

ICONIX BRAND GROUP, INC.  
Form 10-Q/A  
November 27, 2015

**United States**  
**Securities and Exchange Commission**  
**Washington, D.C. 20549**

**FORM 10-Q/A**

**Amendment No. 1**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Quarterly Period Ended March 31, 2015**

**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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>11-2481903</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>1450 Broadway, New York, NY</b> <b>(Address of principal executive offices)</b>	<b>10018</b> <b>(Zip Code)</b>
<b>(212) 730-0030</b> <b>(Registrant's telephone number, including area code)</b>	

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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- 48,393,703 shares as of November 20, 2015.



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*Unless the context requires otherwise, references in this Form 10-Q/A to the Company, Iconix, we, us, our, or similar pronouns refer to Iconix Brand Group, Inc. and its consolidated subsidiaries.*

## **EXPLANATORY NOTE    RESTATEMENT OF FINANCIAL INFORMATION**

Iconix Brand Group, Inc. (the Company) is filing this Amendment No. 1 on Form 10-Q/A (the Amended Filing) to amend certain parts of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, originally filed with the U.S. Securities and Exchange Commission (the SEC) on May 8, 2015 (the Original Filing).

### **Background and Effects of the Restatement**

As previously announced, a special committee (the Special Committee) of the Board of Directors (Board) of the Company conducted a review of the accounting treatment related to certain transactions. Based on the Special Committee's review and additional review by the Audit Committee (the Audit Committee) of the Board and the Company's current management team, on October 30, 2015, the Board, the Audit Committee and the Company's current management team concluded that the Company will restate its historical financial statements in respect of (i) the fourth quarter and fiscal year of 2013, (ii) the 2014 fiscal year and each quarterly period thereof and (iii) the first and second quarters of 2015 to correct certain errors in accounting. These restatements include the correction of errors regarding (i) the classification of contractually obligated expenses, retail support and other costs as selling, general and administrative expenses, as opposed to netting such expenses against licensing or other revenue, as applicable, (ii) inadequate support for revenue recognition relating to certain license agreements, and (iii) inadequate estimation of accruals related to retail support for certain license agreements.

### **Disclosure Controls and Procedures**

Management has reassessed its evaluation of the effectiveness of its Disclosure Controls and Procedures as of March 31, 2015. As a result of that reassessment, management identified a material weakness in internal controls over financial reporting, and accordingly, has concluded that the Company did not maintain effective Disclosure Controls and Procedures as of March 31, 2015. The material weakness related to inadequate management review controls which caused the restatement adjustments noted above. Management has restated its report on Disclosure Controls and Procedures as of March 31, 2015. For a description of the material weakness in internal control over financial reporting and actions taken, and to be taken, to address the material weakness, see Part II, Item 4. Controls and Procedures of the 2014 Annual Report on Form 10K/A, filed with the SEC on November 25, 2015.

### **Items Amended in This Filing**

This Amended Filing amends and restates the following items of the Company's Original Filing as of, and for the period ended March 31, 2015.

Part I - Item 1. Financial Statements

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

Part I - Item 4. Controls and Procedures

Part II - Item 6. Exhibits

In accordance with applicable SEC rules, this Amended Filing includes certifications as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act) from the Company's Interim Principal Executive Officer and Principal Financial Officer dated as of the date of this Amended Filing.

Except for the items noted above, no other information included in the Original Filing is being amended by this Amended Filing. The Amended Filing speaks as of the date of the Original Filing and the Company has not updated the Original Filing to reflect events occurring subsequent to the date of the Original Filing. Accordingly, this Amended Filing should be read in conjunction with the Company's filings made with the SEC subsequent to the date of the Original Filing.

## Part I. Financial Information

## Item 1. Financial Statements

**Iconix Brand Group, Inc. and Subsidiaries**

## Condensed Consolidated Balance Sheets

(in thousands, except par value)

	<b>March 31, 2015 (restated)</b>	<b>December 31, 2014 (restated)</b>
	(unaudited)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 86,751	\$ 128,019
Restricted cash	43,550	59,560
Accounts receivable, net	122,273	115,066
Deferred income tax assets	10,326	10,328
Other assets - current	60,291	66,781
Total Current Assets	323,191	379,754
Property and equipment:		
Furniture, fixtures and equipment	23,658	22,704
Less: Accumulated depreciation	(15,439)	(14,946)
	8,219	7,758
Other Assets:		
Other assets	64,996	63,334
Trademarks and other intangibles, net	2,179,892	2,024,541
Deferred financing costs, net	18,601	19,842
Investments and joint ventures	181,917	140,910
Goodwill	239,198	231,738
	2,684,604	2,480,365
Total Assets	\$ 3,016,014	\$ 2,867,877
<b>Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 44,017	\$ 38,762
Deferred revenue	22,470	24,978
Current portion of long-term debt	61,123	61,123
Other liabilities - current	15,895	12,741
Total current liabilities	143,505	137,604

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Deferred income tax liability	332,535	320,792
Long-term debt, less current maturities	1,425,189	1,332,954
Other liabilities	10,715	11,660
<b>Total Liabilities</b>	<b>1,911,944</b>	<b>1,803,010</b>
Redeemable Non-Controlling Interest	14,403	14,224
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$.001 par value shares authorized 150,000; shares issued 80,257 and 79,263, respectively	80	79
Additional paid-in capital	966,865	948,714
Retained earnings	869,211	805,526
Accumulated other comprehensive loss	(62,417)	(24,186)
Less: Treasury stock 31,796 and 31,310 shares at cost, respectively	(829,409)	(812,429)
<b>Total Iconix Brand Group, Inc. Stockholders' Equity</b>	<b>944,330</b>	<b>917,704</b>
<b>Non-controlling interest</b>	<b>145,337</b>	<b>132,939</b>
<b>Total Stockholders' Equity</b>	<b>1,089,667</b>	<b>1,050,643</b>
<b>Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity</b>	<b>\$ 3,016,014</b>	<b>\$ 2,867,877</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Unaudited Condensed Consolidated Income Statements

(in thousands, except earnings per share data)

**Iconix Brand Group, Inc. and Subsidiaries****Unaudited Condensed Consolidated Statements of Income****(in thousands, except earnings per share data)**

	Three Months Ended March 31,	
	2015 (Restated)	2014 (Restated)
Licensing revenue	\$ 93,797	\$ 111,652
Other revenue		3,971
<b>Total Revenue</b>	<b>93,797</b>	<b>115,623</b>
Selling, general and administrative expenses	41,208	47,764
<b>Operating income</b>	<b>52,589</b>	<b>67,859</b>
Other (income) expenses:		
Interest expense	21,296	21,156
Interest income	(757)	(601)
Other income	(47,365)	(37,893)
Foreign currency translation gain	(10,500)	
Equity earnings on joint ventures	(3,202)	(3,122)
Other income net	(40,528)	(20,460)
<b>Income before income taxes</b>	<b>93,117</b>	<b>88,319</b>
Provision for income taxes	26,365	25,527
<b>Net income</b>	<b>\$ 66,752</b>	<b>\$ 62,792</b>
Less: Net income attributable to non-controlling interest	\$ 3,067	\$ 3,074
<b>Net income attributable to Iconix Brand Group, Inc.</b>	<b>\$ 63,685</b>	<b>\$ 59,718</b>
Earnings per share:		
Basic	\$ 1.32	\$ 1.21
Diluted	\$ 1.23	\$ 1.03
Weighted average number of common shares outstanding:		
Basic	48,158	49,522
Diluted	51,909	58,051

See Notes to Unaudited Condensed Consolidated Financial Statements.





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**Iconix Brand Group, Inc. and Subsidiaries**
**Unaudited Condensed Consolidated Statements of Comprehensive Income****(in thousands)**

	Three Months Ended March 31,	
	2015 (Restated)	2014 (Restated)
Net income	\$ 66,752	\$ 62,792
Other comprehensive income:		
Foreign currency translation	(38,231)	(288)
Total other comprehensive income	(38,231)	(288)
Comprehensive income	\$ 28,521	\$ 62,504
Less: comprehensive income attributable to non-controlling interest	3,067	3,074
Comprehensive income attributable to Iconix Brand Group, Inc.	\$ 25,454	\$ 59,430

See Notes to Unaudited Condensed Consolidated Financial Statements.

**Iconix Brand Group, Inc. and Subsidiaries**

## Unaudited Condensed Consolidated Statement of Stockholders' Equity

Three Months Ended March 31, 2015

(in thousands)

	Accumulated							
	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Comprehensive Loss	Treasury Stock	Non-Controlling Interest	Total	
Balance at January 1, 2015	79,263	\$ 79	\$ 948,714	\$ 805,526	\$ (24,186)	\$ (812,429)	\$ 132,939	\$ 1,050,643
Issuance of common stock related acquisition of interest in joint venture	465		15,703					15,703
Shares issued on vesting of restricted stock	529	1						1
Tax benefit of stock option exercises			54					54
Compensation expense in connection with restricted stock			2,573					2,573
Shares repurchased on the open market					(6,980)			(6,980)
Cost of shares repurchased on vesting of restricted stock					(10,000)			(10,000)
Change in redemption value of redeemable non-controlling interest			(179)					(179)
Net income				63,685			3,067	66,752
Foreign currency translation					(38,231)			(38,231)
Distributions to joint ventures							(3,002)	(3,002)
Non-controlling interest of acquired companies							12,333	12,333
Balance at March 31, 2015 Restated	80,257	\$ 80	\$ 966,865	\$ 869,211	\$ (62,417)	\$ (829,409)	\$ 145,337	\$ 1,089,667

See Notes to Unaudited Condensed Consolidated Financial Statements.



**Iconix Brand Group, Inc. and Subsidiaries**

## Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2015 (Restated)</b>	<b>2014 (Restated)</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 66,752	\$ 62,792
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of property and equipment	435	695
Amortization of trademarks and other intangibles	902	1,495
Amortization of deferred financing costs	1,241	1,403
Amortization of convertible note discount	7,516	7,078
Stock-based compensation expense	2,573	2,515
Non-cash gain on re-measurement of equity investment	(47,365)	(37,893)
Provision for doubtful accounts	1,263	1,000
Earnings on equity investments in joint ventures	(3,202)	(3,122)
Distributions from equity investments	545	997
Gain on sale of trademarks		(3,971)
Deferred income tax provision	8,866	19,705
Gain on foreign currency translation	(10,500)	
<b>Changes in operating assets and liabilities, net of business acquisitions:</b>		
Accounts receivable	(8,583)	(8,918)
Other assets - current	10,114	4,001
Other assets	4,263	(7,766)
Deferred revenue	(1,954)	5,694
Accounts payable and accrued expenses	200	7,040
<b>Net cash provided by operating activities</b>	<b>33,066</b>	<b>52,745</b>
<b>Cash flows used in investing activities:</b>		
Purchases of property and equipment	(976)	(315)
Acquisition of interest in Iconix China, net of cash acquired	(20,400)	
Acquisition of interest in Pony	(37,000)	
Acquisition of interest in Strawberry Shortcake	(105,000)	
Acquisition of interest in Iconix Latin America		(42,000)
Additional investments in joint ventures		(22)
Proceeds from sale of trademarks	995	995
Additions to trademarks	(96)	(213)
<b>Net cash used in investing activities</b>	<b>(162,477)</b>	<b>(41,555)</b>
<b>Cash flows (used in) provided by financing activities:</b>		
Shares repurchased on the open market	(6,290)	(109,422)
Proceeds from Variable Funding Notes	100,000	

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Payment of long-term debt	(15,281)	(15,313)
Distributions to non-controlling interests	(3,002)	(4,023)
Excess tax benefit from share-based payment arrangements	54	898
Cost of shares repurchased on vesting of restricted stock and exercise of stock options	(3,156)	(13,571)
Proceeds from exercise of stock options and warrants		1,861
Restricted cash	16,010	1,600
Net cash provided by (used in) financing activities	88,335	(137,970)
Effect of exchange rate changes on cash	(192)	90
Net decrease in cash and cash equivalents	(41,268)	(126,690)
Cash and cash equivalents, beginning of period	128,019	278,789
Cash and cash equivalents, end of period	\$ 86,751	\$ 152,099

**Supplemental disclosure of cash flow information:**

(in thousands)	Three Months Ended March 31,	
	2015	2014
<b>Cash paid during the period:</b>		
Income taxes	\$ 2,536	\$ 7
Interest	\$ 11,889	\$ 11,931
<b>Non-cash investing and financing activities:</b>		
Sale of trademarks for note receivable	\$	\$ 3,171
Shares repurchased on the open market included in payables	\$ 690	\$
Issuance of shares in connection with purchase of Iconix China	\$ 15,703	\$
Note Receivable in connection with Strawberry Shortcake acquisition	\$ 9,470	\$
Shares repurchased on vesting of restricted stock included in accrued expenses	\$ 10,000	\$

See Notes to Unaudited Condensed Consolidated Financial Statements.

**Iconix Brand Group, Inc. and Subsidiaries**

## Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2015

(dollars are 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 March 31, 2015 ( Current Quarter ) are not necessarily indicative of the results that may be expected for a full fiscal year.

As previously disclosed, the Company's Board of Directors formed a Special Committee consisting of independent directors to review the accounting treatment related to certain of the Company's transactions. The Special Committee has completed its review as of the date of this Form 10-Q/A. See Note 12 for further information on the result of the Special Committee's review.

Based on the Special Committee's review and additional review by the Company's Audit Committee and current management team, the Board of Directors, Audit Committee and the Company's current management team concluded that the Company will restate its historical financial statements in respect of (i) the fourth quarter and fiscal year of 2013, (ii) the 2014 fiscal year and each quarterly period thereof and (iii) the first and second quarters of 2015, to correct certain errors in accounting.

These restatements include the correction of errors regarding (i) the classification of contractually obligated expenses, retail support and other costs as selling, general and administrative expenses, as opposed to netting such expenses against licensing or other revenue, as applicable, (ii) inadequate support for revenue recognition relating to certain license agreements, and (iii) inadequate estimation of accruals related to retail support for certain license agreements. See Note 12.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2014 ( FY 2014 ), filed on November 25, 2015.

**2. Trademarks and Other Intangibles, net**

Trademarks and other intangibles, net, consist of the following:

<i>(000 \$ omitted)</i>	<b>Estimated Lives in</b>	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
		<b>Gross Carrying</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying</b>	<b>Accumulated Amortization</b>



	Years	Amount		Amount	
Indefinite-lived trademarks and copyrights	Indefinite	\$ 2,162,290	\$	\$ 2,012,333	\$
Definite-lived trademarks	10-15	23,129		11,264	10,985
Non-compete agreements	2-15	940		509	450
Licensing contracts	1-9	26,886		21,580	21,249
		\$ 2,213,245	\$	33,353	\$ 2,057,225
					\$ 32,684

Trademarks and other intangibles, net \$ 2,179,892 \$ 2,024,541

In March 2015, the Company acquired the 50% interest in Iconix China held by its joint venture partner, thereby increasing its ownership in Iconix China to 100%. As a result of this transaction, Iconix China is now consolidated with the Company, which increased the Company's indefinite lived trademarks by \$40.5 million. See Note 3 for further details on this transaction.

In March 2015, the Company acquired the Strawberry Shortcake brand. As a result of this transaction the Company's indefinite-lived trademarks increased by \$91.8 million. See Note 3 for further details on this transaction.

In February 2015, the Company acquired through its wholly-owned subsidiary, US Pony Holdings, LLC, the rights to the Pony brand in respect of the United States, Canada and Mexico. Immediately following such acquisition, a third party contributed specified assets to US Pony Holdings, LLC in exchange for a 25% non-controlling interest in the entity. As a result of these transactions, US Pony Holdings, LLC is consolidated with the Company, which increased the Company's indefinite-lived trademarks by \$46.8 million. See Note 3 for further details on this transaction.

Amortization expense for intangible assets for the Current Quarter and for March 31, 2014 (the Prior Year Quarter) was \$0.9 million and \$1.5 million, respectively.

