 18, 2018, the Convertible Note matured and automatically converted into newly issued shares of the Company's Series A-1 Preferred Stock, par value $0.10 per share, at a conversion price of $3.00 per share. The outstanding balance of the Convertible Note, together with any accrued and unpaid interest thereon, converted into 4,587,964 shares of Series A-1 Preferred Stock. Upon the issuance of such shares of Series A-1 Preferred Stock by the Company to Tengram II, the Convertible Note was settled in its entirety.

SWIMS Overdraft Agreement

In connection with the acquisition of SWIMS, SWIMS has maintained a preexisting Overdraft Agreement between SWIMS and DNB, dated January 27, 2016. The Overdraft Agreement is an overdraft facility that provides SWIMS with access to up to NOK 6.0 million (approximately $0.7 million as of December 31, 2017) in total, divided between (a) an ordinary credit of NOK 3.5 million at an interest rate of 7.4% plus an additional quarterly fee of 0.4% on the outstanding principal in frame commissions and (b) an additional credit of NOK 2.5 million at an interest rate of 4.9% plus an additional quarterly fee of 0.5% on the outstanding principal in frame commissions.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Contractual Obligations

Not applicable. The registrant is relying on smaller reporting company disclosure requirements.

Management's Discussion of Critical Accounting Policies

We believe that the accounting policies discussed below are important to an understanding of our financial statements because they require management to exercise judgment and estimate the effects of uncertain matters in the preparation and reporting of financial results. Accordingly, we caution that these policies and the judgments and estimates they involve are subject to revision and adjustment in the future. While they involve less judgment, management believes that other accounting policies discussed in "Notes to Consolidated Financial Statements—Note 2—Summary of Significant Accounting Policies" included in this Annual Report are also important to an understanding of our financial statements. We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Wholesale revenues are recorded when title transfers to the customer, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable, which is typically at the shipping point. Estimated reductions to revenue for customer allowances are recorded based upon a percentage of sales. Returns are allowed based upon pre approval or in the case of damaged goods. Such returns are estimated based on historical experience and an allowance is provided at the time of sale.

Retail store revenue is recognized at the time the customer takes possession of the related merchandise, net of estimated returns at the time of sale to customers. Ecommerce sales of products ordered through our retail internet sites known as www.hudsonjeans.com, www.robertgraham.us and www.swims.com are recognized upon receipt of the shipment by the customers. Ecommerce revenue is also reduced by an estimate for returns. Retail store revenue and ecommerce revenue exclude sales taxes.

Revenue from licensing arrangements is recognized when earned in accordance with the terms of the underlying agreements and deemed collectible, generally based upon the higher of (a) the contractually guaranteed minimum royalty or (b) actual net sales data received from licensees. Payments received in consideration of the grant of a license or

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advanced royalty payments is recognized ratably as revenue over the term of the license agreement. The unrecognized portion of upfront payments is included in accounts payable and accrued expenses within the accompanying consolidated balance sheets.

Amounts related to shipping and handling that are billed to customers are reflected in net sales, and the related costs are reflected in cost of goods sold within the accompanying consolidated statements of operations and comprehensive income (loss).

Accounts Receivable, Factored Accounts Receivable and Allowance for Bad Debts, Sales Allowances, and Customer Chargebacks

We evaluate the ability to collect accounts receivable, factor accounts receivable with recourse and charge backs (customer disputes) based upon a combination of factors. Reserves for charge backs are recognized based on historical collection experience. A specific reserve for bad debts is taken against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Whether a receivable is past due is based on how recently payments have been received and in certain circumstances when we are aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings, substantial downgrading of credit sources, etc.). Amounts are written off against the reserve once it is established that it is remote such amounts will be collected. We also reserve for potential sales returns and allowances based on historical trends.

Inventories and Reclassification

Inventory is valued at the lower of cost or net realizable value with cost determined by the first in, first out method. Inventory consists of finished goods, work in process and raw materials. We continually evaluate our inventory by assessing slow moving current product. Net realizable value of non current inventory is estimated based on historical sales trends, the impact of market trends, an evaluation of economic conditions and the value of current orders relating to future sales. Inventory reserves establish a new cost basis for inventory. Such reserves are not reversed until the related inventory is sold or otherwise disposed. Costs capitalized in inventory include the purchase price of raw materials and contract labor, plus in bound transportation costs and import fees and duties.

During the three months ended March 31, 2017, we modified our capitalization of overhead costs allocated to inventory to include certain production costs that were previously excluded. These production expenses were previously included in cost of goods sold and selling, general and administrative expenses. These costs are now included in production overhead capitalized to inventory to better reflect the costs incurred to bring our inventory to a saleable condition after the recent change in our processes of sourcing inventory. This modification resulted in additional capitalization of $1.4 million of production overhead to the standard cost of inventory from production expenses during the first quarter of fiscal 2017. This modification has been accounted for on a prospective basis from January 1, 2017.

