Differential Brands Group Inc.
Form 10-K
March 30, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

Commission file number: 0 18926

DIFFERENTIAL BRANDS GROUP INC.

(Exact name of registrant as specified in its charter)

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

1231 South Gerhart Avenue, Commerce, California 90022

(Address of principal executive offices, including zip code)

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

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

Common Stock, $0.10 par value

(Title of Class)

The Nasdaq Stock Market LLC

(NASDAQ Capital Market)

(Name of exchange on which registered)

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

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

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

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

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

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

Large accelerated filer	Accelerated filer	Non accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

The aggregate market value of the voting and non voting common stock held by non affiliates of the registrant based on the closing price of the registrant's common stock on The Nasdaq Stock Market LLC as of June 30, 2016, was approximately $28,982,000.

The number of shares of the registrant's common stock outstanding as of March 29, 2017 was 13,297,688.

Documents incorporated by reference: None.

Table of Contents

DIFFERENTIAL BRANDS GROUP INC.

FORM 10 K ANNUAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

Table of Contents

Table of Contents

PART I

Certain Definitions

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

Forward Looking Statements

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

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

- the risk of intense competition in the denim and premium lifestyle apparel industries;
- the risk that we incurred substantial indebtedness in connection with the acquisition of RG, and, to a lesser extent, SWIMS, which we may need to refinance or extend or on which we may default;
- the risks associated with our foreign sourcing of our products and the implementation of foreign production for Hudson's products, including in light of potential changes in international trade relations brought on by the new U.S. presidential administration;
- the effects of the RG Merger and acquisition of SWIMS on our financial results, business performance and product offerings and risks associated with successfully integrating these businesses to achieve cost savings and synergies;
- risks associated with our third-party distribution system;
- risks associated with changing fashion trends and business environment and our customer base;

3

Table of Contents

- risks associated with leasing retail space and operating our own retail stores;
- risks associated with the restatement of our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2016;
- risks associated with the identification of material weaknesses in our internal control over financial reporting in certain periods in 2016 and, following full remediation as of December 31, 2016, our ability to maintain effective internal control over financial reporting;
- the risk that we will be unsuccessful in gauging fashion trends and changing consumer preferences;
- the risk that the credit ratings of the combined company or its subsidiaries, including the Hudson, RG and SWIMS businesses, may be different from what we expect;
- the risk that changes in general economic conditions, consumer confidence, or consumer spending patterns, including consumer demand for denim and premium lifestyle apparel, will have a negative impact on our financial performance or strategies and our ability to generate cash flows from our operations to service our indebtedness;
- our ability to respond to the business environment and fashion trends;
- continued acceptance of our brands in the marketplace;
- our reliance on a small number of large customers;
- our ability to implement successfully any growth or strategic plans;
- our ability to manage our inventory effectively;
- the risk of cyber-attacks and other system risks;
- our ability to continue to have access on favorable terms to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations or new acquisitions;
- the risk that we pledged all our tangible and intangible assets as collateral under our financing agreements;
- our ability to generate positive cash flow from operations;
- a possible oversupply of denim in the marketplace; and
- other risks.

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

Table of Contents

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

Table of Contents

ITEM 1. BUSINESS

Overview

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

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

Hudson® Acquisition

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

Joe's Sale

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

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

Table of Contents

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

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

Robert Graham® Merger

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

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

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

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

Table of Contents

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

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

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

In connection with the RG Merger, we changed our fiscal year end to December 31st and report our results after the effective date with RG as the accounting acquirer.

SWIMS® Acquisition

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

To finance the acquisition, we issued the following to our major stockholder Tengram Capital Partners Fund II, L.P. (“Tengram II”): (i) a warrant for the purchase of 500,000 shares of our common stock at an exercise price of $3.00 per share (the “SWIMS Warrant”); and (ii) a convertible promissory note with principal of $13.0 million (the “SWIMS Convertible Note”). The SWIMS Convertible Note accrues interest at a rate of 3.75% per annum, compounding on the first day of each month starting August 1, 2016, and will convert, at Tengram II’s option or on its maturity date if not already repaid in cash on or prior to that date, into up to 4,500,000 newly issued shares of our Series A-1 Preferred Stock at a conversion price of $3.00 per share. Effective January 18, 2017, the Company and Tengram II amended the maturity date to be July 18, 2017. Additionally, the Series A-1 Preferred Stock will itself be convertible into shares of our common stock at an initial price of $3.00 per share (subject to adjustment), will be entitled to dividends at a rate of 10% per annum payable quarterly in arrears, will be senior to the common stock upon liquidation and will have voting rights on an as-converted basis alongside our common stock.

To permit the acquisition, on July 18, 2016, we also entered into (i) a Consent and Amendment No. 1 to our ABL Credit Agreement and accompanying security agreement with Wells Fargo Bank, National Association, as lender, and (ii) a Consent and Amendment No. 1 to our Term Credit Agreement and accompanying security agreement with TCW

Asset Management Company, as agent for the lenders and the lenders party thereto.

Table of Contents

Our Brands

As of December 31, 2016, our principal business activity is the design, development and worldwide marketing of apparel and footwear products bearing the Hudson®, Robert Graham® and SWIMS® brands. As a result of the RG Merger and related transactions (the “Merger Transactions”), our strategy has evolved to focus on owning, managing and operating a diversified portfolio of complimentary premium consumer brands. We intend to organically grow our current brands and seek opportunities to acquire accretive, complementary, premium brands.

Hudson®

Hudson® was established in 2002 and is recognized as a premier designer and marketer of women’s and men’s premium branded denim apparel, an industry term for denim jeans with price points generally of $120 or more, known for its quality, fit and fashion forward designs. We sell our products to numerous retailers, which include major department stores, specialty stores and distributors around the world. As of December 31, 2016, our product line included women’s, men’s and children’s denim jeans, pants, shirts, jackets and other bottoms. We continue to evaluate offering a range of products under the Hudson® brand name.

Robert Graham®

RG’s principal business activity is the design, development, sales and licensing of apparel products and accessories that bear the brand name Robert Graham®. Robert Graham® can be described as “American Eclectic.” Since its launch in 2001, Robert Graham® was created based upon the premise of introducing sophisticated, eclectic style to the fashion market as an American based company with an intention of inspiring a global movement. During the end of 2016, we have made an assortment shift to fashion basics which has been well received among customers. Robert Graham® received the 2014 “Menswear Brand of the Year” award from the American Apparel & Footwear Association. Robert Graham® offers a cohesive lifestyle collection that includes knits, polos, t shirts, sweaters, sport coats, outerwear, jeans, pants, shorts, swimwear, sportshirts and accessories.

SWIMS®

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

Our Principal Products, Revenue Sources and Reportable Segments

Our Products

Our Hudson® product line includes women’s, men’s and children’s denim jeans, pants, shirts, jackets and other bottoms. We continue to evaluate offering a range of products in the future under the Hudson® brand name. The Hudson® children’s product offerings are also produced under a license from us. RG’s Robert Graham® product line includes premium priced men’s sport shirts, denim jeans, pants, shorts, sweaters, knits, t shirts, sportcoats, outerwear, and swimwear. RG also offers a line of women’s apparel, mainly in its own retail stores. Additionally, men’s shoes, belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eye and sun glasses, jewelry, hosiery, underwear, loungewear and fragrances are produced by third parties under various license agreements and RG receives royalty payments based upon net sales from licensees. RG sells its current season merchandise through its retail stores, its retail internet site, premium department stores, specialty stores, and international stores that display and merchandise its products in a way that supports its brand image and is in sync with the lifestyle and shopping experience expected by its customers. RG sells its prior season merchandise and some "designed for outlet" product through its own outlet stores and through select off price retail stores. In July 2016, we acquired SWIMS, whose product line includes footwear, swimwear, outerwear, ready-to-wear, and accessories under the SWIMS® brand. SWIMS sells its products worldwide across various channels, including high-end department stores, specialty stores, luxury resorts, and its own website.

Table of Contents

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

Reportable Segments

We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our reportable segments are Wholesale, Consumer Direct and Corporate and other. Our Wholesale segment is comprised of sales of products to premium department stores, boutiques, retailers, specialty stores, international retailers and select off-price retailers. The Wholesale segment also includes expenses from sales and customer service, trade shows, warehouse and distribution and product samples. Our Consumer Direct segment is comprised of sales to consumers through our Robert Graham® brand full-price retail stores, Robert Graham® outlet stores, our SWIMS® brand outlet store in Oslo, Norway and our online ecommerce sites at www.hudsonjeans.com, www.robertgraham.us and www.swims.com. The information contained, or that can be accessed through these websites is not incorporated by reference in this Annual Report. The Corporate and other segment is comprised of revenue from trademark licensing agreements and overhead expenses from corporate operations, which include the executive, finance, legal, information technology, human resources and design and production functions. For more information about our reportable segments, including in connection with our accounting treatment following the RG Merger, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Overview—Reportable Segments."

For a breakdown of revenues and gross profits by reportable segment for the last three fiscal years, see "Results of Operations" under "Comparison of Year Ended December 31, 2016 to the Year Ended December 31, 2015" and "Comparison of Year Ended December 31, 2015 to the Year Ended December 31, 2014" in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Product Design, Development and Sourcing

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

Our products are primarily produced by, and purchased or procured from, independent manufacturing contractors, many of whom are located outside of the United States. For fiscal 2016, substantially all of the total revenue for our brands was attributable to manufacturing contractors located outside of the United States, with approximately 28 percent of purchases attributable to manufacturing contractors located in Mexico and approximately 39 percent of purchases attributable to manufacturing contractors located in Asia, including India. Three of our manufacturing contractors represented approximately 50 percent of our total purchases of our products for fiscal 2016. We do not have a long term supply agreement with any of our third party manufactures or contractors, and we believe that there are available resources of overseas and domestic contractors that could fulfill our requirements in the event that one of our existing manufacturers would not be able to do so. We control production schedules in order to ensure quality and timely deliveries and conduct all aspects of inventory, warehousing, picking and packing services internally. See "Part I, Item 1A. Risk Factors—Problems with sourcing, along with the extent of our foreign sourcing, may adversely affect our business," "Risk Factors—Our business could suffer as a result of a manufacturer's inability to produce our goods on time and to our specifications or if we need to replace manufacturers" and "Risk Factors—Problems with the third party distribution system could harm our ability to meet customer expectations, manage inventory, complete sales and achieve targeted operating efficiencies.”

Table of Contents

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

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

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

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

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

Trademarks and License Agreements

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

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

As of March 29, 2017, we own three United States registered trademarks and have two pending U.S. trademark applications in connection with our Hudson® brand. As of March 29, 2017, we also owned a variety of registrations and pending applications for the above referenced marks as applied to apparel, footwear, and related fashion accessories in various foreign jurisdictions throughout the world. More specifically, 13 registrations have been issued in jurisdictions such as Australia, Canada, the European Community which comprises 28 member countries, Hong Kong, Japan, Macao, South Korea, New Zealand and Taiwan.

For our Robert Graham® brand, trademarks include the "Robert Graham" word mark and "Robert Graham" logo. As of March 29, 2017, we own 13 United States registered trademarks and have five pending United States trademark applications in connection with our Robert Graham® brand. As of March 29, 2017, we also owned a variety of registrations and pending applications for the above referenced marks as applied to apparel, footwear, and related fashion accessories in various foreign jurisdictions throughout the world. More specifically, 52 registrations have been issued in jurisdictions such as Australia, Bangladesh, Canada, China, Egypt, the European Community which comprises 28 member countries, Hong Kong, Iceland, India, Israel, Japan, Mexico, Morocco, Norway, Panama, Peru, Korea, Russia, Switzerland, Taiwan, the United Arab Emirates and Vietnam.

For our SWIMS® brand, trademarks include the "SWIMS" logo and shoe designs. As of March 29, 2017, we own one United States registered trademark and have three pending United States trademark applications in connection with our SWIMS® brand. As of March 29, 2017, we also owned a variety of registered marks and had pending applications for marks as applied to apparel, footwear, and related fashion accessories in various foreign jurisdictions throughout the world. More specifically, 49 registrations are pending or have been issued in jurisdictions such as Australia, Bahrain, Brazil, Canada, Switzerland, China, Colombia, Costa Rica, Ecuador, Egypt, the European Union, Hong Kong, Israel, Jordan, Japan, South Korea, Kuwait, Lebanon, Mexico, Norway, Panama, Peru, Qatar, Russian Federation, Saudi Arabia, Singapore, Turkey, United Arab Emirates and Venezuela.

We also selectively license our brands for certain product categories or for retail stores in foreign jurisdictions. Licensing product categories broadens and enhances the products available under the brand name. In addition, by licensing certain product categories, we receive royalty payments on net sales or purchases of products for sale at the retail stores without incurring significant capital investments or incremental operating expenses. There are certain minimum net sales that the licensees are required to meet, and the agreements generally have renewal rights. As of March 29, 2017, we had one active license agreement for Hudson® and nine for Robert Graham®. Our licensing arrangement for our Hudson® brand is for children's apparel. For our Robert Graham® brand, our licensing arrangements are for men's dress shirts, neckwear, tailored clothing, hosiery, leather goods (including bags, belts and small leathers), sun and optical eyewear, headwear, jewelry, footwear, underwear and loungewear and fragrances. In the future, we may enter into select additional licensing arrangements for product offerings which require specialized expertise. We may also enter into select licensing agreements pursuant to which we may grant third parties the right to distribute and sell our products in certain geographic areas.

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

Sales, Distribution and Outsourcing Agreements

Wholesale

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

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

Table of Contents

Consumer Direct

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

Advertising, Marketing and Promotion

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

In addition, for our Hudson® brand, we utilize advertising campaigns including strategic placement of advertising in areas of high concentration of consumer traffic through billboard advertisements in Los Angeles, California and New York City, print ads in magazines and on specialty online websites. We generally locate short term billboard advertising space in various locations in and around New York City and Los Angeles. In addition, we utilize public relations firms to strategically place our products in magazines, editorials and with stylists. We also have internal visual merchandisers who work with our customers to create the presentation of our products in their stores to enhance sales. For example, many of our customers' stores have denim focus areas located within a department that are dedicated to selling and showcasing our merchandise on a year round basis.

In addition, for our Robert Graham® brand, our advertising is focused on areas of high traffic around our stand alone retail locations through short term billboard advertisements, center publications, in center advertising stands, hotels, restaurants and websites that cater to the local marketplace for the purpose of increasing traffic into our stores and to our ecommerce website. Robert Graham also circulates approximately 775,000 catalogs mailed directly to customers' and prospective customers' homes. We work with fashion stylists and celebrity agents to strategically place our products on celebrities for broadcast or within print publications. We also merchandise our windows and in-store displays to tell thematic stories, depending on the time of year. We also partner with our retailer customers through cooperative advertising programs to promote the brand, where we share the cost of advertising space with our customers. Lastly, we forge brand partnerships with like minded audiences to serve our product to them, such as Barrett-Jackson, the car auction company.

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

Store Operations

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

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

13

Table of Contents

Company Operations

Distribution

We utilize approximately 68,000 square feet and 27,000 square feet at two third party logistics facilities in New Jersey and California, respectively, to distribute merchandise to our domestic customers. Operations at these facilities include direct to consumer and wholesale fulfillment services, including inventory warehousing, receiving and customer shipping. Ecommerce fulfillment at our California facility was previously serviced by a separate ecommerce third party provider until March 2017.

