UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from to

Commission file number: 000-18926

CENTRIC BRANDS 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.)

350 5th Avenue, 6th Floor, New York, NY 10118
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(646) 582-6000**

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.10 per share	**CTRC**	**The Nasdaq Stock Market LLC (Nasdaq Capital Market)**

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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 ☐	Smaller reporting company ☒
Non-accelerated filer ☒	Emerging growth company ☐
Accelerated filer ☐	

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 number of shares of the registrant's common stock outstanding as of November 14, 2019 was 59,056,743.

CENTRIC BRANDS INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

CENTRIC BRANDS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except per share data)

	September 30, 2019 (unaudited)	December 31, 2018 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	$ 18,986	$ 29,519
Accounts receivable, net	18,197	27,910
Sold receivables, net	85,450	33,825
Inventories	443,303	342,952
Prepaid expenses and other current assets	83,437	48,378
Total current assets	649,373	482,584
Property and equipment, net	91,478	93,044
Goodwill	356,814	376,132
Intangible assets, net	838,690	897,470
Operating lease right-of-use assets	206,096	—
Other assets	12,222	9,725
Total assets	$ 2,154,673	$ 1,858,955
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	$ 707,069	$ 525,863
Current portion of operating lease liabilities	28,059	—
Current portion of long-term debt	28,219	11,287
Revolving credit facilities	46,360	315
Total current liabilities	809,707	537,465
Convertible notes	39,965	36,235
Long-term debt, net of current portion	1,197,636	1,195,297
Operating lease liabilities, net of current portion	186,680	—
Other non-current liabilities	131	6,581
Total liabilities	2,234,119	1,775,578
Commitments and contingencies (Note 7)		
Equity (Deficit)		
Common stock, $0.10 par value: 100,000 shares authorized, 58,738 and 58,364 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	5,873	5,836
Additional paid-in capital	226,461	218,240
Accumulated other comprehensive (loss) income	(500)	487
Accumulated deficit	(311,280)	(141,186)
Total equity (deficit)	(79,446)	83,377
Total liabilities and equity	$ 2,154,673	$ 1,858,955

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

CENTRIC BRANDS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share data)
(unaudited)

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net sales	$ 712,429	$ 39,830	$ 1,664,533	$ 114,614
Cost of goods sold	534,172	22,671	1,255,678	66,774
Gross profit	178,257	17,159	408,855	47,840
Operating expenses				
Selling, general and administrative	99,318	25,029	315,450	58,992
Depreciation and amortization	25,121	1,378	71,692	4,252
Other operating expense, net	14,121	—	48,963	—
Total operating expenses	138,560	26,407	436,105	63,244
Operating income (loss)	39,697	(9,248)	(27,250)	(15,404)
Other expense, net				
Interest expense	48,808	2,462	141,696	7,097
Other (income) expense, net	(182)	22	(426)	124
Total other expense, net	48,626	2,484	141,270	7,221
Loss before income taxes	(8,929)	(11,732)	(168,520)	(22,625)
Income tax provision (benefit)	50	(1,151)	1,574	(2,275)
Net loss	$ (8,979)	$ (10,581)	$ (170,094)	$ (20,350)
Net loss attributable to common stockholders	$ (8,979)	$ (12,473)	$ (170,094)	$ (25,898)
Net loss	$ (8,979)	$ (10,581)	$ (170,094)	$ (20,350)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(528)	(4)	(987)	137
Other comprehensive income (loss)	(528)	(4)	(987)	137
Comprehensive loss	$ (9,507)	$ (10,585)	$ (171,081)	$ (20,213)
Loss per common share - basic				
Loss per common share - basic	$ (0.15)	$ (0.89)	$ (2.90)	$ (1.87)
Loss per common share - diluted				
Loss per common share - diluted	$ (0.15)	$ (0.89)	$ (2.90)	$ (1.87)
Weighted average shares outstanding				
Basic	58,736	14,085	58,638	13,873
Diluted	58,736	14,085	58,638	13,873

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

CENTRIC BRANDS INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
(in thousands, unaudited)

	Three Months Ended									
	Common Stock		Preferred Series A		Preferred Series A-1		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Equity/(Deficit)
	Shares	Par Value	Shares	Par Value	Shares	Par Value				
Balance at June 30, 2018	14,079	$ 1,408	50	$ 5	4,588	$ 459	$ 75,676	$ 412	$ (27,190)	$ 50,770
Stock-based compensation	—	—	—	—	—	—	614	—	—	614
Issuance of common stock, net of taxes withheld	53	5	—	—	—	—	(42)	—	—	(37)
Foreign currency translation	—	—	—	—	—	—	—	(4)	—	(4)
Net loss	—	—	—	—	—	—	—	—	(10,581)	(10,581)
Balance, September 30, 2018	14,132	$ 1,413	50	$ 5	4,588	$ 459	$ 76,248	$ 408	$ (37,771)	$ 40,762
Balance at June 30, 2019	58,734	$ 5,873	—	$ —	—	$ —	$223,504	$ 28	$ (302,301)	$ (72,896)
Issuance of common stock, net of taxes withheld	4	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	2,957	—	—	2,957
Foreign currency translation	—	—	—	—	—	—	—	(528)	—	(528)
Net loss	—	—	—	—	—	—	—	—	(8,979)	(8,979)
Balance, September 30, 2019	58,738	$ 5,873	—	$ —	—	$ —	$226,461	$ (500)	$ (311,280)	$ (79,446)

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

CENTRIC BRANDS INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
(in thousands, unaudited)

	Nine Months Ended									
	Common Stock		Preferred Series A		Preferred Series A-1		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Equity/(Deficit)
	Shares	Par Value	Shares	Par Value	Shares	Par Value				
Balance at January 1, 2018	13,488	$ 1,349	50	$ 5	—	$ —	$ 61,314	$ 271	$ (17,421)	$ 45,518
Issuance of Series A-1 convertible preferred stock	—	—	—	—	4,588	459	13,305	—	—	13,764
Stock-based compensation	—	—	—	—	—	—	2,121	—	—	2,121
Issuance of common stock, net of taxes withheld	644	64	—	—	—	—	(492)	—	—	(428)
Foreign currency translation	—	—	—	—	—	—	—	137	—	137
Net loss	—	—	—	—	—	—	—	—	(20,350)	(20,350)
Balance, September 30, 2018	14,132	$ 1,413	50	$ 5	4,588	$ 459	$ 76,248	$ 408	$ (37,771)	$ 40,762
Balance at January 1, 2019	58,364	$ 5,836	—	$ —	—	$ —	$218,240	$ 487	$ (141,186)	$ 83,377
Issuance of common stock, net of taxes withheld	374	37	—	—	—	—	(452)	—	—	(415)
Stock-based compensation	—	—	—	—	—	—	8,673	—	—	8,673
Foreign currency translation	—	—	—	—	—	—	—	(987)	—	(987)
Net loss	—	—	—	—	—	—	—	—	(170,094)	(170,094)
Balance, September 30, 2019	58,738	$ 5,873	—	$ —	—	$ —	$226,461	$ (500)	$ (311,280)	$ (79,446)

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

CENTRIC BRANDS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Nine months ended September 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (170,094)	$ (20,350)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	71,692	4,252
Amortization of deferred financing costs and discounts	14,891	896
Amortization of operating lease right-of-use assets	20,077	—
Paid-in-kind interest	16,575	1,300
Stock-based compensation	8,673	2,121
Deferred taxes	(446)	(2,577)
Amortization of inventory step up	9,546	—
Other non-cash adjustments	611	461
Changes in operating assets and liabilities:		
Accounts receivable, net	(539,631)	2,439
Operating lease liability	(18,108)	—
Inventories	(88,223)	(2,149)
Prepaid expenses and other assets	(39,234)	475
Accounts payable and accrued expenses	184,450	9,534
Other liabilities	(4,229)	125
Net cash used in operating activities	(533,450)	(3,473)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of deferred purchase price of sold receivables	499,527	—
Termination fees paid on leases	(346)	—
Purchases of property and equipment	(10,074)	(976)
Net cash provided by (used in) investing activities	489,107	(976)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(7,256)	(2,188)
Proceeds from line of credit, net	46,045	2,247
Repayment of finance leases	(2,561)	—
Payment of deferred financing costs	(1,500)	—
Taxes paid in lieu of shares issued for stock-based compensation	(415)	(428)
Net cash provided by (used in) financing activities	34,313	(369)
Effect of exchange rate changes on cash and cash equivalents	(503)	82
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,533)	(4,736)
CASH AND CASH EQUIVALENTS, at beginning of period	29,519	8,250
CASH AND CASH EQUIVALENTS, at end of period	$ 18,986	$ 3,514
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 108,548	$ 6,624
Income taxes paid	$ 138	$ 172
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unpaid purchases of property and equipment	$ 368	$ 58
Beneficial interest obtained in exchange for securitized trade receivables	$ 642,661	$ —
Conversion of short-term convertible notes	$ —	$ 13,764
Additions to operating lease liabilities	$ 241,951	$ —

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

CENTRIC BRANDS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands (unless otherwise indicated) except share and per share data)
(unaudited)

1. Business Description and Basis of Presentation

Centric Brands Inc. ("Centric" or the "Company") is a leading lifestyle brands collective, bringing together creative minds from the worlds of fashion and commerce, sourcing, technology, marketing, digital and entertainment. The Company designs, produces, merchandises, manages and markets kidswear, accessories, and men's and women's apparel under owned, licensed and private label brands. The Company's distinctive image has been developed across an expanding number of products, brands, sales channels and markets. The Company licenses over 100 brands or produces private label products across core product categories including kids, accessories, and men's and women's apparel. Licensed brands include Calvin Klein, Under Armour, Tommy Hilfiger, Nautica, Spyder, BCBG, Joe's, Buffalo, Frye, Michael Kors, Kate Spade, AllSaints and Cole Haan, and entertainment properties including Disney, Marvel and Nickelodeon, among others. The Company's products are sold through a cross section of leading retailers such as Walmart, Macy's, Kohl's, TJX Companies, Costco, Nordstrom, Dillard's, Ross, Target, JC Penney and Amazon. The Company also sell products over the web through retail partners such as Walmart.com, Macy's.com and Nordstrom.com. The Company also distributes apparel and other products through Company-owned retail stores, ecommerce websites, and partner shop-in-shops.

Legacy company-owned brands include Hudson®, a designer and marketer of men's and women's premium, branded denim and apparel, Robert Graham®, a sophisticated, eclectic apparel and accessories brand seeking to inspire a global movement, and SWIMS®, a Scandinavian lifestyle brand best known for its range of fashion-forward, water-friendly footwear, apparel and accessories (collectively, the "Owned Brands").

Centric and its subsidiaries are collectively referred to herein as the "Company," "we," "us," "our," and "ourselves," unless the context indicates otherwise.

On October 29, 2018, the Company acquired from Global Brands Group Holding Limited ("***GBG***") and GBG USA Inc., a wholly-owned subsidiary of GBG ("***GBG USA***"), a significant part of GBG's North American business ("***GBG Acquisition***"), including the wholesale, retail and e-commerce operations comprising all of their North American kids business, all of their North American accessories business and a majority of their West Coast and Canadian fashion businesses (the "***GBG Business***"). Effective upon the consummation of the GBG Acquisition, the Company changed its name from Differential Brands Group Inc. to Centric Brands Inc. and changed its trading symbol on NASDAQ from DFBG to CTRC.

Prior to the GBG Acquisition, the Company organized its business into the following three reportable segments: Wholesale, Consumer Direct and Corporate and other. Subsequent to the GBG Acquisition, the Company implemented organizational changes that have impacted the manner in which it manages itself. Accordingly, the Company realigned its business into the following three reportable segments: (i) Kids, (ii) Accessories and (iii) Men's & Women's Apparel. See "Note 15 – Segment Information".

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("***SEC***") and should be read in conjunction with the Company's audited financial statements and footnotes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 ("***2018 10-K***") filed on May 16, 2019. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("***GAAP***") have been omitted pursuant to such rules and regulations.

The condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's consolidated financial position, its results of operations and cash flows for the interim periods presented. The operating results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the full fiscal year 2019 or for any other interim period. The December 31, 2018 consolidated balance sheet is condensed from the audited financial statements as of that date.

The condensed consolidated financial statements have been prepared in accordance with GAAP and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

2. Summary of Significant Accounting Policies

Information regarding significant accounting policies is contained in "Note 2 – Summary of Significant Accounting Policies" of the consolidated financial statements in the 2018 10-K.

Revenue Recognition

The Company accounts for its revenues in accordance with Accounting Standards Codification (***"ASC"***), Revenue from Contracts with Customers, ("***ASC 606***").

Wholesale revenues are recorded when a contract with the customer is agreed to by both parties and product has been transferred, which generally occurs at the point of shipment from the Company's warehouse, and recorded at the transaction price based on the amount the Company expects to receive. Collection is probable as the majority of shipments occur to reputable credit worthy businesses and through factored relationships which guarantee payment. Estimated reductions to revenue for customer allowances are recorded based upon history as a percentage of sales and current outstanding chargebacks. The Company may allow for returns based upon pre-approval or in the case of damaged goods. Such returns are estimated based on historical experience and also specific claims filed by the customer. A refund liability is included in accounts payable and accrued expenses within the accompanying condensed consolidated balance sheets. Also, the Company records a return asset receivable in prepaid expenses and other current assets within the accompanying condensed consolidated balance sheets. The return asset receivable is evaluated for impairment each period.

Retail store revenue is recognized at the time the customer takes possession of the related merchandise. Revenue for ecommerce sales of products ordered through the Company's retail internet sites are recognized at the point of shipment to the customer. Retail store revenue and ecommerce revenue exclude sales taxes collected from the customer.

Revenue from licensing arrangements is recognized based on actual sales when the Company expects royalties to exceed the minimum guarantee. For licensing arrangements in which the Company does not expect royalties to exceed the minimum guarantee, an estimate of the transaction price is recognized on a straight-line basis over the term of the contract. A contract asset is recorded for revenue recognized in advance of the contract payment terms, which is included in other assets within the accompanying condensed consolidated balance sheet. Nonrefundable upfront fees are recorded as a contract liability and revenue is recognized straight-line over the term of the contract. Contract liabilities are included in other liabilities within the accompanying condensed consolidated balance sheet.

Amounts related to shipping and handling that are billed to customers are considered to be activities to fulfill a promise to transfer the goods and are reflected in net sales, and the related costs are reflected in cost of goods sold within the accompanying condensed consolidated statements of operations and comprehensive loss.

Concentration of Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, accounts receivable and sold receivables, net. The Company maintains cash and cash equivalents with various financial institutions, which is designed to limit exposure to any one institution. Periodic evaluations are performed of the relative credit rating of those financial institutions that are considered in the Company's investment strategy. The vast majority of trade receivables from sales to customers are subsequently sold to a financial institution pursuant to a trade receivables securitization facility. The sale of trade receivables are made on a non-recourse basis; however, such sales are guaranteed through credit insurance purchased from an unrelated financial institution. When insured, the Company is not at risk if a customer fails to pay. For trade receivables not sold to a financial institution, the Company generally does not require collateral. As of September 30, 2019, the deferred purchase price of trade receivables sold pursuant to the RPA (as defined below) totaled $102.7 million. As of December 31, 2018, the deferred purchase price of trade receivables sold pursuant to the RPA totaled $59.3 million. See "Note 4 – Accounts Receivables."

The Company provides an allowance for estimated losses to be incurred in the collection of accounts receivable based upon the aging of outstanding balances, margin support and other dilution-related items. The net carrying value approximates the fair value for these assets. Such losses have historically been within management's expectations. Uncollectible accounts are written off once collection efforts are deemed by management to have been exhausted.