The increase in inventories resulted in a $1.4 million non-cash benefit at March 31, 2017 (or $0.11 per diluted share), which was comprised of a $0.3 million decrease in cost of goods sold and a $1.1 million decrease in selling, general and administrative expenses during the three months ended March 31, 2017.

In addition, we have reclassified delivery expenses, design costs, warehousing and handling costs and other inventory acquisition related costs to cost of goods sold, which were previously included in selling, general and administrative expenses. The classification of these costs in cost of goods sold more accurately reflects the cost of producing and distributing products. Additionally, this presentation enhances the comparability of our financial statements with industry peers. The change has been reflected in the consolidated statements of operations in the prior year to conform to the presentation in the current year. The impact of the reclassification resulted in an increase to cost of goods sold and a decrease to selling, general and administrative expenses in the amount of $18.2 million for the year ended December 31, 2016.

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Impairment of Long Lived Assets, Intangible Assets and Goodwill

We assess the impairment of long lived assets, identifiable intangible assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, we assess goodwill and indefinite lived intangible assets for impairment annually. Factors considered important that could trigger an impairment review other than on an annual basis include the following:

- A significant underperformance relative to historical or projected future operating results;
- A significant change in the manner of the use of the acquired asset or the strategy for the overall business; or
- A significant negative industry or economic trend.

Impairment of Long-Lived Assets and Intangible Assets Subject to Amortization

When we determine that the carrying value of long lived assets, such as property and equipment and intangible assets subject to amortization, may not be recoverable based upon the existence of one or more of the aforementioned factors and the carrying value exceeds the estimated undiscounted cash flows expected to be generated by the asset, impairment is measured based on a projected discounted cash flow method using a discount rate determined by management. These cash flows are calculated by netting future estimated sales against associated merchandise costs and other related expenses such as payroll, occupancy and marketing. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows. The estimated cash flows used for this nonrecurring fair value measurement are considered a Level 3 input as defined in “Note 9 – Fair Value Measurement of Financial Instruments”.

Future expected cash flows for retail store assets are based on management’s estimates of future cash flows over the remaining lease period or expected life, if shorter. We consider historical trends, expected future business trends and other factors when estimating each store’s future cash flow. We also consider factors such as: the local environment for each store location, including mall traffic and competition; the ability to successfully implement strategic initiatives; and the ability to control variable costs such as cost of sales and payroll, and in some cases, renegotiate lease costs. If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, there may be additional exposure to future impairment losses that could be material to the results of operations.

Intangible assets subject to amortization, such as customer relationships, are amortized over their estimated useful lives.

Goodwill and Indefinite Lived Intangible Assets

Goodwill and intangible assets with indefinite lives, such as trademarks, are not amortized but are tested at least annually for impairment on December 31st of each year or when circumstances indicate their carrying value may not be recoverable. Goodwill is evaluated for impairment at least annually by determining the fair value of each reporting unit and comparing this value to its carrying value. If the fair value exceeds the carrying value, including goodwill, no further work is required and no impairment loss would be recognized. If the carrying value exceeds the fair value of the assets, goodwill impairment is recorded for the amount that the reporting unit's carrying amount exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. We review indefinite lived intangible assets for impairment on an annual basis, or when circumstances indicate their carrying value may not be recoverable. We calculate the value of the indefinite lived intangible assets using a discounted cash flow method, based on the relief from royalty method.

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Derivatives

Warrants and other derivative financial instruments are accounted for as either equity or liabilities based upon the characteristics and provisions of each instrument. During the year ended December 31, 2016, the warrants that were issued in conjunction with the acquisition of Swims (see "Note 20 – Acquisition of SWIMS") were determined to be equity. Warrants classified as equity are recorded at fair value as of the date of issuance within the consolidated balance sheets and no further adjustments to their valuation is made. Management estimates the fair value of these warrants using option pricing models and assumptions that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for future financings, expected volatility, expected life, yield, and risk-free interest rate.

Stock Based Compensation

The cost of all employee stock based compensation awards is measured based on the grant date fair value of those awards and recorded as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award). The cost of all non-employee stock based compensation awards is measured based on the grant date fair value of those awards and revalued each reporting period, and is recorded as compensation expense over the service period. An entity may elect either an accelerated recognition method or a straight line recognition method for awards subject to graded vesting based on a service condition, regardless of how the fair value of the award is measured. For all stock-based compensation awards that contain graded vesting based on service conditions, we have elected to apply a straight line recognition method to account for these awards.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. Until the RG Merger on January 28, 2016, the Company was treated as a partnership for tax purposes. Pursuant to this status, taxable income or loss of the Company is included in the income tax returns of its owners. Consequently, no federal income tax provision is recorded through the RG Merger date. However, under state laws, certain taxes are imposed upon limited liability companies and are provided for through the RG Merger date.