We utilize two third party logistics companies in Canada and Germany to support distribution to approximately half of our international customers. Operations at these facilities include wholesale fulfillment services, including inventory warehousing, receiving and customer shipping.

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

Information Systems

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

Customers

Our products are sold to consumers through high end department stores and boutiques located throughout the world, as well as, for Robert Graham through its catalog, website and its stores; for Hudson its website; and for SWIMS, its store and website.

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

For our Robert Graham® brand, we currently sell to approximately 800 “doors” through domestic department stores including Bloomingdale’s, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Von Maur and specialty retailers, which include, Amazon, DXL/Rochester Big & Tall, Patrick James and The Club in the United States. We sell internationally to a distributor in Canada and our products can be found in better major retailers. In addition, we sell prior season or excess merchandise to off price retailers.

For our SWIMS® brand, we currently sell to domestic department stores such as Bloomingdale's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, and approximately 300 better specialty retailers, which include Sid Mashburn, St. Bernard's Sports, Sunbarth, Onward Reserve, The Breakers, and The Sole Man in the United States. We sell internationally directly in the Canadian and Norwegian market and through distributors and agents in countries such as

Table of Contents

UK, France, Italy, Germany, Spain, UAE and Saudi Arabia. In addition, we also sell prior season or excess merchandise to off price retailers.

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

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

For fiscal 2016, the ten largest customers and customer groups for our business, in the aggregate, accounted for approximately 48 percent of our net sales. We believe that we would be able to find alternative customers or increase sales to our existing customer base to purchase our products in the event of the loss of any of these existing customers. During fiscal 2016, our largest customer, Nordstrom Inc., represented the only customer that was over 10 percent of our net sales.

Seasonality of Business and Working Capital

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

Hudson®

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

Robert Graham®

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

SWIMS®

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

Table of Contents

We have historically experienced, and expect to continue to experience seasonal fluctuations in our net sales. A significant amount of our net sales are realized during the third and fourth quarter when we ship orders taken during earlier months and during the Back-to-School and Holiday seasons. For fiscal 2016, we funded our liquidity needs through cash from operations and cash availability under our financing agreements. In fiscal 2017, we plan to continue to fund our liquidity needs through cash from operations and cash availability under our financing arrangements. If sales are materially different from seasonal norms, our annual operating results could be materially affected. Accordingly, our results for the individual quarters are not necessarily indicative of the results to be expected for the entire year. See “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” for further discussion of our financing agreements and our liquidity position.

Credit and Collection

We currently extend credit to a majority of our larger customers, who purchase our products from us at wholesale prices. Our decision to extend credit is based on factors such as credit approval by CIT under our factoring arrangements, past credit history, reputation of creditworthiness within our industry and timelines of payments made to us. We generally extend this credit without requiring collateral. A small percentage of our customers are required to pay by either cash before delivery, credit card or cash on delivery (“C.O.D.”), which is also based on such factors as lack of credit history, reputation (or lack thereof) within our industry and/or prior payment history. For those customers to whom we extend credit, typical terms are net 30 to 60 days. Based on industry practices, financial awareness of the customers with whom we conduct business and business experience of our industry, our management exercises professional judgment in determining which customers will be extended credit. We are exposed to some collection risk for receivables which were factored with recourse where CIT did not accept the credit risk. However, the aggregate amount of exposure is generally low and, therefore, we believe that the credit risk associated with our extension of credit is minimal. Retail and ecommerce sales carry very little credit risk as payment is tendered at or before product is taken or delivered by/ to the customer.

Backlog

Although we may, at any given time, have significant business booked in advance of ship dates, customers’ purchase orders are typically filled and shipped within two to six weeks. As of December 31, 2016, we had future bookings of $38.9 million compared to $15.1 million as of December 31, 2015. Although 2016 information represents the operations of all three of our brands, comparative information for 2015 only represents the operations of our Robert Graham Business, as RG is deemed the accounting acquirer as a result of the RG Merger, which closed in January 2016. The amount of outstanding customer purchase orders at a particular time is influenced by numerous factors, including the product mix, timing of the receipt and processing of customer purchase orders, shipping schedules for the product and specific customer shipping windows. Due to these factors, a comparison of outstanding customer purchase orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

Competition

The apparel industry in which we operate is fragmented and highly competitive in the United States and on a worldwide basis. We compete for consumers with a large number of apparel companies similar to ours. Our Hudson® brand competes with other denim manufacturers such as AG, Paige Premium Denim, Rag and Bone, Seven for All Mankind, Citizens of Humanity, J Brand and True Religion and other larger competitors. Our Robert Graham® brand competes with other premium lifestyle brands such as Armani, Burberry, Hugo Boss, John Varvatos, Paul Smith, Peter Millar, Ralph Lauren, Ted Baker, Theory, Tommy Bahama, Zegna, and other larger competitors. Our SWIMS® brand competes primarily with premium footwear brands such as Cole Haan, Sperry, Sebago, & Tods and premium outerwear brands such as Canada Goose, Barbour, and Moncler. We do not hold a dominant competitive position, and our ability to sell our products is dependent upon the anticipated popularity of our designs and brand name, the price and quality of our products and our ability to meet our customers' delivery schedules. We believe the range of fits and uniqueness of our designs differentiates us from our competitors and we believe that we are competitive with companies producing goods of like quality and pricing. We believe that we can maintain our competitive position through new product development, creating product identity and brand awareness and competitive pricing. Many of our competitors may possess greater financial, technical and other resources, and the intense competition and the rapid changes in consumer preferences

Table of Contents

constitute significant risk factors in our operations. As we expand globally, we will continue to encounter additional sources of competition. See “Part I, Item 1A. Risk Factors—We face intense competition in the denim and premium lifestyle apparel industries. If we are unable to compete effectively, our business, financial condition and results of operations may be negatively impacted.”

Import and Export Restrictions and Other Governmental Regulations

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

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

Employees

As of March 29, 2017, we have 387 total employees, which includes 256 full time, 125 part time employees and 6 temporary employees. Of our total employees, approximately 36% work in our Wholesale segment, 54% work in our Direct to Consumer segment, and the remaining 10% work in our Corporate and other segment. None of our employees are covered by a collective bargaining agreement, and we believe that our relationships with our employees are good.

Manufacturing and Distribution Relationships

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

	2016		2015	
United States	30	%	—	%
Mexico	28	%	—	%
Europe	1	%	—	%
Asia	39	%	95	%
Other	2	%	5	%
	100	%	100	%

Table of Contents

Available Information

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

Executive Officers and Directors

The following table sets forth certain information regarding our executive officers and directors as of March 29, 2017:

Executive Officers

Name	Age	Position
Michael Buckley	53	Chief Executive Officer and Director of the Company (Principal Executive Officer)
Bob Ross	48	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Peter Kim	46	Chief Executive Officer of Hudson subsidiary

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

Bob Ross has served as our Chief Financial Officer since January 2017. From October 2013 until October 2016, Mr. Ross served as Chief Financial Officer of Nasty Gal, Inc. From April 2010 to January 2013, Mr. Ross served as Chief Financial Officer at Ideeli Inc. From October 1997 to December 2009, Mr. Ross held various financial and operational executive roles at Urban Outfitters.

Peter Kim has served as the Chief Executive Officer of our Hudson subsidiary since its acquisition by us in September 2013. Mr. Kim founded Hudson and has been Chief Executive Officer and a member of its board of directors since 2002.

Board of Directors

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

Table of Contents

ITEM 1A. RISK FACTORS

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

Risks Related to our Business and Industry

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

We face a variety of competitive challenges from other domestic and foreign fashion oriented apparel producers, some of whom may be significantly larger and more diversified and have greater financial and marketing resources than we have. We do not currently hold a dominant competitive position in any market. Our Hudson® brand competes with other denim manufacturers such as AG, Paige Premium Denim, Rag and Bone, Seven for All Mankind, Citizens of Humanity, J Brand and True Religion and other larger competitors. Our Robert Graham® brand competes with other premium lifestyle brands such as Armani, Burberry, Hugo Boss, John Varvatos, Paul Smith, Peter Millar, Ralph Lauren, Ted Baker, Theory, Tommy Bahama, Zegna and other larger competitors. Our SWIMS® brand competes primarily with premium footwear brands such as Cole Haan, Sperry, Sebago, & Tods and premium outerwear brands such as Canada Goose, Barbour, and Moncler. We compete primarily on the basis of:

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

Furthermore, some of our competitors are larger and may have resources available to them that we do not have or are privately held without the restraint of a public company and with limited reporting of their results of operations. Therefore, it may be difficult for us to effectively gauge consumer response to our products and how our products are competing with these and other competitors in the marketplace. We cannot be certain that we will be able to compete successfully against current and future competitors, or that competitive pressure will not have a material adverse effect on our business, financial condition or results of operations.

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

Maintaining and enhancing our brands is critical to maintaining and expanding our customer base, and requires us to make substantial investments in areas such as visual merchandising, marketing and advertising, employee training and store operations. We anticipate that, as our business expands into new markets and new product classifications and

Table of Contents

further penetrates existing markets, and as the markets in which we operate become increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Certain of our competitors in the apparel industry have faced adverse publicity surrounding the quality, attributes and performance of their products. Our brand may similarly be adversely affected if our public image or reputation is tarnished by failing to maintain high standards for merchandise quality and integrity. Any negative publicity about these types of concerns may reduce demand for our merchandise. Maintaining and enhancing our brand will depend largely on our ability to be a leader in the contemporary apparel industry and to continue to provide high quality products. If we are unable to maintain or enhance our brand image, our results of operations may suffer and our business may be harmed.

We have a significant amount of indebtedness, which could adversely affect our financial performance and impact our ability to service our indebtedness.

After giving effect to the RG Merger and related Merger Transactions, the acquisition of SWIMS, and the incurrence of indebtedness in connection therewith, we have approximately $87.0 million in indebtedness, including $61.2 million of indebtedness under the New Credit Agreements and $25.8 million of indebtedness under the Modified Convertible Notes and SWIMS Convertible Notes.

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

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

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

Table of Contents

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

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

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

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

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

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

- political and economic instability in countries or regions, including heightened terrorism and other security concerns, which could subject imported or exported goods to additional or more frequent inspections, leading to delays in deliveries or impoundment of goods;
- labor union strikes at ports through which our products enter the United States;
- labor shortages in countries where contractors and suppliers are located;
- a significant decrease in availability or an increase in the cost of raw materials;
- changes in tariffs, quotas, duties, taxes, charges on imports, fund transfers and other regulations imposed by foreign countries or by the United States;
- disease epidemics and health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials, and scrutiny or embargoing of goods produced in infected areas;
- the migration and development of manufacturing contractors, which could affect where our products are or planned to be produced;
- increases in the costs of fuel, travel and transportation;

Table of Contents

· reduced manufacturing flexibility because of geographic distance between our foreign manufacturers and us, increasing the risk that we may have to mark down unsold inventory as a result of misjudging the market for a foreign made product; and
· violations by foreign contractors of labor and wage standards and resulting adverse publicity.

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

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

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

Our products are primarily produced by, and purchased or procured from, independent manufacturing contractors, many of whom are located outside of the United States, such as Mexico, Italy, Peru, and Asia, including Hong Kong, China, India, Jordan, and Vietnam. For fiscal 2016, approximately 70 percent of total purchases for our brands was attributable to manufacturing contractors located outside of the United States, with approximately 28 percent of purchases attributable to manufacturing contractors located in Mexico and approximately 39 percent of purchases attributable to manufacturing contractors located in Asia, including India.

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

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

Table of Contents

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

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

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

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

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

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

We do not own any of our retail stores, but instead lease all of our retail stores under retail store leases and are subject to all of the risks associated with leasing real estate. Our leases generally have terms of 10 years with no option to renew. The leases are generally terminable after three to five years, and all leases have restrictions in connection with assigning or subletting them. All of our leases require a fixed annual rent, and most require the payment of additional “percentage” rent if store sales exceed a negotiated amount. Most of the retail store leases are “net” leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. Additionally, certain of the leases may allow the lessor to terminate the lease or not renew if we do not achieve a specified gross sales threshold in a particular year. We cannot assure you that we will achieve any of these thresholds. Any loss of our store locations due to underperformance may harm our results of operations, stock price and reputation.

23

Table of Contents

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

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

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

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

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

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

Table of Contents

As of March 29, 2017, we had 30 Robert Graham® brand stores, which consisted of 18 full price stores and 12 outlet stores, and one SWIMS® brand outlet store. Lack of availability, of desired store locations, delays in the acquisition or opening of new stores, delays or costs resulting from a decrease in commercial development due to capital restraints, difficulties in staffing and operating new store locations or a lack of customer acceptance of stores in new market areas may negatively impact our new store growth and the costs or the profitability associated with new stores. There can be no assurance that we will open new stores in fiscal 2017 or thereafter. Any failure to successfully open and operate new stores may adversely affect our business, financial condition and operating results.

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

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

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

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

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

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

In recent years, the retail industry has experienced consolidation, restructurings, reorganizations and other ownership changes that have resulted in one entity controlling several different stores or the elimination of stores. This

Table of Contents

consolidation can result in fewer customers for our products or the closing of some stores or the number of “doors” which carry our products. As a result, the potential for consolidation or ownership changes, closing of retail outlets and fewer customers could negatively impact sales of our products and have a material adverse effect on our financial condition and results of operations.

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

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

Our business is substantially dependent on its 10 largest customers and customer groups, which accounted for approximately 48 percent and 34 percent of net sales during fiscal 2016 and 2015, respectively. The largest customer for our business, Nordstrom, Inc., accounted for 18 percent and 11 percent of our net sales in fiscal 2016 and 2015, respectively. Although 2016 information represents the operations of all three of our brands, comparative information for 2015 only represents the operations of our Robert Graham Business, as RG is deemed the accounting acquirer as a result of the RG Merger, which closed in January 2016. We do not enter into any type of long term agreements or firm commitment orders with any of our customers. Instead, we enter into a number of individual purchase order commitments with our customers. Although we reasonably believe that we would be able to find alternative customers or increase sales to our existing customer base to purchase our products in the event of the loss of any of these existing customers, the loss of a customer could have a material adverse effect on our business. A decision by the controlling owner of a group of stores or any other significant customer, including our limited number of private label customers, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, to change their manner of doing business with us, to cancel orders previously placed in advance of shipment dates or a decision to cease carrying our products could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

Table of Contents

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

We license our Hudson® to third parties for manufacturing, marketing and distribution of children's products. Additionally, we license trademarks associated with our Robert Graham® brand to third parties for manufacturing, marketing and distribution of apparel and accessories. We believe that licensing our brands for certain product categories will broaden and enhance the products available under these brand names.

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

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

- obtain capital;
- exercise operational and financial control over its business;
- manage its labor relations;
- maintain relationships with suppliers;
- manage its credit and bankruptcy risks; and
- maintain customer relationships.

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

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

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

Table of Contents

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

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

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

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

We have made and are making investments to support our near and longer term growth. If our operations continue to grow over the longer term, of which there can be no assurance, we will be required to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes, and to obtain more space for our expanding administrative support and other headquarters personnel. The integration of our Hudson Business, our Robert Graham Business, and our SWIMS Business could strain our existing resources. As a result, we could experience operating difficulties, including obtaining sufficient raw materials at acceptable prices, securing manufacturing capacity to produce our products and experiencing delays in production and shipments. These difficulties would likely lead to a decrease in net revenue, income from operations and the price of our common stock, and such decreases could be significant.