The trademarks of Candie's, Bongo, Joe Boxer, Rampage, Mudd, London Fog, Mossimo, Ocean Pacific, Danskin, Rocawear, Cannon, Royal Velvet, Fieldcrest, Charisma, Starter, Waverly, Ecko, Zoo York, Peanuts, Ed Hardy, Sharper Image, Umbro, Modern Amusement, Buffalo, Lee Cooper, Hydraulic, Nicholas Graham, Strawberry Shortcake and Pony have been determined to have an indefinite useful life and accordingly no amortization has been recorded in the Company's unaudited condensed consolidated income statements. Instead, each of these intangible assets are tested for impairment annually and as needed on an individual basis as separate single units of accounting, with any related impairment charge recorded to the statement of income at the time of determining such impairment. The annual evaluation of the Company's indefinite-lived trademarks is performed as of October 1, the beginning of the Company's fourth fiscal quarter. There was no impairment of the indefinite-lived trademarks during the Current Quarter or the Prior Year Quarter. Further, as it relates to the Company's definite-lived trademarks, there was no impairment of the definite-lived trademarks during the Current Quarter or the Prior Year Quarter.

### 3. Acquisitions, Joint Ventures and Investments

#### Consolidated Entities

The following entities and joint ventures are consolidated with the Company:

#### *Iconix China*

In September 2008, the Company and Novel Fashions Brands Limited ( Novel ) formed a joint venture ( Iconix China ) to develop and market the Company s brands in the People s Republic of China, Hong Kong, Macau and Taiwan (the China Territory ). Pursuant to the terms of this transaction, the Company contributed to Iconix China substantially all rights to its brands in the China Territory and committed to contribute \$5.0 million, and Novel committed to contribute \$20 million to Iconix China. Upon closing of the transaction, the Company contributed \$2.0 million and Novel contributed \$8.0 million. In September 2009, the parties amended the terms of the transaction to eliminate the obligation of the Company to make any additional contributions and to reduce Novel s remaining contribution commitment to \$9.0 million, \$4.0 million of which was contributed in July 2010, \$3.0 million of which was contributed in May 2011, and \$2.0 million of which was contributed in June 2012.

In March 2015, the Company purchased from Novel Fashion Brands Limited its 50% interest in Iconix China for \$56.1 million, of which \$40.4 million was paid in cash and \$15.7 million was paid in the Company s common stock (the 2015 Buy-out ), thereby taking 100% of the equity interests in Iconix China. The following is a reconciliation of consideration paid to Novel Fashion Brands Limited:

Cash paid to Novel Fashion Brand Limited	\$ 40,400
Shares issued to the seller	15,703
Offset of accounts receivable	1,269
Fair value of 50% interest in Iconix China	\$ 57,372

As a result of the 2015 Buy-out, Iconix China is subject to consolidation and is included in the Company s unaudited condensed consolidated financial statements at March 31, 2015.

The estimated fair value of the assets acquired, less liabilities assumed (which is preliminary and is subject to change), is allocated as follows:

Fair value of 50% interest in Iconix China	\$ 57,372
Book value of Company equity investment prior to 2015 Buy-out	10,006
Gain on re-measurement of initial equity investment	47,365
	\$ 114,743
Trademarks	40,500
Investments in private companies	42,659
Cash	20,184
Other assets	5,997
Accrued expenses	(447)

Goodwill	5,850
	\$ 114,743

Other assets consist primarily of securities of a company publicly traded on the Hong Kong Exchange.

The Iconix China trademarks have been determined by management to have an indefinite useful life and accordingly no amortization is being recorded in the Company's unaudited condensed consolidated income statements. The goodwill and trademarks are subject to a test for impairment on an annual basis. The \$5.9 million of goodwill resulting from the 2015 Buy-out is deductible for income tax purposes.

For the Current Quarter, there was no impact of consolidating Iconix China on the Company's unaudited condensed consolidated income statement.

As part of this transaction, the Company also acquired, through its ownership of 100% of Iconix China, equity interests in the following private companies with an aggregate fair value of approximately \$42.7 million: Candies Shanghai Fashion Co. Ltd. (which can be put by Iconix China to Shanghai La Chappelle Fashion Co., Ltd. for cash based on a pre-determined formula); Mark Ecko China Ltd.; Ningbo Material Girl Fashion Co., Ltd.; Tangli International Holdings Ltd.; Ecko Industry (Shanghai) Co., Ltd; and Joe Boxer China Ltd. See section entitled Investments in Iconix China for further detail on such investments.

**Strawberry Shortcake**

In March 2015, the Company completed its acquisition from American Greetings Corporation and its wholly-owned subsidiary, Those Characters From Cleveland, Inc. (collectively, AG or the Seller), of all of AG's intellectual property rights and licenses and certain other related assets relating to the Strawberry Shortcake brand pursuant to an asset purchase agreement entered into in February 2015.

In accordance with the terms of the asset purchase agreement, at the closing, the Company paid the Seller \$105.0 million in cash.

The cash paid to the Sellers and the estimated fair value of the assets acquired (which is preliminary and is subject to change), is allocated as follows:

Cash paid to sellers by the Company	\$ 105,000
Trademarks	\$ 91,007
License agreements	800
Note receivable	9,470
Accounts Receivable	3,223
Goodwill	500
	\$ 105,000

The Note receivable represents amounts due from AG in respect of non-compete payments pursuant to a License Agreement entered into with AG simultaneously with the closing of the transaction. The Note is in the principal amount of \$10.0 million and is paid in equal quarterly installments over a two year period.

For the Current Quarter, post-acquisition, the Company recognized approximately \$1.4 million in revenue from such assets. The \$0.5 million of goodwill resulting from the 2015 acquisition is deductible for income tax purposes.

**PONY**

In February 2015, the Company, through its newly-formed subsidiary, US Pony Holdings, LLC, ( Pony Holdings ) acquired the North American rights to the PONY brand. These rights include the rights in the US obtained from Pony, Inc. and Pony International, LLC (collectively, US Pony Seller), and the rights in Mexico and Canada obtained from Super Jumbo Holdings Limited ( Non-US Pony Seller and, together with US Pony Seller, the Pony Sellers ). The purchase price paid by the Company was \$37.0 million. Pony Holdings is owned 75% by the Company and 25% by its partner Anthony L&S Athletics, LLC ( ALS ). ALS contributed to Pony Holdings its perpetual license agreement in respect of the U.S. and Canadian territories for a 25% interest in Pony Holdings. Additionally, the Company received an option to purchase, until February 28, 2015, from the Pony Sellers and their affiliates certain intellectual property-related assets and trademarks related to the Pony brand in Europe, the Middle East and Africa and was assigned by ALS the right to purchase from Pony Sellers and their affiliates certain intellectual property-related assets and trademarks related to the Pony brand in Latin America, which expired May 1, 2015. The Company did not exercise either of such rights.

The following table is a reconciliation of cash paid to Pony Sellers and the fair value of ALS's non-controlling interest (which is preliminary and is subject to change):

Cash paid to Pony Sellers	\$ 37,000
Fair value of 25% non-controlling interest to ALS	12,333
<b>Fair value of PONY</b>	<b>\$ 49,333</b>

The estimated fair value of the assets acquired is allocated as follows:

Trademarks	\$ 46,750
License agreements	250
Accounts receivable	2,000
Goodwill	333
<b>Fair value of PONY</b>	<b>\$ 49,333</b>

Accounting Standards Codification ( ASC ) 810- Consolidations ( ASC 810 ) affirms that consolidation is appropriate when one entity has a controlling financial interest in another entity. The Company owns a 75% membership interest in Pony Holdings compared to the minority owner s 25% membership interest. Further, the Company believes that the voting and veto rights of the minority shareholder are merely protective in nature and do not provide them with substantive participating rights in Pony Holdings. As such, Pony Holdings is subject to consolidation with the Company, which is reflected in the unaudited condensed consolidated financial statements.

For the Current Quarter, post-acquisition, the Company recognized approximately \$0.4 million in revenue from Pony Holdings. The \$0.3 million of goodwill resulting from the 2015 acquisition is deductible for income tax purposes.

### ***Unaudited Pro Forma Information***

Unaudited pro forma information for the transactions completed in the Current Quarter is not presented because the effects of such transactions, individually and in the aggregate, are considered immaterial to the Company.

### ***Iconix Latin America***

In December 2008, the Company formed a joint venture partnership, ( *Iconix Latin America* ), with New Brands, an affiliate of the Falic Group, to develop, exploit, market and license the Latin American territory comprising of Mexico, Central America, South America and the Caribbean. In February 2014, the Company purchased from New Brands its 50% interest in *Iconix Latin America* for \$42.0 million, giving the Company a 100% interest in *Iconix Latin America*.

### ***Iconix Europe***

In December 2009, the Company contributed substantially all rights to its wholly-owned brands in all member states and candidate states of the European Union, and certain other European countries, to *Iconix Europe*, a then newly formed wholly-owned subsidiary of the Company. Shortly thereafter, an investment group led by Albion Equity Partners LLC, purchased a 50% interest in *Iconix Europe* for \$4 million through Brand Investments Vehicle Group 3 Limited ( *BIV* ). Also, as part of this transaction, *Iconix Europe* entered into a multi-year brand management and services agreement with The Licensing Company to assist in developing, exploiting, marketing and licensing the contributed brands in the European territory.

In January 2014, the Company consented to the purchase of *BIV*'s 50% ownership interest in *Iconix Europe* by LF Asia Limited ( *LF Asia* ), an affiliate of Li & Fung Limited, in exchange for \$1.5 million from *LF Asia*. In addition, the Company acquired an additional 1% equity interest in *Iconix Europe* from *LF Asia* thereby increasing the Company's ownership in *Iconix Europe* to a controlling 51% interest.

### ***Hydraulic IP Holdings, LLC***

In December 2014, the Company formed a joint venture with Top On International Group Limited ( *Top On* ). The name of the joint venture is *Hydraulic IP Holdings, LLC* ( *Hydraulic IPH* ), a Delaware limited liability company. The Company paid \$6.0 million, which was funded entirely from cash on hand, in exchange for a 51% controlling ownership of *Hydraulic IPH*. *Top On* owns the remaining 49% interest in *Hydraulic IPH*. *Hydraulic IPH* owns the IP rights, licenses and other assets relating principally to the *Hydraulic* brand. Concurrently, *Hydraulic IPH* and *iBrands International, LLC* ( *iBrands* ) entered into a license agreement pursuant to which *Hydraulic IPH* licensed the *Hydraulic* brand to *iBrands* as licensee in certain categories and geographies. Additionally, the Company and *Top On* entered into a limited liability company agreement with respect to their ownership of *Hydraulic IPH*.

### ***NGX, LLC***

In October 2014, the Company formed a joint venture with *NGO, LLC* ( *NGO* ). The name of the joint venture is *NGX, LLC* ( *NGX* ), a Delaware limited liability company. The Company paid \$6.0 million, which was funded entirely from cash on hand; in exchange for a 51% controlling ownership of *NGX*. *NGO* owns the remaining 49% interest in *NGX*. *NGX* owns the IP rights, licenses and other assets relating principally to the *Nick Graham* brand. Concurrently, *NGX* and *NGL, LLC* ( *NGL* ) entered into a license agreement pursuant to which *NGX* licensed the *Nick Graham* brand to *NGL* as licensee in certain categories and geographies. Additionally, the Company and *NGO* entered into a limited

liability company operating agreement with respect to their ownership of NGX.

***Buffalo Brand Joint Venture***

In February 2013, Iconix CA Holdings, LLC ( ICA Holdings ), a Delaware limited liability company and a wholly-owned subsidiary of the Company, formed a joint venture with Buffalo International ULC ( BII ). The name of the joint venture is 1724982 Alberta ULC ( Alberta ULC ), an Alberta, Canada unlimited liability company. The Company, through ICA Holdings, paid \$76.5 million, which was funded entirely from cash on hand, in exchange for a 51% controlling ownership of Alberta ULC which consists of a combination of equity and a promissory note. BII owns the remaining 49% interest in Alberta ULC. Alberta ULC owns the IP rights, licenses and other assets relating principally to the Buffalo David Bitton brand (the Buffalo brand ). Concurrently, Alberta ULC and BII entered into a license agreement pursuant to which Alberta ULC licensed the Buffalo brand to BII as licensee in certain categories and geographies. Additionally, ICA Holdings and BII entered into a shareholder agreement with respect to their ownership of Alberta ULC.

### ***Icon Modern Amusement***

In December 2012, the Company entered into an interest purchase and management agreement with Dirty Bird Productions, Inc., a California corporation, in which the Company effectively purchased a 51% interest in the Modern Amusement trademarks and related assets for \$5.0 million, which was funded entirely from cash on the balance sheet. To acquire its 51% interest in the trademark, the Company formed a new joint venture company, Icon Modern Amusement LLC ( Icon MA ), a Delaware limited liability company.

### ***Peanuts Holdings***

On June 3, 2010 (the Peanuts Closing Date ), the Company consummated an interest purchase agreement with United Feature Syndicate, Inc. ( UFS ) and The E.W. Scripps Company (the Parent ) (Parent and UFS, collectively, the Sellers ) pursuant to which it purchased all of the issued and outstanding interests ( Interests ) of Peanuts Worldwide, a then newly formed Delaware limited liability company, to which, prior to the closing of this acquisition, copyrights and trademarks associated with the Peanuts characters and certain other assets were contributed by UFS. On the Peanuts Closing Date, the Company assigned its right to buy all of the Interests to Peanuts Holdings, a newly formed Delaware limited liability company and joint venture owned 80% by Icon Entertainment LLC ( IE ), a wholly-owned subsidiary of the Company, and 20% by Beagle Scouts LLC, a Delaware limited liability company ( Beagle ) owned by certain Schulz family trusts.

Further, on the Closing Date, IE and Beagle entered into an operating agreement with respect to Peanuts Holdings (the Peanuts Operating Agreement ). Pursuant to the Peanuts Operating Agreement, the Company, through IE, and Beagle made capital contributions of \$141.0 million and \$34.0 million, respectively, in connection with the acquisition of Peanuts Worldwide. The Interests were then purchased for \$172.1 million in cash, as adjusted for acquired working capital.

In connection with the Peanuts Operating Agreement, the Company through IE, loaned \$17.5 million to Beagle (the Beagle Note ), the proceeds of which were used to fund Beagle s capital contribution to Peanuts Holdings in connection with the acquisition of Peanuts Worldwide. The Beagle Note bore interest at 6% per annum, with minimum principal payable in equal annual installments of approximately \$2.2 million on each anniversary of June 3 2010, with any remaining unpaid principal balance and accrued interest to be due on June 3, 2015, the Beagle Note maturity date. Principal was prepayable at any time. The Beagle Note was secured by the membership interest in Peanuts Holdings owned by Beagle. In the Current Quarter the remaining amount due on the Beagle Note was paid in full.

### ***Hardy Way***

In May 2009, the Company acquired a 50% interest in Hardy Way, the owner of the Ed Hardy brands and trademarks, for \$17.0 million, comprised of \$9.0 million in cash and 588,688 shares of the Company s common stock valued at \$8.0 million as of the closing. In addition, the sellers of the 50% interest received an additional \$1.0 million in shares of the Company s common stock pursuant to an earn-out based on royalties received by Hardy Way for 2009.

On April 26, 2011, Hardy Way acquired substantially all of the licensing rights to the Ed Hardy brands and trademarks from its licensee, Nervous Tattoo, Inc. ( NT ) pursuant to an asset purchase agreement by and among Hardy Way, NT and Audigier Brand Management Group, LLC ( ABMG, and together with NT, the Sellers ). Immediately prior to the closing of the transactions contemplated by the asset purchase agreement, the Company contributed \$62.0 million to Hardy Way, thereby increasing the Company s ownership interests in Hardy Way from 50% to 85% of the outstanding membership interests.

### ***Scion***



Scion is a brand management and licensing company formed by the Company with Shawn Jay-Z Carter in March 2007 to buy, create and develop brands across a spectrum of consumer product categories. On November 7, 2007, Scion, through its wholly-owned subsidiary Artful Holdings LLC, purchased Artful Dodger, an urban apparel brand for a purchase price of \$15.0 million.

In March 2009, the Company, through its investment in Scion, effectively acquired a 16.6% interest in one of its licensees, Roc Apparel Group LLC ( RAG ) for \$1. The Company has determined that this entity is a variable interest entity as defined by ASC 810. However, the Company is not the primary beneficiary of this entity. The investment in this entity is accounted for under the cost method of accounting. Subsequent to March 2009, this investment in RAG was assigned from Scion to the Company. From March 2009 through January 2014, the Company and its partner contributed approximately \$11.8 million to Scion, which was deposited as cash collateral under the terms of RAG's financing agreements. In June 2010, \$3.3 million was released from collateral and distributed to the Scion members equally. In July 2014, the lender under such financing arrangement made a cash collateral call, reducing the Company's restricted cash by \$8.5 million. In FY 2014, the Company recorded a \$2.7 million charge to reduce this receivable to \$5.8 million. This amount will be paid pursuant to a binding term sheet entered into in April 2015 by the Company and the managing member of RAG.