Financial Accounting Standards Recently Adopted

In February 2016, the Financial Accounting Standards Board ("***FASB***") issued ASC Topic 842, Leases ("***ASC 842***"), a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("***ROU***") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted ASC 842 as of January 1, 2019, using the modified retrospective approach. The Company elected the 'comparatives under ASC 840 option' as a transitional practical expedient, which allows the Company to initially apply the new lease requirements at the effective date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. It also allows the Company to report comparative periods in the financial statements under previous GAAP under ASC 840, Leases ("***ASC 840***"). There was no cumulative-effect adjustment recorded in connection with our adoption of ASC 842. The Company also elected the 'package of practical expedients' permitted under the transition guidance, which allowed the Company to (i) carry forward the historical lease classification, (ii) forgo reassessment of whether any expired or existing contracts contain leases, and (iii) forgo reassessment of whether any previously unamortized initial direct costs continue to meet the definition of initial direct costs under ASC 842. However, any initial direct costs after the effective date will be included within the ROU asset under ASC 842. The Company did not elect the 'hindsight' practical expedient to reassess the lease term for existing leases.

For the accounting policy practical expedients, the Company elected not to recognize ROU assets and lease liabilities for short-term leases which have a lease term of 12 months or less and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Additionally, the Company elected the non-separation of lease and non-lease components, and as a result, the Company does not need to account for lease components (e.g., fixed payments including rent) separately from the non-lease components (e.g., common-area maintenance costs) for all leases.

The adoption of ASC 842 resulted in the recognition of ROU assets of $214.0 million with corresponding lease liabilities of $220.7 million. As a result of adopting the standard, $6.7 million of pre-existing liabilities for deferred rent, unfavorable leases and various lease incentives were reclassified as a component of the ROU assets.

There was no adjustment to the opening balance of retained earnings upon adoption of ASC 842 given the nature of the impacts and the other transition practical expedients elected by the Company. Adoption of ASC 842 impacted the Company's results on January 1, 2019, as follows (in thousands):

	December 31, 2018	Adjustments due to ASC 842	January 1, 2019
Operating lease ROU assets (1) (2) (4)	$ —	$ 214,000	$ 214,000
Current portion of operating lease liabilities (3)	$ —	$ 20,883	$ 20,883
Accounts payable and accrued expenses (1)	525,863	(367)	525,496
Operating lease liabilities (3)	—	199,857	199,857
Other non-current liabilities (4)	6,581	(6,373)	208
Total	$ 532,444	$ 214,000	$ 746,444

(1) Represents the reclassification of deferred rent, unfavorable leases and lease incentives to operating lease ROU assets.
(2) Represents capitalization of operating lease assets.
(3) Represents recognition of operating lease liabilities.
(4) Represents reclassification of deferred rent, unfavorable leases and lease incentives to operating lease ROU assets.

The standard did not materially impact the Company's consolidated net earnings and had no material impact on the condensed consolidated statement of cash flows. For further information regarding leases, see "Note 10 – Leases."

Leases

In general, leases are evaluated and classified as either operating or finance leases. The Company has finance leases, however, finance leases are not material to the Company's condensed consolidated balance sheets, condensed consolidated statements of operations and comprehensive loss or condensed consolidated statements of cash flows.

The assets related to the Company's operating leases are included in operating lease ROU assets, and the current and long-term portions of liabilities related to the Company's operating leases are included in current portion of operating lease liabilities and operating lease liabilities, respectively, on the condensed consolidated balance sheet as of September 30, 2019. Operating lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As the Company cannot determine the implicit rate in its leases, the Company uses its estimated incremental borrowing rate based on information available at the date of the commencement of the lease in calculating the present value of its existing lease payments. The incremental borrowing rate is determined using the U.S. Treasury rate adjusted to account for the Company's credit rating and the collateralized nature of operating leases. The operating lease asset also includes any lease payments made and unamortized lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line method over the term of the lease.

Recently Issued Financial Accounting Standards

In June 2016, the FASB issued Accounting Standards Update ("***ASU***") No. 2016-13, Financial Instruments — Credit Losses — Measurement of Credit Losses on Financial Instruments, an accounting standards update that introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. This includes accounts receivable, trade receivables, loans, held-to-maturity debt securities, net investments in leases and certain off-balance sheet credit exposures. The guidance also modifies the impairment model for available-for-sale debt securities. The update is effective for fiscal years beginning after December 15, 2022 and interim periods within that reporting period. The Company is currently assessing the potential effects this update may have on its condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Under this guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This standard is effective beginning in the first quarter of 2020, with early adoption permitted. The Company is currently assessing the impact of the new guidance.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This new guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This new guidance is effective for the Company beginning on January 1, 2020, with early adoption permitted. Certain disclosures in the new guidance will need to be applied on a retrospective basis and others on a prospective basis. The Company is currently assessing the impact of the new guidance.

3. GBG Acquisition

On October 29, 2018, the Company completed the GBG Acquisition for a preliminary purchase price of $1.2 billion. To finance the acquisition, the Company entered into the Credit Agreements (as defined below). The First Lien Credit Agreement (as defined below) provides for a senior secured asset based revolving credit facility with commitments in an aggregate principal amount of $150.0 million, which subsequently increased to $200.0 million, and a senior secured term loan credit facility in an aggregate principal amount of $645.0 million. The Second Lien Credit Agreement (as defined below) provides for a second lien term loan facility in an aggregate principal amount of $668.0 million. See "Note 8 – Debt" for a discussion of the terms of the Credit Agreements and amendments thereto.

The purchase price allocation is subject to adjustment until the Company has completed its analysis within the measurement period. The purchase price allocation is preliminary and the finalization of the Company's purchase price allocation may result in changes in the valuation of assets acquired and liabilities assumed. The Company will finalize the purchase price allocation during the fourth quarter of 2019.

During the three months ended September 30, 2019, the Company obtained additional information regarding the fair value of certain acquired assets and liabilities based on facts that existed at the date of acquisition. The following table sets forth the current allocation of the purchase price to the net assets acquired and liabilities assumed, including measurement period adjustments (in thousands):

	Preliminary Purchase Price Allocation	Measurement Period Adjustments	Revised Purchase Price Allocation
Assets acquired and liabilities assumed:			
Accounts receivable	$ 65,106	$ 328	$ 65,434
Inventories	371,605	21,698	393,303
Prepaid expenses and other current assets	56,380	—	56,380
Property and equipment	86,971	—	86,971
Other assets	41	—	41
Accounts payable and accrued expenses	(589,849)	(2,708)	(592,557)
Intangible assets and liabilities acquired:			
Goodwill	367,725	(19,318)	348,407
Leasehold interests	(2,310)	—	(2,310)
Customer relationships	824,000	—	824,000
Preliminary purchase price	$ 1,179,669	$ —	$ 1,179,669

Unaudited pro forma financial information

The following table presents our unaudited pro forma results for the three months ended September 30, 2018 and nine months ended September 30, 2018, as if the GBG Acquisition had occurred on January 1, 2018. The unaudited pro forma financial information presented includes the effects of adjustments related to the amortization of acquired tangible and intangible assets, and excludes other non-recurring transaction costs directly associated with the acquisition such as legal and other professional service fees.

	Three months ended September 30, 2018 (in thousands)	Nine months ended September 30, 2018 (in thousands)
Net sales	$ 605,710	$ 1,586,177
Cost of goods sold	495,826	1,250,806
Gross margin	109,884	335,371
Gross margin % of net sales	18.1 %	21.1 %
Operating expenses		
Selling, general and administrative	151,607	431,491
Depreciation and amortization	22,177	68,526
Total operating expenses	173,784	500,017
Operating loss	(63,900)	(164,646)
Interest expense	38,066	114,131
Other (income) expense, net	22	(17,551)
Loss before income taxes	(101,988)	(261,226)
Income tax benefit	(1,152)	(2,275)
Net loss	$ (100,836)	$ (258,951)

The unaudited pro forma financial information as presented above is for information purposes only and is not necessarily indicative of the actual results that would have been achieved had the GBG Acquisition occurred at the beginning of the earliest period presented or the results that may be achieved in future periods.

4. Accounts Receivable

PNC Receivables Facility

In October 2018, in connection with the GBG Acquisition, the Company entered into a three-year trade receivables securitization facility (the **"*PNC Receivables Facility*"**) pursuant to (i) a Purchase and Sale Agreement, among certain subsidiaries of the Company, as "***Originators,***" and Spring Funding, LLC ("***Spring***"), a wholly owned, bankruptcy-remote special purpose subsidiary of the Company, as "***Buyer***" (the "***PSA***") and (ii) a Receivables Purchase Agreement among Spring, as "***Seller***", the Company, as initial "***Servicer***", certain purchasers party thereto (the "***Purchasers***"), PNC Bank, National Association, as Administrative Agent, and PNC Capital Markets LLC, as Structuring Agent (the "***RPA***"). Other subsidiaries of the Company may later enter into the PNC Receivables Facility. At the end of the initial three year term, the Purchasers may elect to renew their commitments under the RPA.

Under the terms of the PSA, the Originators sell or contribute certain of their trade accounts receivable, related collections and security interests (the "***Receivables***") to Spring on a revolving basis. Under the terms of the RPA, Spring sells to the Purchasers the Receivables for up to $450.0 million, prior to an amendment in fiscal 2019 that increased the amount to $600.0 million in the event of syndication of the PNC Receivables Facility, in cash proceeds. The proceeds from the Purchasers' investment are used to finance Spring's purchase of the Receivables from the Originators. Spring may also use the proceeds from a subordinated loan made by the Originators to Spring to finance purchases of the Receivables from the Originators. Rather than remitting to the Purchasers the amount received upon payment of the Receivables, Spring reinvests such Receivables payments to purchase additional Receivables from the Originators through the term of the agreement, subject to the Originators generating sufficient eligible Receivables to sell to Spring in replacement of collected balances. Advances under the RPA will accrue interest based on a variable rate plus a margin.

On April 25, 2019, the Company amended its PNC Receivables Facility pursuant to (i) an amendment to the PSA ("***PSA Amendment***") and (ii) an amendment to the RPA. Under the terms of the PSA Amendment, the Originators continue to sell or contribute certain of Receivables to Spring on a revolving basis and redefined Originators to include an additional subsidiary of the Company. Throughout fiscal 2019, the Company has also entered into numerous amendments to the RPA ("***RPA Amendments***") that, among other things, (i) permitted Spring to sell Receivables for up to $600.0 million in cash proceeds to Purchasers; (ii) added Centric-Canada Apparel & Accessories ULC, an unlimited liability company organized under the laws of British Columbia, to enable the purchase and sale of Canadian receivables pursuant to the PNC Receivables Facility; (iii) changed the monthly settlement date from the 25th of each month to the 28th of each month; and (iv) added Fifth Third Bank and Wells Fargo as additional purchasers of the commitments under the RPA to allow for full utilization of the $600.0 million available under the PNC Receivables Facility.

Accounts receivable consisted of the following (in thousands):

	As of September 30, 2019	As of December 31, 2018
Insured receivables sold	$ 486,122	$ 380,595
Uninsured receivables sold	39,665	43,630
Total receivables sold	525,787	424,225
Purchase price of sold receivables	(423,000)	(364,900)
Allowances	(17,337)	(25,500)
Sold receivables, net	$ 85,450	$ 33,825
Accounts receivable, net	$ 18,197	$ 27,910

5. Inventories

Inventories are valued at the lower of cost or net realizable value with cost determined by the first-in, first-out method. Inventories consisted of the following (in thousands):

	As of September 30, 2019	As of December 31, 2018
Finished goods	$ 430,951	$ 315,484
Raw materials and work in progress	12,352	27,468
Total inventories	$ 443,303	$ 342,952

6. Intangible Assets and Goodwill

Company's intangible assets as of September 30, 2019 are comprised of trade names, customer relationships and non-compete agreements. Intangible assets are recorded at cost, less accumulated amortization. Amortization of intangible assets with finite lives is provided for over their estimated useful lives on a straight-line basis. The life of the trade names are indefinite.

Amortization expense related to the intangible assets amounted to approximately $19.6 million and $0.7 million for the three months ended September, 2019 and 2018, respectively. Amortization expense related to intangible assets amounted to approximately $58.5 million and $2.2 million for the nine months ended September 30, 2019 and 2018, respectively.

There were no indicators present for impairment to intangible assets or goodwill during the three months ended September 30, 2019 and 2018. As a result, there were no impairment charges recorded related to intangible assets or goodwill during the three and nine months ended September 30, 2019 and 2018.

The changes in the carrying amount of goodwill (in thousands) consisted of the following:

	Goodwill
Balance at December 31, 2018	$ 376,132
Measurement period adjustments [(1)]	(19,318)
Balance at September 30, 2019	$ 356,814

(1) Represents measurement period adjustments related to the GBG Acquisition, as discussed in Note 3

7. Commitments and Contingencies

Litigation

In the ordinary course of business, the Company is subject to periodic claims, audits, investigations and lawsuits. Although the Company cannot predict with certainty the ultimate resolution of claims, audits, investigations and lawsuits, asserted against the Company, it does not believe that any currently pending legal or administrative proceeding or proceedings to which it is a party could have a material adverse effect on its business, financial condition or results of operations.

8. Debt

The five-year payment schedule of the Company's debt as of September 30, 2019 is as follows (in thousands):

	Payment Due by Period							Original Issue (Discount) Premium and Costs, Net	Carrying Value
	Remainder of 2019	2020	2021	2022	2023	Thereafter	Total		
Revolving facility	$ 46,360	$ —	$ —	$ —	$ —	$ —	$ 46,360	$ —	$ 46,360
1L Term Loan	4,031	32,250	32,250	32,250	536,963	—	637,744	(15,422)	622,322
2L Term Loan	—	—	—	—	—	687,146	687,146	(83,613)	603,533
Convertible notes	—	—	18,578	—	—	26,283	44,861	(4,896)	39,965
Total	$ 50,391	$ 32,250	$ 50,828	$ 32,250	$ 536,963	$ 713,429	$ 1,416,111	$ (103,931)	$ 1,312,180

New Term Loans

On October 29, 2018 (the "***GBG Closing Date***"), the Company and certain of its subsidiaries entered into a (i) first lien credit agreement with Ares Capital Corporation ("***Ares***"), as administrative agent, ACF FinCo I LP, as collateral agent, and certain other lenders party thereto (the "***First Lien Credit Agreement***") and (ii) second lien credit agreement with U.S. Bank National Association, as administrative agent and collateral agent, and certain lenders party thereto (the "***Second Lien Credit Agreement***", and together with the First Lien Credit Agreement, the "***Credit Agreements***").

The First Lien Credit Agreement provides for a senior secured asset based revolving credit facility with commitments in an aggregate principal amount of $150.0 million, which subsequently increased to $200.0 million and matures on April 29, 2023 (the "***New Revolving Facility***") and a senior secured term loan credit facility in an aggregate principal amount of $645.0 million, which matures on October 29, 2023 (the "***First Lien Term Loan Facility***", and together with the New Revolving Facility, are collectively referred to herein as "***First Lien Facilities***"). The Second Lien Credit Agreement provides for a second lien term loan facility in an aggregate principal amount of $668.0 million, which matures on October 29, 2024 (the "***Second Lien Term Loan Facility***", and together with the First Lien Term Loan Facility are collectively referred to herein as the "***Term Loan Facilities***"). The obligations under the Credit Agreements are guaranteed by certain domestic subsidiaries of the Company and are secured by substantially all assets of the Company and its domestic subsidiaries. Cumulative paid-in-kind interest ("***PIK***") under the Credit Agreements totaled $9.9 million, $13.1 million, and $19.1 million as of March 31, 2019, June 30, 2019, and September 30, 2019 respectively.