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

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

28

Table of Contents

any decline in quality by our third party manufacturers could be detrimental not only to a particular order, but also to our future relationship with that particular customer.

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

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

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

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

The principal fabrics used in our business are cotton, blends, synthetics and wools. The prices we pay our suppliers for our products are dependent in part on the market price for the raw materials—primarily cotton—used to produce them. The price and availability of cotton may fluctuate substantially, depending on a variety of factors, including demand, crop yields, weather, supply conditions, transportation costs, work stoppages, government regulation, economic climates and other unpredictable factors. Increases in raw material costs, together with other factors, could result in a decrease of our profitability unless we are able to pass higher prices on to our customers. Moreover, any decrease in the availability of cotton could impair our ability to meet our production requirements in a timely manner, which could adversely affects our revenues and working capital requirements.

We are dependent on our relationships with our vendors.

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

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

We believe that our trademarks and other proprietary rights are important to our success and our competitive position. We may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks as we expand our product offerings and expand the number of countries where we sell our products. We cannot ensure that any actions taken to establish and protect these trademarks and other proprietary rights will be

Table of Contents

adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of their trademarks and proprietary rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States.

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

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

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

- diversion of management attention from running our existing business;
- possible material weaknesses in internal controls over financial reporting;
- increased expenses including legal, administrative and compensation expenses related to newly hired employees;
- increased costs to integrate the technology, personnel, customer base and business practices of the acquired company with us;
- potential exposure to material liabilities not discovered in the due diligence process, including cyber security risks;
- potential adverse effects on our reported operating results due to possible write down of goodwill and other intangible assets associated with acquisitions;
- acquisition financing may not be available on reasonable terms or at all; and
- any acquired business, technology, service or product may significantly under perform relative to our expectations, and we may not achieve the benefits we expect from the acquisition.

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

Because we are highly levered, we expect that we may need to issue additional equity to support our growth; however, we may not be eligible to use a Form S 3, therefore, the process of raising capital to support our growth may be more expensive and time consuming and the terms of any offering transaction may not be as favorable as they would have been if we were eligible to use Form S 3. Moreover, the addition of a substantial number of shares of our common stock into the market or the registration of any other securities may significantly and negatively affect the prevailing market price for our common stock and would dilute the ownership of our then existing stockholders.

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

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

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

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

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

While we have remediated the previously-identified material weaknesses in our internal control over financial reporting, our business and the value of our common stock could suffer from lasting negative perceptions caused by, or liability arising from, our initial identification of such material weaknesses and the restatement of our first quarter

2016 financial statements, and we may identify other material weaknesses in the future.

As previously disclosed, on August 10, 2016, our Board, in consultation with management, concluded that our unaudited condensed consolidated financial statements, financial data and related disclosures for the quarterly period ended March 31, 2016 (the “Q1 2016 Financial Statements”) should no longer be relied upon due to various errors

Table of Contents

identified therein and required restatement. On August 16, 2016, we filed our Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2016 containing amended and restated Q1 2016 Financial Statements. Furthermore, as first disclosed in that report and in our subsequent Quarterly Reports on Form 10-Q, because our internal control failed to address errors in the Q1 2016 Financial Statements, our management identified two material weaknesses in our internal control over financial reporting, and concluded our disclosure controls and procedures were not effective, as of March 31, 2016, June 30, 2016 and September 30, 2016.

Since our management first concluded that there were material weaknesses in our internal control over financial reporting, we have taken certain measures to improve our controls and as of December 31, 2016, the material weaknesses have been remediated. These remediation steps have also become regular aspects of our internal control over financial reporting and disclosure controls. Additionally, our management has concluded that as of December 31, 2016, our disclosure controls and procedures and our internal control over financial reporting were effective. For more information on our remediation efforts and these management determinations, see "Part II, Item 9A. Controls and Procedures." We may also implement additional appropriate measures in the future.

Although we believe we have remediated the material weaknesses and our management has determined that our disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2016, there can be no assurance that our controls will remain adequate or not suffer from other material weaknesses as conditions change or our compliance with policies and procedures evolves over time. The effectiveness of our internal control over financial reporting is subject to various inherent limitations, including judgments used in decision-making, the nature and complexity of the transactions we undertake, assumptions about the likelihood of future events, the soundness of our systems and cost limitations. Moreover, our business and the trading price of our common stock could suffer from any lasting impact from the restatement of our Q1 2016 Financial Statements or identification of material weaknesses in the future. These could include regulatory inquiries, enforcement actions or litigation, decreased confidence from investors or difficulty in finding investors or financial institutions to assist us in raising capital.

Risks Related to our Recent Transactions

The RG Merger and related Merger Transactions may not achieve their intended results and could adversely affect our financial results.

We entered into various agreements in connection with the RG Merger with the expectation that the RG Merger and the related Merger Transactions would result in various benefits, including, among other things, cost savings, operating efficiencies, growth opportunities and the alleviation of certain issues related to our liquidity. Our ability to achieve the anticipated benefits of the RG Merger and the related Merger Transactions is subject to a number of uncertainties, including whether the Robert Graham Business is combined with Hudson Business in an efficient and effective manner. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of revenues we expect to generate and diversion of management's time and energy and could have an adverse effect on our business, financial results and future prospects.

Moreover, our future financial results will depend in part on our ability to profitably manage our core businesses, including any growth related to the combination of our Hudson Business and Robert Graham Business. Over the past several years, we have engaged in the identification of, and competition for, growth and expansion opportunities. In order to achieve those initiatives, we will need to, among other things, recruit, train, retain and effectively manage employees and expand our operations and financial control systems. If we are unable to manage our businesses effectively and profitably, including, without limitation, in connection with the wind down of certain retail leases as discussed below, our business and financial results could suffer.

We may be unable to integrate the Company, RG and the SWIMS Business successfully or realize the anticipated benefits of the RG Merger, the related Merger Transactions and the SWIMS acquisition and our future business and financial results may be negatively impacted.

We have incurred substantial expenses in connection with the RG Merger the related Merger Transactions and the integration of the Company and RG. We also have incurred expenses in connection with our acquisition of SWIMS

32

Table of Contents

in July 2016. There are a large number of processes, policies, procedures, operations, technologies and systems that must be integrated. While we have assumed that a certain level of expenses will be incurred, there are many factors beyond our control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that the RG Merger expects to achieve from the elimination of duplicative expenses and the realization of cost savings. These integration expenses likely will result in us taking significant charges against earnings, and the amount and timing of such charges are uncertain at present. There can be no assurance that the elimination of duplicative costs or the realization of any other efficiencies related to the RG Merger will allow us to offset transaction related costs in the near term or at all.

Our ability to operate profitably depends on our ability to implement our strategic plan with success, including our ability to successfully and efficiently integrate the businesses operations and personnel of the Company and RG. In order to achieve a successful integration, we must, among other things, retain and effectively manage employees. Our success is dependent on our ability to attract, retain and motivate qualified management, designers, administrative talent and sales associates to support existing operations and future growth. Competition for qualified talent in the apparel and fashion industry is intense, and we compete for these individuals with other companies that in many cases have greater financial and other resources. If we experience a large scale loss of employees as a result of the RG Merger, we may be unable to manage our business effectively and profitably, and our business and financial results could suffer. Even if integration is successful, the financial performance of our business may not be as expected and there can be no assurance we will realize the benefits that we expect to achieve. Failure to achieve the anticipated benefit could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results and prospects.

As a result of the RG Merger, we expect our business to expand, and our future success depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that we will be successful or that we will realize the expected operating efficiencies, cost savings, revenue enhancements or other benefits currently anticipated from the RG Merger.

Furthermore, SWIMS is located in Norway, a country in which we have no prior operating experience and we therefore may not be able to accurately predict the costs of, or anticipate and manage potential challenges in, sustaining and growing our operations in Norway and successfully integrating SWIMS with our existing operations. We cannot be certain that the SWIMS acquisition will produce desired levels of sales or profitability. If we invest substantial time and resources to establish and expand our Norwegian operations and are unable to do so successfully and in a timely manner, our business, financial condition and operating results may be materially and adversely affected.

To service our indebtedness incurred in connection with the RG Merger, we will require a significant amount of cash and our ability to generate cash depends on many factors beyond our control.

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

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

Table of Contents

We are bound by the New Credit Agreements, which contain restrictive covenants that may limit our operational flexibility. Furthermore, if we default on our obligations under the New Credit Agreements, our operations may be interrupted and our business and financial results could be adversely affected.

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

The restrictive covenants contained in the New Credit Agreements and the degree to which we are leveraged following the RG Merger and related Merger Transactions could have important consequences to our shareholders, including, but not limited to, potentially:

- reducing our flexibility to respond to changing business and economic conditions, thereby placing us at a competitive disadvantage compared to competitors that have less indebtedness;
- making us more vulnerable to general adverse economic and industry conditions and changes in our business;
- increasing borrowing costs and limiting our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions or general corporate requirements;
- requiring the dedication of a larger portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including working capital, capital expenditures and general corporate purposes;
- restricting us from making strategic acquisitions or causing us to make non strategic divestitures; and
- making it more difficult for us to repay, refinance, or satisfy our obligations with respect to our debt.

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

Table of Contents

Risks Related to our Common Stock

Our common stock price is volatile and may decrease.

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

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

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

In the 52 week period prior to the filing of this Annual Report, the closing price of our common stock has ranged from $1.60 to $8.42. In addition, stock markets generally have experienced price and volume trading volatility in recent years. This volatility has had an effect on the market prices of securities of many companies for reasons unrelated to the operating performance of the specific companies. These broad market fluctuations may negatively affect the market price of our common stock.

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

As of March 29, 2017, the largest beneficial owners of our common stock—entities and individuals affiliated with TCP Denim, LLC and Tengram II (the “Tengram Affiliates”)—beneficially own in the aggregate 39.8% of our common stock and voting power. This includes, in addition to shares of common stock owned outright by various Tengram Affiliates, (i) shares of common stock issuable upon (a) conversion of the Series A Convertible Preferred Stock held by TCP Denim, LLC and (b) exercise of the SWIMS Warrant held by Tengram II and (ii) 4,500,000 shares of Series A-1 Convertible Preferred Stock issuable upon conversion of the SWIMS Convertible Note, which may then convert into shares of common stock. For more information, see “Part III, Item 12. Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters.” The holders of the Series A and Series A-1 Convertible Preferred Stock are entitled to vote, on an as-converted basis, on all matters presented to the common stockholders for approval, and will, for so long as the shares of preferred stock remain outstanding, have certain rights and privileges different from our common stockholders, such as the election of up to three directors to our board of directors. Additionally, our Amended

and Restated Bylaws (the “Bylaws”) permit any action required or permitted to be taken by stockholders at a meeting to be effect by written consent, if the request is signed by record holders holding at least 20% of the voting power of our then-outstanding common stock entitled to vote on the matter.

Our largest shareholders, and particularly the Tengram Affiliates, are thus in a position to exert significant control over us and have the ability to substantially influence all matters submitted to our stockholders for approval, including the election and removal of directors, any merger, consolidation or sale of all or substantially all of our assets, an increase in the number of shares authorized for issuance under our stock option plans, and to exert significant control over our management and affairs. This concentration of beneficial ownership may have the effect of delaying, deferring or preventing a change in or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would be beneficial to other stockholders.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal place of business is located in Commerce, Los Angeles County, California, where we have a lease that expires on August 31, 2017 for approximately 30,915 square feet of design and administrative offices at 1231 South Gerhart Avenue, Commerce, California. We expect to renew this lease and extend the expiration by at least two years beyond the current expiration date.

We operate retail store locations under operating lease agreements expiring on various dates through 2026, which are generally non cancelable. We do not maintain manufacturing facilities, and our products are otherwise sold in our own showrooms or in third-party showrooms, via distributors internationally or through the online ecommerce sites of our brands. For more information, see “Part I, Item 1. Business.”

As of March 29, 2017, we had 30 Robert Graham® brand stores, which consisted of 18 full price stores and 12 outlet stores in the United States, and one SWIMS® brand outlet store in Oslo, Norway. Our retail square footage as of March 29, 2017 was approximately 50,718 gross square feet in the aggregate. Our retail stores range in size from 743 to 3,014 gross square feet with an average of 1,636 gross square feet. For more information on our operating leases, see “Part I, Item 1A. Risk Factors—We are subject to risks associated with leasing retail space, are generally subject to long

Table of Contents

term non cancelable leases and are required to make substantial lease payments under our operating leases. Any failure to make these lease payments when due would likely harm our business, profitability and results of operations" and "Notes to Consolidated Financial Statements—Note 17—Operating Leases." All of our Joe's® brand retail stores were closed as of February 29, 2016 and are reported in this Annual Report as discontinued operations.

We believe that our existing facilities are well maintained, in good operating condition and are adequate for our present level of operations.

ITEM 3. LEGAL PROCEEDINGS

(a) We are a party to lawsuits and other contingencies in the ordinary course of our business. We do not believe that we are currently a party to any material pending legal proceedings. Additionally, in the opinion of management, based upon advice of legal counsel, the likelihood is remote that the impact of any pending legal proceedings and claims, either individually or in the aggregate, would have a material adverse effect on our consolidated financial condition, results of operations or cash flows. For more information, see "Notes to Consolidated Financial Statements—Note 17."
(b) None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

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

(a) Market Information

Our common stock is currently traded under the symbol "DFBG" on The Nasdaq Capital Market maintained by NASDAQ. Effective January 28, 2016, we adopted our Eighth Amended and Restated Certificate of Incorporation to effect the Reverse Stock Split of our issued and outstanding common stock. The primary purpose of the reverse stock split was to increase the per share market price of our common stock in order to maintain our listing on The Nasdaq Capital Market. As of March 29, 2017, we had an aggregate of 13,297,688 shares of our common stock outstanding and the closing price on March 29, 2017 was $2.10. The following chart sets forth the high and low interday quotations for our common stock on The Nasdaq Capital Market for the periods indicated, as adjusted for the Reverse Stock Split. This information reflects inter dealer prices, without retail mark up, mark down or commissions, and may not necessarily represent actual transactions. No representation is made by us that the following quotations necessarily reflect an established public trading market in our common stock:

	High	Low
Fiscal 2016		
Quarter ended March 31,	$ 8.00	$ 4.24
Quarter ended June 30,	$ 5.25	$ 2.95
Quarter ended September 30,	$ 7.92	$ 2.52
Quarter ended December 31,	$ 5.71	$ 2.35
Fiscal 2015		
Quarter ended March 31,	$ 16.50	$ 3.00
Quarter ended June 30,	$ 7.50	$ 3.30
Quarter ended September 30,	$ 10.80	$ 4.80
Quarter ended December 31,	$ 11.10	$ 3.90

Holders

As of March 29, 2017, there were approximately 722 record holders of our common stock.

Dividends

We have never declared or paid a cash dividend and do not anticipate paying cash dividends on our common stock in the foreseeable future. In deciding whether to pay dividends on our common stock in the future, our board of directors (the "Board" or the "Board of Directors") will consider certain factors it may deem relevant, including our earnings and financial condition and our capital expenditure requirements.

Equity Compensation Plan Information

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

Stock Performance Graph

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

38

Table of Contents

Sales of Unregistered Equity Securities by the Issuer

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

(b) Not applicable.

(c) Purchases of Equity Securities by Issuer

We had no share repurchases during the fourth quarter of 2016.