In May 2012, Scion, through a newly formed subsidiary, Scion BBC LLC, purchased a 50% interest in BBC Ice Cream LLC, owner of the Billionaire Boys Club and Ice Cream brands for approximately \$3.5 million.

In April 2015, the Company entered into a binding term sheet to purchase the remaining 50% interest in Scion, which the Company has consolidated since inception, from Shawn Jay-Z Carter for \$6.0 million increasing the Company's ownership to 100%, also effectively increasing its interest in BBC Ice Cream LLC to 50%.

### ***Joint Ventures/Equity Method Investees***

The following joint ventures are recorded using the equity method of accounting:

#### ***Iconix Middle East Joint Venture***

In December 2014, the Company formed Iconix MENA (Iconix Middle East) a wholly owned subsidiary of the Company and contributed substantially all rights to its wholly-owned and controlled brands in the United Arab Emirates, Qatar, Kuwait, Bahrain, Saudi Arabia, Oman, Jordan, Egypt, Pakistan, Uganda, Yemen, Iraq, Azerbaijan, Kyrgyzstan, Uzbekistan, Lebanon, Tunisia, Libya, Algeria, Morocco, Cameroon, Gabon, Mauritania, Ivory Coast, Nigeria and Senegal (the Middle East Territory). Shortly thereafter, Global Brands Group Asia Limited (GBG), purchased a 50% interest in Iconix Middle East for approximately \$18.8 million. GBG paid \$6.3 million in cash upon the closing of the transaction and committed to pay an additional \$12.5 million over the 24-month period following closing. As a result of this transaction, the Company recorded a gain of \$7.2 million in FY 2014 for the difference between the consideration (cash and notes receivable) received by the Company less \$3.1 million of expenses related to its diligence and market analysis in the Iconix Middle East Territory incurred by the Company as part of this transaction which were deducted from the gain due to lack of evidence of fair value of such expenses, and the book value of the brands contributed to the joint venture. As of March 31, 2015, of the \$12.5 million remaining due to the Company from GBG, approximately \$6.2 million is included in other assets current and \$6.3 million is included in other assets on the unaudited condensed consolidated balance sheet.

Pursuant to the joint venture agreement entered into in connection with the formation of Iconix Middle East, each of GBG and the Company holds specified put and call rights, respectively, relating to GBG's ownership interest in the joint venture.

**Company Two-Year Call Option:** At any time during the six month period commencing December 19, 2016, the Company has the right to call up to 5% of the total equity in Iconix Middle East from GBG for an amount in cash equal to \$1.8 million.

**Five-Year and Eight-Year Put/Call Options:** At any time during the six month period commencing December 19, 2019, and again at any time during the six month period commencing December 19, 2022, GBG may deliver a put notice to the Company, and the Company may deliver a call notice to GBG, in each case, for the Company's purchase of all equity in the joint venture held by GBG. In the event of the exercise of such put or call rights, the purchase price for GBG's equity in Iconix Middle East is an amount equal to (x) the Agreed Value (in the event of GBG put) or (y) 120% of Agreed Value (in the event of an Iconix call). The purchase price is payable in cash.

**Agreed Value Five-Year Put/Call:** (i) Percentage of Iconix Middle East owned by GBG, multiplied by (ii) 5.5, multiplied by (iii) aggregate royalty generated by Iconix Middle East for the year ending December 31, 2019; provided, however, that such Agreed Value cannot be less than \$12,000,000.

**Agreed Value Eight-Year Put/Call:** (i) Percentage of Iconix Middle East owned by GBG, multiplied by (b) 5.5, multiplied by (iii) aggregate royalty generated by Iconix Middle East for the year ending December 31, 2022; provided, however, that the Agreed Value cannot be less than \$12,000,000.

The Company serves as Iconix Middle East's administrative manager, responsible for arranging for or providing back-offices services, including legal maintenance of trademarks (e.g. renewal of trademark registrations) for the

brands in respect of Iconix Middle East Territory. Further Iconix Middle East has access to general brand marketing materials prepared and owned by the Company to refit for use by the joint venture in marketing brands in the Middle East Territory. GBG serves as Iconix Middle East's local manager, responsible for providing market experience in respect of the applicable territory, managing the joint venture on a day-to-day basis (other than back-office services), identifying potential licensees and assisting the Company in enforcement of license agreements in respect of the applicable territory. The Company receives a monthly fee in connection with the performance of its services as administrative manager in an amount equal to 5% of Iconix Middle East's gross revenue collected in the prior month (other than in respect of the Umbro and Lee Cooper brands). GBG receives a monthly fee in connection with the performance of its services as local manager in an amount equal to 15% of Iconix Middle East's gross revenue collected in the prior month (other than in respect of the Umbro and Lee Cooper brands). In addition, following the closing of GBG's purchase of 50% of Iconix Middle East, GBG received from the Company \$3.1 million for expenses related to its diligence and market analysis in the Iconix Middle East Territory, which was deducted from the gain included in other revenue in the unaudited consolidated income statement for the year ended December 31, 2014.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and GBG, that Iconix Middle East is not a variable interest entity and not subject to consolidation. The Company has recorded its investment under the equity method of accounting.

### ***LC Partners U.S.***

In March 2014, the Company formed LC Partners US, LLC ( LCP ), a wholly-owned subsidiary of the Company, and contributed substantially all its rights to the Lee Cooper brand in the US through an agreement with LCP. Shortly thereafter, Rise Partners, LLC ( Rise Partners ), purchased a 50% interest in LCP for \$4.0 million, of which \$0.8 million in cash was received during FY 2014, with the remaining \$3.2 million to be paid in four equal annual installments on the first through the fourth anniversaries of the closing date. As of March 31, 2015, of the \$2.4 million remaining due to the Company, approximately \$0.8 million is included in other assets - current and \$1.6 million is included in other assets on the unaudited condensed consolidated balance sheet.

As a result of this transaction, the Company recorded a \$4.0 million gain in FY 2014 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture (see Note 4).

Pursuant to the operating agreement entered into in connection with the formation of LCP, Rise Partners holds specified put rights, relating to its ownership interest in the joint venture.

**Put Option:** For the 30 day period following (x) a change of control of the Company occurring prior to December 31, 2019; and (y) December 31, 2019, if Rise Partners has paid the purchase price for its interest in LCP in full, Rise Partners may deliver a put notice to the Company for the Company's purchase of all the equity in LCP held by Rise Partners at a purchase price in cash equal to the greater of: (i) \$4.0 and (ii) an amount equal to (x) 5, multiplied by (y) the product of (1) 0.10 and (2) the amount of net wholesale sales of applicable Lee Cooper branded product in the US for the annual period ended December 31, 2019.

The Company serves as LCP's administrative manager, responsible for arranging for or providing back-office services, including legal maintenance of trademarks (e.g. renewal of trademark registrations) in respect of the Lee Cooper brand in the US. Further LCP has access to general brand marketing materials prepared and owned by the Company to refit for use by LCP in marketing the Lee Cooper brand in the US.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Rise Partners, that LCP is not a variable interest entity and not subject to consolidation. The Company has recorded its investment under the equity method of accounting.

### ***Iconix Southeast Asia Joint Venture***

In October 2013, the Company formed Iconix SE Asia Limited (Iconix SE Asia), a wholly owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in Indonesia, Thailand, Malaysia, Philippines, Singapore, Vietnam, Cambodia, Laos, Brunei, Myanmar, and East Timor (the South East Asia Territory). Shortly thereafter, GBG (f/k/a Li + Fung Asia Limited) purchased a 50% interest in Iconix SE Asia for approximately \$12.0 million. GBG paid \$7.5 million in cash upon the closing of the transaction and committed to pay an additional \$4.5 million over the 24-month period following closing. As a result of this transaction, the Company recorded a gain of \$2.7 million for the year ended December 31, 2013 (FY 2013) for the difference between the consideration (cash and notes receivable) received by the Company, \$2.0 million of consulting costs incurred by the Company as part of this transaction which were deducted from the gain due to lack of evidence of fair value of such consulting costs, and the book value of the brands contributed to the joint venture.

In June 2014, the Company contributed substantially all rights to its wholly-owned and controlled brands in the Republic of Korea, and its Ecko, Zoo York, Ed Hardy and Sharper Image Brands in the European Union, and Turkey, in each case, to Iconix SE Asia. In return, GBG agreed to pay the Company \$15.9 million, of which \$4.0 million was paid in cash at closing. The Company guaranteed minimum distributions of \$2.5 million in the aggregate through FY 2015 to GBG from the exploitation in the European Union and Turkey of the brands contributed to Iconix SE Asia as part of this transaction. As a result of this transaction, the Company recorded a \$8.2 million gain in FY 2014 for the difference between the consideration (cash and notes receivable) received by the Company, \$5.4 million of marketing costs incurred by the company as part of this transaction which were deducted from the gain due to lack of evidence of fair value of such marketing costs, and the book value of the brands contributed to the joint venture.

In September 2014, the Company's subsidiaries contributed substantially all rights to their Lee Cooper and Umbro brands in the People's Republic of China, Hong Kong, Macau and Taiwan (together, the Greater China Territory), to Iconix SE Asia. In return, GBG agreed to pay the Company \$21.5 million, of which \$4.3 million was paid at closing. The Company guaranteed minimum distributions of \$5.1 million in the aggregate through FY 2017 to GBG from the

exploitation in the Greater China Territory of the brands contributed to Iconix SE Asia as part of this transaction. As a result of this transaction the Company recorded an \$18.7 million gain in FY 2014 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture.

As of March 31, 2015, of the aggregate \$28.8 million remaining due to the Company from GBG for the above transactions, \$11.5 million is included in other assets - current and \$17.3 million is included in other assets on the unaudited condensed consolidated balance sheet.

Pursuant to the operating agreement entered into in connection with the formation of Iconix SE Asia, as amended, each of GBG and the Company holds specified put and call rights, respectively, relating to GBG's ownership interest in the joint venture.

Company Two-Year Call Option: At any time during the six month period commencing October 1, 2015, the Company has the right to call up to 5% of the total equity in Iconix SE Asia from GBG for an amount in cash equal to (x) .10, multiplied by (y) 1.15, multiplied by (z) \$38.4 million.

Five-Year and Eight-Year Put/Call Options on South East Asia Territory Rights, Europe/Turkey Rights and Korea Rights: At any time during the six month period commencing October 1, 2018, and again at any time during the six month period commencing October 1, 2021, GBG may deliver a put notice to the Company, and the Company may deliver a call notice to GBG, in each case, for the Company's purchase of the Europe/Turkey Rights, South East Asia Territory Rights and/or Korea Rights. In the event of the exercise of such put or call rights, the purchase price for such rights is an amount equal to (x) the Agreed Value (in event of a GBG put) or (y) 120% of Agreed Value (in event of a Company call). The purchase price is payable in cash.

Agreed Value Five-Year Put/Call: (i) Percentage of Iconix SE Asia owned by GBG, multiplied by (ii) 5.5, multiplied by (iii) the greater of the aggregate royalty generated by Iconix SE Asia in respect of the Europe/Turkey Rights, South East Asia Territory Rights and/or Korea Rights (as applicable) for the year ended December 31, 2015 and the year ended December 31, 2018; provided, that the Agreed Value attributable to the Europe/Turkey Rights shall not be less than \$7.6 million, plus (iv) in the case of a Full Exercise (i.e., and exercise of all of the Europe/Turkey Rights, South East Asia Territory Rights and Korea Rights), the amount of cash in Iconix SE Asia at such time.

Agreed Value Eight-Year Put/Call: (i) Percentage of Iconix SE Asia owned by GBG, multiplied by (ii) 5.5, multiplied by (iii) the greater of the aggregate royalty generated by Iconix SE Asia in respect of the Europe/Turkey Rights, South East Asia Territory Rights and/or Korea Rights (as applicable) for the year ended December 31, 2018 and the year ended December 31, 2021; provided, that the Agreed Value attributable to the Europe/Turkey Rights shall not be less than \$7.6 million, plus (iv) in the case of a Full Exercise (i.e., and exercise of all of the Europe/Turkey Rights, South East Asia Territory Rights and Korea Rights), the amount of cash in Iconix SE Asia at such time.

Five-Year and Eight-Year Put/Call Options on Greater China Territory Rights: At any time during the six month period commencing September 17, 2019, and again at any time during the six month period commencing September 17, 2022, GBG may deliver a put notice to the Company, and the Company may deliver a call notice to GBG, in each case, for the Company's purchase of the Greater China Territory Rights. In the event of the exercise of such Greater China Territory put or call rights, the purchase price for such rights is an amount equal to (x) the Agreed Value (in event of a GBG put) or (y) 120% of the Agreed Value (in event of a Company call). The purchase price is payable in cash.

Agreed Value Five-Year Put/Call: (i) Percentage of Iconix SE Asia owned by GBG, multiplied by (ii) 5.5, multiplied by (iii) the greater of the aggregate royalty generated by Iconix SE Asia in respect of the Greater China Territory Rights for the year ended December 31, 2015 and the year ended December 31, 2019; provided, that the Agreed Value attributable to the Greater China Territory Rights shall not be less than \$15,500,000, plus (iv) in the case of a Full Exercise, the lesser of the (x) the amount of cash in Iconix SE Asia after payment of the Greater China Territory Rights Put/Call Distribution (as described below) and (y) the maximum amount of distributions allowed by applicable law.

Agreed Value Eight-Year Put/Call: (i) Percentage of Iconix SE Asia owned by GBG, multiplied by (ii) 5.5, multiplied by (iii) greater of aggregate royalty generated by Iconix SE Asia in respect of the Greater China Territory Rights for the year ended December 31, 2019 and the year ended December 31, 2022; provided, that the Agreed Value attributable to the Greater China Territory Rights in respect of the eight year put/call shall not be less than the Agreed Value would have been if the five year put/call had been exercised, plus (iv) in the case of a Full Exercise, the lesser of the (x) the amount of cash in Iconix SE Asia after payment of the Greater China Territory Put/Call Distribution (as described below) and (y) the maximum amount of distributions allowed by applicable law.

Greater China Territory Put/Call Distribution: Prior to closing of a GBG put or a Company call in respect of the Greater China Territory Rights, Iconix SE Asia is required to make pro rata distributions to GBG and the Company in an amount equal to the lesser of: (i) the amount of cash in Iconix SE Asia; (ii) the maximum amount of distributions permitted by applicable law; and (iii) the amount the Company pays to GBG in respect of minimum guaranteed

distributions provided for pursuant to the September 2014 Iconix SE Asia transaction described above. GBG is required to pay all amounts it receives from the Greater China Territory Put/Call Distribution to the Company.

The Company serves as Iconix SE Asia's administrative manager, responsible for arranging for or providing back-office services including legal maintenance of trademarks (e.g. renewal of trademark registrations) for the brands in respect of the territories included in Iconix SE Asia. Further, Iconix SE Asia has access to general brand marketing materials, prepared and owned by the Company, to refit for use by the joint venture in territories included in Iconix SE Asia. GBG serves as Iconix SE Asia's local manager, responsible for providing market experience in respect of the applicable territory, managing the joint venture on a day-to-day basis (other than back-office services), identifying potential licensees and assisting the Company in enforcement of license agreements in respect of the applicable territory. The Company receives a monthly fee in connection with the performance of its services as administrative manager in an amount equal to 5% of Iconix SE Asia's gross revenue collected in prior month. GBG receives a monthly fee in connection with the performance of its services as local manager in an amount equal to 15% of Iconix SE Asia's gross revenue collected in prior month. In October 2013, and in respect of services that commenced in August 2013 and expired on December 31, 2013, the Company executed a Consultancy Agreement with LF Centennial Limited, an affiliate of Li and Fung Asia Limited, for the provision of brand strategy services in Asia to assist the Company in developing its brands. Pursuant to the Consultancy Agreement, the Company paid LF Centennial Limited four installments of \$0.5 million for the provision of such services. The aggregate \$2.0 million of consulting costs were deducted from the gain included in other revenue for the year ended December 31, 2013.

