ICONIX BRAND GROUP, INC.
Form 10-Q
November 09, 2018

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2018

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From to .

Commission file number 1-10593

ICONIX BRAND GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	11-2481903 (I.R.S. Employer Identification No.)
1450 Broadway, New York, NY (Address of principal executive offices)	10018 (Zip Code)

(212) 730-0030

(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, $.001 Par Value- 75,192,597 shares as of November 6, 2018.

Part I. Financial Information

Item 1. Financial Statements

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except par value)

	September 30, 2018	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$66,458	$65,927
Restricted cash	21,174	48,766
Accounts receivable, net	40,294	66,625
Other assets – current	39,692	51,850
Total Current Assets	167,618	233,168
Property and equipment:		
Furniture, fixtures and equipment	22,373	21,661
Less: Accumulated depreciation	(17,097)	(15,567)
	5,276	6,094
Other Assets:		
Other assets	19,103	6,268
Deferred income tax asset	4,087	4,492
Trademarks and other intangibles, net	397,703	465,722
Investments and joint ventures	91,398	90,887
Goodwill	26,099	63,882
	538,390	631,251
Total Assets	$711,284	$870,513
Liabilities, Redeemable Non-Controlling Interest and Stockholders' Deficit		
Current Liabilities:		
Accounts payable and accrued expenses	$29,499	$49,191
Deferred revenue	8,172	5,525
Current portion of long-term debt	50,406	44,349
Other liabilities – current	9,422	13,581
Total Current Liabilities	97,499	112,646
Deferred income tax liability	6,444	11,466
Other tax liabilities	—	531
Long-term debt, less current maturities (includes $55,878 and $0, respectively, at fair value)	641,232	756,493
Other liabilities	6,375	10,066
Total Liabilities	751,550	891,202
Redeemable Non-Controlling Interest	34,643	30,287

Commitments and contingencies		
Stockholders' Deficit:		
Common stock, $.001 par value shares authorized 260,000; shares issued 107,765 and 90,159, respectively	108	90
Additional paid-in capital	1,039,007	1,044,518
Accumulated losses	(240,303)	(223,718)
Accumulated other comprehensive loss	(51,612)	(51,280)
Less: Treasury stock – 32,934 and 32,820 shares at cost, respectively	(844,177)	(844,030)
Total Iconix Brand Group, Inc. Stockholders' Deficit	(96,977)	(74,420)
Non-Controlling Interest, net of installment payments due from non-controlling interest holders	22,068	23,444
Total Stockholders' Deficit	(74,909)	(50,976)
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	$711,284	$870,513

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Licensing revenue	$46,224	$53,165	$144,984	$173,535
Selling, general and administrative expenses	30,197	21,509	92,437	73,702
Loss on termination of licenses	—	2,750	5,650	25,980
Depreciation and amortization	502	592	1,788	1,814
Equity earnings on joint ventures	(967)	(483)	(2,212)	(2,475)
Gain on deconsolidation of joint venture	—	—	—	(3,772)
Gain on sale of trademarks	—	(875)	(1,268)	(875)
Goodwill impairment	—	103,877	37,812	103,877
Trademark impairment	4,386	521,653	77,721	521,653
Operating income (loss)	12,106	(595,858)	(66,944)	(546,369)
Other expenses (income):				
Interest expense	14,944	16,911	44,320	45,787
Interest income	(89)	(150)	(304)	(417)
Other income	(25,787)	(2,648)	(84,001)	(2,649)
Loss (gain) on extinguishment of debt	—	1,539	(4,473)	20,939
Foreign currency translation loss (gain)	301	(1,091)	453	2,755
Other (income) expenses – net	(10,631)	14,561	(44,005)	66,415
Income (Loss) from continuing operations before income taxes	22,737	(610,419)	(22,939)	(612,784)
Provision (Benefit) for income taxes	1,026	(29,606)	(128)	(29,220)
Net income (loss) from continuing operations	21,711	(580,813)	(22,811)	(583,564)
Less: Net income (loss) attributable to non-controlling interest from continuing operations	1,487	(30,242)	8,635	(23,857)
Net income (loss) from continuing operations attributable to Iconix Brand Group, Inc.	20,224	(550,571)	(31,446)	(559,707)
Loss from discontinued operations before income taxes	—	(2,308)	—	(26,232)
Gain (loss) on sale of Entertainment segment	—	(228)	—	104,099
Provision (benefit) for income taxes	—	(406)	—	28,555
Net income (loss) from discontinued operations	—	(2,130)	—	49,312
Less: Net income attributable to non-controlling interest from discontinued operations	—	—	—	2,943
Net income (loss) from discontinued operations attributable	—	(2,130)	—	46,369