ITEM 6. SELECTED FINANCIAL DATA

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

Table of Contents

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

Introduction

As we are a smaller reporting company, this discussion and analysis summarizes the significant factors affecting our results of operations and financial conditions during the fiscal years ended December 31, 2016 and 2015, respectively. This discussion should be read in conjunction with our Consolidated Financial Statements, Notes to Consolidated Financial Statements and supplemental information in Item 8 of this Annual Report. The discussion and analysis contains statements that may be considered forward looking. These statements contain a number of risks and uncertainties, as discussed under the heading "Forward Looking Statements" of this Annual Report that could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date hereof. Our future results, performance or achievements could differ materially from those expressed or implied in these forward looking statements. We do not undertake to publicly update these forward looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

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

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

In addition, we completed the acquisition of SWIMS on July 18, 2016 and the information presented includes the results of operations of SWIMS from that date through the end of our fiscal year of December 31, 2016, which was approximately five and a half months of operations, and its financial results are included in each of the three reportable segments in a manner consistent with our reporting structure. Therefore, our results of operations for the fiscal year 2016 are not necessarily indicative of future results.

Executive Overview

Our principal business activity is the design, development and worldwide marketing of products that bear the brand names, Hudson®, Robert Graham® and SWIMS®. Hudson®, established in 2002, is a designer and marketer of women's and men's premium, branded denim and apparel. Robert Graham®, established in 2001, is a sophisticated, eclectic apparel and accessories brand seeking to inspire a global movement. SWIMS®, established in 2006 and acquired by us in July 2016, is a Scandinavian lifestyle brand best known for its range of fashion-forward, water-resistant footwear, apparel and accessories. Because we focus on design, development and marketing, we rely on third parties to manufacture our apparel products. We sell our products through our own retail stores, our websites and to numerous retailers, which include major department stores, specialty stores and distributors around the world.

Our Hudson® product line includes women's, men's and children's denim jeans, pants, shirts, jackets and other bottoms and we continue to evaluate offering a range of new products under the Hudson® brand name. Our Robert

Table of Contents

Graham® product line includes premium priced men's sport shirts, denim jeans, pants, shorts, sweaters, knits, t shirts, sportcoats, outerwear and swimwear. RG also offers a line of women's apparel, mainly in its own retail stores. Additionally, men's shoes belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eyewear, hosiery, underwear, loungewear and fragrances are produced by third parties under various license agreements and RG receives royalty payments based upon net sales from licensees. Our SWIMS® product line includes men's and women's footwear, men's apparel and accessories.

During fiscal 2014 and 2015, operating as Joe's Jeans, we failed to meet certain financial covenants set forth in the Garrison Term Loan Credit Agreement. On November 6, 2014, we received a notice of default and demand for payment of default interest from Garrison, as term loan agent, under the Garrison Term Loan Credit Agreement. As a result of the default under the Garrison Term Loan Credit Agreement, we were also in default under the terms of our CIT Revolving Credit Agreement and our factoring facility with CIT and we were prohibited from making payments under the Convertible Notes and the obligations to Mr. Joseph Dahan, our former Creative Director until his resignation effective September 11, 2015.

During fiscal 2015, our business was also impacted by a decrease in overall sales in both our wholesale and retail segments. On a comparative basis, sales of our men's and women's denim bottoms were impacted by a weakening in the overall denim market, as consumer preference shifted to non denim bottoms.

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

After the closing of the Joe's Operating Asset Purchase Agreement and the Joe's IP Asset Purchase Agreement in September 2015, we retained and operated 32 Joe's® brand retail stores until we transferred or closed them in early 2016. The retail stores transferred or closed are reported as discontinued operations for all periods presented in this Annual Report.

We operate retail stores for our Robert Graham® and SWIMS® brands. As of March 29, 2017, we operated 30 Robert Graham® brand stores, which consisted of 18 full price stores and 12 outlet stores, and one SWIMS® brand store in Oslo, which is an outlet store. We also license the SWIMS® brand name and products for sale in 8 SWIMS® branded retail stores internationally.

Operating as Differential, we are seeking to create a platform that focuses on branded operating companies in the premium apparel, footwear and accessories sectors. Our focus is on organically growing our brands through a global, omni-channel distribution strategy while continuing to seek opportunities to acquire accretive, complementary, premium brands. To execute on that strategy, in July 2016, we completed the acquisition of SWIMS.

For 2017, we believe that our growth drivers will be dependent upon the successful integration of the Hudson Business with the Robert Graham Business as a result of the RG Merger and the SWIMS Business as a result of the acquisition, which includes consolidating support operations, leveraging talent and improving effectiveness and

Table of Contents

efficiencies of our processes and systems. We also expect to grow our SWIMS Business in the North American and international markets. Overall, we see opportunities for continued margin enhancement if we are successful in growing our Wholesale and Consumer Direct segments, and leveraging our Corporate and other segment, improving product sourcing through growing economies of scale and increasing the proportion of our business derived from our Consumer Direct segment.

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

For our Robert Graham® products, the fourth quarter is the strongest quarter for sales within our Consumer Direct segment, and the greatest volume of shipments are made in late summer through early fall and again in late winter and early spring. For our Hudson® products, historically, the majority of the marketing and sales orders have taken place from late fall to late spring, and the greatest volumes of shipments and actual sales have generally been made from summer through early fall. Accordingly, the cash flows of our Robert Graham Business and Hudson Businesses may be strongest in those respective periods. Due to the seasonality of our business, as well as the evolution and changes in our business and product mix, including the sale of the Joe's Business and the Company's acquisition of the SWIMS Business, our quarterly results are not necessarily indicative of future results.

Reportable Segments

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

Wholesale

As of December 31, 2016 and 2015, our Wholesale segment was comprised of sales of (i) Robert Graham® products to better nationwide department stores, specialty retailers, boutiques and select off-price retailers ("Off-Price"), (ii) following the closing of the RG Merger Agreement on January 28, 2016 and as of December 31, 2016, Hudson® products to retailers, specialty stores and international and Off-Price customers, and (iii) following the closing of the SWIMS acquisition on July 18, 2016, SWIMS products to retailers, specialty stores and international and Off-Price customers, including international licensed store operators. Additionally, our Wholesale segment included expenses from our sales and customer service departments, trade shows, warehouse distribution and product samples associated with, as of December 31, 2016 and 2015, our Robert Graham® product line, following the closing of the RG Merger Agreement on January 28, 2016 and as of December 31, 2016, our Hudson® product line, and following the closing of the SWIMS acquisition on July 18, 2016, our SWIMS® product line. Domestically, we sell our Hudson® and

SWIMS® products through our own showrooms, as well as, in the case of our Robert Graham® products, with independent sales representatives who may have their own showrooms. At the showrooms, retailers review the latest collections offered and place orders. The showroom representatives provide us with purchase orders from the retailers and other specialty store buyers. Internationally, we sell our products to customers in various countries.

Table of Contents

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

Consumer Direct

As of December 31, 2016 and 2015, our Consumer Direct segment was comprised of sales of our Robert Graham® products directly to consumers in the United States through full-price retail stores, outlet stores, our ecommerce site, www.robertgraham.us and through the circulation of over 775,000 catalogs distributed seasonally throughout the United States. As this segment generates higher gross margins and provides us greater control of our brand product mix and distribution, we have grown from one Robert Graham® brand retail store in 2011 to 30 retail stores as of December 31, 2016, including 18 full price stores and 12 outlet stores. We have expanded the ecommerce part of the Consumer Direct segment through direct digital, creating a larger customer database and generating repeat customer sales through our Collector's Club Loyalty Program. Additionally, following the closing of the RG Merger Agreement on January 28, 2016 and as of December 31, 2016, our Consumer Direct segment was comprised of sales of our Hudson® products to consumers through our ecommerce site at www.hudsonjeans.com and following the acquisition of SWIMS® on July 18, 2016, sales of our SWIMS® products to consumers through our ecommerce site at www.swims.com and our one Company operated outlet store in Oslo, Norway. Revenues from the 14 Joe's® brand retail stores, which we owned and operated until they closed as of February 29, 2016, are reported as discontinued operations.

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

Corporate and other

As of December 31, 2016 and 2015, our Corporate and other segment was comprised of licenses to third parties for the right to use our various trademarks in connection with the manufacture and sale of designated Robert Graham® products in specified geographical areas for specified periods. Our licensing revenues for our Robert Graham® products stem primarily from the following product categories and geographical areas: men's shoes, belts, small leather goods, dress shirts, neckwear, tailored clothing, headwear, eyewear, jewelry, hosiery, underwear, loungewear and fragrances, and distribution in Canada. Following the closing of the RG Merger on January 28, 2016, our Corporate and other segment also included licensing revenue from the sale by our licensee of our Hudson® children's product line. Our Corporate and other segment also encompassed our corporate operations, including the design, production, general brand marketing and advertising, operations, information technology, finance, executive, legal and human resources departments as of December 31, 2016 our Robert Graham® product line and, following the closing of the RG Merger Agreement on January 28, 2016 and as of December 31, 2016, our Hudson® product line. Similar to our Wholesale segment, we measure performance of our Corporate and other segment primarily based on our licensees' ability to profitably sell our products in multiple categories to their existing wholesale customers and to add new licensees in brand relevant categories.

Table of Contents

Results of Operations

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

	Year ended December 31, 2016	2015	$ Change	% Change
	(in thousands)			
Net sales	$ 149,267	$ 73,057	$ 76,210	104 %
Cost of goods sold	69,775	28,129	41,646	148
Gross profit	79,492	44,928	34,564	77
Profit rate	53 %	61 %	(8) %	
Operating expenses				
Selling, general and administrative	81,456	39,665	41,791	105
Depreciation and amortization	6,012	3,788	2,224	59
Retail store impairment	2,177	—	2,177	100
Total operating expenses	89,645	43,453	46,192	106
Operating (loss) income from continuing operations	(10,153)	1,475	(11,628)	(788)
Interest expense, net	7,531	558	6,973	1,250
Other expense, net	42	—	42	100
(Loss) income from continuing operations before income taxes	(17,726)	917	(18,643)	(2,033)
Income tax (benefit) provision	(1,200)	157	(1,357)	(864)
(Loss) income from continuing operations	(16,526)	760	(17,286)	(2,274)
Loss from discontinued operations, net of tax	(1,286)	—	(1,286)	100
Net (loss) income	$ (17,812)	$ 760	$ (18,572)	(2,444) %

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

	Year ended December 31, 2016	2015	$ Change	% Change
	(in thousands)			
Net sales:				
Wholesale	$ 108,829	$ 41,348	$ 67,481	163 %
Consumer Direct	38,622	29,924	8,698	29
Corporate and other	1,816	1,785	31	2
	$ 149,267	$ 73,057	$ 76,210	104 %
Gross profit:				
Wholesale	$ 48,966	$ 20,458	$ 28,508	139 %
Consumer Direct	28,710	22,685	6,025	27
Corporate and other	1,816	1,785	31	2
	$ 79,492	$ 44,928	$ 34,564	77 %
Operating expenses:				
Wholesale	$ 19,472	$ 4,877	$ 14,595	299 %

Consumer Direct	28,989	20,865	8,124	39	
Corporate and other	41,184	17,711	23,473	133	
	$ 89,645	$ 43,453	$ 46,192	106	%
Operating (loss) income from continuing operations:					
Wholesale	$ 29,494	$ 15,581	$ 13,913	89	%
Consumer Direct	(279)	1,820	(2,099)	(115)	
Corporate and other	(39,368)	(15,926)	(23,442)	147	
	$ (10,153)	$ 1,475	$ (11,628)	(788)	%

44

Table of Contents

Fiscal 2016 Compared to Fiscal 2015

Net Sales

Net sales increased by 104% to $149.3 million for fiscal 2016 from $73.1 million for fiscal 2015. The increase was primarily due to the addition of our Hudson® and SWIMS® brands which contributed $78.8 million in net sales. This was offset by a decline in sales from our Robert Graham® brand of 4% due to a lower customer adoption rate of more fashion forward product offerings since the start of the Spring season, corrected towards the end of the fiscal year.

Wholesale net sales increased by 163% to $108.8 million for fiscal 2016 from $41.3 million for fiscal 2015. This increase in our Wholesale net sales was primarily attributed to $73.8 million in Wholesale sales from the addition of our Hudson® and SWIMS® brands. The increase was partially offset by a decrease in Wholesale sales from our Robert Graham Business related to the reduction of the customer adoption rate mentioned above.

Consumer Direct net sales increased by 29% to $38.6 million for fiscal 2016 from $29.9 million for fiscal 2015. This increase was primarily attributed to $4.6 million in net sales due to the addition of the Hudson® ecommerce business and the SWIMS Consumer Direct business. Our Robert Graham Consumer Direct net sales increased by 10% for fiscal 2016 due to opening one new Robert Graham® retail store during fiscal 2016 and nine non-comparable Robert Graham® retail stores that opened in fiscal 2015, and due to an increase in Robert Graham® ecommerce sales of 37%.

Corporate and other net sales increased by 2% to $1.8 million of licensing revenue for fiscal 2016 compared to $1.8 million for fiscal 2015. This includes $0.4 million in licensing revenue from our Hudson business, which was offset by a decrease in licensing revenue from Robert Graham's existing licensees.

Gross Profit

Gross profit increased by 77% to $79.5 million for fiscal 2016 from $44.9 million for fiscal 2015. This increase was primarily attributed to $37.2 million in gross profit from the addition of our Hudson® brand and SWIMS® brands, partially offset by a decrease of 6% in gross profit related to the Robert Graham business. The annual decline for Robert Graham related to a decrease in product sales featured in the higher-fashion Spring catalog and resultant markdowns to clear seasonal inventory. Our gross profit was also offset by a $1.7 million non-cash inventory expense of the Hudson® and SWIMS® inventory acquired and stepped up to fair value that was sold in fiscal 2016.

The gross profit rate was 53% for fiscal 2016 compared to 61% for fiscal 2015. The gross profit rate declined due to the addition of Hudson's and SWIMS' who transact a higher proportion of Wholesale business whose products generate a lower gross margin than Robert Graham who carries a higher proportion of Consumer Direct business than Hudson and SWIMS.

Wholesale gross profit increased by 139% to $49.0 million for fiscal 2016 from $20.5 million for fiscal 2015. This increase was primarily driven by $33.1 million in gross profit from the addition of the Hudson Wholesale business and the SWIMS Wholesale business. Our Wholesale gross profit increase was partially offset by a $1.7 million non-cash inventory expense of the Hudson® and SWIMS® inventory acquired and stepped up to fair value that was sold in fiscal 2016 and additional markdown reserves to adjust the net realizable value of certain Robert Graham inventory.

Consumer Direct gross profit increased by 27% to $28.7 million for fiscal 2016 compared to $22.7 million for fiscal 2015, driven primarily by the increase in net sales from the Robert Graham ecommerce business, the opening of one new Robert Graham® retail store during fiscal 2016 and added sales from nine non-comparable Robert Graham® retail stores that opened in fiscal 2015, as well as the addition of $3.7 million from our Hudson® ecommerce business and our SWIMS Consumer Direct business.

Corporate and other gross profit increased by 2% to $1.8 million for fiscal 2016 compared to $1.8 million for fiscal 2015. This increase was due to $0.4 million in licensing revenue from our Hudson business, which was offset by a decline in licensing revenue from Robert Graham's existing licensees.