The annual interest rates for the Term Loan Facilities are as follows:

- For the First Lien Term Loan Facility: ABR (with a 2.50% floor) plus 5.00% for base rate loans or adjusted LIBOR (with a 1.50% floor) plus 6.00% for LIBOR Rate Loans, with two 0.25% step downs upon achieving and maintaining a first lien leverage ratio equal to or less than 2.75 to 1.00 and 2.25 to 1.00, respectively.

- For the Second Lien Term Loan Facility: ABR (with a 2.50% floor) plus 6.00% for base rate loans or adjusted LIBOR (with a floor of 1.50%) plus 7.00%, plus 2.75% PIK from October 29, 2018 until December 31, 2019, and ABR (with a 2.50% floor) plus 7.00% for base rate loans or adjusted LIBOR (with a 1.50% floor) plus 8.00%, plus 1.25% PIK thereafter if certain leverage ratios are met, otherwise the PIK remains at 2.75%.

As of September 30, 2019, the aggregate principal amount of the First Lien Term Loan Facility and Second Lien Term Loan Facility was $637.7 million and $668.0 million, respectively. The net proceeds from the issuance of the First Lien Term Loan Facility and Second Lien Term Loan Facility were $614.7 million and $646.8 million, respectively.

As of September 30, 2019, the Company's weighted average effective cash interest rate on the First Lien Term Loan Facility and Second Lien Term Loan Facility, including the effect of non-usage fees, was 8% and 10%, respectively. The Company's weighted average effective interest rate on the First Lien Term Loan Facility and Second Lien Term Loan Facility including cash interest and non-cash interest related to deferred finance fees and original issue debt discount, was 10% and 14%, respectively.

The Credit Agreements contain customary representations and warranties, events of default and covenants, including, among other things and subject to certain exceptions, covenants that restrict the ability of the Company and its subsidiaries to incur additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, dispose of assets, make prepayments of certain indebtedness, pay certain dividends and other restricted payments, make investments, and engage in transactions with affiliates. The Term Loan Facilities require the Company to comply with financial maintenance covenants to be tested quarterly (beginning with the fiscal quarter ending March 31, 2019), consisting of a maximum net first lien leverage ratio, a maximum net total leverage ratio and a minimum fixed charge coverage ratio. As of September 30, 2019, the Company was in compliance with these covenants.

The Company incurred debt issuance costs totaling $51.5 million related to the Term Loan Facilities. In accordance with ASU No. 2015-15, Interest – Imputation of Interest, the debt issuance costs have been deferred and are presented as a contra-liability, offsetting the outstanding balance of the Term Loan Facilities, and are amortized using the effective interest method over the remaining life of the Term Loan Facilities.

The Company used the proceeds from the Credit Agreements to consummate the GBG Acquisition and repay existing debt.

On April 17, 2019, the Company entered into the first amendment and waiver (the "***1L Amendment***") to the First Lien Credit Agreement to, among other things: (i) increase the amount of the permitted securitization facility under the RPA from $550.0 million to $600.0 million; (ii) increase the borrowing base of the New Revolving Facility under the First Lien Credit Agreement as set forth in the 1L Amendment; and (iii) amend the Company's consolidated fixed charge ratio covenant.

Concurrent with the 1L Amendment, the Company also entered into the first amendment and waiver (the "***2L Amendment***") to the Second Lien Credit Agreement to, among other things, increase the amount of indebtedness under the First Lien Credit Agreement from $795.0 million to $845.0 million. The Company accounted for the 1L Amendment and 2L Amendment as modifications to the original credit agreements and capitalized the associated debt issuance costs.

New Revolving Facility

In addition to the First Lien Term Loan, the First Lien Credit Agreement provides for a senior secured asset based revolving credit facility with commitments in an aggregate principal amount of $150.0 million, which subsequently increased to $200.0 million and matures on April 29, 2023 (the "***New Revolving Facility***"). The amount available to be drawn under the New Revolving Facility is based on the borrowing base values attributed to eligible inventory. There are no scheduled periodic payments under the New Revolving Facility. The obligations under the Credit Agreements, including the New Revolving Facility, are guaranteed by certain domestic subsidiaries of the Company (the "***Guarantors***") and are secured by substantially all assets of the Company and its domestic subsidiaries.

The annual interest rates for the New Revolving Facility is the lender's alternate base rate ("***ABR***") (with a 1.00% floor) plus 4.50% for base rate loans and adjusted LIBOR (with a 0.00% floor) plus 5.50% for LIBOR rate loans. The New Revolving Facility includes mandatory prepayments customary for credit facilities of this nature. Subject to certain exceptions, permanent reductions of the commitments under the New Revolving Facility are subject to a prepayment premium of (i) 3.00% until October 29, 2019, (ii) 2.00% from October 30, 2019 until October 29, 2020 and (iii) 1.00% from October 30, 2020 until October 29, 2021, plus, if applicable, customary "breakage" costs with respect to LIBOR rate loans.

The New Revolving Facility, contains customary representations and warranties, events of default and covenants, including, among other things and subject to certain exceptions, covenants that restrict the ability of the Company and its subsidiaries to incur additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, dispose of assets, make prepayments of certain indebtedness, pay certain dividends and other restricted payments, make investments, and engage in transactions with affiliates. The Credit Agreements, inclusive of the provisions of the New Revolving Facility, require the Company to comply with financial maintenance covenants to be tested quarterly (beginning with the fiscal quarter ending March 31, 2019), consisting of a maximum net first lien leverage ratio, a maximum net total leverage ratio and a minimum fixed charge coverage ratio. As of September 30, 2019, the Company was in compliance with these covenants.

The Company incurred debt issuance costs totaling $6.8 million related to the New Revolving Facility. The debt issuance costs have been deferred and are presented in Other Assets and are amortized using the effective interest method over the life of the New Revolving Facility.

On April 17, 2019, the Company entered into the 1L Amendment to the First Lien Credit Agreement to, among other things, increase the aggregate commitments under the New Revolving Facility under the First Lien Credit Agreement from $150.0 million aggregate principal amount to $200.0 million. The Company incurred additional debt issuance costs totaling $1.5 million as a result of the 1L Amendment. The debt issuance costs have been deferred and are presented in Other Assets and are amortized using the effective interest method over the remaining life of the New Revolving Facility.

The availability under the New Revolving Facility as of September 30, 2019 was $139.1 million. Borrowings under the New Revolving Facility as of September 30, 2019 were $45.0 million. In addition, the Company had $15.9 million of letters of credit outstanding under the New Revolving Facility as of September 30, 2019.

Convertible Notes

2024 Convertible Notes

On October 29, 2018, the Company issued convertible promissory notes (the***"2024 Convertible Notes"***) in an aggregate principal amount of $25.0 million to funds managed by GSO Capital Partners LP ("***GSO***") and funds managed by Blackstone Tactical Opportunities Advisors L.L.C. (collectively, the ***"GSO/BTO Affiliates"***). The 2024 Convertible Notes are convertible at the holder's option beginning on or after October 29, 2019 until the earlier of (i) repayment in full of all principal and interest outstanding under the Second Lien Credit Agreement and (ii) October 29, 2024 (such earlier date, the ***"2024 Convertible Note Maturity Date"***), into shares of the Company's common stock at a conversion price of $8.00 per share, subject to customary adjustments as described in agreement. The 2024 Convertible Notes did not initially bear interest. From and after April 29, 2019, the 2024 Convertible Notes bore interest at the rate of 12.0% per annum multiplied by the principal amount as of the previous interest payment date. From and after October 29, 2019, the 2024 Convertible Notes currently bear interest at the rate of 16.0% per annum multiplied by the principal amount as of the previous interest payment date. Interest payments are due each January 31, April 30, July 31, and October 31. To the extent that the Company is unable to pay cash interest on the 2024 Convertible Notes on each interest payment date because of restrictions in the Credit Agreements or other debt agreements of the Company, an amount equal to the unpaid interest then due may be added to the principal amount of this Note (such additional amount, the ***"PIK Principal"***), without any action by the Company or a holder of a 2024 Convertible Note. The Company elected to add cash interest payments due from April 29 through September 30, 2019 to the PIK Principal. As of September 30, 2019, the cumulative PIK Principal totaled $1.3 million.

The Company may, at any time and at its sole option, elect to prepay the entirety of aggregate then-outstanding PIK Principal, plus any accrued and unpaid interest on such PIK Principal, at any time (an ***"Optional PIK Prepayment"***). Optional PIK Prepayments may be paid in cash.

Until October 29, 2019, upon consummation of any sales of common stock by the Company for cash, the Company may, on at least ten (10) days' prior written notice to the holder of a 2024 Convertible Note, prepay such 2024 Convertible Note in whole but not in part solely with the net proceeds of such sale of common stock in an amount equal to the greater of (i) the principal amount, together with accrued interest through and including the date of prepayment, or (ii) the value equal to (a) the number of shares of common stock that would be received upon conversion of the 2024 Convertible Note on the repayment date multiplied by the market value of the common stock as of such date, plus (b) any accrued but unpaid interest that has not been added to the principal amount of the 2024 Convertible Note on the date of such prepayment (such greater amount, the ***"Prepayment Amount"***). Also, the 2024 Convertible Notes are prepayable in whole but not in part at the Prepayment Amount: (i) from October 29, 2019 through October 29, 2021 only upon a change in control or a liquidation of the Company, or (ii) from October 29, 2021 until the 2024 Convertible Note Maturity Date, in each case on at least ten (10) day's prior written notice to the holder.

Also, on October 29, 2018, the Company and the Guarantors entered into a Subordinated Convertible Promissory Notes Guaranty Agreement pursuant to which those subsidiaries agreed to guarantee the obligations due under the 2024 Convertible Notes.

The following table is a summary of the recorded value of the 2024 Convertible Notes as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Convertible note - face value	$ 25,000	$ 25,000
Less: Original issue discount	(4,522)	(4,522)
Short-term convertible note recorded value on issue date	20,478	20,478
PIK interest issued	1,283	—
Accumulated accretion of original issue debt discount	2,229	534
Convertible note value	$ 23,990	$ 21,012

Modified Convertible Notes

On January 18, 2016, in partial satisfaction of certain previously outstanding convertible notes, the Company issued an aggregate principal amount of approximately $16.5 million of modified convertible notes (the "***Modified Convertible Notes***").

The Modified Convertible Notes are structurally and contractually subordinated to our senior debt and 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 (which increased to 7% as of October 1, 2016, with respect to the Modified Convertible Notes issued to Fireman Capital CPF Hudson Co-Invest LP ("***Fireman***") only), which is payable 50% in cash and 50% in additional paid-in-kind notes. However, the Company may elect to pay 100% of such interest in cash at its sole discretion. The Modified Convertible Notes are convertible at the option of the holders and may be settled at the Company's election into either shares of the Company's common stock, cash, or a combination thereof.

If the Company elects 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 of the Company's common stock 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 the Company elects 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. The Company 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 the Company makes a pro rata prepayment on all of the Modified Convertible Notes.

The following table is a summary of the recorded value of the Modified Convertible Notes as of September 30, 2019 and December 31, 2018 (in thousands). The value of the Modified Convertible Notes reflects the present value of the contractual cash flows from the Modified Convertible Notes and resulted in an original issue discount of $4.7 million that was recorded on January 28, 2016, the issuance date.

	September 30, 2019	December 31, 2018
Modified convertible notes - face value	$ 16,473	$ 16,473
Less: original issue discount	(4,673)	(4,673)
Modified convertible notes recorded value on issue date	11,800	11,800
PIK interest issued	2,105	1,505
Accumulated accretion of original issue debt discount	2,070	1,918
Modified convertible notes value	$ 15,975	$ 15,223

Total Interest Expense

The following table is a summary of total interest expense recognized (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Contractual coupon interest	$ 37,304	$ 2,154	$ 110,230	$ 6,201
Non-cash interest expense (including amortization of discounts, deferred financing costs, and PIK)	11,504	308	31,466	896
Total interest expense	$ 48,808	$ 2,462	$ 141,696	$ 7,097

9. Fair Value Measurement of Financial Instruments

The Company's assets and liabilities measured at fair value on a nonrecurring basis include cash, accounts receivable, sold receivables, accounts payable, and the convertible notes. The Company reviews the carrying amounts of such assets when events indicate that their carrying amounts may not be recoverable. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered to be Level 3 inputs. There were no impairments of long-lived assets during the three and nine months ended September 30, 2019 and 2018.

The carrying value of the 2024 Convertible Notes and the Modified Convertible Notes at September 30, 2019 was $40.0 million which approximates their fair value at September 30, 2019. The Company estimates the fair value of the 2024 Convertible Notes and the Modified Convertible Notes using commonly accepted valuation methodologies and unobservable inputs based on the low volume of similar market activity (Level 3). The Company carries the 2024 Convertible Notes and the Modified Convertible Notes at face value less unamortized debt discount and issuance costs on its condensed consolidated balance sheets. For further information on the 2024 Convertible Notes and the Modified Convertible Notes, see "Note 8 – Debt."

10. Leases

The Company adopted ASC 842 on January 1, 2019. Because the Company adopted ASC 842 using the transition method that allowed the Company to initially apply ASC 842 as of January 1, 2019 and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, prior year financial statements were not recast under the new standard and, therefore, those prior year amounts are not presented below.

The Company has commitments under operating leases for retail stores, corporate offices, administrative offices and showrooms expiring on various dates through January 2030. The Company leases certain equipment under finance lease agreements expiring on various dates through January 2022. As of September 30, 2019, the Company's finance leases were not material to the condensed consolidated balance sheets, condensed consolidated statements of operations or statement of cash flows.

Lease agreements for office and showroom facilities expire on various dates through December 2028, and are generally non-cancelable. Initial lease terms for retail store leases generally range from three to ten years with an option to extend or renew the leases for 1 to 10 years. In most instances, at the commencement of the lease, the Company has determined that it is not reasonably certain to exercise either of these options; accordingly, these options are generally not considered in determining the initial lease term.

Some of these leases require the Company to make periodic payments for property taxes, utilities and common area operating expenses. Most of the retail store leases are “net” leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. The Company’s lease agreements generally do not contain any material residual value guarantees or material restrictive covenants.

Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume when specific sales volumes are exceeded. Some leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the initial lease term on a straight-line basis from the possession date.

The components of lease cost for the three and nine months ended September 30, 2019 are as follows (in thousands):

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Lease cost		
Operating lease cost	$ 12,250	$ 32,802
Short-term lease cost	934	5,174
Variable lease cost (1)	3,565	9,908
Total lease cost	$ 16,749	$ 47,884

(1) Variable components of the lease payments such as utilities, taxes and insurance, parking and maintenance costs.

Minimum rental payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent.

Amounts reported in the condensed consolidated balance sheet as of September 30, 2019 are as follows (in thousands):

	As of September 30, 2019
Operating Leases:	
Operating lease right-of-use assets	$ 206,096
Operating lease liabilities	$ 186,680
Current portion of operating lease liabilities	28,059
Total operating lease liabilities	$ 214,739
Weighted-average remaining lease term	
Operating leases	7.33 Years
Weighted-average discount rate	
Operating leases	8.12 %

Cash flow information related to operating leases for the three and nine months ended September 30, 2019 are as follows (in thousands):

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 11,381	$ 31,341

Future minimum lease payments under non-cancellable leases as of the period ended September 30, 2019 are as follows (in thousands):

2019 (excluding the nine months ended September 30, 2019)	$ 11,359
2020	43,716
2021	39,954
2022	36,394
2023	32,429
Thereafter	124,601
Total undiscounted lease payments	288,453
Less: imputed interest	(73,714)
Total lease liabilities	$ 214,739

As of September 30, 2019, the Company has additional operating leases, primarily for buildings, that have not yet commenced of $16.8 million. These operating leases will commence in fiscal years 2019 and 2020 with lease terms of 1 year to 10 years.