to Iconix Brand Group, Inc.				
Net income (loss) attributable to Iconix Brand Group, Inc.	$20,224	$(552,701)	$(31,446)	$(513,338)
Earnings (loss) per share - basic:				
Continuing operations	$0.20	$(9.64)	$(0.62)	$(9.83)
Discontinued operations	$—	$(0.04)	$—	$0.81
Earnings (loss) per share - basic	$0.20	$(9.67)	$(0.62)	$(9.02)
Earnings (loss) per share - diluted:				
Continuing operations	$(0.01)	$(9.64)	$(0.81)	$(9.83)
Discontinued operations	$—	$(0.04)	$—	$0.81
Earnings (loss) per share - diluted	$(0.01)	$(9.67)	$(0.81)	$(9.02)
Weighted average number of common shares outstanding:				
Basic	71,844	57,189	64,577	57,081
Diluted	175,910	57,189	123,096	57,081

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) from continuing operations	$21,711	$(580,813)	$(22,811)	$(583,564)
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(729)	6,353	(3,509)	20,900
Change in fair value of available for sale securities	—	46	—	(625)
Total other comprehensive (loss) income	(729)	6,399	(3,509)	20,275
Comprehensive (loss) income	$20,982	$(574,414)	$(26,320)	$(563,289)
Less: comprehensive income (loss) attributable to non-controlling interest from continuing operations	1,487	(30,242)	8,635	(23,857)
Comprehensive income (loss) from continuing operations attributable to Iconix Brand Group, Inc.	$19,495	$(544,172)	$(34,955)	$(539,432)

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statement of Stockholders' Deficit

Nine Months Ended September 30, 2018

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Losses	Accumulated Other Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total
Balance at January 1, 2018	90,159	$ 90	$ 1,044,518	$ (223,718)	$ (51,280)	$ (844,030)	$ 23,444	$ (50,976)
Shares issued on vesting of restricted stock	317	1	—	—	—	—	—	1
Shares issued on conversion of 5.75% Convertible Notes	11,035	11	12,683	—	—	—	—	12,694
Shares issued on payment of interest of 5.75% Convertible Notes	6,254	6	3,061	—	—	—	—	3,067
Write-off of equity component of 1.50% Convertible Notes	—	—	(23,250)	—	—	—	—	(23,250)
Cumulative effect of accounting change for adoption of ASC 606	—	—	—	16,540	—	—	1,176	17,716
Cumulative effect of accounting change for adoption of ASU 2016-01	—	—	—	(3,177)	3,177	—	—	—
	—	—	2,097	—	—	—	(2,097)	—

Elimination of non-controlling interest related to the acquisition of additional interest in Hydraulic joint venture								
Shares repurchased on vesting of restricted stock and exercise of stock options	—	—	—	—	—	(147)	—	(147)
Compensation expense in connection with restricted stock and stock options	—	—	(108)	—	—	—	—	(108)
Payments from non-controlling interest holders, net of imputed interest	—	—	—	—	—	—	195	195
Change in redemption value of redeemable non-controlling interest	—	—	—	1,498	—	—	—	1,498
Net (loss) income	—	—	—	(31,446)	—	—	8,635	(22,811)
Tax benefit related to amortization of convertible notes' discount	—	—	35	—	—	—	—	35
Foreign currency translation	—	—	(29)	—	(3,509)	—	—	(3,538)
Distributions to joint ventures	—	—	—	—	—	—	(9,285)	(9,285)
Balance at September 30, 2018	107,765	$ 108	$ 1,039,007	$ (240,303)	$ (51,612)	$ (844,177)	$ 22,068	$ (74,909)