At inception and closing of the June 2014 and September 2014 transactions, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and GBG, that Iconix SE Asia is not a variable interest entity and not subject to consolidation. The Company has recorded its investment under the equity method of accounting.

### ***Iconix Israel Joint Venture***

In November 2013, the Company formed Iconix Israel, LLC ( *Iconix Israel* ), a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in the State of Israel and the geographical regions of the West Bank and the Gaza Strip (together, the *Israel Territory* ) through an agreement with Iconix Israel. Shortly thereafter, M.G.S. Sports Trading Limited ( *MGS* ) purchased a 50% interest in Iconix Israel for approximately \$3.3 million. MGS paid \$1.0 million in cash upon the closing of the transaction and committed to pay an additional \$2.3 million over the 36-month period following closing. As a result of this transaction, the Company recorded a gain of \$2.3 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture, which was included in other revenue in FY 2013. As of March 31, 2015, of the \$1.4 million remaining due to the Company from MGS, approximately \$0.8 million is included in other assets current and \$0.6 million is included in other assets on the unaudited condensed consolidated balance sheet.

Pursuant to the operating agreement entered into in connection with the formation of Iconix Israel, the Company holds a call right, exercisable at any time during the six month period following November 14, 2015, on 5% of the total outstanding shares in Iconix Israel held by MGS. The purchase price payable in connection with the Company's exercise of its call option is an amount equal to (i) .05, multiplied by (ii) 6.5, multiplied by (iii) gross cash or property received by Iconix Israel from all sources.

The Company serves as Iconix Israel's administrative manager, responsible for arranging for or providing back-office services, including legal maintenance of trademarks (e.g. renewal of trademark registrations) for the brands in respect of the Israel Territory. Further, Iconix Israel has access to general brand marketing materials, prepared and owned by the Company to refit for use by the joint venture in the Israel Territory. MGS serves as Iconix Israel's local manager, responsible for providing market experience in respect of the applicable territory, managing the joint venture on a day-to-day basis (other than back-office services), identifying potential licensees and assisting the Company in enforcement of license agreements in respect of the applicable territory. Each of the Company and MGS is reimbursed for all out-of-pocket costs incurred in performing its respective services.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and MGS, that Iconix Israel is not a variable interest entity and not subject to consolidation. The Company has recorded its investment under the equity method of accounting.

### ***Iconix Australia Joint Venture***

In September 2013, the Company formed Iconix Australia, LLC ( *Iconix Australia* ), a Delaware limited liability company and a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in Australia and New Zealand (the *Australia territory* ) through an agreement with Iconix Australia. Shortly thereafter Pac Brands USA, Inc. ( *Pac Brands* ) purchased a 50% interest in Iconix Australia for \$7.2 million in cash, all of which was received upon closing of this transaction in September 2013. As a result of this transaction, the Company recorded a gain of \$5.1 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture.



Pursuant to the Operating Agreement entered into in connection with the formation of Iconix Australia, as amended, each of Pac Brands and the Company holds specified put and call rights, respectively, relating to Pac Brands ownership interest in the joint venture.

Company Two-Year Call Option: At any time during the six month period commencing September 17, 2015, the Company has the right to call up to 5% of Pac Brands' total equity in Iconix Australia for an amount in cash equal to (i) the number of units called by the Company divided by the total number of Units outstanding, multiplied by (ii) 6.5, multiplied by (iii) RR, where RR is equal to:

$$\frac{A + (A \times (100\% + GR))}{2}$$

2

A = trailing 12 months royalty revenue

GR = Year on year growth rate

Four-Year Put/Call Option: At any time following September 17, 2017, Pac Brands may deliver a put notice to the Company, and the Company may deliver a call notice to Pac Brands, in each case, for the Company's purchase of all units in the joint venture held by Pac Brands. Upon the exercise of such put/call, the purchase price for Pac Brands units in the joint venture will be an amount equal to (i) the percentage interest represented by Pac Brands' units, multiplied by (ii) 5, multiplied by (iii) RR, where RR is equal to:

$$\frac{A + (A \times (100\% + CAGR))}{2}$$

2

A = trailing 12 months royalty revenue

CAGR = 36 month compound annual growth rate

The Company serves as Iconix Australia's administrative manager, responsible for arranging for or providing back-office services including legal maintenance of trademarks (e.g. renewal of trademark registrations) for the brands in respect of the Australia Territory. Further, Iconix Australia has access to general brand marketing materials, prepared and owned by the Company, to refit for use by the joint venture in marketing the brands in the Australia Territory. Anchorage George Street Party Limited, an affiliate of Pac Brands (Anchorage) serves as Iconix Australia's local manager, responsible for providing market experience in respect of the applicable territory, managing the joint venture on a day-to-day basis (other than back-office services), identifying potential licensees and assisting the Company in enforcement of license agreements in respect of the applicable territory. Each of the Company and Anchorage is reimbursed for all out-of-pocket costs incurred in performing its respective services.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Pac Brands, that Iconix Australia is not a variable interest entity and not subject to consolidation. The Company has recorded its investment under the equity method of accounting.

### ***Iconix Canada Joint Venture***

In June 2013, the Company formed Iconix Canada L.P. (Ico Canada) and Ico Brands L.P. (Ico Brands) and, together with Ico Canada, collectively, Iconix Canada, as wholly-owned indirect subsidiaries of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in Canada (the Canada Territory) through agreements with the Iconix Canada partnerships. Shortly thereafter through their acquisitions of limited partnership and general partnership interests, Buffalo International ULC and BIU Sub Inc. purchased 50% interests in the Iconix Canada partnerships for \$17.8 million in the aggregate, of which approximately \$8.9 million in the aggregate, was paid in cash upon closing of these transactions in June 2013, and the remaining \$8.9 million of which are notes payable to the Company to be paid, as amended, over the five year period following the date of closing, with final payment in June 2018. As a result of these transactions, the Company recognized a gain of approximately \$9.8 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint ventures. As of March 31 2015, of the \$8.9 million note receivable, approximately \$3.0 million is included in other assets current, the remaining \$5.9 million of which is included in other assets on the unaudited condensed consolidated balance sheet.

Pursuant to agreements entered into in connection with the formation of Ico Canada and Ico Brands, the Company holds specified call options relating to Buffalo International's and BIU Sub's ownership interests in the joint ventures.

**Ico Canada Call Option:** At any time between the second and third anniversary of June 28, 2013 the Company has the right to call a number of units held by Buffalo International equal to 5% of all units issued and outstanding for an amount in cash equal to the greater of (i) \$1.5 million and (ii) 5% of the amount obtained by applying a multiple of 5.5 to the highest of (a) the minimum royalties in respect of the Ico Canada marks for the previous 12 months, (b) the actual royalties in respect of the Ico Canada marks for the previous 12 months, (c) the projected minimum royalties in respect of the Ico Canada marks for the subsequent fiscal period and (d) the average projected minimum royalties in respect of the Ico Canada marks for the subsequent three fiscal periods.

**Ico Brands Call Option:** At any time between the second and third anniversary of June 28, 2013, the Company has the right to call a number of units held by BIU Sub equal to 5% of all units issued and outstanding for an amount in cash equal to the greater of (i) \$0.6 million and (ii) 5% of the amount obtained by applying a multiple of 5.5 to the highest of (a) the minimum royalties in respect of the Ico Brands marks for the previous 12 months, (b) the actual royalties in respect of the Ico Brands marks for the previous 12 months, (c) the projected minimum royalties in respect of the Ico Brands marks for the subsequent fiscal period and (d) the average projected minimum royalties in respect of the Ico Brands marks the subsequent three fiscal periods.

If the total payments to Ico Canada in respect of the Umbro marks for the four-year period following June 28, 2013 are less than \$2.7 million, the Company has an obligation to pay Buffalo International an amount equal to the shortfall.

As a result of the Company's prior contribution of the intellectual property and related assets relating to certain of its brands in respect of the Canadian territory (the Encumbered Canadian Assets) to the Company's securitization, Ico Canada was granted the right to receive an amount equal to the royalty streams from the Encumbered Canadian Assets. Ico Brands has an option to purchase the Encumbered Canadian Assets for one dollar within one year following the earlier of (i) January 15, 2020 and (ii) the later of (a) the release of such assets from the Company's securitization and (b) Ico Brands receipt of notice of such release. If the Company does not deliver such assets to Ico Brands following the exercise of such option, the Company has an obligation to pay liquidated damages to Ico Brands in an amount equal to approximately \$4.9 million.

In the case of Ico Brands, BIU Sub serves as the creative shareholder, and is responsible for: (i) approving or disapproving of the creative aspects relating to trademarks and related goods and services offered by licensees; and (ii) approving or disapproving of all other creative aspects of the design, development, manufacture and sale of products bearing the Ico Brands marks.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Buffalo International and BIU Sub, that neither of Ico Canada or Ico Brands is a variable interest entity or subject to consolidation. The Company has recorded its investment under the equity method of accounting.

#### ***Iconix India Joint Venture***

In June 2013, the Company formed Imaginative Brand Developers Private Limited (Iconix India), a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in India through an agreement with Iconix India. Shortly thereafter Reliance Brands Limited (Reliance), an affiliate of the Reliance Group, purchased a 50% interest in Iconix India for \$6.0 million of which approximately \$2.0 million was paid in cash upon closing of this transaction and the remaining \$4.0 million of which is a note, payable to the Company to be paid over a 48-month period following closing. As a result of this transaction, the Company recognized a gain of approximately \$5.6 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture. Additionally, pursuant to the terms of the transaction, the Company and Reliance each agreed to contribute 100 million Indian rupees (approximately \$2.0 million) to Iconix India only upon the future mutual agreement of the parties, of which 25 million Indian rupees (approximately \$0.5 million) was contributed at closing.

As of March 31 2015 of the \$3.0 million note receivable, approximately \$1.0 million is included in other assets current, the remaining \$2.0 million of which is included in other assets on the unaudited condensed consolidated balance sheet.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Reliance, that Iconix India is not a variable interest entity and not subject to consolidation. The Company has recorded its investment under the equity method of accounting.

### ***MG Icon***

In March 2010, the Company acquired a 50% interest in MG Icon, the owner of the Material Girl and Truth or Dare brands and trademarks and other rights associated with the artist, performer and celebrity known as Madonna, from Purim LLC (Purim) for \$20.0 million, \$4.0 million of which was paid at closing. In connection with the launch of Truth or Dare brand and based on certain qualitative criteria, Purim is entitled to an additional \$3.0 million. Through March 31, 2015, \$19.0 million was paid to Purim with the remaining \$4.0 million owed to Purim included in other liabilities-current on the Company's unaudited condensed consolidated balance sheet.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Purim, MG Icon is a variable interest entity and not subject to consolidation, as the Company is not the primary beneficiary of MG Icon. The Company has recorded its investment under the equity method of accounting.

Pursuant to the terms of the MG Icon operating agreement and subject to certain conditions, the Company is entitled to recognize a preferred profit distribution from MG Icon of at least \$23.0 million, after which all profits and losses are recognized 50/50 in accordance with each principal's membership interest percentage.

### ***Investments in Iconix China***

Through our acquisition of the remaining 50% interest of Iconix China (see above), we now own 100% of the following private companies including; Candies Shanghai Fashion Co., Ltd. (which can be put by the Company to Shanghai La Chappelle Fashion Co., Ltd. for cash based on a pre-determined formula), Ecko Industry (Shanghai) Co. Ltd., Ningbo Material Girl Fashion Co., Ltd., Tangli International Holdings Ltd., Xi Ha Clothing and Northeast Socks.

<b>Brands Placed</b>	<b>Partner</b>	<b>Ownership by Iconix China</b>	<b>Value of Investment March 31, 2015</b>
Candies	Candies Shanghai Fashion Co., Ltd.	20%	\$ 9,494
Marc Ecko	Marc Ecko China Ltd.	15%	2,293
Material Girl	Ningbo Material Girl Fashion Co., Ltd.	20%	5,439
Ed Hardy	Tangli International Holdings Ltd.	20%	10,486
Ecko Unltd	Ecko Industry (Shanghai) Co., Ltd.	20%	11,158
Joe Boxer	Joe Boxer China, Ltd.	25%	3,789
			\$ 42,659

### **Cost Method Investments**

The following investments are carried at cost:

***Marcy Media Holdings, LLC***

In July 2013, the Company purchased a minority interest in Marcy Media Holdings, LLC ( MM Holdings ), resulting in the Company's indirect ownership of 5% interest in Roc Nation, LLC for \$32 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Marcy Media is not a VIE and not subject to consolidation. As the Company does not have significant influence over Marcy Media, its investment has been recorded under the cost method of accounting.

***Complex Media Inc.***

In September 2013, the Company purchased convertible preferred shares, on an as-converted basis as of December 31, 2014, equaling an approximate 14.4% minority interest in Complex Media Inc. ( Complex Media ), a multi-media lifestyle company which, among other things, owns Complex magazine and its online counterpart, Complex.com, for \$25 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Complex Media is not a VIE and not subject to consolidation. As the Company does not have significant influence over Complex Media, its investment has been recorded under the cost method of accounting.

#### 4. Other Revenue

The following table details transactions comprising other revenue in the consolidated income statements:

	<b>Three Months Ended</b>	
	<b>March 31, 2015</b>	<b>March 31, 2014</b>
LCP (see Note 3)	\$	\$ 3,971
Total other revenue	\$	\$ 3,971

#### 5. Fair Value Measurements

ASC 820 Fair Value Measurements, (ASC 820), establishes a framework for measuring fair value and requires expanded disclosures about fair value measurement. While ASC 820 does not require any new fair value measurements in its application to other accounting pronouncements, it does emphasize that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 established the following fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs):

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs

Level 3: Unobservable inputs for which there is little or no market data and which requires the owner of the assets or liabilities to develop its own assumptions about how market participants would price these assets or liabilities

The valuation techniques that may be used to measure fair value are as follows:

(A) Market approach Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities

(B) Income approach Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about those future amounts, including present value techniques, option-pricing models and excess earnings method

(C) Cost approach Based on the amount that would currently be required to replace the service capacity of an asset (replacement cost)

To determine the fair value of certain financial instruments, the Company relies on Level 2 inputs generated by market transactions of similar instruments where available, and Level 3 inputs using an income approach when Level 1 and Level 2 inputs are not available. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their

placement within the fair value hierarchy.

### ***Hedge Instruments***

From time to time, the Company will purchase hedge instruments to mitigate income statement risk and cash flow risk of revenue and receivables. As of March 31, 2015, the Company had no hedge instruments other than the 2.50% Convertible Note Hedges and 1.50% Convertible Note Hedges (see Note 6).

### ***Financial Instruments***

As of March 31, 2015 and December 31, 2014, the fair values of cash, receivables and accounts payable approximated their carrying values due to the short-term nature of these instruments. The fair value of notes receivable and notes payable from and to our joint venture partners approximate their carrying values. The fair value of our cost method investments is not readily determinable and it is not practical to obtain the information needed to determine the value. However, there has been no indication of an impairment of these cost method investments as of March 31, 2015 and December 31, 2014. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on Level One inputs including broker quotes or quoted market prices or rates for the same or similar instruments and the related carrying amounts are as follows:

	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	\$ 1,486,312	\$ 1,608,613	\$ 1,394,077	\$ 1,601,418

Financial instruments expose the Company to counterparty credit risk for nonperformance and to market risk for changes in interest. The Company manages exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties and procedures to monitor the amount of credit exposure. The Company's financial instrument counterparties are investment or commercial banks with significant experience with such instruments.

### ***Non-Financial Assets and Liabilities***

The Company accounts for non-recurring adjustments to the fair values of its non-financial assets and liabilities under ASC 820 using a market participant approach. The Company uses a discounted cash flow model with Level 3 inputs to measure the fair value of its non-financial assets and liabilities. The Company also adopted the provisions of ASC 820 as it relates to purchase accounting for its acquisitions. The Company has goodwill, which is tested for impairment at least annually, as required by ASC 350- Intangibles- Goodwill and Other, (ASC 350). Further, in accordance with ASC 350, the Company's indefinite-lived trademarks are tested for impairment at least annually, on an individual basis as separate single units of accounting. Similarly, consistent with ASC 360- Property, Plant and Equipment (ASC 360), as it relates to accounting for the impairment or disposal of long-lived assets, the Company assesses whether or not there is impairment of the Company's definite-lived trademarks. There was no impairment, and therefore no write-down, of any of the Company's long-lived assets during the Current Quarter or FY 2014.