As of December 31, 2018, for the period prior to adoption of ASC 842, the future minimum rental payments under non-cancelable operating leases with lease terms in excess of one year were as follows (in thousands):

2019	$ 44,295
2020	39,771
2021	37,722
2022	35,554
2023	31,110
Thereafter	125,863
Total	$ 314,315

Rent expense was $14.2 million for the year ended December 31, 2018.

11. Equity

Amended and Restated 2004 Stock Incentive Plan

In 2004, the Board of Directors adopted, and the Company's shareholders approved the 2004 Stock Incentive Plan. In October 2011, the Board of Directors adopted, and the Company's shareholders approved, the Amended and Restated 2004 Stock Incentive Plan (the "***Amended and Restated Plan***") to update the 2004 Stock Incentive Plan with respect to certain provisions and changes in the tax code since its original adoption.

2016 Stock Incentive Plan

On October 5, 2016, the Board of Directors adopted the 2016 Stock Incentive Compensation Plan (the '***2016 Stock Incentive Plan***") which was approved by the Company's shareholders on November 7, 2016. Under the 2016 Stock IncentivePlan, 3,529,109 shares of common stock were originally reserved for issuance in connection with grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units

("***RSUs***"), performance-based compensation awards, other stock-based awards, dividend equivalents and cash-based awards. Effective October 29, 2018, the 2016 Stock Incentive Plan was amended to increase the reservation of the total shares available for issuance to 12,725,963 shares of common stock. The maximum number of shares with respect to which awards may be granted to any participant in any calendar year under the 2016 Stock Incentive Plan may not exceed 500,000 shares.

The Company has granted and continues to grant RSUs, performance stock units ("***PSUs***") and stock options to its officers, non-employee directors, employees, and consultants pursuant to the 2016 Stock Incentive Plan or as "inducement grants," as permitted under NASDAQ rules. The RSUs, PSUs and stock options represent the right to receive one share of common stock for each unit on the vesting date provided that the individual meets the applicable vesting criteria. The exercise price of stock options granted under the 2016 Stock Incentive Plan are determined by the Compensation and Stock Option Committee (the "***Compensation Committee***") of the Board of Directors or by any other committee designated by the Board of Directors, but may not be less than the fair market value of the Company's shares of common stock on the date the option is granted. In general, unvested stock options are forfeited when a participant terminates employment or service with the Company or its affiliates.

Shares underlying awards that are forfeited, cancelled, terminated or expire unexercised, or settled in cash in lieu of issuance of shares, are available for issuance pursuant to future awards to the extent that such shares are forfeited, repurchased or not issued under any such award. Any shares tendered to pay the exercise price of an option or other purchase price of an award, or withholding tax obligations with respect to an award, are available for issuance pursuant to future awards. In addition, if any shares subject to an award are not delivered to a participant because (i) such shares are withheld to pay the exercise price or other purchase price of such award, or withholding tax obligations with respect to such award (or other award), or (ii) a payment upon exercise of an award is made in shares, the number of shares subject to the exercised or purchased portion of any such award that are not delivered to the participant are available for issuance pursuant to future awards.

As of September 30, 2019, shares reserved for future issuance under the incentive plans include: (i) 444 shares of common stock issuable upon exercise of stock options granted under the Amended and Restated Plan; (ii) 7,964,156 shares of common stock issuable upon vesting of RSUs, PSUs and exercise of stock options granted under the 2016 Stock Incentive Plan; and (iii) 3,007,747 shares of common stock are available for future grant under the 2016 Stock Incentive Plan. As of December 31, 2018, the Company no longer granted shares under the Amended and Restated Plan. Also, as of September 30, 2019, there were 5,200,000 shares of common stock issuable upon vesting of RSUs and PSUs granted pursuant to "inducement grants" to certain of our officers.

Stock Options

As of January 1, 2019, the Company had 320,721 shares of stock options outstanding, comprised of 444 and 320,277 stock options outstanding under the Amended and Restated Plan and 2016 Stock Incentive Plan, respectively. There was no activity related to stock options for the nine months ended September 30, 2019.

There were no options exercised during the nine months ended September 30, 2019. The following table summarizes exercise prices for options exercisable as of September 30, 2019 (in actual amounts):

	Options Exercisable	
Exercise Price	**Number of Shares**	**Weighted-Average Remaining Contractual Life (Years)**
$ 4.02	70,277	4.7
$ 11.40	444	5.3
	70,721	

For all stock compensation awards that contain graded vesting with time-based service conditions, the Company has elected to apply a straight-line recognition method to account for these awards. Stock-based compensation expense related to stock options was immaterial during the three and nine months ended September 30, 2019. As of September 30, 2019, there was $0.5 million of unrecognized compensation cost related to unvested stock options to be expensed through the year ended December 31, 2022.

Stock option awards are measured at fair value on the grant date using the Black-Scholes option valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, expected volatility over the option's expected term, the risk-free interest rate over the option's expected term and the expected annual dividend yield, if any. The Company accounts for forfeitures as they occur. Shares of common stock will be issued when the options are exercised.

Restricted Stock Units

The following table summarizes RSU activity for the nine months ended September 30, 2019 (in actual amounts):

	Restricted Stock Units	
	Number Of Units	**Weighted Average Grant Date Fair Value**
Outstanding at January 1, 2019	5,820,560	$ 4.06
Granted	4,682,672	3.26
Vested	(504,320)	3.02
Forfeited	(98,533)	2.48
Outstanding at September 30, 2019	9,900,379	$ 3.75

A total of $2.4 million and $0.6 million of stock-based compensation expense was recognized related to RSUs during the three months ended September 30, 2019 and 2018, respectively. A total of $7.2 million and $2.1 million of stock-based compensation expense was recognized related to RSUs during the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, there was $29.4 million of total unrecognized compensation cost related to unvested RSUs. The unrecognized compensation cost is expected to be recognized over a weighted-average of 2.2 years.

Performance Share Units

In the third quarter of 2019, the Company granted 1,593,500 shares of performance share units. No performance share units were forfeited during the three months ended September 30, 2019 and 2,943,500 unvested performance shares are outstanding as of September 30, 2019. Stock compensation expense in the amount of $0.5 million and $0 million was recognized for the three months ended September 30, 2019 and 2018, respectively. Stock compensation expense in the amount of $1.3 million and $0 million was recognized for the nine months ended September 30, 2019 and 2018, respectively.

Management Incentive Plan

On October 29, 2018, the Company entered into a letter agreement with GSO (the "***MIP Letter***"). Under the MIP Letter, the Company agreed to create a new stock incentive compensation plan for the amount of 1,776,500 shares (the "***MIP Shares***") of common stock (the "***MIP Plan***"), which will be allocated by the Board in accordance with the Stockholder Agreement. On October 3, 2019, the Company entered into an amendment (the "***MIP Amendment***") to the MIP Letter. Pursuant to the MIP Amendment, Company agreed to reserve the MIP Shares under the 2016 Stock Incentive Plan, which were allocated by a Special Committee of the Board in accordance with the Stockholder Agreement, dated October 29, 2018, by and between the Company and the stockholders party thereto. All of the MIP Shares were awarded or allocated as of October 29, 2019. If any awards of the MIP Shares are forfeited, cancelled, terminated or expired at any time, the equivalent amount of shares of Common Stock shall be delivered to the stockholders party to the MIP Letter for no additional consideration.

12. Disaggregation of Revenue

In accordance with ASC 606, the Company elected to disclose its net sales by segment. Each segment presents its own characteristics with respect to the timing of revenue recognition and type of customer. Prior to the GBG

Acquisition, the Company organized its business into the following three reportable segments: (1) Wholesale, (2) Consumer Direct and (3) Corporate and other. Following the GBG Acquisition, the Company implemented significant organizational changes that have impacted the manner in which it manages the Company, and realigned its business into the following three reportable segments: (1) Kids, (2) Accessories, and (3) Men's and Women's Apparel, to better reflect its internal organization, management and oversight structure.

The following tables disaggregate our operating segment net sales by product category and sales channel, which the Company believes provides a meaningful depiction of how the nature, timing and uncertainty of net sales are affected by economic factors:

	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Wholesale & Licensing	Direct to Consumer	Total	Wholesale & Licensing	Direct to Consumer	Total
Kids	$ 412,637	$ —	$ 412,637	$ —	$ —	$ —
Accessories	133,727	—	133,727	—	—	—
Men's & Women's Apparel	111,091	54,974	166,065	29,396	10,434	39,830
	$ 657,455	$ 54,974	$ 712,429	$ 29,396	$ 10,434	$ 39,830

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Wholesale & Licensing	Direct to Consumer	Total	Wholesale & Licensing	Direct to Consumer	Total
Kids	$ 838,613	$ —	$ 838,613	$ —	$ —	$ —
Accessories	314,450	—	314,450	—	—	—
Men's & Women's Apparel	313,067	198,403	511,470	83,486	31,128	114,614
	$ 1,466,130	$ 198,403	$ 1,664,533	$ 83,486	$ 31,128	$ 114,614

International sales were $27.9 million for the three months ended September 30, 2019 and immaterial for the three months ended September 30, 2018. International sales were $58.8 million for the nine months ended September 30, 2019 and immaterial for the nine months ended September 30, 2018.

13. Loss per Share

Loss per share is computed using weighted average common shares and dilutive common equivalent shares outstanding. Potentially dilutive securities consist of outstanding stock options, unvested RSUs, unvested PSUs, warrants, convertible Series A Preferred Stock and shares issuable upon the assumed conversion of the 2024 Convertible Notes and the Modified Convertible Notes, as applicable. A reconciliation of the numerator and denominator of basic and diluted loss per share is as follows (in thousands, except per share data).

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basic loss per share computation				
Numerator:				
Net loss	$ (8,979)	$ (10,581)	$ (170,094)	$ (20,350)
Less: preferred dividends	—	(1,892)	—	(5,548)
Net loss attributable to common stockholders	$ (8,979)	$ (12,473)	$ (170,094)	$ (25,898)
Denominator:				
Weighted average common shares outstanding	58,736	14,085	58,638	13,873
Loss per common share - basic				
Net loss per common share - basic	$ (0.15)	$ (0.89)	$ (2.90)	$ (1.87)
Diluted loss per share computation				
Numerator:				
Net loss	$ (8,979)	$ (10,581)	$ (170,094)	$ (20,350)
Less: preferred dividends	—	(1,892)	—	(5,548)
Net loss attributable to common stockholders	$ (8,979)	$ (12,473)	$ (170,094)	$ (25,898)
Denominator:				
Weighted average common shares outstanding	58,736	14,085	58,638	13,873
Effect of dilutive securities:				
Options, RSUs, PSUs, warrants, Series A, convertible notes	—	—	—	—
Dilutive common shares	58,736	14,085	58,638	13,873
Loss per common share - diluted				
Net loss per common share - diluted	$ (0.15)	$ (0.89)	$ (2.90)	$ (1.87)

The following potentially dilutive shares of common stock were excluded from diluted EPS as the Company had a net loss for the periods ended:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Outstanding stock options	321	71	321	71
Unvested RSUs	9,900	757	9,900	757
Unvested PSUs	2,944	453	2,944	453
Outstanding warrants	500	650	500	650
Convertible Series A Preferred Stock	—	4,480	—	4,480
Convertible Series A-1 Preferred Stock	—	4,588	—	4,588
Modified Convertible Notes	1,299	1,278	1,299	1,278
2024 Convertible Notes	3,125	—	3,125	—

Loss per Share under Two−Class Method

The Series A Preferred Stock had the non-forfeitable right to participate on an as converted basis at the conversion rate then in effect in any common stock dividends declared and as such, was considered a participating security. The Series A Preferred Stock was included in the computation of basic and diluted loss per share for the three and nine months ended September 30, 2018 pursuant to the two-class method. Holders of the Series A Preferred Stock did not participate in undistributed net losses because they were not contractually obligated to do so. No Series A Preferred Stock was outstanding during the three and nine months ended September 30, 2019.

The computation of diluted loss per share attributable to common stockholders reflects the potential dilution that could occur if securities or other contracts to issue shares of common stock that are dilutive were exercised or converted into shares of common stock (or resulted in the issuance of shares of common stock) and would then share in the Company's earnings. During the periods in which the Company record a loss from continuing operations attributable to common stockholders, securities would not be dilutive to net loss per share and conversion into shares of common stock is assumed not to occur.

The following table provides a reconciliation of net loss to preferred shareholders and common stockholders for purposes of computing net loss per share for the three and nine months ended September 30, 2018 (in thousands, except per share data):

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Net loss	$ (10,581)	$ (20,350)
Less: preferred dividends	(1,892)	(5,548)
Net loss attributable to common stockholders	$ (12,473)	$ (25,898)
Denominator:		
Weighted average common shares outstanding	14,085	13,873
Loss per common share - basic and diluted under two-class method	$ (0.89)	$ (1.87)

There were no preferred dividends for the three or nine months ended September 30, 2019 since no Series A Preferred Stock was outstanding.

14. Income Taxes

The provision for income taxes for the nine months ended September 30, 2019 was approximately $1.6 million, or an effective tax rate of 0.9%. The Company has reporting entities in the U.S., Canada and Norway that have incurred net operating losses in each of their respective taxing jurisdictions resulting in no current income tax expense except for approximately $0.1 million of state minimum income tax expense. Further, the Company has full valuation allowances on its U.S. and Canadian net deferred tax assets resulting in no deferred tax benefit on its net operating losses; however, it recorded a $0.1 million deferred tax benefit on its net operating loss in Norway.

In the first quarter of 2019, the Company recorded a deferred expense relating to the valuation allowance in the amount of $1.6 million, or 1.0%. In the second quarter of 2019, the Company recorded minimal state income tax expense in the amount of $0.1 million, or 0.1%, and a deferred benefit relating to net operating losses in Norway in the amount of $0.2 million, or a 0.2% benefit.

The Company has net deferred tax assets in each of its taxing jurisdictions. Management has evaluated both positive and negative evidence in its assessment of the realization of these net deferred tax assets including, but not limited to, the amount and timing of its forecast future taxable income and history of losses. Management has concluded that it is more likely than not that its net deferred tax assets will not be realized in the U.S. and Canada. Accordingly, the Company maintains a full valuation allowance against substantially all of its net deferred tax assets in these jurisdictions. If the

Company subsequently determines that it will be able to realize some portion or all of its deferred tax assets, then an adjustment to will be made to the valuation allowance to recognize those deferred tax assets which will have the effect of increasing net income in the period such determination is made.

The Company has uncertain income tax position. Management has identified certain uncertain income tax positions and evaluated them under the recognition and measurement criteria specified in ASC 740, Accounting for Income Taxes. Based on this analysis Management has concluded that a tax reserve is required. Accordingly, the Company has established a tax reserve of $0.1 million on these positions. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. The Company is subject to U.S. federal tax authority and U.S. state tax authority examinations for all years with the net operating loss and credit carryforwards.

15. Segment Information

Segment Reporting

Prior to the GBG Acquisition, the Company organized its business into the following three reportable segments: Wholesale, Consumer Direct and Corporate and other. Upon completing the GBG Acquisition, it resegmented its reportable segments to reflect the organizational structure of the Company, including the operations of the GBG Business. Accordingly, it realigned its business into the following three reportable segments: (i) Kids, (ii) Accessories, and (iii) Men's and Women's Apparel. This new segment structure is consistent with how the Company establishes our overall business strategy, allocate resources, and assess performance.