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in the expected realization of these assets depends on our ability to generate sufficient future taxable income. The ability to generate enough taxable income to utilize the deferred tax assets depends on many factors, among which is our ability to deduct tax loss carry forwards against future taxable income, the effectiveness of tax planning strategies and reversing deferred tax liabilities. See "Notes to Consolidated Financial Statements—Note 12– Income Taxes" for the impact of the Tax Act.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based upon the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Our policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense within the accompanying consolidated statements of operations and comprehensive income (loss).

Discontinued Operations

In accordance with the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC"), ASC 205-20, Presentation of Financial Statements – Discontinued Operations, the results of operations of a component of an entity or a group or component of an entity that represents a strategic shift that has, or will have, a major effect on the reporting company's operations that has either been disposed of or is classified as held for sale are

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required to be reported as discontinued operations in a company's consolidated financial statements. In order to be considered a discontinued operation, both the operations and cash flows of the discontinued component must have been (or will be) eliminated from the ongoing operations of the company and the company will not have any significant continuing involvement in the operations of the discontinued component after the disposal transaction. The accompanying consolidated financial statements reflect the results of operations of the Joe's Business as discontinued operations.

Recently Issued Financial Accounting Standards

For more information, see "Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies—Financial Standards Recently Adopted" and "—Other Recently Issued Financial Accounting Standards."

Correction of an Immaterial Error

During the 2017 year end close, we determined that basic and diluted Earnings per Share (EPS) had been incorrectly stated. Historically, cumulative preferred dividends for the period were not included in the calculation of EPS. However, in accordance with ASC 260, Earnings per Share, income available to common stockholders shall be computed by deducting the dividends accumulated for the period on cumulative preferred stock. Our Series A Preferred Stock entitles the holder to receive cumulative dividends when, as and if declared by the Board of Directors, payable at an annual rate of 10% through the date on which the liquidation preference is paid to the holder in connection with the liquidation of the Company or the date on which such Series A Preferred Stock is otherwise reacquired by the Company. The amount of the cumulative dividend on the Series A Preferred Stock has been disclosed previously in the Company's filings. We have corrected the calculation of basic and diluted EPS to include the cumulative preferred dividends for the period. Management evaluated the materiality of the error from a quantitative and qualitative perspective and concluded that this adjustment was not material to the presentation and disclosures, and has no impact on our financial position, results of operations and cash flows. Accordingly, no amendments to previously filed reports were required. However, we elected to revise the historical consolidated financial information presented herein to reflect the correction of this error for the prior period presented and to conform to the current year presentation. For the basic and diluted loss per common share from continuing operations and basic and diluted loss per share for the year ended December 31, 2016 as a result of this correction, see "Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies—Correction of an Immaterial Error."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable. The registrant is relying on smaller reporting company disclosure requirements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Audited Consolidated Financial Statements:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Differential Brands Group Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Differential Brands Group Inc. (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income (loss), equity and cash flows for each of the two years then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CohnReznick LLP

We have served as the Company’s auditor since 2016.

New York, NY

April 2, 2018

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DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,250	$ 6,476
Factor accounts receivable, net	17,442	16,703
Accounts receivable, net	4,804	3,522
Inventories	31,733	23,977
Prepaid expenses and other current assets	4,832	4,249
Total current assets	67,061	54,927
Property and equipment, net	8,417	10,620
Goodwill	8,380	8,271
Intangibles assets, net	89,332	91,886
Other assets	484	467
Total assets	$ 173,674	$ 166,171
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 22,204	$ 18,223
Short-term convertible note	13,694	13,137
Cash advances from customers	—	1,707
Current portion of long-term debt	2,813	1,250
Total current liabilities	38,711	34,317
Deferred rent	3,554	3,636
Line of credit	21,254	12,742
Convertible notes	13,866	12,660
Long-term debt, net of current portion	44,896	47,218
Deferred income taxes, net	6,650	11,074
Total liabilities	128,931	121,647
Commitments and contingencies (Note 14)		
Equity		
Series A convertible preferred stock, $0.10 par value: 50,000 shares authorized, issued and outstanding at December 31, 2017 and 2016	5	5
Common stock, $0.10 par value: 100,000,000 shares authorized, 13,488,366 and 13,239,125 shares issued and outstanding at December 31, 2017 and 2016, respectively	1,349	1,324
Additional paid-in capital	61,314	59,154
Accumulated other comprehensive income (loss)	271	(221)
Accumulated deficit	(18,196)	(15,738)
Total equity	44,743	44,524

Total liabilities and equity	$ 173,674	$ 166,171

The accompanying notes are an integral part of these financial statements.