## **6. Debt Arrangements**

The Company's net carrying amount of debt is comprised of the following:

	March 31, 2015	December 31, 2014
Senior Secured Notes	\$ 758,750	\$ 774,030
1.50% Convertible Notes	344,113	339,943
2.50% Convertible Notes	283,449	280,104
Variable Funding Note	100,000	
<b>Total</b>	<b>\$ 1,486,312</b>	<b>\$ 1,394,077</b>

### ***Senior Secured Notes and Variable Funding Note***

On November 29, 2012, Icon Brand Holdings, Icon DE Intermediate Holdings LLC, Icon DE Holdings LLC and Icon NY Holdings LLC, each a limited-purpose, bankruptcy remote, wholly-owned direct or indirect subsidiary of the Company, (collectively, the Co-Issuers) issued \$600.0 million aggregate principal amount of Series 2012-1 4.229% Senior Secured Notes, Class A-2 (the 2012 Senior Secured Notes) in an offering exempt from registration under the Securities Act of 1933, as amended.

Simultaneously with the issuance of the 2012 Senior Secured Notes, the Co-Issuers also entered into a revolving financing facility of Series 2012-1 Variable Funding Senior Notes, Class A-1 (the Variable Funding Notes), which allows for the funding of up to \$100 million of Variable Funding Notes and certain other credit instruments, including letters of credit. The Variable Funding Notes were issued under the Indenture and allow for drawings on a revolving basis. Drawings and certain additional terms related to the Variable Funding Notes are governed by the Class A-1 Note Purchase Agreement dated November 29, 2012 (the Variable Funding Note Purchase Agreement), among the



Co-Issuers, Iconix, as manager, certain conduit investors, financial institutions and funding agents, and Barclays Bank PLC, as provider of letters of credit, as swing line lender and as administrative agent. The Variable Funding Notes will be governed, in part, by the Variable Funding Note Purchase Agreement and by certain generally applicable terms contained in the Indenture. Interest on the Variable Funding Notes will be payable at per annum rates equal to the CP Rate, Base Rate or Eurodollar Rate, as defined in the Variable Funding Note Purchase Agreement.

In February 2015, the Company received \$100.0 million proceeds from the Variable Funding Notes. There is a commitment fee on the unused portion of the Variable Funding Notes facility of 0.5% per annum. It is anticipated that any outstanding principal of and interest on the Variable Funding Notes will be repaid in full on or prior to January 2018. Following the anticipated repayment date, additional interest will accrue on the Variable Funding Notes equal to 5% per annum. The Variable Funding Notes and other credit instruments issued under the Variable Funding Note Purchase Agreement are secured by the collateral described below.

On June 21, 2013, the Co-Issuers issued \$275.0 million aggregate principal amount of Series 2013-1 4.352% Senior Secured Notes, Class A-2 (the 2013 Senior Secured Notes and, together with the 2012 Senior Secured Notes, the Senior Secured Notes ) in an offering exempt from registration under the Securities Act of 1933, as amended.

The Senior Secured Notes and the Variable Funding Notes are referred to collectively as the Notes. The Notes were issued in securitization transactions pursuant to which substantially all of Iconix's United States and Canadian revenue-generating assets (the Securitized Assets), consisting principally of its intellectual property and license agreements for the use of its intellectual property, were transferred to and are currently held by the Co-Issuers. The Securitized Assets do not include revenue generating assets of (x) the Iconix subsidiaries that own the Badgley Mischka trademark, the Ecko Unltd trademark, the Mark Ecko trademark, the Umbro trademark and the Lee Cooper trademark, and the Strawberry Shortcake trademark, (y) the Iconix subsidiaries that own Iconix's other brands outside of the United States and Canada or (z) the joint ventures in which Iconix and certain of its subsidiaries have investments and which own the Artful Dodger trademark, the Modern Amusement trademark and the Buffalo trademark, the Pony trademark, the Nick Graham trademark, the Hydraulic trademark, and a 50% interest in the Ice Cream trademark and the Billionaire Boys Club trademark.

The Notes were issued under a base indenture and related supplemental indentures (collectively, the Indenture) among the Co-Issuers and Citibank, N.A., as trustee (in such capacity, the Trustee) and securities intermediary. The Indenture allows the Co-Issuers to issue additional series of notes in the future subject to certain conditions.

While the Notes are outstanding, payments of interest are required to be made on the Senior Secured Notes on a quarterly basis. To the extent funds are available, principal payments in the amount of \$10.5 million and \$4.8 million are required to be made on the 2012 Senior Secured Notes and 2013 Senior Secured Notes, respectively, on a quarterly basis.

The legal final maturity date of the Senior Secured Notes is in January of 2043, but it is anticipated that, unless earlier repaid to the extent permitted under the Indenture, the Senior Secured Notes will be repaid in January of 2020. If the Co-Issuers have not repaid or refinanced the Senior Secured Notes prior to the anticipated repayment date, additional interest will accrue on the Senior Secured Notes equal to the greater of (A) 5% per annum and (B) a per annum interest rate equal to the excess, if any, by which the sum of (i) the yield to maturity (adjusted to a quarterly bond-equivalent basis), on the anticipated repayment date of the United States treasury security having a term closest to 10 years plus (ii) 5% plus (iii) with respect to the 2012 Senior Secured Notes, 3.4%, or with respect to the 2013 Senior Secured Notes, 3.14%, exceeds the original interest rate. The Senior Secured Notes rank pari passu with the Variable Funding Notes.

Pursuant to the Indenture, the Notes are the joint and several obligations of the Co-Issuers only. The Notes are secured under the Indenture by a security interest in substantially all of the assets of the Co-Issuers (the Collateral), which includes, among other things, (i) intellectual property assets, including the U.S. and Canadian registered and applied for trademarks for the following brands and other related IP assets: Candie's, Bongo, Joe Boxer (excluding Canadian trademarks, none of which are owned by Iconix), Rampage, Mudd, London Fog (other than the trademark for outerwear products sold in the United States), Mossimo, Ocean Pacific and OP, Danskin and Danskin Now, Rocawear, Starter, Waverly, Fieldcrest, Royal Velvet, Cannon, Charisma, and Sharper Image (other than for a Sharper Image branded website or catalog in the United States and other specified jurisdictions); (ii) the rights (including the rights to receive payments) and obligations under all license agreements for use of those trademarks; (iii) the following equity interests in the following joint ventures: an 85% interest in Hardy Way LLC which owns the Ed Hardy brand, a 50% interest in MG Icon LLC which owns the Material Girl and Truth or Dare brands, a 100% interest in ZY Holdings LLC which owns the Zoo York brand, and an 80% interest in Peanuts Holdings LLC which owns the Peanuts brand and characters; and (iv) certain cash accounts established under the Indenture.

If the Company contributes a newly organized, limited purpose, bankruptcy remote entity (each an Additional IP Holder) and, together with the Co-Issuers, the Securitization Entities) to Icon Brand Holdings LLC or Icon DE Intermediate Holdings LLC, that Additional IP Holder will enter into a guarantee and collateral agreement in a form provided for in the Base Indenture pursuant to which such Additional IP Holder will guarantee the obligations of the Co-Issuers in respect of any Notes issued under the Base Indenture and the other related documents and pledge

substantially all of its assets to secure those guarantee obligations pursuant to a guarantee and collateral agreement.

Neither the Company nor any subsidiary of the Company, other than the Securitization Entities, will guarantee or in any way be liable for the obligations of the Co-Issuers under the Indenture or the Notes.

The Notes are subject to a series of covenants and restrictions customary for transactions of this type, including (i) that the Co-Issuers maintain specified reserve accounts to be used to make required payments in respect of the Notes, (ii) provisions relating to optional and mandatory prepayments, including mandatory prepayments in the event of a change of control (as defined in the supplemental indentures) and the related payment of specified amounts, including specified make-whole payments in the case of the Senior Secured Notes under certain circumstances, (iii) certain indemnification payments in the event, among other things, the transfers of the assets pledged as collateral for the Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The Company has been compliant with all covenants under the Notes from inception through the Current Quarter.

The Notes are also subject to customary rapid amortization events provided for in the Indenture, including events tied to (i) the failure to maintain a stated debt service coverage ratio, which tests the amount of net cash flow generated by the assets of the Co-Issuers against the amount of debt service obligations of the Co-Issuers (including any commitment fees and letter of credit fees with respect to the Variable Funding Notes, due and payable accrued interest, and due and payable scheduled principal payments on the Senior Secured Notes), (ii) certain manager termination events, (iii) the occurrence of an event of default and (iv) the failure to repay or refinance the Notes on the anticipated repayment date. If a rapid amortization event were to occur, Icon DE Intermediate Holdings LLC and Icon Brand Holdings LLC would be restricted from declaring or paying distributions on any of its limited liability company interests.

The Company used approximately \$150.4 million of the proceeds received from the issuance of the 2012 Senior Secured Notes to repay amounts outstanding under its revolving credit facility (see below) and approximately \$20.9 million to pay the costs associated with the 2012 Senior Secured Notes financing transaction. In addition approximately \$218.3 million of the proceeds from the 2012 Senior Secured Notes were used for the Company's purchase of the Umbro brand. The Company used approximately \$7.2 million of the proceeds received from the issuance of the 2013 Senior Secured Notes to pay the costs associated with the 2013 Senior Secured Notes securitized financing transaction.

In June 2014, the Company sold the [sharperimage.com](http://sharperimage.com) domain name and the exclusive right to use the Sharper Image trademark in connection with the operation of a branded website and catalog distribution in specified jurisdictions, in which the Senior Secured Notes had a security interest pursuant to the Indenture. As a result of this permitted disposition, the Company paid an additional \$1.6 million in principal in July 2014.

As of March 31, 2015, the total principal balance of the Notes is \$858.8 million, of which \$61.1 million is included in the current portion of long-term debt on the Company's unaudited condensed consolidated balance sheet. As of March 31, 2015 and December 31, 2014, \$43.6 million and \$58.7 million, respectively, is included in restricted cash on the unaudited condensed consolidated balance sheet and represents short-term restricted cash consisting of collections on behalf of the Securitized Assets, restricted to the payment of principal, interest and other fees on a quarterly basis under the Senior Secured Notes.

### ***1.50% Convertible Notes***

On March 18, 2013, the Company completed the issuance of \$400.0 million principal amount of the Company's 1.50% convertible senior subordinated notes due March 15, 2018 (1.50% Convertible Notes) in a private offering to certain institutional investors. The net proceeds received by the Company from the offering, excluding the net cost of hedges and sale of warrants (described below) and including transaction fees, were approximately \$390.6 million.

The 1.50% Convertible Notes bear interest at an annual rate of 1.50%, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2013. However, the Company recognizes an effective interest rate of 6.50% on the carrying amount of the 1.50% Convertible Notes. The effective rate is based on the rate for a similar instrument that does not have a conversion feature. The 1.50% Convertible Notes will be convertible into cash and, if applicable, shares of the Company's common stock based on a conversion rate of 32.4052 shares of the Company's common stock, subject to customary adjustments, per \$1,000 principal amount of the 1.50% Convertible Notes (which is equal to an initial conversion price of approximately \$30.86 per share) only under the following circumstances: (1) during any fiscal quarter beginning after December 15, 2017 (and only during such fiscal quarter), if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on and including the last trading day of the immediately preceding fiscal quarter is more than 130% of the conversion price per share, which is \$1,000 divided by the then applicable conversion rate; (2) during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 1.50% Convertible Notes for each day of that period was less than 98% of the

product of (a) the closing price of the Company's common stock for each day in that period and (b) the conversion rate per \$1,000 principal amount of the 1.50% Convertible Notes; (3) if specified distributions to holders of the Company's common stock are made, as set forth in the indenture governing the 1.50% Convertible Notes ( "1.50% Indenture" ); (4) if a change of control or other fundamental change, each as defined in the 1.50% Indenture, occurs; and (5) during the 90 day period prior to maturity of the 1.50% Convertible Notes. If the holders of the 1.50% Convertible Notes exercise the conversion provisions under the circumstances set forth, the Company will need to remit the lower of the principal balance of the 1.50% Convertible Notes or their conversion value to the holders in cash. As such, the Company would be required to classify the entire amount outstanding of the 1.50% Convertible Notes as a current liability in the following quarter. The evaluation of the classification of amounts outstanding associated with the 1.50% Convertible Notes will occur every quarter.

Upon conversion, a holder will receive an amount in cash equal to the lesser of (a) the principal amount of the 1.50% Convertible Note or (b) the conversion value, determined in the manner set forth in the 1.50% Indenture. If the conversion value exceeds the principal amount of the 1.50% Convertible Notes on the conversion date, the Company will also deliver, at its election, cash or the Company's common stock or a combination of cash and the Company's common stock for the conversion value in excess of the principal amount. In the event of a change of control or other fundamental change, the holders of the 1.50% Convertible Notes may require the Company to purchase all or a portion of their 1.50% Convertible Notes at a purchase price equal to 100% of the principal amount of the 1.50% Convertible Notes, plus accrued and unpaid interest, if any. Holders of the 1.50% Convertible Notes who convert their 1.50% Convertible Notes in connection with a fundamental change may be entitled to a make-whole premium in the form of an increase in the conversion rate.

Pursuant to guidance issued under ASC 815- Derivatives and Hedging ( ASC 815 ), the 1.50% Convertible Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded conversion option in the 1.50% Convertible Notes has not been accounted for as a separate derivative. For a discussion of the effects of the 1.50% Convertible Notes and the 1.50% Convertible Notes Hedges and Sold Warrants defined and discussed below on earnings per share, see Note 8.

As of March 31, 2015 and December 31, 2014, the amount of the 1.50% Convertible Notes accounted for as a liability was approximately \$344.1 million and \$339.9 million, respectively, and is reflected on the consolidated balance sheet as follows:

	March 31, 2015	December 31, 2014
Equity component carrying amount	\$ 49,931	\$ 49,931
Unamortized discount	55,887	60,057
Net debt carrying amount	344,113	339,943

For the Current Quarter and the Prior Year Quarter, the Company recorded additional non-cash interest expense of approximately \$3.9 million and \$3.6 million, respectively, representing the difference between the stated interest rate on the 1.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

For each of the Current Quarter and the Prior Year Quarter, cash interest expense relating to the 1.50% Convertible Notes was approximately \$1.5 million.

The 1.50% Convertible Notes do not provide for any financial covenants.

On March 18, 2013, the Company used a portion of the proceeds from the 1.50% Convertible Notes to repurchase 2,964,000 shares of its common stock in a private transaction with a third party for \$69.0 million. See note 6 for further information on our stock repurchase program.

In connection with the sale of the 1.50% Convertible Notes, the Company entered into hedges for the 1.50% Convertible Notes ( 1.50% Convertible Note Hedges ) with respect to its common stock with one entity (the 1.50% Counterparty ). Pursuant to the agreements governing these 1.50% Convertible Note Hedges, the Company purchased call options (the 1.50% Purchased Call Options ) from the 1.50% Counterparty covering up to approximately 13.0 million shares of the Company s common stock. These 1.50% Convertible Note Hedges are designed to offset the Company s exposure to potential dilution upon conversion of the 1.50% Convertible Notes in the event that the market value per share of the Company s common stock at the time of exercise is greater than the strike price of the 1.50% Purchased Call Options (which strike price corresponds to the initial conversion price of the 1.50% Convertible Notes and is simultaneously subject to certain customary adjustments). On March 13, 2013, the Company paid an aggregate amount of approximately \$84.1 million of the proceeds from the sale of the 1.50% Convertible Notes for the 1.50% Purchased Call Options, of which \$29.4 million was included in the balance of deferred income tax assets at March 13, 2013 and is being recognized over the term of the 1.50% Convertible Notes. As of March 31, 2015, the balance of deferred income tax assets related to this transaction was approximately \$17.4 million.

The Company also entered into separate warrant transactions with the 1.50% Counterparty whereby the Company, pursuant to the agreements governing these warrant transactions, sold to the 1.50% Counterparty warrants (the 1.50% Sold Warrants ) to acquire up to approximately 13.0 million shares of the Company s common stock at a strike price of \$35.5173 per share of the Company s common stock. The 1.50% Sold Warrants will become exercisable on June 18, 2018 and will expire by September 1, 2018. The Company received aggregate proceeds of approximately \$57.7 million from the sale of the 1.50% Sold Warrants on March 13, 2013.