Table of Contents

Operating Expenses

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

Operating expenses increased by 106% to $89.6 million for fiscal 2016 from $43.5 million for fiscal 2015. The increase in operating expenses was mainly attributable to $31.9 million of additional expenses for the Hudson® and the SWIMS® brands. We incurred $5.9 million of transaction and merger related expenses in connection with the RG Merger and the acquisition of SWIMS, $2.1 million of stock-based compensation expense, and incurred a $2.2 million impairment charge related to Robert Graham® retail stores. Selling, general and administrative expenses were approximately 54% of net sales for both fiscal 2016 and 2015. Depreciation and amortization expense, as a percent of net sales, slightly decreased from 5% to 4% for fiscal 2016 and 2015, respectively.

Wholesale operating expenses increased by 299% to $19.5 million for fiscal 2016 from $4.9 million for fiscal 2015. Our Wholesale operating expenses increase was mainly attributable to the addition of $14.2 million in operating expenses stemming from Hudson and SWIMS wholesale operations.

Consumer Direct operating expenses increased by 39% to $29.0 million for fiscal 2016 from $20.9 million for fiscal 2015. Consumer Direct operating expenses increased due to costs associated with opening one new Robert Graham® retail store during fiscal 2016 and nine non-comparable Robert Graham® retail stores which opened in fiscal 2015, as well as incurring a $2.2 million impairment charge related to Robert Graham® retail stores. In addition, we added $2.6 million of operating expenses from Hudson's ecommerce business and SWIMS Consumer Direct business for fiscal 2016.

Corporate and other operating expenses increased by 133% to $41.2 million for fiscal 2016 from $17.7 million for fiscal 2015. Corporate and other operating expenses includes executive management payroll, general overhead associated with our operations as well as professional advisor fees incurred in connection with the RG Merger and acquisition of SWIMS. Our increase in operating expenses was primarily attributable to the addition of $15.0 million in Hudson's and SWIMS' corporate operating expenses, $5.9 million of transaction and merger related expenses in connection with the RG Merger and the acquisition of SWIMS, and $2.1 million of stock-based compensation expense.

Operating (Loss) Income from Continuing Operations

We had an operating loss from continuing operations of $10.2 million for fiscal 2016, compared to operating income from continuing operations of $1.5 million for fiscal 2015. The loss was primarily attributable to $5.9 million of transaction and merger related expenses in connection with the RG Merger and the acquisition of SWIMS, a $1.7 million non-cash inventory expense of the Hudson® and SWIMS® inventory acquired and stepped up to fair value that was sold in fiscal 2016, $2.1 million of stock-based compensation expense, and a $2.2 million impairment charge related to Robert Graham® brand retail stores.

Wholesale operating income increased by 89% to $29.5 million for fiscal 2016, from $15.6 million for fiscal 2015, primarily due to the addition of net operating income of $18.9 million attributable to the Hudson and SWIMS businesses, offset by $1.7 million related to the non-cash inventory expense described above and a decrease in Robert Graham Wholesale operating income of $5.0 million for the period.

Consumer Direct decreased 115% to an operating loss of $0.3 million for fiscal 2016, compared to operating income of $1.8 million for fiscal 2015, primarily due to a $2.2 million impairment charge related to Robert Graham® retail stores, costs associated with the opening of one new Robert Graham® retail store during fiscal 2016 and nine non-comparable Robert Graham® retail stores which opened in fiscal 2015, partially offset by $1.0 million operating income attributable to the Hudson ecommerce business and the SWIMS Consumer Direct business.

Corporate and other operating loss increased by 147% to $39.4 million for fiscal 2016 from $15.9 million for

Table of Contents

fiscal 2015, mainly due to the additional costs related to Corporate and other operating expenses described above.

Interest Expense

Interest expense increased to $7.5 million for fiscal 2016 from $0.6 million for fiscal 2015, associated with our new credit facilities, convertible notes and the amortization of debt discounts and deferred financing costs related to these new facilities and notes.

Income Tax (Benefit) Provision

Our effective tax rate from operations was a benefit of 7% for fiscal 2016 compared to an expense of 17% for fiscal 2015. The difference in effective tax rate was primarily due to us becoming subject to entity level income tax during fiscal 2016 as a consequence of the RG Merger. This tax benefit consisted of current tax expenses and deferred taxes associated with our deferred tax liability for indefinite-lived intangible assets, a benefit of the current loss from operations that can be carried back to prior periods, a benefit from the loss from the operations of SWIMS and the reversal of uncertain tax positions as a result of expiring statutes of limitations.

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

Loss from Discontinued Operations

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

Net (Loss) Income

We generated a net loss of $17.8 million for fiscal 2016, compared to net income of $0.8 million for fiscal 2015, due to transaction expenses associated with the RG Merger and the acquisition of SWIMS of $5.9 million, expenses of $1.3 million related to certain Joe's® retail stores until their closure on February 29, 2016 as part of our discontinued operations, a $1.7 million non-cash inventory expense of the Hudson® and SWIMS® inventory acquired and stepped up to fair value that was sold in fiscal 2016, $2.1 million of stock-based compensation expense, and a $2.2 million impairment charge related to Robert Graham® retail stores.

Liquidity and Capital Resources

Sources of Liquidity and Outlook

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

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

At December 31, 2016 and 2015, our cash and cash equivalent balances were $6.5 million and $2.0 million, respectively. Based on our cash on hand, expected cash flows from operations, the expected borrowing availability under our existing credit facilities and other financing arrangements, and sales forecasts, we believe that we have the working capital resources necessary to meet our projected operational needs beyond the next 12 months from the date of this Annual Report. However, if we require more capital for growth and integration or if we experience a decline in sales and/or operating losses, we believe that it will be necessary to obtain additional working capital through additional credit arrangements, debt and/ or equity issuances and/or other strategic transactions.

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

Cash Flows for the Years Ended December 31, 2016 and December 31, 2015

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

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

Cash flows from financing activities during the year ended December 31, 2016 totaled $41.5 million. These cash flows primarily consisted of $49.9 million from the issuance of Series A Preferred Stock, $13.0 million from the issuance of the SWIMS Convertible Note and $62.8 million in funds from our credit facilities, net of the following financing costs: (i) $23.3 million for the repayment in full of our CIT Amended and Restated Revolving Credit Agreement and the JPM Loan Agreement; (ii) $58.2 million for the redemption of the units held by our RG members; (iii) $1.4 million as a distribution to RG members, which was accrued at the prior year end; (iv) $0.5 million of principal payments under our Term Loan Credit Agreement and (v) $1.6 million of deferred financing costs.

For the year ended December 31, 2015, we generated $6.2 million of cash flows from operating activities to fund our working capital needs. We used $4.8 million in investing activities primarily for the purchase of property and equipment including the opening of nine retail stores. Cash flows used in financing activities totaled $0.2 million and consisted of $1.5 million of proceeds from our previous line of credit, which was offset by $1.2 million of payments against our loan payable and $0.5 million of accrued distributions to our members.

Credit Agreements and Other Financing Arrangements

In connection with the RG Merger, certain historical credit and financing arrangements were repaid. See "Notes to Consolidated Financial Statements—Note 12 – Debt and Preferred Stock" to our consolidated financial statements in "Part II, Item 8" of this Annual Report for additional information related to these historical agreements.

ABL Credit Agreement and Term Credit Agreement

On January 28, 2016, in connection with the closing of the RG Merger Agreement, we and certain of our subsidiaries entered into (i) the ABL Credit Agreement and accompanying security agreement with Wells Fargo Bank, National Association, as lender, and (ii) the Term Credit Agreement and accompanying security agreement with TCW Asset Management Company, as agent, and the lenders party thereto.

The ABL Credit Agreement provides for an asset-based revolving facility (the "Revolving Facility") with commitments in an aggregate principal amount of $40 million. The Term Credit Agreement provides for a senior secured term loan facility with commitments in an aggregate principal amount of $50 million (the "Term Facility"). The Term Facility matures on January 28, 2021. The Revolving Facility matures on October 30, 2020. The amount available to be drawn under the Revolving Facility will be based on the borrowing base values attributed to eligible accounts receivable and eligible inventory. Our availability under the Revolving Facility as of December 31, 2016 was $12.7 million.

Table of Contents

Certain domestic subsidiaries of the Company are co-borrowers under the ABL Credit Agreement and the Term Credit Agreement. The obligations under the ABL Credit Agreement and Term Credit Agreement are guaranteed by all of our domestic subsidiaries and are secured by substantially all of our assets, including the assets of our domestic subsidiaries. For additional information on the ABL Credit Agreement and Term Credit Agreement, see "Notes to Consolidated Financial Statements—Note 12 – Debt and Preferred Stock."

To permit the acquisition of SWIMS we also entered into (i) a Consent and Amendment No. 1 to our ABL Credit Agreement and accompanying security agreement with Wells Fargo Bank, National Association, as lender, and (ii) a Consent and Amendment No. 1 to our Term Credit Agreement and accompanying security agreement with TCW Asset Management Company, as agent for the lenders and the lenders party thereto.

Additionally, on March 27, 2017, we entered into (i) Amendment No. 2 to our Term Credit Agreement to modify certain defined terms, add a liquidity covenant and revise certain covenants and (ii) Amendment No. 2 to our ABL Credit Agreement to conform certain defined terms to those in Amendment No. 2 to our Term Credit Agreement. For more information see "Item 9B. Other Information." As of December 31, 2016, we were in compliance with the financial and non-financial covenants included in our ABL Credit Agreement and our Term Credit Agreement as of that date.

Factoring Agreement with CIT

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

Modified Convertible Notes and Rollover Agreement

The Company issued $22.0 million, net of discount, in convertible notes in connection with the acquisition of Hudson with different interest rates and conversion features for Hudson's management stockholders, including Peter Kim and Fireman Capital CPF Hudson Co-Invest LP. On September 8, 2015, the Company entered into the Rollover Agreement with the holders of those convertible notes, pursuant to which, on January 28, 2016, the holders of the notes contributed their notes to the Company in exchange for the following:

· 1.2 million shares of common stock;

· a cash payment of approximately $8.6 million, before expenses; and

· an aggregate principal amount of approximately $16.5 million of Modified Convertible Notes.

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

If we elect to issue only shares of common stock upon conversion of the Modified Convertible Notes, each of the Modified Convertible Notes would be convertible, in whole but not in part, into a number of shares equal to the conversion amount divided by the market price. The conversion amount is (a) the product of (i) the market price, multiplied by (ii) the quotient of (A) the principal amount, divided by (B) the conversion price, minus (b) the aggregate optional prepayment amounts paid to the holder. The market price is the average of the closing prices for our common stock over the 20 trading day period immediately preceding the notice of conversion. If we elect to pay cash with respect

Table of Contents

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.

SWIMS Convertible Note

On July 18, 2016, we issued a convertible promissory note to Tengram II, with principal of $13.0 million in connection with the acquisition of SWIMS, referred to as the SWIMS Convertible Note. The SWIMS Convertible Note accrues interest at a rate of 3.75% per annum, compounding on the first day of each month starting August 1, 2016, and will convert, at Tengram II's option or on the extended maturity date of July 18, 2017 (which had an originally maturity date of January 18, 2017) if not already repaid in cash on or prior to that date, into up to 4.5 million newly issued shares of our Series A-1 Preferred Stock at a conversion price of $3.00 per share. We are currently evaluating all of our options in order to assess the repayment of the SWIMS Convertible Note at maturity if it is not converted. Additionally, the Series A-1 Preferred Stock will itself be convertible into shares of our common stock at an initial price of $3.00 per share (subject to adjustment), will be entitled to dividends at a rate of 10% per annum payable quarterly in arrears, will be senior to the common stock upon liquidation and will have voting rights on an as-converted basis alongside our common stock.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Contractual Obligations

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

Management's Discussion of Critical Accounting Policies

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

Revenue Recognition

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

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

Revenue from licensing arrangements is recognized when earned in accordance with the terms of the underlying agreements and deemed collectible, generally based upon the higher of (a) the contractually guaranteed minimum royalty

Table of Contents

or (b) actual net sales data received from licensees. Payments received in consideration of the grant of a license or advanced royalty payments is recognized ratably as revenue over the term of the license agreement. The unrecognized portion of upfront payments is included in accounts payable and accrued expenses within the accompanying consolidated balance sheets.

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

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

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

Inventories

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

Impairment of Long Lived Assets, Intangible Assets and Goodwill

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

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

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

When we determine that the carrying value of long lived assets, such as property and equipment, and intangible assets subject to amortization, may not be recoverable based upon the existence of one or more of the aforementioned factors and the carrying value exceeds the estimated undiscounted cash flows expected to be generated by the asset, impairment is measured based on a projected discounted cash flow method using a discount rate determined by management. These cash flows are calculated by netting future estimated sales against associated merchandise costs and other related expenses such as payroll, occupancy and marketing. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows. The estimated cash flows used for this nonrecurring fair value measurement are considered a Level 3 input as defined in “Note 13 – Fair Value Measurement of Financial Instruments”.

Table of Contents

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

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

Goodwill and Indefinite Lived Intangible Assets

Goodwill and intangible assets with indefinite lives, such as trademarks, are not amortized but are tested at least annually for impairment on December 31st of each year or when circumstances indicate their carrying value may not be recoverable. Goodwill is evaluated for impairment at least annually using a two-step process. The first step is to determine the fair value of each reporting unit and compare this value to its carrying value. If the fair value exceeds the carrying value, including goodwill, no further work is required and no impairment loss would be recognized. The second step is performed if the carrying value exceeds the fair value of the assets. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. We review indefinite lived intangible assets for impairment on an annual basis, or when circumstances indicate their carrying value may not be recoverable. We calculate the value of the indefinite lived intangible assets using a discounted cash flow method, based on the relief from royalty method.

Derivatives

Warrants and other derivative financial instruments are accounted for as either equity or liabilities based upon the characteristics and provisions of each instrument. During the year ended December 31, 2016, the warrants that were issued in conjunction with the acquisition of Swims (see "Note 3 – Acquisition of SWIMS") were determined to be equity. Warrants classified as equity are recorded at fair value as of the date of issuance within the consolidated balance sheets and no further adjustments to their valuation is made. Management estimates the fair value of these warrants using option pricing models and assumptions that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for future financings, expected volatility, expected life, yield, and risk-free interest rate.

Stock Based Compensation

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

Income Taxes

We use the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. Until the RG Merger on January 28, 2016, the Company was treated as a partnership for tax purposes. Pursuant to this status, taxable income or loss of the Company is included in the income tax returns of its

Table of Contents

owners. Consequently, no federal income tax provision is recorded through the RG Merger date. However, under state laws, certain taxes are imposed upon limited liability companies and are provided for through the RG Merger date.

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in the expected realization of these assets depends on our ability to generate sufficient future taxable income. The ability to generate enough taxable income to utilize the deferred tax assets depends on many factors, among which is our ability to deduct tax loss carry forwards against future taxable income, the effectiveness of tax planning strategies and reversing deferred tax liabilities.

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

Discontinued Operations

In accordance with the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC"), ASC 205-20, Presentation of Financial Statements – Discontinued Operations, the results of operations of a component of an entity or a group or component of an entity that represents a strategic shift that has, or will have, a major effect on the reporting company's operations that has either been disposed of or is classified as held for sale are required to be reported as discontinued operations in a company's consolidated financial statements. In order to be considered a discontinued operation, both the operations and cash flows of the discontinued component must have been (or will be) eliminated from the ongoing operations of the company and the company will not have any significant continuing involvement in the operations of the discontinued component after the disposal transaction. The accompanying consolidated financial statements reflect the results of operations of the Joe's Business as discontinued operations.