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss from continuing operations	$(22,811)	$(583,564)
Income from discontinued operations	—	49,312
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of property and equipment	1,583	1,247
Amortization of trademarks and other intangibles	205	567
Amortization of deferred financing costs	2,361	2,299
Amortization of debt discount	7,574	13,225
Third party fees associated with the issuance of 5.75% Convertible Notes	4,958	—
Interest expense on 5.75% Convertible Notes paid in shares	3,067	—
Stock-based compensation (benefit) expense	(108)	3,825
Provision for doubtful accounts	9,864	5,386
Writeoff of contract assets	575	—
Earnings on equity investments in joint ventures	(2,212)	(2,475)
Distributions from equity investments	3,021	2,824
Non-cash gain on re-measurement of equity investment	(8,410)	—
Gain on deconsolidation of joint venture	—	(3,772)
Gain on sale of trademarks, net	(1,268)	(875)
Loss on sale of NGX	—	79
Trademark impairment	77,721	521,653
Goodwill impairment	37,812	103,877
Settlement of note receivable related to formation of Buffalo joint venture	1,141	—
Mark to market adjustment on convertible note	(73,745)	—
Gain on debt to equity conversions	(1,056)	—
Gain on sale of Complex Media	(958)	(2,728)
(Gain) loss on extinguishment of debt	(4,473)	20,939
Income on other equity investment	364	—
Deferred income tax benefit	(4,905)	(31,721)
Loss on foreign currency translation	453	2,755
Changes in operating assets and liabilities:		
Accounts receivable	16,265	(4,596)
Other assets – current	17,033	(9,541)
Other assets	(2,785)	2,543
Deferred revenue	2,778	(13)
Accounts payable and accrued expenses	(14,944)	(34,375)
Other tax liabilities	(531)	(4,165)

Other liabilities	1,128	(297)
Net cash provided by continuing operating activities	49,697	3,097
Net cash used in discontinued operating activities	—	(6,966)
Net cash provided by (used in) operating activities	49,697	(3,869)
Cash flows provided by (used in) investing activities:		
Purchases of property and equipment	(776)	(829)
Acquisition of additional interest in Iconix MENA	—	(1,800)
Acquisition of trademarks from Iconix Southeast Asia	(2,120)	—
Acquisition of remaining interest in Iconix Canada	(7,053)	(11,177)
Acquisition of Badgley Mischka and Sharper Image trademarks in certain international joint ventures	(1,289)	—
Acquisition of additional interest in Iconix Australia, net of cash acquired	(649)	
Proceeds received from note due from American Greetings	—	1,250

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Proceeds from sale of interest in Badgley Mischka in certain international joint ventures	2,500	—
Proceeds from sale of Galore Media	—	250
Proceeds from sale of Complex Media	958	2,728
Proceeds from sale of NGX	—	2,561
Proceeds from sale of interest in Badgley Mischka Canada		375
Proceeds from sale of interest in Sharper Image Canada		500
Proceeds from sale of discontinued operation, net of cash sold		336,675
Decrease in cash and cash equivalents from deconsolidation of joint venture		(1,853)
Proceeds from note receivable from formation of Buffalo joint venture	1,409	—
Additions to trademarks	(284)	(109)
Net cash (used in) provided by continuing investing activities	(7,304)	328,571
Net cash used in discontinued investing activities	—	(84)
Net cash (used in) provided by investing activities	(7,304)	328,487
Cash flows provided by (used in) financing activities:		
Prepaid financing costs	(5,423)	(7,145)
Proceeds from Variable Funding Notes, net of discount and fees		73,437
Proceeds from long-term debt, net of discount and fees	95,700	288,000
Payment of long-term debt	(145,655)	(583,157)
Repurchase of convertible notes	—	(58,810)
Payment of make-whole premium on repayment of long-term debt	—	(13,933)
Proceeds from sale of trademarks and related notes receivable from consolidated JVs	195	6,927
Distributions to non-controlling interests	(13,693)	(3,850)
Tax benefit related to amortization of convertible notes' discount	35	78
Cost of shares repurchased on vesting of restricted stock	(147)	(1,078)
Net cash used in continuing financing activities	(68,988)	(299,531)
Net cash used in discontinued financing activities	—	(23,873)
Net cash used in financing activities	(68,988)	(323,404)
Effect of exchange rate changes on cash and restricted cash	(466)	2,831
Net (decrease) increase in cash and cash equivalents, and restricted cash	(27,061)	4,045
Cash, cash equivalents, and restricted cash from continuing operations, beginning of period	114,693	314,383
Cash and cash equivalents from discontinued operations, beginning of period	—	12,297
Cash, cash equivalents, and restricted cash, beginning of period	114,693	326,680
Cash, cash equivalents, and restricted cash, end of period	87,632	330,725
Less: Cash and cash equivalents from discontinued operations, end of period	—	—
Cash, cash equivalents, and restricted cash of continuing operations, end of period	$87,632	$330,725

Supplemental disclosure of cash flow information:

Nine Months
Ended September

	30, 2018	2017
Cash paid during the period:		
Income taxes (net of refunds received)	$(6,413)	$34,836
Interest	$30,334	$51,657

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

(dollars in thousands (unless otherwise noted) except per share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Iconix Brand Group, Inc. (the “Company,” “we,” “us,” or “our”), all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2018 (“Current Quarter”) and the nine months ended September 30, 2018 (“Current Nine Months”) are not necessarily indicative of the results that may be expected for a full fiscal year. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

During the Current Nine Months, the Company adopted seven new accounting pronouncements. Refer to Note 20 for further details.