Pursuant to guidance issued under ASC 815 as it relates to accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock, the 1.50% Convertible Note Hedge and the proceeds received from the issuance of the 1.50% Sold Warrants were recorded as a charge and an increase, respectively, in additional paid-in capital in stockholders' equity as separate equity transactions. As a result of these transactions, the Company recorded a net increase to additional paid-in-capital of \$3.0 million in March 2013.

The Company has evaluated the impact of adopting guidance issued under ASC 815 regarding embedded features as it relates to the 1.50% Sold Warrants, and has determined it had no impact on the Company's results of operations and financial position through March 31, 2015, and will have no impact on the Company's results of operations and financial position in future fiscal periods.

As the 1.50% Convertible Note Hedge transactions and the warrant transactions were separate transactions entered into by the Company with the 1.50% Counterparty, they are not part of the terms of the 1.50% Convertible Notes and will not affect the holders' rights under the 1.50% Convertible Notes. In addition, holders of the 1.50% Convertible Notes will not have any rights with respect to the 1.50% Purchased Call Options or the 1.50% Sold Warrants.

If the market value per share of the Company's common stock at the time of conversion of the 1.50% Convertible Notes is above the strike price of the 1.50% Purchased Call Options, the 1.50% Purchased Call Options entitle the Company to receive from the 1.50% Counterparties net shares of the Company's common stock, cash or a combination of shares of the Company's common stock and cash, depending on the consideration paid on the underlying 1.50% Convertible Notes, based on the excess of the then current market price of the Company's common stock over the strike price of the 1.50% Purchased Call Options. Additionally, if the market price of the Company's common stock at the time of exercise of the 1.50% Sold Warrants exceeds the strike price of the 1.50% Sold Warrants, the Company will owe the 1.50% Counterparty net shares of the Company's common stock or cash, not offset by the 1.50% Purchased Call Options, in an amount based on the excess of the then current market price of the Company's common stock over the strike price of the 1.50% Sold Warrants.

These transactions will generally have the effect of increasing the conversion price of the 1.50% Convertible Notes to \$35.5173 per share of the Company's common stock, representing a 52.5% percent premium based on the last reported sale price of the Company's common stock of \$23.29 per share on March 12, 2013.

Moreover, in connection with the warrant transactions with the 1.50% Counterparty, to the extent that the price of the Company's common stock exceeds the strike price of the 1.50% Sold Warrants, the warrant transactions could have a dilutive effect on the Company's earnings per share.

### ***2.50% Convertible Notes***

On May 23, 2011, the Company completed the issuance of \$300.0 million principal amount of the Company's 2.50% convertible senior subordinated notes due June 2016 ( "2.50% Convertible Notes" ) in a private offering to certain institutional investors. The net proceeds received by the Company from the offering, excluding the net cost of hedges and sale of warrants (described below) and including transaction fees, were approximately \$291.6 million. The Company's current intention is to refinance the 2.50% Convertible Notes.

The 2.50% Convertible Notes bear interest at an annual rate of 2.50%, payable semi-annually in arrears on June 1 and December 1 of each year, beginning December 1, 2011. However, the Company recognizes an effective interest rate of 7.25% on the carrying amount of the 2.50% Convertible Notes. The effective rate is based on the rate for a similar instrument that does not have a conversion feature. The 2.50% Convertible Notes will be convertible into cash and, if applicable, shares of the Company's common stock based on a conversion rate of 32.5169 shares of the Company's common stock, subject to customary adjustments, per \$1,000 principal amount of the 2.50% Convertible Notes (which is equal to an initial conversion price of approximately \$30.75 per share) only under the following circumstances: (1) during any fiscal quarter beginning after June 30, 2011 (and only during such fiscal quarter), if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is more than 130% of the conversion price per share, which is \$1,000 divided by the then applicable conversion rate; (2) during the five business day period immediately following any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 2.50% Convertible Notes for each day of that period was less than 98% of the product of (a) the closing price of the Company's common stock for each day in that period and (b) the conversion rate per \$1,000 principal amount of the 2.50% Convertible Notes; (3) if specified distributions to holders of the Company's common stock are made, as set forth in the indenture governing the 2.50% Convertible Notes ( "2.50% Indenture" ); (4) if a change of control or other fundamental change, each as defined in the 2.50% Indenture, occurs; and (5) during the 90 day period prior to maturity of the 2.50% Convertible Notes. If the holders of the 2.50% Convertible Notes exercise the conversion provisions under the



circumstances set forth, the Company will need to remit the lower of the principal balance of the 2.50% Convertible Notes or their conversion value to the holders in cash. As such, the Company would be required to classify the entire amount outstanding of the 2.50% Convertible Notes as a current liability in the following quarter. The evaluation of the classification of amounts outstanding associated with the 2.50% Convertible Notes will occur every quarter.

Upon conversion, a holder will receive an amount in cash equal to the lesser of (a) the principal amount of the 2.50% Convertible Note or (b) the conversion value, determined in the manner set forth in the 2.50% Indenture. If the conversion value exceeds the principal amount of the 2.50% Convertible Notes on the conversion date, the Company will also deliver, at its election, cash or the Company's common stock or a combination of cash and the Company's common stock for the conversion value in excess of the principal amount. In the event of a change of control or other fundamental change, the holders of the 2.50% Convertible Notes may require the Company to purchase all or a portion of their 2.50% Convertible Notes at a purchase price equal to 100% of the principal amount of the 2.50% Convertible Notes, plus accrued and unpaid interest, if any. Holders of the 2.50% Convertible Notes who convert their 2.50% Convertible Notes in connection with a fundamental change may be entitled to a make-whole premium in the form of an increase in the conversion rate.

Pursuant to guidance issued under ASC 815, the 2.50% Convertible Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded conversion option in the 2.50% Convertible Notes has not been accounted for as a separate derivative. For a discussion of the effects of the 2.50% Convertible Notes and the 2.50% Convertible Notes Hedges and Sold Warrants defined and discussed below on earnings per share, see Note 8

As of March 31, 2015 and December 31, 2014, the amount of the 2.50% Convertible Notes accounted for as a liability was approximately \$283.4 million and \$280.1 million, respectively, and is reflected on the consolidated balance sheet as follows:

	March 31, 2015	December 31, 2014
Equity component carrying amount	\$ 35,996	\$ 35,996
Unamortized discount	16,551	19,896
Net debt carrying amount	283,449	280,104

For the Current Quarter and the Prior Year Quarter, the Company recorded additional non-cash interest expense of approximately \$3.0 million and \$2.8 million, respectively, representing the difference between the stated interest rate on the 2.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

For each of the Current Quarter and the Prior Year Quarter, cash interest expense relating to the 2.50% Convertible Notes was \$1.9 million.

The 2.50% Convertible Notes do not provide for any financial covenants.

In connection with the sale of the 2.50% Convertible Notes, the Company entered into hedges for the 2.50% Convertible Notes ( 2.50% Convertible Note Hedges ) with respect to its common stock with two entities (the 2.50% Counterparties ). Pursuant to the agreements governing these 2.50% Convertible Note Hedges, the Company purchased call options (the 2.50% Purchased Call Options ) from the 2.50% Counterparties covering up to approximately 9.8 million shares of the Company s common stock. These 2.50% Convertible Note Hedges are designed to offset the Company s exposure to potential dilution upon conversion of the 2.50% Convertible Notes in the event that the market value per share of the Company s common stock at the time of exercise is greater than the strike price of the 2.50% Purchased Call Options (which strike price corresponds to the initial conversion price of the 2.50% Convertible Notes and is simultaneously subject to certain customary adjustments). On May 23, 2011, the Company paid an aggregate amount of approximately \$58.7 million of the proceeds from the sale of the 2.50% Convertible Notes for the 2.50% Purchased Call Options, of which \$20.6 million was included in the balance of deferred income tax assets at May 23, 2011 and is being recognized over the term of the 2.50% Convertible Notes. As of March 31, 2015, the balance of deferred income tax assets related to this transaction was approximately \$4.9 million.

The Company also entered into separate warrant transactions with the 2.50% Counterparties whereby the Company, pursuant to the agreements governing these warrant transactions, sold to the 2.50% Counterparties warrants (the 2.50% Sold Warrants ) to acquire up to 9.76 million shares of the Company s common stock at a strike price of \$40.6175 per share of the Company s common stock. The 2.50% Sold Warrants will become exercisable on September 1, 2016 and will expire by the end of 2016. The Company received aggregate proceeds of approximately \$28.8 million from the sale of the 2.50% Sold Warrants on May 23, 2011.

Pursuant to guidance issued under ASC 815 as it relates to accounting for derivative financial instruments indexed to, and potentially settled in, a company s own stock, the 2.50% Convertible Note Hedge and the proceeds received from the issuance of the 2.50% Sold Warrants were recorded as a charge and an increase, respectively, in additional paid-in capital in stockholders equity as separate equity transactions. As a result of these transactions, the Company recorded

a net reduction to additional paid-in-capital of \$9.4 million in May 2011.

The Company has evaluated the impact of adopting guidance issued under ASC 815 regarding embedded features as it relates to the 2.50% Sold Warrants, and has determined it had no impact on the Company's results of operations and financial position through March 31, 2015, and will have no impact on the Company's results of operations and financial position in future fiscal periods.

As the 2.50% Convertible Note Hedge transactions and the warrant transactions were separate transactions entered into by the Company with the 2.50% Counterparties, they are not part of the terms of the 2.50% Convertible Notes and will not affect the holders' rights under the 2.50% Convertible Notes. In addition, holders of the 2.50% Convertible Notes will not have any rights with respect to the 2.50% Purchased Call Options or the 2.50% Sold Warrants.

If the market value per share of the Company's common stock at the time of conversion of the 2.50% Convertible Notes is above the strike price of the 2.50% Purchased Call Options, the 2.50% Purchased Call Options entitle the Company to receive from the 2.50% Counterparties net shares of the Company's common stock, cash or a combination of shares of the Company's common stock and cash, depending on the consideration paid on the underlying 2.50% Convertible Notes, based on the excess of the then current market price of the Company's common stock over the strike price of the 2.50% Purchased Call Options. Additionally, if the market price of the Company's common stock at the time of exercise of the 2.50% Sold Warrants exceeds the strike price of the 2.50% Sold Warrants, the Company will owe the 2.50% Counterparties net shares of the Company's common stock or cash, not offset by the 2.50% Purchased Call Options, in an amount based on the excess of the then current market price of the Company's common stock over the strike price of the 2.50% Sold Warrants.

These transactions will generally have the effect of increasing the conversion price of the 2.50% Convertible Notes to \$40.6175 per share of the Company's common stock, representing a 75% percent premium based on the last reported sale price of the Company's common stock of \$23.21 per share on May 17, 2011.

Moreover, in connection with the warrant transactions with the 2.50% Counterparties, to the extent that the price of the Company's common stock exceeds the strike price of the 2.50% Sold Warrants, the warrant transactions could have a dilutive effect on the Company's earnings per share.

### ***Debt Maturities***

As of March 31, 2015, the Company's debt maturities on a calendar year basis are as follows:

	Total	April 1 through December 31, 2015	2016	2017	2018	2019	Thereafter
Senior Secured Notes	\$ 758,750	\$ 45,843	\$ 61,123	\$ 61,123	\$ 61,123	\$ 61,123	\$ 468,415
1.50% Convertible Notes (1)	344,113				344,113		
2.50% Convertible Notes (2)	283,449		283,449				
Variable Funding Notes	100,000				100,000		
<b>Total</b>	<b>\$ 1,486,312</b>	<b>\$ 45,843</b>	<b>\$ 344,572</b>	<b>\$ 61,123</b>	<b>\$ 505,236</b>	<b>\$ 61,123</b>	<b>\$ 468,415</b>

(1) Reflects the net debt carrying amount of the 1.50% Convertible Notes in the consolidated balance sheet as of March 31, 2015, in accordance with accounting for convertible notes. The principal amount owed to the holders of the 1.50% Convertible Notes is \$400.0 million.

(2) Reflects the net debt carrying amount of the 2.50% Convertible Notes in the consolidated balance sheet as of March 31, 2015, in accordance with accounting for convertible notes. The principal amount owed to the holders of the 2.50% Convertible Notes is \$300.0 million.

## **7. Stockholders' Equity**

### ***Stock Repurchase Program***

In October 2011, the Company's Board of Directors authorized a program to repurchase up to \$200 million of the Company's common stock over a period of approximately three years (the 2011 Program). In February 2013, the Company's Board of Directors authorized another program to repurchase up to \$300 million of the Company's common stock over a three year period (the February 2013 Program). This program was in addition to the 2011 Program, which was fully expended as of February 27, 2013. In July 2013, the Company's Board of Directors authorized a program to repurchase up to \$300 million of the Company's common stock over a period of approximately three years ( July 2013 Program). The July 2013 Program was in addition to the February 2013 Program, which was fully expended on August 15, 2013. In February 2014, the Company's Board of Directors authorized another program to repurchase up to \$500 million of the Company's common stock over a three year period (the February 2014 Program and together with the 2011 Program and the February 2013 Program, the Repurchase Programs). The February 2014 Program is in addition to the July 2013 Program.

The following table illustrates the activity under the Repurchase Programs, in the aggregate, for the Current Quarter, FY 2014, FY 2013, FY 2012 and FY 2011:

	# of shares repurchased as part of stock repurchase programs	Cost of shares repurchased (in 000 s)	Weighted Average Price
Q1 2015	200,000	\$ 6,980	\$ 34.90
FY 2014	4,994,578	193,434	38.73
FY 2013	15,812,566	436,419	27.60
FY 2012	7,185,257	125,341	17.44
FY 2011	1,150,000	19,138	16.64
Total, FY 2011 through March 31, 2015	29,342,401	\$ 781,312	\$ 26.63

As of March 31, 2015, \$18.7 million and \$500.0 million remained available for repurchase under the July 2013 Program and February 2014 Program, respectively. At March 31, 2015, approximately \$0.7 million is included in accounts payable.

### ***2009 Equity Incentive Plan***

On August 13, 2009, the Company's stockholders approved the Company's 2009 Equity Incentive Plan (2009 Plan). The 2009 Plan authorizes the granting of common stock options or other stock-based awards covering up to 3.0 million shares of the Company's common stock. All employees, directors, consultants and advisors of the Company, including those of the Company's subsidiaries, are eligible to be granted non-qualified stock options and other stock-based awards (as defined) under the 2009 Plan, and employees are also eligible to be granted incentive stock options (as defined) under the 2009 Plan. No new awards may be granted under the Plan after August 13, 2019.

On August 15, 2012, the Company's stockholders approved the Company's Amended and Restated 2009 Plan (Amended and Restated 2009 Plan), which, among other items and matters, increased the shares available under the 2009 Plan by an additional 4.0 million shares to a total of 7.0 million shares issuable under the Amended and Restated 2009 Plan and extended the 2009 Plan termination date through August 15, 2022.

### ***Shares Reserved for Issuance***

At March 31, 2015, 2,293,161 common shares were reserved for issuance under the Amended and Restated 2009 Plan. At March 31, 2015 there were no common shares available for issuance under any previous Company plan.

### ***Stock Options and Warrants***

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

There was no compensation expense related to stock option grants or warrant grants during the Current Quarter or Prior Year Quarter.

Summaries of the Company's stock options, warrants (other than warrants issued related to our 1.50% Convertible Notes and 2.50% Convertible Notes) and performance related options activity, and related information for the Current Nine Months are as follows:

Options	Options	Weighted Average Exercise Price
Outstanding at January 1, 2015	141,077	\$ 12.10
Granted		
Canceled		
Exercised		
Expired/Forfeited		
Outstanding at March 31, 2015	141,077	\$ 12.10
Exercisable at March 31, 2015	141,077	\$ 12.10

Warrants	Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2015	20,000	\$ 6.64
Granted		
Canceled		
Exercised		
Expired/Forfeited		
Outstanding at March 31, 2015	20,000	\$ 6.64
Exercisable at March 31, 2015	20,000	\$ 6.64

All warrants issued in connection with acquisitions are recorded at fair market value using the Black Scholes model and are recorded as part of purchase accounting. Certain warrants are exercised using the cashless method.