Recently Issued Financial Accounting Standards

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Audited Consolidated Financial Statements:

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Differential Brands Group Inc.

We have audited the accompanying consolidated balance sheet of Differential Brands Group Inc. as of December 31, 2016 and the related consolidated statements of operations and comprehensive (loss) income, equity, and cash flows for the year then ended. Differential Brands Group Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Differential Brands Group Inc. as of December 31, 2016 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP

New York, New York

March 30, 2017

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Differential Brands Group Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of RG Parent LLC and Subsidiaries as of December 31, 2015 and the related consolidated statements of operations and comprehensive (loss) income, equity, and cash flows for the year then ended, included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 of Differential Brands Group Inc. (the "Company"). The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of RG Parent LLC and Subsidiaries as of December 31, 2015 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ CITRIN COOPERMAN & COMPANY, LLP

New York, New York

March 30, 2016 (except for Notes 15 and 18, as to which the date is March 30, 2017)

56

Table of Contents

DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2016	December 31, 2015 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,476	$ 1,966
Factor accounts receivable, net	16,703	4,917
Accounts receivable, net	3,118	1,836
Royalties receivable	404	547
Inventories, net	23,977	15,353
Prepaid expenses and other current assets	4,249	1,351
Total current assets	54,927	25,970
Property and equipment, net	10,620	13,406
Goodwill	8,271	2,286
Intangible assets, net	91,886	39,823
Other assets	467	1,374
Total assets	$ 166,171	$ 82,859
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 18,223	$ 13,084
Cash advances from customers	1,707	—
Short-term convertible notes	13,137	—
Current portion of long-term debt	1,250	—
Current portion of loan payable	—	1,167
Total current liabilities	34,317	14,251
Deferred rent	3,636	3,568
Line of credit	12,742	17,013
Convertible notes	12,660	—
Long-term debt, net of current portion	47,218	—
Loan payable, net of current portion	—	486
Deferred income taxes, net	11,074	—
Total liabilities	121,647	35,318
Commitments and contingencies		
Equity		
Preferred members, liquidation preference of $0 and $32,690 at December 31, 2016 and 2015, respectively	—	24,798
Common members	—	22,743
Series A convertible preferred stock, $0.10 par value: 50,000 and 0 shares authorized, issued and outstanding at December 31, 2016 and 2015, respectively	5	—

Common stock, $0.10 par value: 100,000,000 and 0 shares authorized, 13,239,125 and 0 shares issued and outstanding at December 31, 2016 and 2015, respectively	1,324	—
Additional paid-in capital	59,154	—
Accumulated other comprehensive loss	(221)	—
Accumulated deficit	(15,738)	—
Total equity	44,524	47,541
Total liabilities and equity	$ 166,171	$ 82,859

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

Table of Contents

DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(in thousands, except per share data)

	Year ended December 31, 2016	2015 (Note 1)
Net sales	$ 149,267	$ 73,057
Cost of goods sold	69,775	28,129
Gross profit	79,492	44,928
Operating expenses		
Selling, general and administrative	81,456	39,665
Depreciation and amortization	6,012	3,788
Retail stores impairment	2,177	—
Total operating expenses	89,645	43,453
Operating (loss) income from continuing operations	(10,153)	1,475
Other (income) expense		
Interest expense, net	7,531	558
Other expense, net	42	—
Total other expense	7,573	558
(Loss) income from continuing operations before income taxes	(17,726)	917
Income tax (benefit) provision	(1,200)	157
(Loss) income from continuing operations	(16,526)	760
Loss from discontinued operations, net of tax	(1,286)	—
Net (loss) income	$ (17,812)	$ 760
Net (loss) income	$ (17,812)	$ 760
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(221)	—
Other comprehensive loss	(221)	—
Comprehensive (loss) income	$ (18,033)	$ 760
(Loss) earnings per common share - basic		
(Loss) earnings from continuing operations	$ (1.33)	$ 0.09
Loss from discontinued operations	(0.10)	—
(Loss) earnings per common share - basic	$ (1.43)	$ 0.09
(Loss) earnings per common share - diluted		
(Loss) earnings from continuing operations	$ (1.33)	$ 0.09
Loss from discontinued operations	(0.10)	—
(Loss) earnings per common share - diluted	$ (1.43)	$ 0.09
Weighted average shares outstanding		

Basic	12,428	8,825
Diluted	12,428	8,825

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

Table of Contents

DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

	Common Stock		Preferred Series A		Additional	Accumulated Other Comprehensive	Accumulated	Common Members		Pr
	Shares	Par Value	Shares	Par Value	Paid-In Capital	Loss	Deficit	Units	Amount	U
Balance, January 1, 2015	—	$ —	—	$ —	$ —	$ —	$ —	4,900	$ 23,298	
Distributions	—	—	—	—	—	—	—	—	(927)	
Net income	—	—	—	—	—	—	—	—	372	
Balance, December 31, 2015 (Note 1)	—	$ —	—	$ —	$ —	$ —	$ —	4,900	$ 22,743	
Net loss through RG Merger date	—	—	—	—	—	—	—	—	(1,016)	
Redemption of Robert Graham unit holders	—	—	—	—	—	—	—	—	(28,905)	
Contribution of Robert Graham in exchange for common shares	8,825	883	—	—	(13,634)	—	—	(4,900)	7,178	
Reverse acquisition with Robert Graham	3,509	351	—	—	19,649	—	—	—	—	
Issuance of Series A convertible preferred stock, net of offering costs of $931	—	—	50	5	49,064	—	—	—	—	
Issuance of common stock for SWIMS	703	70	—	—	1,680	—	—	—	—	

acquisition									
Issuance of warrants	—	—	—	—	510	—	—	—	—
Stock-based compensation	—	—	—	—	2,052	—	—	—	—
Issuance of restricted common stock, net of taxes withheld	202	20	—	—	(167)	—	—	—	—
Foreign currency translation	—	—	—	—	—	(221)	—	—	—
Net loss post RG Merger date	—	—	—	—	—	—	(15,738)	—	—
Balance, December 31, 2016	13,239	$ 1,324	50	$ 5	$ 59,154	$ (221)	$ (15,738)	—	$ —

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

Table of Contents

DIFFERENTIAL BRANDS GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended December 31, 2016	2015 (Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income from continuing operations	$ (16,526)	$ 760
Adjustments to reconcile net (loss) income from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,012	3,788
Retail store impairment	2,177	—
Amortization of deferred financing costs	380	—
Amortization of convertible notes discount	916	—
PIK interest	1,023	—
Stock-based compensation	2,052	—
Provision for (recovery of) bad debts	116	(124)
Amortization of inventory step up	1,659	—
Decrease in deferred taxes	(1,086)	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,554)	426
Inventories	3,352	(2,674)
Prepaid expenses and other assets	99	1,668
Accounts payable and accrued expenses	(10,874)	1,146
Deferred rent	68	1,208
Net cash (used in) provided by continuing operating activities	(15,186)	6,198
Net cash used in discontinued operating activities	(1,384)	—
Net cash (used in) provided by operating activities	(16,570)	6,198
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in reverse acquisition with Robert Graham, net of cash acquired	(6,538)	—
(Payment) refund of security deposit	(4)	13
Purchases of property and equipment	(2,046)	(4,825)
Cash paid for the acquisition of SWIMS, net of cash acquired	(11,828)	—
Net cash used in investing activities	(20,416)	(4,812)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of Series A convertible preferred stock, net of offering costs	49,881	—
Proceeds from long-term debt	50,000	—
Repayment of long-term debt	(500)	—
Proceeds (repayment) from line of credit, net	12,784	1,504
Proceeds from short term convertible notes	13,000	—
Repayment of terminated line of credit and loan payable	(23,349)	—
Payment of deferred financing costs	(1,583)	(24)

Redemption of unit holders	(58,218)	—
Proceeds from customer cash advances	814	—
Payment of loan payable	—	(1,167)
Payment of accrued distribution to members	(1,366)	(525)
Net cash provided by (used in) financing activities	41,463	(212)
Effect of exchange rate changes on cash and cash equivalents	33	—
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,510	1,174
CASH AND CASH EQUIVALENTS, at beginning of year	1,966	792
CASH AND CASH EQUIVALENTS, at end of year	$ 6,476	$ 1,966

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

60

DIFFERENTIAL BRANDS GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business Description and Basis of Presentation

Our principal business activity involves the design, development and worldwide marketing of apparel products, which include denim jeans, related casual wear and accessories that bear the brand Hudson®, the design, development, sales and licensing of apparel products and accessories bearing the brand name Robert Graham® and the design, development, sales and licensing of footwear and accessories bearing the brand name SWIMS®. Our primary operating subsidiaries are Hudson Clothing, LLC ("Hudson"), Robert Graham Designs, LLC and Robert Graham Retail, LLC (collectively "Robert Graham"), and DFBG Swims, LLC ("DFBG Swims"). In addition, we have other non-operating subsidiaries. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Differential Brands Group Inc. and subsidiaries (the "Company" or "Differential") began operations in 1987 as Innovo, Inc. Since the Company's founding, the Company has evolved from producing craft and accessory products to designing and selling apparel products bearing the Hudson®, Robert Graham® and SWIMS® brand names.

As previously reported, on September 11, 2015, the Company completed the sale of certain operating and intellectual property assets related to the business operated under the brand names "Joe's Jeans," "Joe's," "Joe's JD" and "else" (the "Joe's Business") to GBG USA Inc., a Delaware corporation ("GBG"), and the sale of certain intellectual property assets related to the Joe's Business to Joe's Holdings LLC, a Delaware limited liability company ("Joe's Holdings"), for an aggregate purchase price of $80 million (the "Joe's Asset Sale"). The Company also entered into the amended and restated revolving credit agreement (the "CIT Amended and Restated Revolving Credit Agreement"), dated September 11, 2015, which provided for a maximum credit availability of $7.5 million and waived certain defaults that remained in effect until the closing of the RG Merger (as defined below).

On January 28, 2016, the Company completed the acquisition (the "RG Merger") of all of the outstanding equity interests of RG Parent LLC and its subsidiaries ("Robert Graham" or "RG"), a business engaged in the design, development, sales and licensing of apparel products and accessories that bear the brand name Robert Graham® (the "Robert Graham Business"), as contemplated by the Agreement and Plan of Merger, dated as of September 8, 2015 (the "RG Merger Agreement"), by and among RG, JJ Merger Sub, LLC ("RG Merger Sub") and the Company, for an aggregate of $81.0 million in cash and 8,825,461 shares of the Company's common stock, par value $0.10 per share ("common stock") (after giving effect to the Reverse Stock Split (as defined below). Pursuant to the RG Merger Agreement, among other things, RG Merger Sub was merged with and into RG, so that RG, as the surviving entity, became a wholly-owned subsidiary. The aggregate cash consideration was used to repay $19.0 million of RG's outstanding loans and indebtedness under its revolving credit agreement with J.P. Morgan Chase Bank, N.A. On the RG Merger's closing date, all outstanding loans under the CIT Amended and Restated Revolving Credit Agreement were repaid and it was terminated in connection with entering into (i) a new credit and security agreement (as later amended, the "ABL Credit Agreement") with Wells Fargo Bank, National Association, as lender, (ii) a new credit and security agreement with TCW Asset Management Company, as agent, and the lenders party thereto (as later amended, the "Term Credit Agreement"), and (iii) an amended and restated deferred purchase factoring agreement with CIT.

Effective upon consummation of the RG Merger, the Company changed its name from “Joe’s Jeans Inc.” to “Differential Brands Group Inc.” and its trading symbol from “JOEZ” to “DFBG,” and effected a reverse stock split (the “Reverse Stock Split”) of the Company’s issued and outstanding common stock such that each 30 shares of issued and outstanding common stock were reclassified into one share of issued and outstanding common stock, which Reverse Stock Split did not change the par value or the amount of authorized shares of common stock. The primary purpose of the Reverse Stock Split was to increase the per-share market price of the Company’s common stock in order to maintain its listing on The Nasdaq Capital Market maintained by The Nasdaq Stock Market LLC (“NASDAQ”). Unless otherwise indicated, all share amounts in this Annual Report on Form 10-K (this “Annual Report”) have been adjusted to reflect the Reverse Stock Split.

Table of Contents

After the closing of the Joe's Asset Sale on September 11, 2015, the Company retained and operated 32 Joe's® brand retail stores, of which the Company transferred 18 retail stores to GBG on January 28, 2016 for no additional consideration. As of February 29, 2016, the remaining 14 Joe's® brand retail stores were closed and as a result are reported as discontinued operations.

The RG Merger has been accounted for as a reverse merger and recapitalization. As a result of the RG Merger, RG is a wholly-owned subsidiary of the Company, the Company no longer owns certain assets and intellectual property of the Joe's Business and the Company retains ownership of the businesses associated with its Hudson® brand (the "Hudson Business"). The former RG members own a majority of the Company's issued and outstanding equity after the RG Merger. Under the acquisition method, RG is deemed the accounting acquirer for financial reporting purposes, with the Company, as the legal acquirer, being viewed as the accounting acquiree. As a result, the assets, liabilities and operations reflected in the historical consolidated financial statements and elsewhere in this Annual Report prior to the RG Merger are those of RG and are recorded at the historical cost basis and reflect RG's historical financial condition and results of operations for comparative purposes. For the year ended December 31, 2016, the Company's consolidated financial statements include: (i) from January 1, 2016 up to the day prior to the closing of the RG Merger on January 28, 2016, the results of operations and cash flows of RG; (ii) from and after the RG Merger's closing date on January 28, 2016, the results of continuing operations, cash flows and, as applicable, the assets and liabilities of the combined company, comprising the Company's Hudson Business and RG; (iii) from and after the RG Merger's closing date on January 28, 2016, the results of the discontinued operations from the Joe's® brand retail stores that were not transferred to GBG but that closed as of February 29, 2016; and (iv) from and after the acquisition of SWIMS AS ("SWIMS") on July 18, 2016, the results of continuing operations and cash flows and, as applicable, the assets and liabilities of SWIMS.

Prior to the RG Merger, RG and the Company had different fiscal year ends, with RG's fiscal year ending on December 31 and the Company's fiscal year ending on November 30. In connection with the RG Merger, the Company changed its fiscal year end to December 31. Certain reclassifications have been made to prior year amounts within the accompanying consolidated balance sheets and consolidated statements of cash flows to conform to the current period presentation.

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

The Company's reportable business segments are Wholesale, Consumer Direct and Corporate and other. For periods before the RG Merger's closing date, the discussion of reportable segments reflects only the operations of RG. The Company manages, evaluates and aggregates operating segments for segment reporting purposes primarily on the basis of business activity and operation. The Wholesale segment is comprised of sales of products to premium department stores, boutiques, retailers, specialty stores and international customers, and includes expenses from sales and customer service departments, trade shows, warehouse distribution and product samples. The Consumer Direct segment is comprised of sales to consumers through the Robert Graham® brand full-price retail stores and outlet stores, through our SWIMS® brand outlet store in Oslo, Norway and through the online ecommerce sites at www.hudsonjeans.com, www.robertgraham.us and www.swims.com. The Corporate and other segment is comprised of revenue from trademark licensing agreements and expenses from corporate operations, which include the executive, finance, legal, information technology, accounting, human resources, design and production departments and general brand marketing and advertising expenses associated with the Company's brands.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate primarily to allowance for bad debts, returns, sales allowances, and customer chargebacks, inventory write-downs,

Table of Contents

valuation of goodwill, intangible and long-lived assets, and valuation of deferred income taxes. Actual results could differ from these estimates.