Certain reclassifications, which were immaterial, have been made to conform prior year data to the current presentation.

Assessment of Going Concern

These consolidated financial statements are prepared on a going concern basis that contemplates the realization of assets and discharge of liabilities in the normal course of business. Due to certain developments during the year ended December 31, 2017, including the decision by Target Corporation not to renew the existing Mossimo license agreement following its expiration in October 2018 and by Walmart, Inc. not to renew the existing Danskin Now license agreement following its expiration in January 2019, and the Company’s revised projected future earnings, the Company had initially forecasted that it would unlikely be in compliance with certain of its financial debt covenants in 2018 and beyond and that it may otherwise face possible liquidity challenges in 2018 and beyond. As a result, the Company amended its Senior Secured Term Loan to provide relief under certain covenants and implemented a cost savings plan to improve liquidity.

Additionally, the Company considered Sears Holdings Corporation’s bankruptcy filing on October 15, 2018 and determined that the bankruptcy filing does not currently expect it to have a material impact on the Company’s ability to continue as a going concern. Refer to Note 4 and 22 for further details.

While conditions and events do exist that may raise substantial doubt about the Company’s ability to continue as a going concern for the next twelve months, management believes as a result of implemented and planned cost savings, that its plans alleviate this substantial doubt, and therefore the management believes that it will continue as a going concern for the next twelve months.

For additional information, please refer to Note 1 of Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

2. Discontinued Operations

On May 9, 2017, the Company signed definitive agreements to sell its Entertainment segment for $349.1 million in cash, which included a customary working capital adjustment. The sale was completed on June 30, 2017. As a result of the sale, the Company has classified the results of its Entertainment segment as discontinued operations in its condensed consolidated statement of operations for the three months ended September 30, 2017 ("Prior Year Quarter") and the nine months ended September 30, 2017 ("Prior Year Nine Months").

The following table presents the details of the Entertainment segment for the Prior Year Quarter and Prior Year Nine Months which were shown as income from discontinued operations, net of income taxes, in our unaudited condensed consolidated statement of operations:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(unaudited)		(unaudited)	
Licensing revenue	$—	$—	$—	$53,129
Selling, general and administrative expenses	—	—	—	34,542
Depreciation and amortization	—	—	—	303
Operating income	—	—	—	18,284
Other expenses (income):				
Interest expense	—	—	—	12,973
Interest income	—	—	—	(180)
Loss on extinguishment of debt	—	2,308	—	31,554
Foreign currency translation loss	—	—	—	169
Other expenses – net	—	2,308	—	44,516
Loss from operations of discontinued operations before income taxes	—	(2,308)	—	(26,232)
Gain on sale of Entertainment segment	—	(228)	—	104,099
Provision for income taxes	—	(406)	—	28,555
Net income from discontinued operations	—	(2,130)	—	49,312
Less: Net income attributable to non- controlling interest from discontinued operations	—	—	—	2,943
Income from discontinued operations, net of income taxes	$—	$(2,130)	$—	$46,369

The cash proceeds from the sale of the Company’s Entertainment segment were utilized by the Company to make mandatory principal prepayments on both its Securitization Notes and 2016 Senior Secured Term Loan (each as defined below) (as well as a corresponding prepayment premium). As a result, and in accordance with ASC 205-20-45-6, for the Prior Year Quarter and Prior Year Nine Months, the Company allocated interest expense of $6.5 million (which includes $1.0 million of amortization of the original issue discount on the 2016 Senior Secured Term Loan) and $12.9 million (which includes $1.7 million of amortization of the original issue discount on the 2016 Senior Secured Term Loan, respectively, from continuing operations to discontinued operations. Given the completion of the sale on June 30, 2017, there were no corresponding allocations of interest expense for the Prior Year Quarter. For the Prior Year Quarter, given the mandatory principal prepayment of $152.2 million on the 2016 Senior Secured Notes paid in July 2017, the Company allocated the associated prepayment penalty of $0.3 million as well as the write-off of the pro-rata portion of deferred financing costs of $2.0 million related to the Securitization Notes from continuing operations to discontinued operations on the Company’s condensed consolidated statement of operations. Additionally, for the Prior Year Nine Months, the Company allocated the prepayment premium of $15.2

million related to the 2016 Senior Secured Term Loan as well as the write-off of the pro-rata portion of deferred financing costs and original issue discount of $9.4 and $4.7 million, respectively, from continuing operations to discontinued operations on the Company's unaudited condensed consolidated statement of operations. Refer to Note 9 for further details.