The Company values other warrants issued to non-employees at the commitment date at the fair market value of the instruments issued, a measure which is more readily available than the fair market value of services rendered, using the Black Scholes model. The fair market value of the instruments issued is expensed over the vesting period.

### ***Restricted stock***

Compensation cost for restricted stock is measured as the excess, if any, of the quoted market price of the Company's stock at the date the common stock is issued over the amount the employee must pay to acquire the stock (which is generally zero). The compensation cost, net of projected forfeitures, is recognized over the period between the issue date and the date any restrictions lapse, with compensation cost for grants with a graded vesting schedule recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The restrictions do not affect voting and dividend rights.

The following tables summarize information about unvested restricted stock transactions:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2015	2,699,732	\$ 22.40
Granted	34,543	34.42
Vested	(527,892)	32.35
Forfeited/Canceled	(22,870)	39.27
Non-vested, March 31, 2015	2,183,513	\$ 20.01

The Company has awarded time-based restricted shares of common stock to certain employees. The awards have restriction periods tied to employment and vest over a maximum period of 5 years. The cost of the time-based restricted stock awards, which is the fair market value on the date of grant net of estimated forfeitures, is expensed ratably over the vesting period. The Company has awarded performance-based restricted shares of common stock to certain employees. The awards have restriction periods tied to certain performance measures. The cost of the performance-based restricted stock awards, which is the fair market value on the date of grant net of estimated forfeitures, is expensed when the likelihood of those shares being earned is deemed probable.

Compensation expense related to restricted stock grants for the Current Quarter and the Prior Year Quarter was approximately \$2.6 million and \$2.5 million, respectively. An additional amount of \$4.9 million of expense related to time-based restricted shares is expected to be expensed evenly over a period of approximately three years. During the Current Quarter and the Prior Year Quarter, the Company withheld shares valued at \$10.0 million (which is included in accrued expenses) and \$13.6 million, respectively, of its common stock in connection with net share settlement of restricted stock grants.



## 8. Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of restricted stock-based awards, common shares issuable upon exercise of stock options and warrants and shares underlying convertible notes potentially issuable upon conversion. The difference between basic and diluted weighted-average common shares results from the assumption that all dilutive stock options outstanding were exercised and all convertible notes have been converted into common stock.

As of March 31, 2015 and March 31, 2014, of the total potentially dilutive shares related to restricted stock-based awards, stock options and warrants, less than 0.1 million were anti-dilutive.

As of March 31, 2015 and March 31, 2014, none of the performance related restricted stock-based awards issued in connection with the Company's named executive officers were anti-dilutive.

As of March 31, 2015, warrants issued in connection with the Company's 1.50% Convertible Notes financing and 2.50% Convertible Notes financing were anti-dilutive and therefore were not included in this calculation. As of March 31, 2014, warrants issued in connection with the Company's 1.50% Convertible Notes financing and 2.50% Convertible Notes financing were dilutive and therefore were included in this calculation.

A reconciliation of weighted average shares used in calculating basic and diluted earnings per share follows:

	For the Three Months Ended	
	March 31, (unaudited)	
	2015	2014
Basic	48,158	49,522
Effect of exercise of stock options	99	1,117
Effect of assumed vesting of restricted stock	1,304	1,382
Effect of convertible notes subject to conversion	2,348	4,893
Effect of convertible notes warrants subject to conversion		1,137
Diluted	51,909	58,051

See Note 6 for discussion of hedges related to our convertible notes.

## 9. Commitments and Contingencies

### *Normal Course litigation*

From time to time, the Company is also made a party to litigation incurred in the normal course of business. While any litigation has an element of uncertainty, the Company believes that the final outcome of any of these routine matters will not have a material effect on the Company's financial position or future liquidity.

## 10. Related Party Transactions

### *The Candie's Foundation*

The Candie's Foundation, a charitable foundation founded by Neil Cole for the purpose of raising national awareness about the consequences of teenage pregnancy, owed the Company less than \$0.1 million at March 31, 2015 and less than \$0.1 million at December 31, 2014. The Candie's Foundation intends to pay-off the entire borrowing from the Company during 2015, although additional advances will be made as and when necessary.

*Travel*

The Company recorded expenses of \$95 in the Prior Year Quarter, for the hire and use of aircraft solely for business purposes owned by a company in which the Company's chairman, chief executive officer and president is the sole owner. There were no such expenses in the Current Quarter. Management believes that all transactions were made on terms and conditions no less favorable than those available in the marketplace from unrelated parties.

## 11. Segment and Geographic Data

The Company identifies its operating segments according to how business activities are managed and evaluated: men's, women's, home, entertainment and corporate. Since the Company does not track, manage and analyze its assets by segments, no disclosure of segmented assets is reported. The information below has been revised from previously published financial statements in which the Company had formerly identified only one reporting segment.

The geographic regions consist of the United States, Japan and Other (which principally represent Latin America and Europe). Revenues attributable to each region are based on the location in which licensees are located and where they principally do business.

Reportable data for the Company's operating segments were as follows:

	March 31,	
	2015 (restated)	2014 (restated)
Licensing and other revenue by category:		
Men's	\$ 20,597	\$ 23,377
Women's	40,090	41,452
Home	9,946	10,979
Entertainment	23,164	35,844
Other Revenue		3,971
	\$ 93,797	\$ 115,623
Licensing and other revenue by category:		
Direct-to-retail license	\$ 41,886	\$ 43,054
Wholesale licenses	40,988	44,450
Other licenses	10,923	24,148
Other revenue		3,971
	\$ 93,797	\$ 115,623
Licensing and other revenue by geographic region:		
United States	\$ 66,902	\$ 82,270
Japan	8,059	8,888
Other <sup>(1)</sup>	18,836	24,465
	\$ 93,797	\$ 115,623

(1) No single country represented 10% of the Company's revenues in the periods presented within Other on this table.

## 12. Restatement

As previously discussed, a Special Committee of the Company's Board of Directors, along with the Special Committee's independent legal and accounting advisors, has been conducting a review of the accounting treatment related to certain of the Company's transactions. The advisors have presented their analysis and conclusions to the Special Committee and to the Company's current management team. The Special Committee has now completed the

review.

Based on the Special Committee's review and additional review by the Company's Audit Committee and current management team, the Board of Directors, Audit Committee and the Company's current management team concluded that the Company would restate its historical financial statements in respect of (i) the fourth quarter and annual results of 2013, (ii) the 2014 fiscal year and each quarterly period thereof and (iii) the first and second quarters of 2015 (collectively, the Restatement Periods), to correct certain errors in accounting.

These restatements include the correction of errors regarding (i) the classification of contractually obligated expenses, retail support and other costs as selling, general and administrative expenses, as opposed to netting such expenses against licensing or other revenue, as applicable, (ii) inadequate support for revenue recognition relating to certain license agreements, and (iii) inadequate estimation of accruals related to retail support for certain license agreements.

Adjustments to the Company's previously reported consolidated statements of income and comprehensive income for the Current and Prior Year Quarters are identified in the tables below:

	Three Months Ended March 31, 2015 (Unaudited)			Three Months Ended March 31, 2014 (Unaudited)		
	As		As Restated	As		As Restated
	Previously Reported	Adjustments		Previously Reported	Adjustments	
Licensing revenue	\$ 95,387	\$ (1,590)	\$ 93,797	\$ 112,167	\$ (515)	\$ 111,652
Total revenue	95,387	(1,590)	93,797	116,138	(515)	115,623
Selling, general and administrative expenses	44,155	(2,947)	41,208	48,202	(438)	47,764
Operating income	51,232	1,357	52,589	67,936	(77)	67,859
Income before taxes	91,817	1,300	93,117	88,396	(77)	88,319
Provision for income taxes	25,910	455	26,365	25,554	(27)	25,527
Net income	65,907	845	66,752	62,842	(50)	62,792
Net income attributable to Iconix Brand Group, Inc.	62,840	845	63,685	59,768	(50)	59,718
Earnings per share:						
Basic	\$ 1.30	\$ 0.02	\$ 1.32	\$ 1.21	\$ 0.00	\$ 1.21
Diluted	\$ 1.21	\$ 0.02	\$ 1.23	\$ 1.03	\$ 0.00	\$ 1.03
Comprehensive income	27,668	853	28,521	62,554	(50)	62,504
Comprehensive income attributable to Iconix Brand Group, Inc.	24,601	853	25,454	59,480	(50)	59,430

**Note 13. Other Assets Current and Long Term**

	March 31, 2015 (restated)	December 31, 2014 (restated)
Other assets-current consisted of the following:		
Notes receivables on sale of trademarks	\$ 25,498	\$ 24,219
Note receivable in connection with Strawberry Shortcake acquisition	4,577	
Prepaid advertising	5,652	6,633
Prepaid expenses	840	724

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Short-term receivable- Beagle note receivable		2,085
Prepaid taxes	16,399	26,448
Deferred Charges	1,816	1,191
Prepaid insurance	598	439
Due from related parties	2,770	3,331
Other current assets	2,141	1,711
	\$ 60,291	\$ 66,781

**Other Assets Non-current**

	March 31, 2015 (restated)	December 31, 2014 (restated)
Other noncurrent assets consisted of the following:		
ABC Commitment	\$ 13,108	\$ 14,644
Notes Receivable	41,985	38,697
Prepaid Interest	9,146	9,265
Deposits	662	633
Other noncurrent assets	95	95
	\$ 64,996	\$ 63,334

The Note receivable in connection with Strawberry Shortcake acquisition represents amounts due from AG in respect of non-compete payments pursuant to a License Agreement entered into with AG simultaneously with the closing of the transaction.

#### **Note 14. Other Liabilities – Current**

As of March 31, 2015 and December 31, 2014, other current liabilities include amounts due to related parties of \$11.9 million and \$8.7 million, respectively, and amounts due to Purim related to the MG Icon acquisition of \$4.0 million and \$4.0 million, respectively. See Note 3 for further details of this transaction.

#### **Note 15. Foreign Currency Translation**

Iconix Luxembourg and Red Diamond Holdings are wholly owned subsidiaries of the Company, located in Luxembourg, that for accounting purposes are required to maintain their accounting records in Euros. However the companies have certain dollar denominated assets, in particular cash and notes receivable, that are maintained in U.S. Dollars, which are required to be revalued each quarter. Due to the strengthening of the dollar by approximately 14% in the Current Quarter, the Company recorded a \$10.5 million currency translation gain that is included in the unaudited condensed consolidated statement of income.

Comprehensive income includes certain gains and losses that, under U.S. GAAP, are excluded from net income as such amounts are recorded directly as an adjustment to stockholders' equity. Our comprehensive income is primarily comprised of net income and foreign currency translation loss. During the Current Quarter and Prior Year Quarter, we recognized as a component of our comprehensive income, a foreign currency translation loss of \$38.2 million and \$0.3 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period.

#### **Note 16. Accounting Pronouncements**

##### *New Accounting Standards*

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-03, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs in 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 standards 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 This ASU is effective for annual and interim periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). The Company will adopt the new standard effective January 1, 2016.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for annual and interim periods beginning on or after December 15, 2016, and early adoption is not permitted. Companies will have the option of using either a full retrospective approach or a modified approach to adopt the guidance in the ASU. We are currently evaluating the impact of adopting this guidance.

In April 2014, the FASB issued ASU No. 2014-08 ( ASU 2014-08 ) Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of

a discontinued operation. This ASU is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We do not expect this new accounting pronouncement to have an impact on our consolidated financial statements.

**Note 17. Other Matters**

The Company is currently in a comment letter process with the Staff of the Securities and Exchange Commission relating to an ongoing periodic review of the Company's Form 10-K for the year ended December 31, 2014. The current correspondence relates to the accounting treatment for the formation of the Company's international joint ventures under U.S. Generally Accepted Accounting Principles and whether such joint ventures should potentially have been consolidated in the Company's historical results. The Company's Board of Directors also formed a Special Committee consisting of independent directors to review the accounting treatment related to certain of the Company's international joint venture transactions.



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

*Executive Summary.* Iconix Brand Group is a brand management company and owner of a diversified portfolio of over 35 global consumer brands across women's, men's, entertainment and home brands. The Company's business strategy is to maximize the value of its brands primarily through strategic licenses and joint venture partnerships around the world, as well as to grow the portfolio of brands through strategic acquisitions.

The Company's brand portfolio includes Candie's®, Bongo®, Badgley Mischka®, Joe Boxer®, Rampage®, Mudd®, London Fog®, Mossimo®, Ocean Pacific/OP®, Danskin /Danskin Now®, Rocawear® /Roc Nation®, Cannon®, Royal Velvet®, Fieldcrest®, Charisma®, Starter®, Waverly®, Ecko Unltd® /Mark Ecko Cut & Sew®, Zoo York®, Sharper Image®, Umbro®, Lee Cooper® and Strawberry Shortcake®; and interest in Artful Dodger®, Material Girl®, Peanuts®, Ed Hardy®, Truth or Dare®, Billionaire Boys Club®, Ice Cream®, Modern Amusement®, Buffalo®, Nick Graham®, Hydraulic® and Pony®.

The Company looks to monetize the intellectual property (herein referred to as IP) related to its brands throughout the world and in all relevant categories by licensing directly with leading retailers (herein referred to as direct to retail), through consortia of wholesale licensees, through joint ventures in specific territories and through other activity such as corporate sponsorships and content as well as the sale of IP for specific categories or territories. Products bearing the Company's brands are sold across a variety of distribution channels from the mass tier to the luxury market and, in the case of the Peanuts and Strawberry Shortcake brands, through various media outlets, including television, movies, digital and mobile content. The licensees are responsible for designing, manufacturing and distributing the licensed products. The Company supports its brands with advertising and promotional campaigns designed to increase brand awareness. Additionally the Company provides its licensees with coordinated trend direction to enhance product appeal and help build and maintain brand integrity.

Licensees are selected based upon the Company's belief that such licensees will be able to produce and sell quality products in the categories of their specific expertise and that they are capable of exceeding minimum sales targets and royalties that the Company generally requires for each brand. This licensing strategy is designed to permit the Company to operate its licensing business, leverage its core competencies of marketing and brand management with minimal working capital, and without inventory, production or distribution costs or risks and maintain high margins. The vast majority of the Company's licensing agreements include minimum guaranteed royalty revenue which provides the Company with greater visibility into future cash flows.

A key initiative in the Company's global brand expansion plans has been the formation of international joint ventures. The strategy in forming international joint ventures is to partner with best-in-class, local partners to bring the Company's brands to market more quickly and efficiently, generating greater short- and long-term value from its IP, than the Company believes is possible if it were to build-out wholly-owned operations itself across a multitude of regional or local offices. Since September 2008, the Company has established the following international joint ventures: Iconix China, Iconix Latin America, Iconix Europe, Iconix India, Iconix Canada, Iconix Australia, Iconix Southeast Asia, Iconix Israel and Iconix Middle East.

The Company also plans to continue to build and maintain its brand portfolio by acquiring additional brands directly or through joint ventures. In assessing potential acquisitions or investments, the Company primarily evaluates the strength of the target brand as well as the expected viability and sustainability of future royalty streams. The Company believes that this focused approach allows it to effectively screen a wide pool of consumer brand candidates and other asset light businesses, strategically evaluate acquisition targets and complete due diligence for potential acquisitions efficiently.

The Company identifies its operating segments according to how business activities are managed and evaluated. Prior to April 1, 2015, the Company had disclosed one reportable segment: licensing and other revenue. Subsequently, the

Company has reviewed its business activities, how they are managed and evaluated, and determined that it would, going forward, reflect four distinct reportable operating segments: men's, women's, home and entertainment. Therefore, the Company has disclosed these reportable segments for the periods shown below.