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DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

	Year ended December 31, 2017	2016 (Note 2)
Net sales	$ 164,053	$ 149,267
Cost of goods sold	92,303	87,987
Gross profit	71,750	61,280
Operating expenses		
Selling, general and administrative	64,370	63,244
Depreciation and amortization	6,061	6,012
Retail store impairment	243	2,177
Total operating expenses	70,674	71,433
Operating income (loss) from continuing operations	1,076	(10,153)
Other expense		
Interest expense	8,844	7,531
Other expense, net	21	42
Total other expense	8,865	7,573
Loss from continuing operations before income taxes	(7,789)	(17,726)
Income tax benefit	(5,331)	(1,200)
Loss from continuing operations	(2,458)	(16,526)
Loss from discontinued operations, net of tax	—	(1,286)
Net loss	$ (2,458)	$ (17,812)
Net loss attributable to common stockholders	$ (7,938)	$ (22,506)
Net loss	$ (2,458)	$ (17,812)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	492	(221)
Other comprehensive income (loss)	492	(221)
Comprehensive loss	$ (1,966)	$ (18,033)
Loss per common share - basic		
Loss from continuing operations	$ (0.60)	$ (1.71)
Loss from discontinued operations	—	(0.10)
Loss per common share - basic	$ (0.60)	$ (1.81)
Loss per common share - diluted		
Loss from continuing operations	$ (0.60)	$ (1.71)
Loss from discontinued operations	—	(0.10)
Loss per common share - diluted	$ (0.60)	$ (1.81)

Weighted average shares outstanding		
Basic	13,313	12,428
Diluted	13,313	12,428

The accompanying notes are an integral part of these financial statements.

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DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

	Common Stock		Preferred Series A		Additional	Accumulated Other Comprehensive Income	Accumulated	Common Members	
	Shares	Par Value	Shares	Par Value	Paid-In Capital	(Loss)	Deficit	Units	Amount
Balance, January 1, 2016	—	$ —	—	$ —	$ —	$ —	$ —	4,900	$ 22,743
Net loss through RG Merger date	—	—	—	—	—	—	—	—	(1,016)
Redemption of Robert Graham unit holders	—	—	—	—	—	—	—	—	(28,905)
Contribution of Robert Graham in exchange for common shares	8,825	883	—	—	(13,634)	—	—	(4,900)	7,178
Reverse acquisition with Robert Graham	3,509	351	—	—	19,649	—	—	—	—
Issuance of Series A convertible preferred stock, net of offering costs of $931	—	—	50	5	49,064	—	—	—	—
Issuance of common stock for SWIMS acquisition	703	70	—	—	1,680	—	—	—	—
Issuance of warrants	—	—	—	—	510	—	—	—	—
Stock-based compensation	—	—	—	—	2,052	—	—	—	—

Issuance of restricted common stock, net of taxes withheld	202	20	—	—	(167)	—	—	—	—
Foreign currency translation	—	—	—	—	—	(221)	—	—	—
Net loss post RG Merger date	—	—	—	—	—	—	(15,738)	—	—
Balance, December 31, 2016	13,239	$ 1,324	50	$ 5	$ 59,154	$ (221)	$ (15,738)	—	$ —
Stock-based compensation	—	—	—	—	2,340	—	—	—	—
Issuance of restricted common stock, net of taxes withheld	249	25	—	—	(180)	—	—	—	—
Foreign currency translation	—	—	—	—	—	492	—	—	—
Net loss	—	—	—	—	—	—	(2,458)	—	—
Balance, December 31, 2017	13,488	$ 1,349	50	$ 5	$ 61,314	$ 271	$ (18,196)	—	$ —

The accompanying notes are an integral part of these financial statements.

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DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	$ (2,458)	$ (16,526)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	6,061	6,012
Retail store impairment	243	2,177
Amortization of deferred financing costs	437	380
Amortization of convertible notes discount	690	916
Paid-in-kind interest	1,662	1,023
Stock-based compensation	2,340	2,052
Provision for bad debts	257	116
Amortization of inventory step up	—	1,659
Loss on disposal of assets	62	—
Deferred taxes	(4,547)	(1,086)
Changes in operating assets and liabilities:		
Accounts receivable	(2,342)	(4,554)
Inventories	(7,644)	3,352
Prepaid expenses and other assets	(519)	99
Accounts payable and accrued expenses	4,107	(10,874)
Deferred rent	(75)	68
Net cash used in continuing operating activities	(1,726)	(15,186)
Net cash used in discontinued operating activities	—	(1,384)
Net cash used in operating activities	(1,726)	(16,570)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in reverse acquisition with Robert Graham, net of cash acquired	—	(6,538)
Refund (payment) of security deposit	3	(4)
Purchases of property and equipment	(1,130)	(2,046)