During the Prior Year Quarter, the Company recorded an additional $0.2 million of transaction costs associated with the sale of the Entertainment segment which was allocated to discontinued operations and recorded within Gain on sale of Entertainment segment on the Company's condensed consolidated statement of operations which resulted in a reduction of the pre-tax gain to $104.1 million.

The following table presents cash flow of the Entertainment segment during the Prior Year Nine Months:

	Nine Months Ended September 30,	
	2018	2017
Net cash used in discontinued operating activities	$—	$(6,966)
Net cash used in discontinued investing activities	$—	$(84)
Net cash used in discontinued financing activities	$—	$(23,873)

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3. Revenue Recognition

Adoption of ASC Topic 606, “Revenue from Contracts with Customers”

On January 1, 2018, we adopted ASC Topic 606 – Revenue from Contracts with Customers (“Topic 606”), using the modified retrospective method applied to those license agreements which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605. Under Topic 605, the Company recognized minimum royalty revenue on a straight-line basis over the term of each contract year, as defined, in each license agreement and royalties exceeding the defined minimum amounts were recognized as income during the period corresponding to the licensee’s sales. Under Topic 606, the Company is recognizing the minimum royalty revenue on a straight-line basis over the entire contract term and royalties exceeding the defined minimum amounts are recognized only in the subsequent periods to when the minimum guarantee for the contract year has been achieved and when the later of the following events occur: (i) the subsequent sale occurs, or (ii) the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied), as is discussed below.

We recorded a net increase to opening retained earnings and the corresponding amount to non-controlling interest of $16.5 million and $1.2 million, respectively, net of tax, as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to our revenues associated with license agreements which have escalating guaranteed minimum royalties in the contract years of the license agreement term. The impact to revenues was an increase of approximately $2.4 million for the Current Quarter and an increase of $0.6 million for the Current Nine Months as a result of applying Topic 606.

Revenue Recognition

Licensing Revenue

The Company licenses its brands across a broad range of product categories, including fashion apparel, footwear, accessories, sportswear, home furnishings and décor, and beauty and fragrance. The Company seeks licensees with the ability to produce and sell quality products in their licensed categories and to meet and exceed minimum sales and royalty payment thresholds.

The Company maintains direct-to-retail and traditional wholesale licenses. Typically, in a direct-to-retail license, the Company grants exclusive rights to one of its brands to a national retailer for a broad range of product categories. Direct-to-retail licenses provide retailers with proprietary rights to national brands at favorable economics. In a traditional wholesale license, the Company grants the right to a specific brand to a single or small group of related product categories to a wholesale supplier, who is permitted to sell licensed products to multiple retailers within an approved distribution channel.

The Company’s license agreements typically require the licensee to pay the Company royalties based upon net sales with guaranteed minimum royalties in the event that net sales do not reach certain specified targets. The Company’s licenses also typically require the licensees to pay to the Company certain minimum amounts for the advertising and marketing of the respective licensed brands.

Licensing revenue is comprised of revenue related to the Company’s entry into various trade name license agreements that provide revenues based on minimum royalties and advertising/marketing fees and additional revenues based on a percentage of defined sales. Minimum royalty amounts are recognized as revenue on a straight-line basis over the full contract term. Minimum royalties that escalate on an annual basis over the contract term are recognized on a straight-line basis over the full contract term. Royalties exceeding the defined minimum amounts in a specific contract year (sales-based royalties), as defined in each license agreement, are recognized only in the subsequent periods to when the minimum guarantee for the contract year has been achieved and when the later of the following events occur: (i) the subsequent sale occurs, or (ii) the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied).

Within the Company's International segment, the Umbro business purchases replica soccer jerseys for resale to certain licensees. The Company generally does this as an accommodation to its licensees to consolidate ordering from the manufacturers. The revenue associated with such activity is included in licensing revenue and was approximately $0.2 million and $2.8 million in the Current Quarter and the Current Nine Months, respectively. The associated cost of goods sold is included in selling general and administrative expenses and was approximately $0.2 million and $2.7 million in the Current Quarter and Current Year Nine Months, respectively. There were less than $0.1 million of such sales and corresponding cost of goods sold in both the Prior Year Quarter and Prior Year Nine Months. Revenue for these sales are recognized upon the transfer of control of the promised product to the customer or licensee in an amount that reflects the consideration that we expect to receive in exchange for these products.

The following table presents our revenues disaggregated by license type:

	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Licensing revenue by license type:				
Direct-to-retail license	$19,344			