Revenue Recognition

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

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

Revenue from licensing arrangements is recognized when earned in accordance with the terms of the underlying agreements and deemed collectible, generally based upon the higher of (a) the contractually guaranteed minimum royalty or (b) actual net sales data received from licensees. Payments received in consideration of the grant of a license or advanced royalty payments is recognized ratably as revenue over the term of the license agreement. The unrecognized portion of upfront payments is included in accounts payable and accrued expenses within the accompanying consolidated balance sheets. The Company did not have deferred licensing revenue as of December 31, 2016 and 2015.

Amounts related to shipping and handling that are billed to customers are reflected in net sales, and the related costs are reflected in selling, general and administrative expenses within the accompanying consolidated statements of operations and comprehensive (loss) income. For the years ended December 31, 2016 and 2015, shipping and handling fee revenue included in net sales was $0.4 million and $0.2 million, respectively.

Cash Equivalents

All highly liquid investments that are both readily convertible into known amounts of cash and mature within 90 days from their date of purchase are considered to be cash equivalents.

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

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

Inventories

Inventory is valued at the lower of cost or net realizable value with cost determined by the first in, first out method. Inventory consists of finished goods, work in process and raw materials. The Company continually evaluates its inventory by assessing slow moving current product. Market value of non current inventory is estimated based on historical sales trends, the impact of market trends, an evaluation of economic conditions and the value of current orders relating to future sales. Inventory reserves establish a new cost basis for inventory. Such reserves are not reversed until

Table of Contents

the related inventory is sold or otherwise disposed. Costs capitalized in inventory include the purchase price of raw materials and contract labor, plus in bound transportation costs and import fees and duties.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation and amortization is calculated using the straight line method over the following estimated useful lives of the assets:

Computer and equipment3 to 7 years

Furniture and fixtures3 to 7 years

Leasehold improvements5 to 10 years

Leasehold improvements are amortized over the lessor of the term of the lease or the estimated useful life of the improvement. Maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the asset cost and related accumulated depreciation or amortization is removed from the accounts, and any related gain or loss is included within selling, general and administrative expenses within the accompanying consolidated statements of operations and comprehensive (loss) income.

Impairment of Long Lived Assets, Intangible Assets and Goodwill

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

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

The estimated cash flows used for this nonrecurring fair value measurement are considered a Level 3 input as defined in Note 13.

Impairment of Long Lived Assets and Intangible Assets Subject to Amortization

When the Company determines that the carrying value of long lived assets, such as property and equipment, and intangible assets subject to amortization, may not be recoverable based upon the existence of one or more of the aforementioned factors and the carrying value exceeds the estimated undiscounted cash flows expected to be generated by the asset, impairment is measured based on a projected discounted cash flow method using a discount rate determined by management. These cash flows are calculated by netting future estimated sales against associated merchandise costs and other related expenses such as payroll, occupancy and marketing. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows.

Future expected cash flows for retail store assets are based on management's estimates of future cash flows over the remaining lease period or expected life, if shorter. The Company considers historical trends, expected future business trends and other factors when estimating each store's future cash flow. The Company also considers factors such as: the local environment for each store location, including mall traffic and competition; the ability to successfully implement strategic initiatives; and the ability to control variable costs such as cost of sales and payroll, and in some cases, renegotiate lease costs. If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, there may be additional exposure to future impairment losses that could be material to the Company's' results of operations. Retail store impairment charges of $2.2 million were recorded during the year ended December 31, 2016. Based on the operating performance of these stores, the Company determined it could not recover the carrying value of property and equipment located at these stores. There was no impairment charge recorded related to the retail stores during the year ended December 31, 2015.

Table of Contents

Intangible assets subject to amortization, such as customer relationships, are amortized over their estimated useful lives. There was no impairment charge recorded related to intangible assets subject to amortization during the years ended December 31, 2016 and 2015.

Goodwill and Indefinite Lived Intangible Assets

Goodwill and intangible assets with indefinite lives, such as trademarks, are not amortized but are tested at least annually for impairment on December 31st of each year or when circumstances indicate their carrying value may not be recoverable. Goodwill is evaluated for impairment at least annually using a two-step process. The first step is to determine the fair value of each reporting unit and compare this value to its carrying value. If the fair value exceeds the carrying value, including goodwill, no further work is required and no impairment loss would be recognized. The second step is performed if the carrying value exceeds the fair value of the assets. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. The Company reviews indefinite lived intangible assets for impairment on an annual basis, or when circumstances indicate their carrying value may not be recoverable. The Company calculates the value of the indefinite lived intangible assets using a discounted cash flow method, based on the relief from royalty method. There was no impairment charge recorded related to indefinite lived intangible assets or goodwill during the years ended December 31, 2016 and 2015.

Deferred Rent and Tenant Allowances

When a lease includes lease incentives (such as a rent holiday) or requires fixed escalations of the minimum lease payments, rental expense is recognized on a straight line basis over the term of the lease starting from the date of possession and the difference between the average rental amount charged to expense and amounts payable under the lease is included in deferred rent in the accompanying consolidated balance sheets. Deferred rent also includes tenant allowances received from landlords which are amortized as a reduction to rent expense on a straight-line basis over the term of the lease starting at the date of possession.

Deferred Financing Costs

Deferred financing costs are amortized using the effective interest rate method over the term of the related agreements and recorded as a component of interest expense in the accompanying consolidated statements of operations and comprehensive (loss) income. Amortization of deferred financing costs included in interest expense was approximately $0.4 million and $0 for the years ended December 31, 2016 and 2015. Deferred financing costs are presented on the consolidated balance sheets as a direct deduction of the related debt.

Preferred Share Dividend

Cumulative dividends on preferred stock are only accrued for when the board of directors declares a dividend. The board of directors has not declared a dividend through December 31, 2016.

Derivatives

Warrants and other derivative financial instruments are accounted for as either equity or liabilities based upon the characteristics and provisions of each instrument. During the year ended December 31, 2016, the warrants that were issued in conjunction with the acquisition of DFBG Swims (see "Note 3 – Acquisition of SWIMS") were determined to be equity. Warrants classified as equity are recorded at fair value as of the date of issuance within the consolidated balance sheets and no further adjustments to their valuation is made. Management estimates the fair value of these warrants using option pricing models and assumptions that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for future financings, expected volatility, expected life, yield, and risk-free interest rate.

Table of Contents

Costs of Goods Sold

Costs of goods sold includes product cost, freight in, inventory reserves, inventory markdowns and other various charges.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include salaries and benefits, travel and entertainment, professional fees, advertising, marketing, sample expenses, stock based compensation expense, facilities, fulfillment and distribution costs, bad debt expense and write down of other assets.

The Company charges all product design and development costs to selling, general and administrative expenses, when incurred. Product design and development costs aggregated were approximately $10.2 million and $5.3 million during the years ended December 31, 2016 and 2015, respectively.

The Company's distribution network-related costs are included in selling, general and administrative expenses and are not allocated to specific segments. The expenses related to its distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of its product totaled $5.3 million and $1.6 million during the years ended December 31, 2016 and 2015, respectively.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising and tradeshow expenses included in selling, general and administrative expenses within the accompanying consolidated statements of operations and comprehensive (loss) income were $7.9 million and $2.8 million for the years ended December 31, 2016 and 2015, respectively. Prepaid advertising costs were $0.2 million at December 31, 2016 and 2015, respectively.

Shipping and Handling Costs

Shipping and handling costs for merchandise shipped to customers of $1.7 million and $0.2 million for the years ended December 31, 2016 and 2015, respectively, are included in selling, general and administrative expenses within the accompanying consolidated statements of operations and comprehensive (loss) income.

Stock Based Compensation

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

Income Taxes

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

Table of Contents

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in the expected realization of these assets depends on the Company's ability to generate sufficient future taxable income. The ability to generate enough taxable income to utilize the deferred tax assets depends on many factors, among which is the Company's ability to deduct tax loss carry forwards against future taxable income, the effectiveness of tax planning strategies and reversing deferred tax liabilities.

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

Comprehensive (Loss) Income

Comprehensive (loss) income represents the change in equity resulting from transactions other than stockholder investments and distributions. Accumulated other comprehensive loss includes changes in equity that are excluded from net (loss) income, specifically, unrealized gains and losses on foreign currency translation adjustments and is presented within the consolidated statements of equity. The Company presents the components of comprehensive (loss) income within the consolidated statements of operations and comprehensive (loss) income.

Foreign Currency Translation

The Company's wholly owned direct foreign operations present their financial reports in the currency used in the economic environment in which they mainly operate, known as the functional currency. The functional currency consists of the Norwegian Krone for operations in Norway. Assets and liabilities in foreign subsidiaries are translated into U.S. dollars at the exchange rate as of the balance sheet date, while revenues and expenses are translated using the average monthly exchange rate. Gains and losses from these foreign currency translation adjustments are recognized within accumulated other comprehensive loss within the accompanying consolidated statements of equity.

Earnings per Share

Basic earnings per share, or EPS, is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period except for periods of net loss for which no common share equivalents are included because their effect would be anti dilutive. Dilutive common equivalent shares consist of common stock issuable upon exercise of stock options, restricted stock and restricted stock units using the treasury stock method. Dilutive common stock equivalent shares issuable upon conversion of the convertible notes are calculated using the if converted method. EPS has been adjusted to reflect the Reverse Stock Split.

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. Our participating securities consist of convertible preferred shares that contain a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common stockholders.

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 factor accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The policy 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.

Table of Contents

The Company does not require collateral for trade accounts receivable. However, the Company sells a portion of accounts receivable to CIT on a non recourse basis (see "Note 7 – Factored Accounts and Receivables"). In that instance, the Company is no longer at risk if the customer fails to pay. For accounts receivable that are not sold to CIT or are sold on a recourse basis, the Company continues to be at risk if these customers fail to pay. The Company provides an allowance for estimated losses to be incurred in the collection of accounts receivable based upon the aging of outstanding balances and other account monitoring analysis. 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.

For the years ended December 31, 2016 and 2015, sales to customers or customer groups representing 10 percent or greater of net sales are as follows:

	Year ended December 31,			
	2016		2015	
Customer A	18	%	11	%

International sales were $9.4 million and $0.5 million for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, customers representing 10 percent or greater of accounts receivable and factored accounts receivable are as follows:

	As of December 31,			
	2016		2015	
Customer A	29	%	25	%
Customer B	10	%	*	%

* Represents less than 10%

In addition, the Company primarily utilizes three manufacturing contractors in Mexico, the United States and India. Purchases from these three manufacturing contractors in the aggregate accounted for approximately 50% and 47% percent of our purchases for fiscal 2016 and 2015, respectively.

Fair Value of Financial Instruments

The fair value of financial instruments held (which consist of cash and cash equivalents, accounts receivable, factored accounts receivable, royalties receivable, accounts payable, and accrued expenses) do not differ materially from their recorded amounts because of the relatively short period of time between origination of the instruments and their expected realization. The carrying amounts of the line of credit and term loan approximate fair value because of the variable interest rates. The fair value of the convertible notes is based on the amount of future cash flows associated with the instrument discounted using the incremental borrowing rate, which are considered Level 2 liabilities.

The Company does not hold or have any obligations under financial instruments that possess off balance sheet credit or market risk.

Discontinued Operations

In accordance with the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC"), ASC 205-20, Presentation of Financial Statements – Discontinued Operations, the results of operations of a component of an entity or a group or component of an entity that represents a strategic shift that has, or will have, a major effect on the reporting company's operations that has either been disposed of or is classified as held for sale are required to be reported as discontinued operations in a company's consolidated financial statements. In order to be considered a discontinued operation, both the operations and cash flows of the discontinued component must have been (or will be) eliminated from the ongoing operations of the company and the company will not have any significant continuing involvement in the operations of the discontinued component after the disposal transaction. The

Table of Contents

accompanying consolidated financial statements reflect the results of operations of the Joe's Business as discontinued operations.

Financial Accounting Standards Recently Adopted

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15 to communicate amendments to FASB Accounting Standards Codification Subtopic 205-40, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, or ASC amendments. The ASC amendments establish new requirements for management to evaluate a company's ability to continue as a going concern and to provide certain related disclosures. The ASC amendments are effective for the annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. We adopted this standard as of December 31, 2016 and there was no material impact on our consolidated financial statements and related disclosures.

In July 2015, FASB issued ASU No. 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory, which will require an entity to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We adopted this standard in the first quarter of fiscal 2016 and there was no material impact on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which will require entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. ASU No. 2015-17 simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. We adopted this standard in the first quarter of fiscal 2016 and there was no material impact on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. ASU No. 2015-03 requires an entity to present such costs on the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The standard's core principle is debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note and that amortization of debt issuance costs also shall be reported as interest expense. We adopted this standard in the first quarter of fiscal 2016 and there was no material impact on our consolidated financial statements and related disclosures.

Recently Issued Financial Accounting Standards

In January 2017, the FASB issued ASU No. 2017-04, Intangibles —Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. Topic 350, Intangibles—Goodwill and Other (Topic 350), currently requires an entity to perform a two-step test to determine the amount, if any, of goodwill impairment. ASU No. 2017-04 removes the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The ASC amendments are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which affects the accounting for leases. The guidance requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The amendment also will require qualitative and quantitative disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within that reporting period. Early application is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements, but anticipates an increase in assets and liabilities due to the recognition of the required right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating

Table of Contents

leases, such as real estate leases for corporate headquarters, administrative offices, retail stores, and showrooms as well as additional disclosure on all our lease obligations. The income statement recognition of lease expense is not expected to significantly change from the current methodology.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements To Employee Share-Based Payment Accounting, which amends ASC Topic 718, relating to employee share-based payment accounting. This guidance simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within that reporting period. Early application is permitted. We have not yet adopted this ASU and are currently evaluating the impact it may have on our consolidated financial statements and related disclosures.

In April and March 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, and ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), respectively. ASU No. 2016-10 clarifies the implementation guidance on licensing and the identification of performance obligations considerations included in ASU No. 2014-09. ASU No. 2016-08 provides amendments to clarify the implementation guidance on principal versus agent considerations included in ASU No. 2014-09. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The effective date of this pronouncement is for fiscal years beginning after December 15, 2017 with early adoption permitted as of the original effective date. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Customers with Contracts (Topic 606) Narrow-Scope Improvements and Practical Expedients. ASU No. 2016-12 amends certain aspects of ASU No. 2014-09, Revenue from Customers with Contracts (Topic 606). The amendments include the following:

- Collectibility – ASU No. 2016-12 clarifies the objective of the entity’s collectibility assessment and contains new guidance on when an entity would recognize as revenue consideration it receives if the entity concludes that collectibility is not probable.
- Presentation of sales tax and other similar taxes collected from customers – Entities are permitted to present revenue net of sales taxes collected on behalf of governmental authorities (i.e., to exclude from the transaction price sales taxes that meet certain criteria).
- Noncash consideration – An entity’s calculation of the transaction price for contracts containing noncash consideration would include the fair value of the noncash consideration to be received as of the contract inception date. Further, subsequent changes in the fair value of noncash consideration after contract inception would be subject to the variable consideration constraint only if the fair value varies for reasons other than its form.
- Contract modifications and completed contracts at transition – The ASU establishes a practical expedient for contract modifications at transition and defines completed contracts as those for which all (or substantially all) revenue was recognized under the applicable revenue guidance before the new revenue standard was initially adopted.
- Transition technical correction – Entities that elect to use the full retrospective transition method to adopt the new revenue standard would no longer be required to disclose the effect of the change in accounting principle on the period of adoption (as is currently required by ASC No.250-10-50-1(b)(2)); however, entities would still be required to disclose the effects on preadoption periods that were retrospectively adjusted.