All prior period segment information has been recast to reflect the realignment of our segment reporting structure on a comparable basis.

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	(in thousands)			
Net sales:				
Kids	$ 412,637	$ —	$ 838,613	$ —
Accessories	133,727	—	314,450	—
Men's & Women's Apparel	166,065	39,830	511,470	114,614
	$ 712,429	$ 39,830	$ 1,664,533	$ 114,614
Gross profit:				
Kids	$ 89,871	$ —	$ 164,136	$ —
Accessories	32,017	—	60,836	—
Men's & Women's Apparel	56,369	17,159	183,883	47,840
	$ 178,257	$ 17,159	$ 408,855	$ 47,840
Selling, general and administrative:				
Kids	$ 25,849	$ —	$ 79,411	$ —
Accessories	11,359	—	35,421	—
Men's & Women's Apparel	62,110	25,029	200,618	58,992
	$ 99,318	$ 25,029	$ 315,450	$ 58,992
Depreciation and amortization:				
Kids	$ 10,791	$ —	$ 31,263	$ —
Accessories	8,448	—	24,932	—
Men's & Women's Apparel	5,882	1,378	15,497	4,252
	$ 25,121	$ 1,378	$ 71,692	$ 4,252
Other operating expense, net:				
Kids	$ 4,775	$ —	$ 17,087	$ —
Accessories	5,028	—	15,701	—
Men's & Women's Apparel	4,318	—	16,175	—
	$ 14,121	$ —	$ 48,963	$ —
Operating income (loss):				
Kids	$ 48,456	$ —	$ 36,375	$ —
Accessories	7,182	—	(15,218)	—
Men's & Women's Apparel	(15,941)	(9,248)	(48,407)	(15,404)
	$ 39,697	$ (9,248)	$ (27,250)	$ (15,404)

16. Related Party Transactions

Payments to Tengram Capital Partners, LP

From time to time, the Company reimburses Tengram Capital Partners, LP, ("***TCP***") an entity that is affiliated with one of the Company's largest stockholders, for certain travel and other related expenses of its employees related to services performed on the Company's behalf and at the Company's request. For the nine months ended September 30, 2019, the Company incurred expenses of approximately $70 thousand related to reimbursement of expenses. For the year ended December 31, 2018, the Company incurred expenses of $5.5 million related to reimbursement of expenses, which included (i) a one-time, non-recurring payment of $5 million paid in connection with services performed by TCP and its affiliates on behalf of the Company related to the GBG Acquisition, and (ii) $469 thousand of out of pocket expenses and travel reimbursement related to the GBG Acquisition. TCP does not receive any other compensation from the Company.

From time to time, beginning in the third quarter of fiscal 2019, the Company has entered into informal consulting arrangements with certain employees of TCP on an individual basis (the "***TCP Employees***"), pursuant to which the TCP Employees provide financial and other consulting services at the request of the Company. For certain transaction related services related to the GBG Acquisition, TCP Employees were also issued an aggregate of 200,000 RSUs, vesting in equal halves over a two year period. For the three and nine months ended September 30, 2019, the Company paid TCP Employees approximately $50 thousand for services under these consulting arrangements and approximately $28 thousand related to reimbursements of expenses.

Arthur Rabin

Arthur Rabin, the father of Jason Rabin, our Chief Executive Officer and member of our Board of Directors, is our President of Sourcing. Mr. Rabin has been employed by us since the GBG Acquisition and prior to that, he was employed by GBG. Mr. Rabin is employed by us as an at-will employee at an annual salary of $1,000,000 and is entitled to participate in all company sponsored employee benefits consistent with other senior executives with similar titles. Consistent with this participation, in the third quarter of fiscal 2019, Mr. Rabin was awarded a grant of 125,000 RSUs that vest in equal yearly installments on June 1, 2020, June 1, 2021 and June 1, 2022, respectively, and 125,000 PSUs that vest on June 1, 2022, subject to performance metrics applied to other senior executives.

17. Subsequent Events

On October 3, 2019, the Company entered into the MIP Amendment. See "Note 11 – Equity" above.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q for the period ended September 30, 2019 ("***Quarterly Report***") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of Exchange Act, which represent our management's beliefs and assumptions concerning future events based on information currently available to us. When used in this Quarterly Report, the words and phrases "may," "will," "expect," "anticipate," "intend," "estimate," "continue," "believe," "plan," "project," "will be," "will continue," "will likely result," "indicates," "forecast," "guidance," "outlook," "targets" and similar expressions and the negatives of such words and phrases are intended to identify forward-looking statements. Similarly, statements that describe our future expectations, objectives and goals or contain projections of our future results of operations or financial condition are also forward-looking statements.

These statements are not guarantees of future performance and are subject to certain risks and uncertainties, which are difficult to predict and which could cause actual results to differ materially, including, without limitation: our dependence on licensors, licensed products and our ability to extend or renew our key license agreements; the risk associated with our substantial indebtedness, which could adversely affect our financial performance and impact our ability to service our indebtedness; continued acceptance of our brands in the marketplace; the seasonal nature of our business; the risk that we will be unsuccessful in gauging fashion trends, changes in the business environment and changing consumer preferences; potential changes in the retail store landscape in light of retail store closings and the bankruptcy of a number of prominent retailers; the effects of competition in the markets in which we operate, including ecommerce retailers; our ability to successfully implement our strategic plans; our dependence on continued service of our key personnel; costs and uncertainties with respect to expansion of our product offerings; our ability to make strategic acquisitions and possible disruptions from acquisitions; our ability to realize the anticipated benefits of recent acquisitions and any future acquisitions; the risk that changes in general economic conditions, consumer confidence, or consumer spending patterns, including consumer demand for our products, 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 generate positive cash flow from operations; our ability to manage our inventory effectively; our ability to protect our trademarks and other intellectual property; retail customer concentration and our reliance on a small number of large customers; risks associated with leasing retail space and operating our own retail stores; the risks associated with our reliance on service agreements providing certain accounting, warehousing and logistics, manufacturing, information technology, data privacy, cybersecurity, disaster recovery, and internal controls services, including the risks associated with certain services we are procuring under a transition services agreement; the risks associated with the foreign sourcing of our products in light of potential changes in international trade relations between the United States and countries in which our products are sourced; the risk that we pledged all our tangible and intangible assets as collateral under our financing agreements; the risk that the credit ratings of the combined company or its subsidiaries may be different from what we expect; our ability to continue to have access to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations or new acquisitions; the significant increase in the amount of our goodwill and other intangibles; the risk of cyber-attacks and other technology system risks; the effect of regulations applicable to us as a United States public company; additional legislation and/or regulation in the United States and around the world; and the other risk factors contained in our reports filed with the SEC pursuant to the Exchange Act, including our annual report on Form 10-K for the fiscal year ended December 31, 2018 (the "***2018 Form 10-K***") and subsequent quarterly reports on Form 10-Q and Form 8-K should be read in conjunction with those reports, together with all of the Company's other filings.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. 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. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements. We do not undertake any obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, except as may be required by law.

Introduction

As we are a smaller reporting company, this discussion and analysis summarizes the significant factors affecting our results of operations and financial condition during the three and nine months ended September 30, 2019 and 2018, respectively. This discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto and information contained in Item 1 of this Quarterly Report. Due to the GBG Acquisition (defined below), the financial information for the three and nine months ended September 30, 2019 is not comparable to the three and nine months ended September 30, 2018. As such, we have presented comparative results of operations for the three and nine months ended September 30, 2019 compared to the pro forma combined three and nine months ended September 30, 2018. For more information, see section titled "*Supplemental Unaudited Pro Forma Combined Financial Information.*"

Executive Overview

We are a leading lifestyle brands collective, bringing together creative minds from the worlds of fashion and commerce, sourcing, technology, marketing, digital and entertainment. We design, produce, merchandise, manage, and market kidswear, accessories, and men's and women's apparel under owned, licensed and private label brands and distribute our products across all retail and digital channels in North America and in international markets.

We license over 100 brands or produce private label products across our core product categories including kids, accessories, and men's and women's apparel. Licensed brands include Calvin Klein, Under Armour, Tommy Hilfiger, Nautica, Spyder, BCBG, Joe's, Buffalo, Frye, Michael Kors, Kate Spade, AllSaints and Cole Haan, and entertainment properties including Disney, Marvel and Nickelodeon, among others. Our products are sold through a cross section of leading retailers such as Walmart, Macy's, Kohl's, TJX Companies, Costco, Nordstrom, Dillard's, Ross, Target, JC Penney and Amazon. We also sell our products over the web through retail partners such as Walmart.com, Macy's.com and Nordstrom.com. We also distribute apparel and other products through our own retail stores, ecommerce websites, and partner shop-in-shops.

Our legacy company-owned brands include Hudson®, a designer and marketer of men's and women's premium, branded denim and apparel, Robert Graham®, a sophisticated, eclectic apparel and accessories brand seeking to inspire a global movement, and SWIMS®, a Scandinavian lifestyle brand best known for its range of fashion-forward, water-friendly footwear, apparel and accessories (collectively, the "***Owned Brands***").

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 the timing of the GBG Acquisition (as defined below), our quarterly or yearly results are not necessarily indicative of future results.

We have acquired businesses that have broadened our product offerings, expanded our ability to serve different tiers of distributions and expanded the retail component of our business. Acquisitions are part of our strategy to expand our offerings and increase the portfolio of licensed and private label brands that we offer through different tiers of retail distribution. As part of our business strategy, we are seeking to create a platform that focuses on brands and/or branded operating companies in the premium apparel, entertainment 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.

On September 1, 2019, tariffs on certain products went into effect, and tariffs on additional products are expected to go into effect on December 15, 2019. Given the uncertainty related to how long tariffs will remain in effect or whether additional tariffs will be imposed, we are continuing to evaluate and monitor the impact of tariffs on our business, financial statements and results of operation.

GBG Acquisition

On October 29, 2018 (the "***GBG Closing Date***"), we acquired from Global Brands Group Holding Limited ("***GBG***") and GBG USA Inc., a wholly-owned subsidiary of GBG ("***GBG USA***"), a significant part of GBG's North American business, including the wholesale, retail and ecommerce operations, comprising all of their North American kids business, all of their North American accessories business and a majority of their West Coast and Canadian fashion businesses (the "***GBG Business***") for a purchase price of approximately $1.2 billion (the "***GBG Acquisition***"). For more information on the financing transactions entered into in connection with the GBG Acquisition, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" and "Notes to Condensed Consolidated Financial Statements – Note 8 – Debt" and "Notes to Condensed Consolidated Financial Statements – Note 3 – GBG Acquisition" for a further discussion.

Reportable Segments

Prior to the GBG Acquisition, we organized our business into the following three reportable segments: Wholesale, Consumer Direct and Corporate and other. Upon completing the GBG Acquisition, we resegmented our reportable segments to reflect our expanded organizational structure, including the operations of the newly acquired GBG Business. Accordingly, we realigned our business into the following three reportable segments: (i) Kids, (ii) Accessories, and (iii) Men's and Women's Apparel. This new segment structure is consistent with how our chief operating decision maker establishes our overall business strategy, allocates resources, and assesses performance. All prior period segment information has been reclassified to reflect the realignment of our segment reporting structure. We will continually evaluate changes in the structure of the organization to determine whether our operating segments have changed when events or circumstances necessitate such an exercise.

Operational results include expenses directly attributable to the segment as well as corporate overhead, which include executive, finance, legal, information technology, and human resource related expenses. Corporate overhead is allocated to each reporting segment, generally based on the percent of units shipped for each respective segment. We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operations. All prior period segment information has been reclassified to reflect the realignment of our segment reporting structure on a comparable basis.

Kids

Our Kids segment is comprised of sales of products to full-price retail stores, off-price or outlet department stores, boutiques and ecommerce sales. Kids products are sold to over 700 customers and are comprised of over 350 licensed brands. Key licensed brands include Calvin Klein®, Under Amour®, Tommy Hilfiger®, Nautica® and Disney®. Our top customers include large retailers such as Walmart, Kohl's, Target, Burlington, Macy's, and TJX Companies. We design, produce and sell goods to Walmart as a private label business under the George® and Faded Glory® names. Our Kids segment accounted for approximately 57.9% of our third quarter 2019 net revenues. We sell our Kids products through our own showrooms where retailers review the latest collections and place orders.

The Kids segment was acquired as a component of the GBG Business. In addition to integrating the Kids segment successfully and efficiently with our existing business, our go-forward strategy includes driving sales by improving productivity in existing accounts/doors and selectively expanding into new accounts.

Accessories

Our Accessories segment is comprised of sales of products to full-price retail stores, off-price or outlet department stores, boutiques and ecommerce sales. Accessories products are sold to over 600 customers and are comprised of over 85 licensed, owned and private label brands. Key licensed brands include Calvin Klein®, Frye®, Fila®, Michael Kors®, Kate Spade® and AllSaints®. Our top customers include large retailers such as Walmart, Kohl's, Macys, Dillard's and Nordstrom companies. Our Accessories segment accounted for approximately 18.8% of our third quarter 2019 net revenues. We sell our Accessories products through our own showrooms where retailers review the latest collections and place orders.

The Accessories segment was acquired as a component of the GBG Business. In addition to integrating the Accessories segment successfully and efficiently with our existing business, our go-forward strategy includes driving sales by improving productivity in existing accounts/doors and selectively expanding into new accounts.

Men's and Women's Apparel

Our Men's and Women's Apparel segment is comprised of (i) sales to premium nationwide department stores, specialty retailers, ecommerce, boutiques and select off-price retailers of our Hudson®, Robert Graham® and Swims® brands; (ii) sales of licensed products bearing the brand names of BCBG®, Herve Leger, Buffalo®, Joe's Jeans®, bebe® (collectively, referred to herein as "***Core Licensed Brands***") to premium nationwide department stores, specialty retailers, ecommerce stores, boutiques and select off-price retailers; (iii) full-price and outlet retail store sales owned and operated by us bearing the brands of Robert Graham®, SWIMS®, BCBG®, and Joe's Jeans®; (iv) e-commerce sales through our own and our retail partners' ecommerce sites; and (v) royalty revenue generated through the licensing of our Robert Graham® and Hudson® brands to third parties for the right to use our various trademarks in connection with the manufacture and sale of designated products in specified geographical areas for specified periods.

Our Men's and Women's Apparel segment, accounted for approximately 23.3% of our third quarter 2019 net revenues. Our net sales also include net royalty revenue generated through the licensing of our Robert Graham® and Hudson® brands to third parties for the right to use our various trademarks in connection with the manufacture and sale of designated products for 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, kids, and fragrances, and for distribution of our products in Canada. Our Men's and Women's Apparel products are sold to over 1,000 retail customers in North America and throughout the world including our own retail stores and ecommerce websites. As of September 30, 2019, we operated a total of 97 retail stores and 337 partner shop-in-shops.