ASU No. 2016-12 is effective for annual and interim periods beginning on or after December 15, 2017, and early adoption is permitted as of the original effective date of December 31, 2016. The Company has not selected a transition model. The Company is still completing the assessment of the impact these ASUs will have on its consolidation financial statements; however at the current time the Company does not expect that the adoption of these ASUs will have a material impact on its consolidation financial statements, financial condition or results of operations.

In August 2016, the FASB issued No. ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU No.2016-15 is to reduce the diversity in practice

Table of Contents

that has resulted from the lack of consistent principles on this topic. The amendments in ASU No. 2016-15 add or clarify guidance on eight cash flow issues:

- Debt prepayment or debt extinguishment costs.
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
- Contingent consideration payments made after a business combination.
- Proceeds from the settlement of insurance claims.
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
- Distributions received from equity method investees.
- Beneficial interests in securitization transactions.
- Separately identifiable cash flows and application of the predominance principle.

ASU No. 2016-15 is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. We are currently evaluating the impact the adoption of ASU No. 2016-15 will have on our consolidated financial statements.

3. Acquisition of SWIMS

On July 18, 2016, the Company completed the acquisition of all of the outstanding share capital of Norwegian private limited company (aksjeselskap) SWIMS AS (“SWIMS”). SWIMS® is a Scandinavian lifestyle brand known for its range of fashion-forward, water-resistant footwear and sportswear. The Company purchased SWIMS for aggregate consideration of (i) approximately $12.0 million in cash, (ii) 702,943 shares of our common stock and (iii) warrants to purchase an aggregate of 150,000 shares of common stock with an exercise price of $5.47 per share. The acquisition was completed pursuant to the Purchase Agreement, dated as of July 18, 2016 (the “SWIMS Purchase Agreement”), between the Company, its wholly-owned subsidiary DFBG Swims, the shareholders of SWIMS named therein (the “SWIMS Sellers”), Øystein Alexander Eskeland and Atle Søvik, acting jointly as the representatives of the SWIMS Sellers, and, for certain limited purposes, TCP Denim, LLC, TCP RG, LLC and TCP RG II, LLC. Pursuant to the SWIMS Purchase Agreement, DFBG Swims deposited approximately $0.3 million of the cash consideration into an escrow account for certain indemnification obligations of the SWIMS Sellers. The SWIMS Purchase Agreement contains customary representations, warranties and covenants of the SWIMS Sellers and us, along with customary post-closing indemnification rights of DFBG Swims. The acquisition qualified as a business combination and was accounted for under the acquisition method of accounting.

To finance the acquisition, the Company issued the following to its majority stockholder Tengram Capital Partners Fund II, L.P. (“Tengram II”): (i) a warrant for the purchase of 500,000 shares of common stock at an exercise price of $3.00 per share (the “SWIMS Warrant”); and (ii) a convertible promissory note with principal of $13.0 million (the “SWIMS Convertible Note”). The SWIMS Convertible Note accrues interest at a rate of 3.75% per annum, compounding on the first day of each month starting August 1, 2016, and will convert, at Tengram II’s option or on the revised maturity date of July 18, 2017, which had an original maturity date of January 18, 2017, if not already repaid in cash on or prior to that date, into up to 4,500,000 newly issued shares of our Series A-1 Preferred Stock at a conversion price of $3.00 per share. The Company is currently evaluating all options in order to assess the repayment of the SWIMS Convertible Note at maturity if it is not converted. Additionally, the Series A-1 Preferred Stock will itself be convertible into shares of our common stock at an initial price of $3.00 per share (subject to adjustment), will be entitled to dividends at a rate of 10% per annum payable quarterly in arrears, will be senior to the common stock upon liquidation and will have voting rights on an as-converted basis alongside its common stock. To permit the acquisition, on July 18, 2016, the Company also entered into (i) a Consent and Amendment No. 1 to our ABL Credit Agreement and accompanying security agreement with Wells Fargo Bank, National Association, as lender, and (ii) a Consent and Amendment No. 1 to our Term Credit Agreement and accompanying security agreement with TCW Asset Management Company, as agent for the lenders and the lenders party thereto. The SWIMS Warrant has an estimated fair value of $0.5 million, which has been recorded as a debt discount against the proceeds of the SWIMS Convertible Note. Management estimated the fair value of the equity consideration issued with the assistance of a third-party appraisal firm. The

Table of Contents

estimation of fair value considered key assumptions for discount for lack of marketability and for inputs used in an option pricing model to value warrants.

Business acquisitions are accounted for under the acquisition method by assigning the purchase price to tangible and intangible assets acquired and liabilities assumed. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill. Purchased intangible assets with finite lives are amortized over their estimated useful lives. Goodwill and intangible assets with indefinite lives are not amortized but are tested at least annually for impairment or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The purchase price included the issuance of 702,943 shares of common stock that contain restrictions on resale with an estimated fair value of approximately $1.8 million and the issuance of 150,000 warrants with an estimated fair value of $45 thousand. Management estimated the fair value of the equity consideration issued with the assistance of a third-party appraisal firm. The estimation of fair value considered key assumptions for discount for lack of marketability and for inputs used in an option pricing model to value warrants. Included in the $13.8 million is approximately $0.3 million that is being held in escrow to support indemnification obligations. The following is the total purchase price allocation as of December 31, 2016 (in thousands, except share and per share data):

	Preliminary Purchase Price Allocation	Measurement Period Adjustments (1)	Final Purchase Price Allocation
Assets acquired and liabilities assumed:			
Cash and cash equivalents	$ 189	$ —	$ 189
Factored accounts receivable	1,552	—	1,552
Inventories	3,466	—	3,466
Prepaid expenses and other assets	647	—	647
Property and equipment	498	—	498
Accounts payable and accrued expenses	(1,706)	—	(1,706)
Deferred income tax liability	(1,995)	(481)	(2,476)
Intangible assets acquired:			
Trade name	5,062	2,224	7,286
Customer relationships	1,964	(131)	1,833
Non-compete agreements	142	(12)	130
Total	9,819	1,600	11,419
Excess purchase price over net assets acquired	3,993	(1,600)	2,393
Total net assets acquired	$ 13,812	$ —	$ 13,812
Total purchase price:			
Cash paid to sellers	$ 12,017	$ —	$ 12,017
Equity consideration issued to sellers			

(702,943 common shares at $2.49)	1,750	—	1,750
Fair value of warrants issued to sellers	45	—	45
Total purchase price	$ 13,812	$ —	$ 13,812

(1) The measurement period adjustments were due to the finalization of the valuation related to intangible assets and resulted in the following: an increase to tradename, a decrease to customer relationships and non-compete agreements, with the related increase in long-term deferred tax liabilities and corresponding decrease to goodwill. The measurement period adjustments did not have a significant impact on the Company's consolidated statement of operations and comprehensive (loss) income for the year ended December 31, 2016.

The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The fair values of assets acquired and liabilities assumed represent management's estimate of fair value based on information obtained from various sources, including management's

Table of Contents

historical experience and are subject to change if additional information becomes available. As a result of the fair value assessment, inventory acquired was stepped up to fair value by the amount of $1.3 million which was sold in the third quarter of fiscal 2016, and is included in cost of goods sold within the accompanying consolidated statement of operations and comprehensive (loss) income for the year ended December 31, 2016 and is a non-recurring expense.

The estimated fair value of the acquired tangible and intangible assets and liabilities assumed were determined using multiple valuation approaches depending on the type of tangible or intangible asset acquired, including but not limited to the income approach, the excess earnings method, the with versus without method, net realizable value method and the relief from royalty method approach.

The amount of goodwill represents the excess of the purchase price over the net identifiable assets acquired and liabilities assumed. Goodwill primarily represents, among other factors, the value of synergies expected to be realized by integration with our Company and expected positive cash flow and return on capital projections from the integration. Goodwill arising from the acquisition of SWIMS was determined as the excess of the purchase price over the net acquisition date fair values of the acquired assets and the liabilities assumed, and is not deductible for income tax purposes subject to certain tax elections that are currently being considered.

The Company has determined that the useful life of the acquired trade name asset is indefinite, and therefore, no amortization expense will be recognized until the useful life is determined not to be indefinite. The useful life of the acquired customer relationships and non-compete agreements are finite and will be amortized over their useful lives. However, the assets will be tested for impairment if events or changes in circumstances indicate that the assets might be impaired. Additionally, a deferred tax liability has been established in the allocation of the purchase price with respect to the identified indefinite long-lived intangible assets acquired.

The Company incurred $1.3 million in non-recurring acquisition-related transaction costs, which is included in selling, general, and administrative expense within the accompanying consolidated statement of operations and comprehensive (loss) income for the year ended December 31, 2016.

Total net sales and operating loss from continuing operations from SWIMS since the date of the acquisition included in the accompanying consolidated statement of operations and comprehensive (loss) income is $5.9 million and $2.1 million, respectively.

Pro forma financial information (unaudited)

The following table presents our unaudited pro forma results (in thousands, except per share data) for the years ended December 31, 2016 and 2015, respectively, as if the RG Merger and SWIMS acquisition had occurred on January 1, 2015. 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. Statutory rates were used to calculate income taxes.

	Year ended December 31,	
	2016	2015
Net sales	$ 159,581	$ 156,143
Net loss	$ (6,000)	$ (14,538)
Weighted average common shares outstanding	12,428	12,273
Loss per common share - basic and diluted	$ (0.48)	$ (1.18)

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 RG Merger and SWIMS acquisition occurred at the beginning of the earliest period presented or the results that may be achieved in future period.

Table of Contents

4. RG Merger and Related Transactions

On January 28, 2016, the Company completed the RG Merger. In connection with the RG Merger, the Company also completed the issuance and sale of an aggregate of fifty thousand (50,000) shares of our preferred stock designated as Series A Convertible Preferred Stock (the "Series A Preferred Stock"), for an aggregate purchase price of $50 million in cash, as contemplated by the stock purchase agreement, dated as of September 8, 2015 (the "RG Stock Purchase Agreement"), by and between the Company and TCP Denim, LLC.

The Company used the proceeds from the RG Stock Purchase Agreement and the debt financing provided by the credit facilities under the ABL Credit and Term Credit Agreement (see "Note 12 – Debt and Preferred Stock") to consummate the RG Merger and the transactions contemplated by the RG Merger Agreement.

Also in connection with the completion of the RG Merger, the Company completed the exchange of $38.1 million in the aggregate principal amount of outstanding convertible notes for (i) 1,167,317 shares of common stock (after giving effect to the Reverse Stock Split); (ii) a cash payment of approximately $8.6 million; and (iii) an aggregate principal amount of approximately $16.5 million of modified convertible notes (the "Modified Convertible Notes"), as contemplated by the rollover agreement, dated September 8, 2015 (the "Rollover Agreement"), between the Company and the holders of the convertible notes.

In addition, in connection with the consummation of the RG Merger, the Company entered into (i) the ABL Credit Agreement with Wells Fargo Bank, National Association, as lender, (ii) the Term Credit Agreement with TCW Asset Management Company, and (iii) the A&R Factoring Agreement (as defined below) with CIT. See "Note 12 – Debt and Preferred Stock" for additional information about the ABL Credit Agreement and Term Credit Agreement and "Note 7 – Factored Accounts and Receivables" for additional information about the factoring agreement.

5. RG Merger Consideration

The RG Merger has been accounted for under the acquisition method of accounting with RG as the accounting acquirer. Under the acquisition method of accounting, the purchase price and the net assets acquired and liabilities assumed are recorded based on their estimated fair values as of the closing date of the RG Merger. The excess of purchase price over the net assets acquired is recorded as goodwill.

Business acquisitions are accounted for under the acquisition method by assigning the purchase price to tangible and intangible assets acquired and liabilities assumed. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill. Purchased intangible assets with finite lives are amortized over their estimated useful lives. Goodwill and intangible assets with indefinite lives are not amortized but are tested at least annually for impairment or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The stock price used to determine the purchase price allocation is based on the closing price of the common stock as of January 28, 2016, which was $5.70. The equity consideration was based upon the assumption that 3,509,000 shares of common stock were outstanding, which included 2,342,000 shares of common stock outstanding and 1,167,000 total aggregate shares of common stock issued to convertible noteholders upon conversion of the convertible notes into shares of our common stock under the Rollover Agreement. As a result of the Rollover Agreement, immediately after giving effect to the RG Merger and related Merger Transactions, the holders of the Modified Convertible Notes owned approximately 14% of the combined company on an as-converted, fully diluted basis.

The assets acquired in this acquisition consisted of tangible and intangible assets and liabilities assumed. The differences between the fair value of the consideration paid and the estimated fair value of the assets and liabilities has been recorded as goodwill. The significant factors that resulted in recognition of goodwill were: (a) the purchase price was based upon cash flow and return on capital projections assuming integrations of the companies; and (b) the calculation of the fair value of tangible and intangible assets acquired that qualified for recognition. The Company has determined that the useful life of the acquired trade name asset is indefinite, and therefore, no amortization expense will be recognized until the useful life is determined not to be indefinite. The useful life of the acquired customer

Table of Contents

relationships are finite and will be amortized over their useful lives. However, the assets will be tested for impairment if events or changes in circumstances indicate that the assets might be impaired. Additionally, a deferred tax liability has been established in the allocation of the purchase price with respect to the identified indefinite long-lived intangible assets acquired.

Under the acquisition method of accounting, the total purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. The following is the total purchase price allocation as of December 31, 2016 (in thousands, except share and per share data):

	Preliminary Purchase Price Allocation	Measurement Period Adjustments (1)	Final Purchase Price Allocation
Assets acquired and liabilities assumed:			
Cash and cash equivalents	$ 2,092	$ —	$ 2,092
Factored accounts receivable	6,719	—	6,719
Accounts receivable	336	—	336
Inventories	11,378	—	11,378
Prepaid expenses and other current assets	754	1,524	2,278
Property and equipment	356	—	356
Other assets	352	—	352
Accounts payable and accrued expenses	(15,417)	—	(15,417)
Customer cash advances	(893)	—	(893)
Line of credit	(4,683)	—	(4,683)
Deferred income tax liability	(9,453)	(224)	(9,677)
Other liabilities	(81)	—	(81)
Buy-out payable	(1,668)	—	(1,668)
Intangible assets acquired:			
Trade name	32,300	—	32,300
Customer relationships	14,100	(700)	13,400
Total	36,192	600	36,792
Excess purchase price over net assets acquired	4,238	(600)	3,638
Total net assets acquired	$ 40,430	$ —	$ 40,430
Total purchase price:			
Cash paid to existing holders of convertible notes	$ 8,630	$ —	$ 8,630
Fair value of Modified Convertible Notes transferred to the existing holders of convertible notes	11,800	—	11,800
Equity consideration to the Company's stockholders and existing holders of convertible notes (3,508,747 common shares at $5.70)	20,000	—	20,000
Total purchase price	$ 40,430	$ —	