Results of Operations

The following tables set forth, for the periods indicated, selected information from our statements of operations and statements of operations by our reportable segments. This table should be read in conjunction with the discussion that follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited, in thousands)			
Net sales	$ 712,429	$ 39,830	$ 1,664,533	$ 114,614
Cost of goods sold	534,172	22,671	1,255,678	66,774
Gross profit	178,257	17,159	408,855	47,840
Gross margin % of sales	*25 %*	*43 %*	*25 %*	*42 %*
Operating expenses				
Selling, general and administrative	99,318	25,029	315,450	58,992
Depreciation and amortization	25,121	1,378	71,692	4,252
Other operating expense, net	14,121	—	48,963	—
Total operating expenses	138,560	26,407	436,105	63,244
Operating income (loss)	39,697	(9,248)	(27,250)	(15,404)
Operating income (loss) % of net sales	*6 %*	*23 %*	*2 %*	*13 %*
Interest expense	48,808	2,462	141,696	7,097
Other (income) expense, net	(182)	22	(426)	124
Total other expense, net	48,626	2,484	141,270	7,221
Loss before income taxes	(8,929)	(11,732)	(168,520)	(22,625)
Income tax provision (benefit)	50	(1,151)	1,574	(2,275)
Net loss	$ (8,979)	$ (10,581)	$ (170,094)	$ (20,350)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Net sales:				
Kids	$ 412,637	$ —	$ 838,613	$ —
Accessories	133,727	—	314,450	—
Men’s & Women’s Apparel	166,065	39,830	511,470	114,614
	$ 712,429	$ 39,830	$ 1,664,533	$ 114,614
Gross profit:				
Kids	$ 89,871	$ —	$ 164,136	$ —
Accessories	32,017	—	60,836	—
Men’s & Women’s Apparel	56,369	17,159	183,883	47,840
	$ 178,257	$ 17,159	$ 408,855	$ 47,840
Selling, general and administrative:				
Kids	$ 25,849	$ —	$ 79,411	$ —
Accessories	11,359	—	35,421	—
Men’s & Women’s Apparel	62,110	25,029	200,618	58,992
	$ 99,318	$ 25,029	$ 315,450	$ 58,992
Depreciation and amortization:				
Kids	$ 10,791	$ —	$ 31,263	$ —
Accessories	8,448	—	24,932	—
Men’s & Women’s Apparel	5,882	1,378	15,497	4,252
	$ 25,121	$ 1,378	$ 71,692	$ 4,252
Other operating expense, net:				
Kids	$ 4,775	$ —	$ 17,087	$ —
Accessories	5,028	—	15,701	—
Men’s & Women’s Apparel	4,318	—	16,175	—
	$ 14,121	$ —	$ 48,963	$ —
Operating income (loss):				
Kids	$ 48,456	$ —	$ 36,375	$ —
Accessories	7,182	—	(15,218)	—
Men’s & Women’s Apparel	(15,941)	(9,248)	(48,407)	(15,404)
	$ 39,697	$ (9,248)	$ (27,250)	$ (15,404)

Three months ended September 30, 2019 compared to three months ended September 30, 2018

Net sales increased to $712.4 million for the three months ended September 30, 2019 from $39.8 million for three months ended September 30, 2018, reflecting a $672.6 million year over year increase. The increase in net sales was attributable to the acquired GBG Business for the three months ended September 30, 2019 that we did not have in the three months ended September 30, 2018.

Gross profit increased to $178.3 million for the three months ended September 30, 2019 from $17.2 million for the three months ended September 30, 2018, reflecting a $161.1 million year over year increase.

Gross margin was 25% for the three months ended September 30, 2019, compared to 43% for the three months ended September 30, 2018. As a result of the consummation of the GBG Acquisition, the Company had a higher proportion of wholesale sales compared to retail sales in 2019, which resulted in a decrease in gross margin during the three months ended September 30, 2019 compared to three months ended September 30, 2018.

For more information, see sections titled *"Reportable Segments"* and "*Supplemental Unaudited Pro Forma Combined Financial Information.*"

Operating Expenses

Operating expenses include (i) selling, general and administrative expenses related to employee and employee benefits, sales commissions, advertising, professional fees and factor and bank fees, (ii) depreciation and amortization, and (iii) other operating expense.

In connection with the closing of the GBG Acquisition, we entered into a transition services agreement with GBG USA wherein each has agreed to provide the other party certain corporate services including information technology, finance, human resources, legal, rent, sourcing, tax and facilities for a period of up to 3 years from October 29, 2018 to ensure and facilitate an orderly transfer of business operations. Payments to each party will vary in amount and length of time as specified in the transition services agreement. The charges for such services are generally intended to allow the service provider to recover all of its direct and indirect costs, generally without profit. As of September 30, 2019, our ongoing utilization of transition services from GBG USA under the transition services agreement was primarily limited to information technology, equipment, and facilities.

Selling, general and administrative expenses increased to $99.3 million for the three months ended September 30, 2019 from $25.0 million for the three months ended September 30, 2018. The $74.3 million increase was attributable to operating costs of the GBG Business.

Depreciation and amortization expenses increased to $25.1 million for the three months ended September 30, 2019 from $1.4 million for the three months ended September 30, 2018. Increase in depreciation and amortization expense was attributable to the GBG Acquisition.

Other operating expenses primarily include reorganization and integration expenses. Other operating expenses totaled $14.1 million for the three months ended September 30, 2019. There were no other operating expenses in the three months ended September 30, 2018.

Interest Expense

Interest expense includes costs incurred by us for borrowed funds as well as amortization of deferred financing fees relating to our term loans and revolving credit facilities. Interest expense increased to $48.8 million for the three months ended September 30, 2019 from $2.5 million for the three months ended September 30, 2018. Increase in interest expense was largely driven by the increase in aggregate outstanding borrowings under the new credit facilities entered into in connection with the GBG Acquisition, the issuance of the 2024 Convertible Notes, the 1L Amendment and the 2L Amendment (as defined below) and amortization of debt issuance costs.

Income Tax Benefit

The effective tax rate from operations was negative 1% for the three months ended September 30, 2019 compared to a benefit of 10% for prior-year quarter-ended September 30, 2018. The difference in the effective tax rate between the current-quarter and prior-year quarter was primarily due to the establishment of a full valuation allowance on the current-quarter on the deferred tax assets relating to the net operating losses in the US and Canada resulting in no deferred tax benefit. The nominal benefit in the current-quarter is a result of the recognition of the deferred tax asset established on the net operating loss in Norway.

Nine months ended September 30, 2019 compared to nine months ended September 30, 2018

Net sales increased to $1,664.5 million for the nine months ended September 30, 2019 from $114.6 million for nine months ended September 30, 2018, reflecting a $1,549.9 million year over year increase. The increase in net sales was attributable to the GBG Acquisition.

Gross profit increased to $408.9 million for the nine months ended September 30, 2019 from $47.8 million for the nine months ended September 30, 2018, reflecting a $361.1 million year over year increase.

Gross margin was 25% for the nine months ended September 30, 2019, compared to 42% for the nine months ended September 30, 2018. As a result of the consummation of the GBG Acquisition, the Company had a higher proportion of wholesale sales compared to retail sales in 2019, which resulted in a decrease in gross margin during the nine months ended September 30, 2019 compared to nine months ended September 30, 2018. Additionally, the lower gross margin during the nine months ended September 30, 2019 was partially driven by the $9.5 million amortization of the inventory step-up to fair value recorded as a result of the GBG Acquisition.

For more information, see sections titled *"Reportable Segments"* and "*Supplemental Unaudited Pro Forma Combined Financial Information.*"

Operating Expenses

Selling, general and administrative expenses increased to $315.5 million for the nine months ended September 30, 2019 from $59.0 million for the nine months ended September 30, 2018. The $256.5 million increase was attributable to operating costs of the GBG Business.

Depreciation and amortization expenses increased to $71.7 million for the nine months ended September 30, 2019 from $4.3 million for the nine months ended September 30, 2018. The increase in depreciation and amortization expense was attributable to the GBG Acquisition.

Other operating expenses primarily include reorganization and integration expenses. Other operating expenses totaled $49.0 million for the nine months ended September 30, 2019. There were no other operating expenses in the nine months ended September 30, 2018.

Interest Expense

Interest expense increased to $141.7 million for the nine months ended September 30, 2019 from $7.1 million for the nine months ended September 30, 2018. The increase in interest expense was largely driven by the increase in aggregate outstanding borrowings under the new credit facilities entered into in connection with the GBG Acquisition, the issuance of the 2024 Convertible Notes and amortization of debt issuance cost.

Income Tax Benefit

The effective tax rate from operations was negative 1% for the nine months ended September 30, 2019 compared to a benefit of 10% for the prior-year nine months ended September 30, 2018. The difference in the effective tax rate between the nine months ended September 30, 2019 and the nine months ended September 30, 2018, was primarily due to a deferred tax expense booked in the first quarter relating to an adjustment of the valuation allowance. In addition, a full valuation allowance projection against the losses generated in the US and Canada result in no deferred tax benefit on the net operating losses.

Unaudited Additional Supplemental Non-GAAP Disclosures

The financial information provided throughout this report, including our condensed consolidated financial statements and the notes thereto, has been prepared in conformity with accounting principles generally accepted in the United States of America ("***GAAP***"). However, we present Adjusted EBITDA (as defined below), a non-GAAP financial measure, in communications with investors, analysts, rating agencies, banks and others to assist such parties in understanding our ongoing operating results. "***Adjusted EBITDA***" is a non-GAAP measure defined by us as net loss plus interest expense, income tax benefit, amortization of inventory fair value step up, results of discontinued license, depreciation and amortization expense and other operating expense, net.

Management has historically used Adjusted EBITDA when evaluating operating performance because we believe that the inclusion or exclusion of certain recurring and non-recurring items is necessary to provide a full understanding of our core operating results and as a means to evaluate period-to-period results. We also believe that Adjusted EBITDA is a useful measure, in part, because certain investors and analysts use both historical and projected Adjusted EBITDA, in addition to other GAAP and non-GAAP measures, as factors in determining the estimated fair value of shares of our common stock. In addition, from time to time our Board uses Adjusted EBITDA to define certain performance targets under our compensation programs. We do not use Adjusted EBITDA to measure liquidity, but instead to measure operating performance. This non-GAAP measure may not be comparable to similarly titled measures reported by other companies. Also, the definition of Adjusted EBITDA may not be the same as the definitions used in any of our financing arrangements. Because this measure excludes many items that are included in our financial statements, it does not provide a complete measure of our operating performance. Accordingly, investors are encouraged to use GAAP measures when evaluating our financial performance.

The following table presents a reconciliation of net loss to Adjusted EBITDA (in thousands) for the three months ended September 30, 2019:

		Non GAAP Adjustments (in thousands)				
	As Reported	Stock-based Compensation	Inventory Step Up Amortization	Reorganization & Integration	Discontinued License	Adjusted
Net sales	$ 712,429	$ —	$ —	$ —	$ (6,366)	$ 706,063
Cost of goods sold	534,172	—	(510)	—	(10,027)	523,635
Gross profit	178,257	—	510	—	3,661	182,428
Operating expenses:						
Selling, general and administrative	99,318	(2,957)	—	—	862	97,223
Depreciation and amortization	25,121	—	—	—	—	25,121
Other operating expense, net	14,121	—	—	(14,121)	—	—
Total operating expenses	138,560	(2,957)	—	(14,121)	862	122,344
Total other expense, net	48,626	—	—	—	—	48,626
Loss before income taxes	(8,929)	2,957	510	14,121	2,799	11,458
Income tax provision	50	—	—	—	—	50
Net loss	$ (8,979)	$ 2,957	$ 510	$ 14,121	$ 2,799	11,408
			Adjusted EBITDA reconciliation:			
			Depreciation and amortization			25,121
			Total other expense, net			48,626
			Income tax provision			50
			Adjusted EBITDA			$ 85,205

The following table presents a reconciliation of net loss to Adjusted EBITDA (in thousands) for the nine months ended September 30, 2019:

		Non GAAP Adjustments (in thousands)				
	As Reported	Stock-based Compensation	Inventory Step Up Amortization	Reorganization & Integration	Discontinued License	Adjusted
Net sales	$1,664,533	$ —	$ —	$ —	$ (24,218)	$1,640,315
Cost of goods sold	1,255,678	—	(9,546)	—	(24,537)	1,221,595
Gross profit	408,855	—	9,546	—	319	418,720
Operating expenses:						
Selling, general and administrative	315,450	(8,673)	—	—	(9,797)	296,980
Depreciation and amortization	71,692	—	—	—	—	71,692
Other operating expense, net	48,963	—	—	(48,963)	—	—
Total operating expenses	436,105	(8,673)	—	(48,963)	(9,797)	368,672
Total other expense, net	141,270	—	—	—	—	141,270
Loss before income taxes	(168,520)	8,673	9,546	48,963	10,116	(91,222)
Income tax provision	1,574	—	—	—	—	1,574
Net loss	$ (170,094)	$ 8,673	$ 9,546	$ 48,963	$ 10,116	(92,796)
			Adjusted EBITDA reconciliation:			
			Depreciation and amortization			71,692
			Total other expense, net			141,270
			Income tax provision			1,574
			Adjusted EBITDA			$ 121,740

Liquidity and Capital Resources

Sources of Liquidity and Outlook

Our primary sources of liquidity are: (i) cash proceeds from customer wholesale trade receivables and trade receivables sold to a financial institution; (ii) cash proceeds from direct to consumer sales tendered in cash, credit card, debit card or gift card; (iii) cash proceeds for licenses collected from licensees via check or wire transfer; and (iv) cash proceeds from borrowings under various credit facilities described below. Cash is used to make payments of debt and interest, royalties 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) repayments of debt obligations (including principal and interest) under our financing arrangements; 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.

As of September 30, 2019 and December 31, 2018, our cash and cash equivalent balances were $19.0 million and $29.5 million, respectively. Based on our cash on hand and expected cash flows from operations, the expected borrowing availability under our existing credit facilities and other financing arrangements, we believe that we have the working capital resources necessary to meet our projected operational needs beyond the next 12 months from the filing date of this Quarterly Report. However, if we require more capital for growth and integration or the operation of our business 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 nine months ended September 30, 2019 and 2018

Cash flows used in operating activities for the nine months ended September 30, 2019 was $533.4 million. Cash flows used by operating activities for the nine months ended September 30, 2018 was $3.5 million. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for inventory, employee compensation, transaction costs, operating leases, professional services, and interest payments on our long-term obligations. Cash received from our customers generally corresponds to our net sales. In October 2018, we entered into a receivables purchase arrangement to sell certain of our receivables, which results in the cash collected on the deferred purchase price of our sold receivables to be classified as investing cash flows. The decrease in operating cash flows during the comparative periods is primarily driven by the increase in net loss, excluding non-cash charges such as depreciation, amortization, and stock based compensation, and the impact of changes in working capital accounts. Working capital at any specific point is subject to many different variables, including seasonality, inventory management, the impact of certain of our factoring arrangements, the timing of cash receipts and payments, and vendor payment terms.

Cash flows provided by investing activities for the nine months ended September 30, 2019 was $489.1 million. Cash flows used in investing activities for the nine months ended September 30, 2018 was $1.0 million. Cash flows from investing activities correspond with cash capital expenditures, including leasehold improvements, incentives received from property and equipment vendors, investments in other companies and intellectual property rights. The increase in investing cash flows during the comparative periods is primarily driven by collections of the deferred purchase price of sold receivables.

Cash flows provided by financing activities for the nine months ended September 30, 2019 was $34.3 million. Cash flows used in financing activities for the nine months ended September 30, 2018 was $0.4 million. The increase in cash flows from financing activities was primarily driven by draws on our revolving credit facility.

Credit Agreements and Other Financing Arrangements

Consideration paid to GBG to consummate the GBG Acquisition was funded through proceeds from (i) a new first lien credit and collateral agreement entered into with Ares Capital Corporation ("***Ares***"), as agent, and the lenders party thereto, (ii) a new second lien credit and collateral agreement entered into with U.S. Bank National Association, as agent, and the lenders party thereto, and (iii) a new revolving line of credit agreement entered into with Ares Commercial Finance, as revolving agent, and the lenders party thereto. In addition, we also entered into the 2024 Convertible Notes (as defined below) issued to the GSO/BTO Affiliates (as defined below), completed a private placement of our common stock, and entered into a receivables purchase agreement with PNC Bank National Association, as administrative agent, and the lenders party thereto, to sell certain receivables acquired. The aggregate cash consideration received from the above sources was used to repay outstanding loans and indebtedness under our existing credit agreements, including (i) our existing term loans with TCW Asset Management Company and (ii) our revolving line of credit facility with Wells Fargo Bank, National Association.

New Term Loans

On October 29, 2018, we, along with certain of our subsidiaries, entered into a (i) first lien credit agreement with Ares, as administrative agent, ACF FinCo I LP, as collateral agent, and certain other lenders party thereto (the "***First Lien Credit Agreement***") and (ii) second lien credit agreement with U.S. Bank National Association, as administrative agent and collateral agent, and certain lenders party thereto (the "***Second Lien Credit Agreement***", and together with the First Lien Credit Agreement, collectively, the "***Credit Agreements***").

The First Lien Credit Agreement provides for a senior secured asset based revolving credit facility with commitments in an aggregate principal amount of $150.0 million, which subsequently increased to $200.0 million and matures on April 29, 2023 (the "***New Revolving Facility***") and a senior secured term loan credit facility in an aggregate principal amount of $645.0 million, which matures on October 29, 2023 (the "***First Lien Term Loan Facility***", and together with the New Revolving Facility, are collectively referred to herein as "***First Lien Facilities***"). The Second Lien Credit Agreement provides for a second lien term loan facility in an aggregate principal amount of $668.0 million, which matures on October 29, 2024 (the "***Second Lien Term Loan Facility***", and together with the First Lien Term Loan Facility are collectively referred to herein as the "***Term Loan Facilities***").

The First Lien Term Loan Facility is subject to quarterly payments of principal as follows: (i) 0.25% of the initial principal amount for each of the fiscal quarters ending March 31, 2019 and June 30, 2019; (ii) 0.625% of the initial principal amount for each of the fiscal quarters ending September 30, 2019 and December 31, 2019; and (iii) 1.25% of the initial principal amount or each fiscal quarter thereafter, with the balance payable at maturity. There are no scheduled periodic payments under the Second Lien Term Loan Facility or the New Revolving Facility.

The Term Facilities include mandatory prepayments customary for credit facilities of their nature. Subject to certain exceptions, prepayments of loans under the First Lien Term Loan Facility is subject to a prepayment premium of (i) 3.00% until October 29, 2019, (ii) 2.00% from October 30, 2019 until October 29, 2020 and (ii) 1.00% from October 30, 2020 until October 29, 2021, plus, if applicable, customary "breakage" costs with respect to LIBOR rate loans. Subject to certain exceptions, prepayments of loans under the Second Lien Term Loan Facility are subject to a prepayment premium of (i) with respect to the first $175 million of aggregate prepayments (the "***Initial Prepayment Amount***"), (a) 3.00% until October 29, 2019, (b) 2.00% from October 30, 2019 until October 29, 2020 and (c) 1.00% from October 30, 2020 until October 29, 2021 and (ii) with respect to any amount in excess of the Initial Prepayment Amount, (a) subject to certain exceptions, a customary make-whole amount until October 29, 2020, (b) 4.00% from October 30, 2020 until October 29, 2021, (c) 2.00% from October 30, 2021 until October 29, 2022 and (d) 1.00% from October 30, 2022 until October 29, 2023. The obligations under the Credit Agreements are guaranteed by certain of our domestic subsidiaries and are secured by substantially all of our assets.

The annual interest rates for the Term Loan Facilities are as follows:

- For the First Lien Term Loan Facility: ABR (with a 2.50% floor) plus 5.00% for base rate loans or adjusted LIBOR (with a 1.50% floor) plus 6.00% for LIBOR Rate Loans, with two 0.25% step downs upon achieving and maintaining a first lien leverage ratio equal to or less than 2.75 to 1.00 and 2.25 to 1.00, respectively.

- For the Second Lien Term Loan Facility: ABR (with a 2.50% floor) plus 6.00% for base rate loans or adjusted LIBOR (with a floor of 1.50%) plus 7.00%, plus 2.75% payment-in-kind interest ("***PIK***") from October 29, 2018 until December 31, 2019, and ABR (with a 2.50% floor) plus 7.00% for base rate loans or adjusted LIBOR (with a 1.50% floor) plus 8.00%, plus 1.25% PIK if certain leverage ratios are met, otherwise the PIK remains at 2.75%.

The Credit Agreements contain customary representations and warranties, events of default and covenants, including, among other things and subject to certain exceptions, covenants that restrict our ability to incur additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, dispose of assets, make prepayments of certain indebtedness, pay certain dividends and other restricted payments, make investments, and engage in transactions with affiliates. The Term Loan Facilities require us to comply with financial maintenance covenants to be tested quarterly (beginning with the fiscal quarter ending March 31, 2019), consisting of a maximum net first lien leverage ratio, a maximum net total leverage ratio and a minimum fixed charge coverage ratio. As of September 30, 2019, we were in compliance with these covenants.

On October 29, 2018, in connection with the GBG Acquisition and entry into the Credit Agreements, we terminated our prior credit agreements and all outstanding obligations thereunder were repaid. See "Notes to Condensed Consolidated Financial Statements – Note 8 – Debt" for additional information related to these historical credit agreements.

On April 17, 2019, we entered into the first amendment and waiver (the "***1L Amendment***") to the First Lien Credit Agreement to, among other things: (i) increase the amount of the permitted securitization facility under the RPA (as defined below) from $550.0 million to $600.0 million; (ii) increase the borrowing base of the First Lien Credit Agreement as set forth in the 1L Amendment; and (iii) amend the Company's consolidated fixed charge ratio covenant. Concurrent with the 1L Amendment, the Company also entered into the first amendment and waiver (the "***2L***

Amendment") to the Second Lien Credit Agreement to, among other things, increase the amount of indebtedness under the First Lien Credit Agreement from $795.0 million to $845.0 million.

New Revolving Facility

In addition to the First Lien Term Loan, the First Lien Credit Agreement provides for a senior secured asset based revolving credit facility with commitments in an aggregate principal amount of $150.0 million, which subsequently increased to $200.0 million and matures on April 29, 2023 (the "***New Revolving Facility***"). The amount available to be drawn under the New Revolving Facility is based on the borrowing base values attributed to eligible inventory. There are no scheduled periodic payments under the New Revolving Facility. The obligations under the Credit Agreements, including the New Revolving Facility, are guaranteed by certain of our domestic subsidiaries and are secured by substantially all of our assets.

The annual interest rates for the New Revolving Facility is the lender's alternate base rate ("***ABR***") (with a 1.00% floor) plus 4.50% for base rate loans and adjusted LIBOR (with a 0% floor) plus 5.50% for LIBOR rate loans. The New Revolving Facility includes mandatory prepayments customary for credit facilities of this nature. Subject to certain exceptions, permanent reductions of the commitments under the New Revolving Facility are subject to a prepayment premium of (i) 3.00% until October 29, 2019, (ii) 2.00% from October 30, 2019 until October 29, 2020 and (ii) 1.00% from October 30, 2020 until October 29, 2021, plus, if applicable, customary "breakage" costs with respect to LIBOR rate loans.

The New Revolving Facility contains customary representations and warranties, events of default and covenants, including, among other things and subject to certain exceptions, covenants that restrict our ability to incur additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, dispose of assets, make prepayments of certain indebtedness, pay certain dividends and other restricted payments, make investments, and engage in transactions with affiliates. The Credit Agreements, inclusive of the provisions of the New Revolving Facility, require us to comply with financial maintenance covenants to be tested quarterly (beginning with the fiscal quarter ending March 31, 2019), consisting of a maximum net first lien leverage ratio, a maximum net total leverage ratio and a minimum fixed charge coverage ratio. As of September 30, 2019, we were in compliance with these covenants.

On April 17, 2019, we entered into the 1L Amendment to the First Lien Credit Agreement to, among other things, increase the aggregate commitments under the New Revolving Facility under the First Lien Credit Agreement from $150.0 million aggregate principal amount to $200.0 million.

PNC Receivables Facility

On October 29, 2018, we entered into a three-year trade receivables securitization facility (the "***PNC Receivables Facility***") pursuant to (i) a Purchase and Sale Agreement, among certain of our subsidiaries, as "Originators," and Spring Funding, LLC, our wholly owned, bankruptcy-remote special purpose subsidiary, as Buyer (the "***PSA***") and (ii) a Receivables Purchase Agreement among Spring Funding, LLC, as Seller (the "***Seller***"), the Company, as initial Servicer (the "***Servicer***"), certain purchasers party thereto (the "***Purchasers***"), PNC Bank, National Association, as Administrative Agent, and PNC Capital Markets LLC, as Structuring Agent (the "***RPA***"). Other subsidiaries may later enter into the PNC Receivables Facility. At the end of the initial three year term, the Purchasers may elect to renew their commitments under the RPA.

Under the terms of the PSA, the Originators sell or contribute certain of their trade accounts receivable, related collections and security interests (collectively, the "***Receivables***") to Spring on a revolving basis. Under the terms of the RPA, Spring sells to the Purchasers an undivided ownership interest in the Receivables for up to $450.0 million, prior to an amendment in fiscal 2019 that increased the amount to $600.0 million in the event of syndication of the PNC Receivables Facility, in cash proceeds. The proceeds from the Purchasers' investment are used to finance Spring's purchase of the Receivables from the Originators. Spring may also use the proceeds from a subordinated loan made by the Originators to Spring to finance purchases of the Receivables from the Originators. Rather than remitting to the Purchasers the amount received upon payment of the Receivables, Spring reinvests such Receivables payments to purchase additional Receivables from the Originators through the term of the agreement, subject to the Originators generating sufficient eligible

Receivables to sell to Spring in replacement of collected balances. Advances under the RPA will accrue interest based on a variable rate plus a margin.

On April 25, 2019, the Company amended its PNC Receivables Facility pursuant to (i) an amendment to the PSA ("***PSA Amendment***") and (ii) an amendment to the RPA. Under the terms of the PSA Amendment, the Originators continue to sell or contribute certain of Receivables to Spring on a revolving basis and redefined Originators to include an additional subsidiary of the Company. Throughout fiscal 2019, the Company has also entered into numerous amendments to the RPA ("***RPA Amendments***") that, among other things, (i) permitted Spring to sell Receivables for up to $600.0 million in cash proceeds to Purchasers; (ii) added Centric-Canada Apparel & Accessories ULC, an unlimited liability company organized under the laws of British Columbia, to enable the purchase and sale of Canadian receivables pursuant to the PNC Receivables Facility; (iii) changed the monthly settlement date from the 25th of each month to the 28th of each month; and (iv) added Fifth Third Bank and Wells Fargo as additional purchasers of the commitments under the RPA to allow for full utilization of the $600.0 million available under the PNC Receivables Facility.

2024 Convertible Notes

On October 29, 2018, we issued convertible promissory notes (the "***2024 Convertible Notes***") in an aggregate principal amount of $25.0 million to the GSO/BTO Affiliates. The 2024 Convertible Notes are convertible at the holder's option beginning on or after October 29, 2019 until the earlier to occur of (x) repayment in full of all principal and interest outstanding under the Second Lien Credit Agreement and (y) October 29, 2024 (such earlier date, the "***2024 Convertible Note Maturity Date***"), into shares of our common stock at a conversion price of $8.00 per share, subject to adjustment. The 2024 Convertible Notes do not initially bear interest. From and after April 29, 2019, the 2024 Convertible Notes bore interest at the rate of 12.0% per annum. From and after October 29, 2019, the 2024 Convertible Notes currently bear interest at the rate of 16.0% per annum. Interest payments are due each January 31, April 30, July 31, and October 31. To the extent that we are unable to pay cash interest on the 2024 Convertible Notes on an interest payment date because of restrictions in the Credit Agreements or other debt agreements, an amount equal to the unpaid interest then due will be added to the principal amount of the 2024 Convertible Notes.

Until October 29, 2019, upon consummation of any sales of common stock by us for cash, we may, on at least ten (10) days' prior written notice to the holder of a 2024 Convertible Note, prepay such 2024 Convertible Note in whole but not in part solely with the net proceeds of such sale of common stock in an amount equal to the greater of (x) the principal amount of such 2024 Convertible Note, together with accrued interest through and including the date of prepayment, or (y) the value equal to (i) the number of shares of common stock that would be received upon conversion of such 2024 Convertible Note on the repayment date multiplied by the market value of the common stock as of such date, plus (ii) any accrued but unpaid interest that has not been added to the principal amount of such 2024 Convertible Note on the date of such prepayment (such greater amount, the "***Prepayment Amount***"). Also, the 2024 Convertible Notes shall be prepayable in whole but not in part at the Prepayment Amount: (A) from October 29, 2019 through October 29, 2021 only upon a change in control or a liquidation, or (B) from October 29, 2021 until the 2024 Convertible Note Maturity Date, in each case on at least ten (10) days' prior written notice to the holder.

The Private Placement

On October 29, 2018, we completed a private placement (the "***Private Sale***") of 10 million shares of common stock to certain members of management, affiliates of Ares and the GSO/BTO Affiliates at $8.00 per share for total consideration of $80.0 million. Additionally, in connection with and in consideration of the GSO/BTO Affiliates entering into the Second Lien Term Facility and providing loans thereunder, we issued to the GSO/BTO Affiliates 23,094,501 shares of common stock for no additional consideration (together with the Private Sale, the "***Private Placement***"). We allocated proceeds received from the Private Sale to the respective debt instruments and common stock issued on a relative fair value basis.

Modified Convertible Notes and Rollover Agreement

On September 8, 2015, we entered into the rollover agreement with the holders of convertible notes originally issued in connection with the acquisition of the Hudson business (the "***Rollover Agreement***"), pursuant to which, on January 28, 2016, the holders of the notes contributed their notes to us 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 Note (the "***Modified Convertible Notes***")

The Modified Convertible Notes are structurally and contractually subordinated to our senior debt and 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, 2017 with respect to the Modified Convertible Notes issued to Fireman Capital CPF Hudson Co-Invest LP only), which is payable 50% in cash and 50% in additional paid-in-kind notes; provided, however, that we may, in our sole discretion, elect to pay 100% of such interest in cash. The Modified Convertible Notes are convertible at the option of the holders and may be settled at our election into either shares of our common stock, cash, or a combination thereof.

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.

Supplemental Unaudited Pro Forma Combined Financial Information

As described above, we completed the GBG Acquisition on October 29, 2018. The unaudited pro forma combined statements of operations for the three and nine months ended September 30, 2018 present our condensed consolidated results of operations giving pro forma effect to the GBG Acquisition as if it had occurred on January 1, 2018. The unaudited pro forma combined adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma combined basis, the impact of the GBG Acquisition on our historical financial information, as applicable. These statements contain a number of risks and uncertainties, as discussed under the heading "Forward-Looking Statements" of this Quarterly Report that could cause actual results to differ materially. Our future results, performance or achievements could differ materially from those expressed or implied in these statements as such, readers are cautioned not to place undue reliance on these. We do not undertake to publicly update these statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

The GBG Acquisition was accounted for using the acquisition method of accounting. The preliminary fair values of the acquired assets and assumed liabilities as of October 29, 2018, are based on the consideration paid including our estimates and assumptions, as explained in more detail in "Note 3 – GBG Acquisition" in the accompanying Notes to the Condensed Consolidated Financial Statements. The total purchase price to acquire the GBG Business has been allocated to the assets acquired and assumed liabilities of the acquired business, based upon the fair values as of October 29, 2018. We utilized third-party valuation specialists to assist our management in determining the fair values of the acquired assets and liabilities assumed.

The unaudited pro forma combined financial information contains a variety of adjustments, assumptions and estimates, and is subject to numerous other uncertainties, assumptions, and adjustments as described in the accompanying notes hereto and, therefore, should not be relied upon as being indicative of our results of operations.

The unaudited pro forma combined financial information also does not project our results of operations for any future period or date. The unaudited pro forma combined financial information for the three and nine months ended September 30, 2018 includes results of the GBG Acquisition and its related operations from January 1, 2018 through September 30, 2018. The pro forma combined adjustments give effect to the items identified in the unaudited pro forma combined table below in connection with the GBG Acquisition.

In addition to the other information in this Quarterly Report on Form 10-Q, the unaudited pro forma combined statements of operations should be read in conjunction with the audited combined financial statements of the GBG Business as of December 31, 2017 and October 28, 2018 and the notes relating thereto, included as Exhibit 99.1 to the Amendment No. 1 to the Company's Current Report on Form 8-K filed on May 16, 2019 (the "***GBG Business Financial Statements***").

The historical financial statements of GBG related to the GBG Business and the Company have been adjusted in the pro forma financial information to give effect to events that are (1) directly attributable to the GBG Acquisition or the Financing Transactions (as described in "Note 3 – GBG Acquisition"), (2) factually supportable, and (3) with respect to the statements of operations, expected to have a continuing impact on the combined company.

The fair value estimates of the assets acquired and liabilities assumed used in the unaudited pro forma condensed consolidated financial information are preliminary and subject to further adjustments. Accordingly, the final acquisition accounting adjustments may be materially different from the preliminary unaudited adjustments presented herein.

The unaudited pro forma condensed consolidated financial information has been prepared in a manner consistent with the accounting policies adopted by the Company.

The unaudited pro forma combined financial information has been prepared for informational purposes only and is not necessarily indicative of or intended to represent what the combined company's financial position or results of operations actually would have been had GBG Acquisition occurred as of the dates indicated. In addition, the unaudited pro forma combined financial information does not purport to project the future financial position or operating results of the combined company. The unaudited pro forma adjustments are based on the information available at the time of the preparation of the pro forma combined financial information.

The unaudited pro forma combined financial information does not reflect cost savings, synergies or revenue enhancements that the Company may achieve with respect to combining the companies or costs to integrate the GBG Business or the impact of any non-recurring activity and any one-time transaction related costs. Synergies and integration costs have been excluded from consideration because they do not meet the criteria for unaudited pro forma adjustments.

Unaudited Pro Forma Results of Operations

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. In addition, the unaudited pro forma results of operations below have been prepared for informational purposes only and are not necessarily indicative of or intended to represent what the combined company's financial position or results of operations actually would have been had GBG Acquisition occurred as of the dates indicated. The following adjustments have been reflected in the unaudited pro forma financial statements:

	Three months ended September 30, 2018			
	Centric (a)	Acquired Business (b)	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 39,830	$ 565,880	$ —	$ 605,710
Cost of goods sold (c)	22,671	454,537	18,618	495,826
Gross profit	17,159	111,343	(18,618)	109,884
Profit margin	43.1 %	19.7 %		18.1 %
Operating expenses				
Selling, general and administrative (c)	25,029	149,751	(23,173)	151,607
Depreciation and amortization (d)	1,378	5,376	15,423	22,177
Total operating expenses	26,407	155,127	(7,750)	173,784
Operating loss	(9,248)	(43,784)	(10,868)	(63,900)
Interest expense, net (e)	2,462	2,783	32,821	38,066
Other expense	22	—	—	22
Loss before income taxes	(11,732)	(46,567)	(43,689)	(101,988)
Income tax benefit	(1,151)	(1)	—	(1,152)
Net loss	$ (10,581)	$ (46,566)	$ (43,689)	(100,836)

Adjusted pro forma EBITDA reconciliation:	
Interest expense, net	38,066
Income tax expense	(1,152)
Depreciation and amortization	22,177
Other expense	22
Stock-based compensation	637
Discontinued license	5,128
Adjusted pro forma EBITDA	$ (35,958)

(a) Represents the unaudited results of operations of the Company for the three months ended September 30, 2018.

(b) Represents the unaudited results of operations of the GBG Business for the three months ended September 30, 2018 derived from the GBG Business Financial Statements.

(c) Represents an increase to cost of goods sold of $18.6 million for the three months ended September 30, 2018 and a decrease to selling, general and administrative expenses of $23.2 million for the three months ended September 30, 2018 related to the capitalization and reclassification of certain production related overhead costs.

(d) Represents additional depreciation and amortization expense of $15.4 million for the three months ended September 30, 2018 related to the fair value of the property, plant, and equipment acquired in the GBG Acquisition. The adjustment in depreciation is based on the estimated fair value and useful lives of 3 to 8 years, and is calculated using the straight-line method. The intangible assets represent customer relationships and certain above or below market leases with an estimated useful life of 11 years and 6 years, respectively, which the Company will amortize on a straight-line basis.

(e) Represents the net increase in interest expense of $32.8 million for the three months ended September 30, 2018 in connection with the gross borrowings under the 2024 Convertible Notes, the Credit Agreements and amortization of the related deferred fees and discount.

	Nine months ended September 30, 2018			
	Centric (a)	Acquired Business (b)	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 114,614	$ 1,471,563	$ —	$ 1,586,177
Cost of goods sold (c)	66,774	1,128,177	55,855	1,250,806
Gross profit	47,840	343,386	(55,855)	335,371
Profit margin	41.7 %	23.3 %	—	21.1 %
Operating expenses				
Selling, general and administrative (c)	58,992	442,018	(69,519)	431,491
Depreciation and amortization (d)	4,252	18,004	46,270	68,526
Total operating expenses	63,244	460,022	(23,249)	500,017
Operating loss	(15,404)	(116,636)	(32,606)	(164,646)
Interest expense, net (e)	7,097	8,570	98,464	114,131
Other (income) expense	124	(17,675)	—	(17,551)
Loss before income taxes	(22,625)	(107,531)	(131,070)	(261,226)
Income tax benefit	(2,275)	—	—	(2,275)
Net loss	$ (20,350)	$ (107,531)	$ (131,070)	(258,951)

Adjusted pro forma EBITDA reconciliation:	
Interest expense, net	114,131
Income tax benefit	(2,275)
Depreciation and amortization	68,526
Other income	(17,551)
Stock-based compensation	2,144
Discontinued license	15,383
Adjusted pro forma EBITDA	$ (78,593)

(a) Represents the unaudited results of operations of the Company for the nine months ended September 30, 2018.

(b) Represents the unaudited results of operations of the GBG Business for the nine months ended September 30, 2018 derived from the GBG Business Financial Statements.

(c) Represents an increase to cost of goods sold of $55.9 million for the nine months ended September 30, 2018 and a decrease to selling, general and administrative expenses of $69.5 million for the nine months ended September 30, 2018 related to the capitalization and reclassification of certain production related overhead costs.

(d) Represents additional depreciation and amortization expense of $46.3 million for the nine months ended September 30, 2018 related to the fair value of the property, plant, and equipment acquired in the GBG Acquisition. The adjustment in depreciation is based on the estimated fair value and useful lives of 3 to 8 years, and is calculated using the straight-line method. The intangible assets represent customer relationships and certain above or below market leases with an estimated useful life of 11 years and 6 years, respectively, which the Company will amortize on a straight-line basis.

(e) Represents the net increase in interest expense of $98.5 million for the nine months ended September 30, 2018 in connection with the gross borrowings under the 2024 Convertible Notes, the Credit Agreements and amortization of the related deferred fees and discount.

Off Balance Sheet Arrangements

As a part of our working capital management, we sell certain accounts receivable through a third party financial institution in off-balance sheet arrangements. The amount sold varies each month based on the amount of underlying receivables and cash flow needs. As of September 30, 2019, we had $533.8 million of receivables outstanding under receivable purchase agreements entered into by various locations. Costs incurred on the sale of receivables were $8.5 million for the nine months ended September 30, 2019. These amounts are recorded in interest expense, net in the condensed consolidated statements of operations and comprehensive loss.

As of September 30, 2018, we did not have any off balance sheet receivables outstanding nor did we incur any costs associated with off-balance sheet arrangements. We did not have any other material off-balance sheet arrangements as of September 30, 2019 and 2018.

Contractual Obligations

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

Critical Accounting Policies and Use of Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates from the information provided in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Management's Discussion of Critical Accounting Policies" included in our 2018 Form 10-K, except as provided in "Note 2 – Summary of Significant Accounting Policies" to our condensed consolidated financial statements above.

Recent Accounting Pronouncements

See "Notes to Condensed Consolidated Financial Statements – Note 2 – Summary of Significant Accounting Policies" to our unaudited condensed consolidated financial statements above regarding new accounting pronouncements.

The Company adopted ASC 842, *Leases*, with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for leases, see "Notes to Condensed Consolidated Financial Statements – Note 2 – Summary of Significant Accounting Policies" for a discussion on the adoption of ASC 842.

Recent Developments

MIP Amendment

On October 3, 2019, the Company entered into an amendment (the "***MIP Amendment***") to the MIP Letter. Pursuant to the MIP Amendment, the Company agreed to reserve the 1,776,500 shares (the "***MIP Shares***") of its common stock (the "***MIP Plan***") under the 2016 Stock Incentive Plan, which were allocated by a Special Committee of the Board in accordance with the Stockholder Agreement, dated October 29, 2018, by and between the Company and the stockholders party thereto. All of the MIP Shares were awarded or allocated by October 29, 2019. If any awards of the MIP Shares are forfeited, cancelled, terminated or expired at any time, the equivalent amount of shares of Common Stock shall be delivered to the stockholders party to the MIP Letter for no additional consideration.

Where You Can Find Other Information

Our corporate website is *www.centricbrands.com*. The information contained on, or that can be accessed through, our website is not a part of this Quarterly Report and is not incorporated by reference herein. We make available on or through our website, without charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are electronically submitted to the SEC. The SEC maintains an Internet site at *http://www.sec.gov* that contains reports, proxy and information statements and other information filed electronically by us with the SEC. Copies of these reports, proxy and information statements and other information may be obtained by electronic request at the following e-mail address: *publicinfo@sec.gov*.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, as required by Rule 13a-15(b) under the Exchange Act, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report (the "***Evaluation Date***"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the communication to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Except as described below, the Company's management, including the Company's Chief Executive Officer and principal financial officer, has determined that there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting during the period covered by this quarterly report.

During the fiscal year ended December 31, 2018, the Company acquired the GBG Business, and we continue to integrate the acquired GBG Business into the Company's financial reporting processes and procedures and internal control over financial reporting. Our information technology infrastructure and applications are provided for and supported under a transition services agreement ("***TSA***") with GBG. We are in the process of developing and implementing our own enterprise resource planning system ("***ERP***") and supporting applications to transition off reliance on the TSA. We anticipate our implementation efforts and testing to occur throughout the remainder of fiscal year 2019 and expect to go-live on our own information technology systems in early fiscal 2020.

As with any new information system we implement, these applications, along with the internal controls over financial reporting included in our system development life cycle process, will require testing for effectiveness. In connection with this ERP system and supporting applications implementation, we are updating our internal controls over financial reporting, as necessary, to accommodate modifications to our business processes and accounting procedures. We do not believe that the implementations and transition from reliance on the TSA will have an adverse effect on our internal control over financial reporting.

Additionally, during the first quarter of 2019, the Company implemented internal controls relating to the new lease accounting standard, ASC 842, which was adopted by the Company on January 1, 2019.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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 condensed consolidated financial condition, results of operations or cash flows. For more information, see “Notes to Condensed Consolidated Financial Statements- Note 7 – Commitments and Contingencies” to our unaudited condensed consolidated financial statements in “Part I, Item 1” of this Quarterly Report.

Item 1A. Risk Factors

There have not been any material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on May 16, 2019.

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

Purchases of Equity Securities by Issuer

Pursuant to our practice, we withhold shares of stock awards on the vesting date and make payments to taxing authorities as required by law to satisfy the minimum withholding tax requirements of award recipients who are employees.

The following table presents shares repurchased during the three months ended September 30, 2019:

	Total Number of Shares Purchased	Weighted Average Price Paid per Share
July 1, 2019 – July 30, 2019	—	$ —
August 1, 2019 – August 31, 2019	—	—
September 1, 2019 – September 30, 2019	1,218	2.78
Total	1,218	$ 2.78

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

Exhibit Number	Description	Document if Incorporated by Reference
10.1*	Fourth Amendment dated September 10, 2019, to the Receivables Purchase Agreement, dated as of October 29, 2018, by and among Spring Funding, LLC, as seller, the purchasers from time to time party thereto, PNC Bank, National Association, as Administrative Agent, Centric Brands Inc. (f/k/a Differential Brands Group Inc.), as initial Servicer, and PNC Capital Markets LLC, as Structuring Agent.	Exhibit 10.1 to Current Report on Form 8-K filed on September 16, 2019
10.2*	Third Amendment dated July 30, 2019, to the Receivables Purchase Agreement, dated as of October 29, 2018, by and among Spring Funding, LLC, as seller, the purchasers from time to time party thereto, PNC Bank National Association, as Administrative Agent, Centric Brands Inc. (f/k/a Differential Brands Group Inc.), as initial Servicer, and PNC Capital Markets LLC, as Structuring Agent.	Exhibit 10.1 to Current Report on Form 8-K filed on August 5, 2019
10.3	Letter Agreement Amendment, dated October 3, 2019, by and among Centric Brands Inc., GSO Capital Opportunities Fund III LP, GSO CSF III Holdco LP, GSO Aiguillw des Grand Montets Fund II LP, GSO Credit Alpha II Trading (Cayman) LP, GSO Harrington Credit Alpha Fund (Cayman) L.P., BTO Lending Holdings L.P. and Blackstone Family Tactical Opportunities Investment Partnership III (Cayman) – NQ – ESC L.P.	Exhibit 10.2 to Current Report on Form 8-K filed on October 8, 2019
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act 2002	Filed herewith
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act 2002	Filed herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Furnished herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

* Exhibits and schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. We agree to furnish supplementally a copy of any such exhibit or schedule, or any section thereof, to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRIC BRANDS INC.

November 14, 2019	By: /s/ Jason Rabin Jason Rabin *Chief Executive Officer and Director (Principal Executive Officer)*
November 14, 2019	By: /s/ Anurup Pruthi Anurup Pruthi *Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)*

Exhibit 31.1

Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jason Rabin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Centric Brands Inc. for the period ended September 30, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2019

/s/Jason Rabin
Jason Rabin
Chief Executive Officer (Principal Executive Officer)
Centric Brands Inc.

Exhibit 31.2

Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Anurup Pruthi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Centric Brands Inc. for the period ended September 30, 2019;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2019

/s/ Anurup Pruthi
Anurup Pruthi
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Centric Brands Inc.

Exhibit 32.1

Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this quarterly report on Form 10-Q (the "***Report***") which is being filed by Centric Brands Inc. for the period ended September 30, 2019, I, Jason Rabin, and, I, Anurup Pruthi, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Centric Brands Inc.

November 14, 2019

/s/ Jason Rabin
Jason Rabin
Chief Executive Officer (Principal Executive Officer)
Centric Brands Inc.

/s/ Anurup Pruthi
Anurup Pruthi
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Centric Brands Inc.

A signed original of this written statement required by Section 906 has been provided to Centric Brands Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.