	March 31, 2015 (restated)	March 31, 2014 (restated)
<b>Licensing and other revenue:</b>		
Mens	\$ 20,597	\$ 23,377
Women's	40,090	41,452
Home	9,946	10,979
Entertainment	23,164	35,844
Other revenue		3,971
	<b>\$ 93,797</b>	<b>\$ 115,623</b>

### *Highlights of Current Quarter*

Acquisition of Strawberry Shortcake

Acquisition of 75% interest in PONY

Acquisition of additional 50% interest in Iconix China; increased ownership to 100%

Q1 Licensing revenue of \$93.8 million, flat to Prior Year Quarter excluding Prior Year Quarter ABC deal

### *Results of Operations*

*The Current Quarter (restated) compared to the Prior Year Quarter (restated)*

**Licensing Revenue.** Total licensing revenue for the Current Quarter totaled \$93.8 million, a 16% decrease as compared to \$111.7 million for the Prior Year Quarter. The men's segment decreased 12% from \$23.4 million in the Prior Year Quarter to \$20.6 million in the Current Quarter mainly due to weakness in our Rocawear and Ecko brands. The women's segment decreased 3% from \$41.5 million in the Prior Year Quarter to \$40.1 million in the Current Year Quarter mainly due to weakness in our Rampage brand. The entertainment segment decreased 35% from \$35.8 million in the Prior Year Quarter to \$23.2 million in the Current Year Quarter mainly due to a decrease in our Peanuts business relating to the ABC renewal in the Prior Year Quarter offset by strong business in the Current Quarter. The home segment decreased 9% from \$11.0 million in the Prior Year Quarter to \$9.9m in the Current Year Quarter due to a decrease in licensing revenue from our Sharper Image Brand.

**Other Revenue.** Other revenue for the Current Quarter totaled zero, compared to \$4.0 million in the Prior Year Quarter. The decrease of \$4.0 million was due to the formation of a Lee Cooper U.S. joint venture in the Prior Year Quarter, for which there is no comparable transaction in the Current Quarter.

**Operating Expenses.** Total SG&A totaled \$41.2 million for the Current Quarter as compared to \$47.8 million for the Prior Year Quarter, a decrease of \$6.6 million. SG&A in the entertainment segment decreased 36% from \$23.7

million in the Prior Year Quarter to \$15.1 million in the Current Quarter which was mainly due to decreased agent expenses as a result of lower revenues from the Peanuts brand associated with the ABC renewal. SG&A from the women's segment increased 2% from \$5.9 million in the Prior Year Quarter to \$6.0 million in the Current Quarter. SG&A from the men's segment increased 9% from \$8.3 million in the Prior Year Quarter to \$9.0 million in the Current Quarter primarily due to an increase in advertising expense. SG&A from the home segment increased 38% from \$1.4 million in the Prior Year Quarter to \$2.0 million in the Current Quarter mainly due to increased advertising. Corporate SG&A increased 7% from \$8.5 million to \$9.1 million primarily an increase in professional fees related to the transactions closed during the quarter.

*Operating Income.* Operating income for the Current Quarter decreased to \$52.6 million, or approximately 56% of total revenue, compared to approximately \$67.9 million or approximately 59% of total revenue in the Prior Year Quarter. Operating income from the entertainment segment was \$8.0 million in the Current Quarter compared to \$12.1 million in the Prior Year Quarter. Operating income from the women's segment was \$34.1 million in the Current Quarter compared to \$35.6 million in the Prior Year Quarter. Operating income from the men's operating segment was \$11.6 million in the Current Quarter compared to \$15.1 million in the Prior Year Quarter. Operating income from the home segment was \$8.0 million in the Current Quarter compared to \$9.6 million in the Prior Year Quarter. Corporate operating loss was \$9.1 million in the Current Quarter compared to \$4.5 million in the Prior Year Quarter.

*Other Income- Net.* Other Income- net was approximately \$40.5 million for the Current Quarter as compared to \$20.5 million for the Prior Year Quarter, an increase of \$20.0 million. The increase in Other Income-net was related to (i) \$47.4 in Other Income related to the non-cash gain in Current Quarter related to the fair value re-measurement of our original 50% interest in Iconix China compared to a \$37.9 million non-cash gain in Prior Year Quarter related to the fair value re-measurement of our original 50% interest in Iconix Latin America ( see Note 3 to Notes to Consolidated Financial Statements for a description of this transaction), and (ii) a \$10.5 million foreign currency translation gain in the Current Quarter, for which there was no comparable gain or loss in the Prior Year Quarter.

*Provision for Income Taxes.* The effective income tax rate for the Current Quarter is approximately 28.3% resulting in a \$26.4 million income tax expense, as compared to an effective income tax rate of 28.9% in the Prior Year Quarter which resulted in the \$25.5 million income tax expense. The decrease in the income tax rate relates to one-time charge for New York State taxes in the Prior Year Quarter.

*Net Income.* Our net income was approximately \$66.8 million in the Current Quarter, compared to net income of approximately \$62.8 million in the Prior Year Quarter, as a result of the factors discussed above.

## **Liquidity and Capital Resources**

### *Liquidity*

Our principal capital requirements have been to fund acquisitions, working capital needs, share repurchases and, to a lesser extent, capital expenditures. We have historically relied on internally generated funds to finance our operations and our primary source of capital needs for acquisition has been the issuance of debt and equity securities. At March 31, 2015 and December 31, 2014, our cash totaled \$86.8 million and \$128.0 million, respectively, not including short-term restricted cash of \$43.6 million and \$59.6 million, respectively, which primarily consists of cash and cash equivalent deposits, held in accounts primarily for debt service.

We believe that cash from future operations, our currently available cash and capacity for additional financings under our Senior Secured Notes facility will be sufficient to satisfy our anticipated working capital requirements for the foreseeable future, including early redemptions by our convertible notes' holders in the event circumstances allow for early redemptions. We intend to continue financing future brand acquisitions through a combination of cash from operations, bank financing and the issuance of additional equity and/or debt securities. See Note 6 of Notes to the Unaudited Condensed Consolidated Financial Statements for a description of certain prior financings consummated by us.

### *Changes in Working Capital*

At March 31, 2015 and December 31, 2014 the working capital ratio (current assets to current liabilities) was 2.26 to 1 and 2.76 to 1, respectively.

### *Operating Activities*

Net cash provided by operating activities decreased approximately \$19.7 million, from \$52.7 million in the Prior Year Quarter to \$33.1 million in the Current Quarter. After excluding the non-cash gain in Current Quarter related to the fair value re-measurement of our original 50% interest in Iconix China and the deferred taxes associated with that non-cash gain, the change in net cash provided by operating activities was primarily related to a decrease in the gains on sale of trademarks of \$4.0 million, translation gains associated with our international operations of \$10.5 million, as well as an aggregate increase in the net change in balance sheet items of approximately \$5.1 million.

*Investing Activities*

Net cash used in investing activities increased approximately \$120.9 million, from \$41.6 million in the Prior Year Quarter to \$162.5 million in the Current Quarter. This increase in the Current Quarter is primarily due to (i) our purchase of the remaining 50% interest in Iconix China for \$20.4 million in cash (total cash paid to Novel was \$40.4 million), (ii) our purchase of the Pony brand for \$37.0 million in cash and (iii) our purchase of the Strawberry Shortcake brand for \$105 million in cash, as compared to our purchase of the remaining 50% interest in Iconix Latin America in the Prior Year Quarter for \$42.0 million in cash.

### *Financing Activities*

Net cash provided by financing activities was \$88.3 million in the Current Quarter, compared to \$138.0 million of net cash used in financing activities in the Prior Year Quarter. In the Current Quarter, we received proceeds of \$100 million from our Variable Funding Notes, for which there were no comparable financings in the Prior Year Quarter. In addition, there was an increase of \$14.4 million due to a reduction in restricted cash and a decrease in shares repurchased on the open market and vesting of restricted stock of \$113.5 million, from \$123.0 million in the Prior Year Quarter to \$9.5 million in the Current Quarter.

### *Other Matters*

#### *New Accounting Standards*

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-03, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs in 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 standards 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 This ASU is effective for annual and interim periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). The Company will adopt the new standard effective January 1, 2016.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for annual and interim periods beginning on or after December 15, 2016, and early adoption is not permitted. Companies will have the option of using either a full retrospective approach or a modified approach to adopt the guidance in the ASU. We are currently evaluating the impact of adopting this guidance.

In April 2014, the FASB issued ASU No. 2014-08 ( ASU 2014-08 ) Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This ASU is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We do not expect this new accounting pronouncement to have an impact on our consolidated financial statements.

***Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.*** The statements that are not historical facts contained in this report are forward looking statements that involve a number of known and unknown risks, uncertainties and other factors, all of which are difficult or impossible to predict and many of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These risks are detailed our Form 10-K for the fiscal year ended December 31, 2014 and other SEC filings. The words believe, anticipate, expect, confident, project, provide, guidance and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We limit exposure to foreign currency fluctuations by requiring the majority of our licenses to be denominated in U.S. dollars. Certain other licenses are denominated in Japanese Yen and the Euro. To mitigate interest rate risks, we have, from time to time, purchased derivative financial instruments such as forward contracts to convert certain portions of our revenue and cash received in foreign currencies to fixed exchange rates. If there were an adverse change in the exchange rate from Japanese Yen to U.S. dollars or the Euro to U.S. dollars of less than 10%, the expected effect on net income would be immaterial.

Moreover, in connection with the warrant transactions with the counterparties related to our 2.50% Convertible Notes and our 1.50% Convertible Notes, to the extent that the price of our common stock exceeds the strike price of the warrants, the warrant transactions could have a dilutive effect on our earnings per share. The effect, if any, of these transactions and activities on the trading price of our common stock will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock.

#### **Item 4. Controls and Procedures**

The Company, under the supervision and with the participation of its management, including its interim principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, herein referred to as the Exchange Act) as of the end of the period covered by this report. The purpose of disclosure controls is to ensure that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including our principal executive officer and interim principal financial officer, to allow timely decisions regarding required disclosure. Weaknesses were identified in certain of the Company's review controls. In addition, as a result of the Special Committee's review (as described in Note 12), and the subsequent review undertaken by the Audit Committee of the Board of Directors and current management, certain adjustments were noted that were subsequently recorded by the Company with respect to (i) the 2013 fiscal year and fourth quarter thereof, (ii) the 2014 fiscal year and each quarterly period thereof and (iii) the first and second quarters of 2015, to correct certain errors in accounting. These adjustments include the correction in errors regarding (i) the classification of contractually obligated expenses, retail support and other costs as selling, general and administrative expenses, as opposed to netting such expenses against licensing or other revenue, as applicable, (ii) inadequate support for revenue recognition relating to certain license agreements, and (iii) inadequate estimation of accruals related to retail support for certain license agreements.

As a result of the foregoing, the interim principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were not effective in timely alerting them to material information required to be included in our periodic SEC filings and ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms.

Notwithstanding the material weakness discussed in the Company's Annual Report on Form 10-K/A for the period ended December 31, 2014 and the adjustments discussed above, our interim principal executive officer and principal financial officer have concluded that the financial statements included in this Quarterly Report on Form 10-Q/A present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

The interim principal executive officer and principal financial officer also conducted an evaluation of internal control over financial reporting, herein referred to as internal control, to determine whether any changes in internal control occurred during the three months ended March 31, 2015 that may have materially affected or which are reasonably likely to materially affect internal control. Based on that evaluation, there has been no change in the Company's internal control during the three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect the Company's internal control, except for the matters discussed in the previous paragraphs.

#### *Material Weakness Previously Identified*

We previously reported a material weakness in internal control over financial reporting related to the accounting for certain adjustments related to certain revenue and income adjustments in Item 4. Controls and Procedures in our Annual Report on Form 10-K/A for the year ended December 31, 2014, filed with the SEC on November 25, 2015. The Company's current management team is implementing expanded review and monitoring controls in 2015 to address these findings and the adjustments discussed above.





## **PART II. Other Information**

### **Item 1. Legal Proceedings.**

See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements.

### **Item 1A. Risk Factors.**

In addition to the risk factors disclosed in Part 1, Item 1A, Risk Factors of our Annual Report on Form 10-K/A for the year ended December 31, 2014, set forth below are certain factors that have affected, and in the future could affect, our operations or financial condition. We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could impact our operations. The risks described below and in our Annual Report on Form 10-K/A for the year ended December 31, 2014 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our financial condition and/or operating results.

*Our existing and future debt obligations could impair our liquidity and financial condition, and in the event we are unable to meet our debt obligations we could lose title to certain trademarks.*

As of March 31, 2015, our consolidated balance sheet reflects debt of approximately \$1,486.3 million, including secured debt of \$858.8 million under our Senior Secured Notes. In accordance with ASC 470, our 1.50% Convertible Notes and our 2.50% Convertible Notes are included in our \$1,486 million of consolidated debt at a net debt carrying value of \$344.1 and \$283.4 million, respectively; however, the principal amount owed to the holders of our 1.50% Convertible Notes and 2.50% Convertible Notes is \$400.0 million (due March 2018) and \$300.0 million (due June 2016), respectively. We may also assume or incur additional debt, including secured debt, in the future in connection with, or to fund, future acquisitions or refinance our existing debt obligations. Our debt obligations:

could impair our liquidity;

could make it more difficult for us to satisfy our other obligations;

require us to dedicate a substantial portion of our cash flow to payments on our debt obligations, which reduces the availability of our cash flow to fund working capital, capital expenditures and other corporate requirements;

could impede us from obtaining additional financing in the future for working capital, capital expenditures, acquisitions and general corporate purposes;

impose restrictions on us with respect to the use of our available cash, including in connection with future acquisitions;

make us more vulnerable in the event of a downturn in our business prospects and could limit our flexibility to plan for, or react to, changes in our licensing markets; and

could place us at a competitive disadvantage when compared to our competitors who have less debt. In addition, as of March 31, 2015, approximately \$64.5 million, or 49%, of our total cash (including restricted cash) was held in foreign subsidiaries. Our investments in these foreign subsidiaries are considered indefinitely reinvested and unavailable for the payment of any U.S. based expenditures, including debt obligations. Any repatriation of cash from these foreign subsidiaries may require the accrual and payment of U.S. federal and certain state taxes, which could negatively impact our results of operations and/or the amount of available funds. While we currently have no intention to repatriate cash from these subsidiaries, should the need arise domestically, there is no guarantee that we could do so without adverse consequences.

While we believe that by virtue of the cash on our balance sheet as of March 31, 2015, our ability to add additional capacity under the securitization facility underlying our Senior Secured Notes, and the guaranteed minimum and percentage royalty payments due to us under our licenses, we will generate sufficient revenue from our licensing operations to satisfy our obligations for the foreseeable future. In the event that we were to fail in the future to make any required payment under agreements governing our indebtedness or fail to comply with the financial and operating covenants contained in those agreements, we would be in default regarding that indebtedness. A debt default could significantly diminish the market value and marketability of our common stock and could result in the acceleration of the payment obligations under all or a portion of our consolidated indebtedness.

***A substantial portion of our licensing revenue is concentrated with a limited number of licensees, such that the loss of any of such licensees or their renewal on terms less favorable than today, could slow our growth plans, decrease our revenue and impair our cash flows.***

Our licenses with Wal-Mart, Target, Kohl's and Kmart/Sears represent, each in the aggregate, our four largest direct-to-retail licensees during the Current Quarter, representing approximately 15%, 10%, 6% and 5%, respectively, of our total revenue for the Current Quarter. Because we are dependent on these licensees for a significant portion of our licensing revenue, if any of them were to have financial difficulties affecting their ability to make payments, cease operations, or if any of these licensees decides not to renew or extend any existing agreement with us, or to significantly reduce its sales of licensed products under any of the agreement(s), our revenue and cash flows could be reduced substantially.

Alternatively, we may face increasing competition in the future for direct-to-retail licenses as other companies owning established brands may decide to enter into licensing arrangements with retailers similar to the ones we currently have in place. Furthermore, our current or potential direct-to-retail licensees may decide to more prominently promote and market competing brands, or develop or purchase other brands, rather than continue their licensing arrangements with us. In addition, this increased competition could result in lower sales of products offered by our direct-to-retail licensees under our brands. If our competition for retail licenses increases, it may take us longer to procure additional retail licenses, which could slow our growth rate.

*We have a material amount of goodwill and other intangible assets, including our trademarks, recorded on our balance sheet. As a result of changes in market conditions and declines in the estimated fair value of these assets, we may, in the future, be required to write down a portion of this goodwill and other intangible assets and such write-down would, as applicable, either decrease our net income or increase our net loss.*

As of March 31, 2015, goodwill represented approximately \$239.2 million, or approximately 8% of our total consolidated assets, and trademarks and other intangible assets represented approximately \$2,179.9 million, or approximately 72% of our total consolidated assets. Under current U.S. GAAP accounting standards, goodwill and indefinite life intangible assets, including some of our trademarks, are no longer amortized, but instead are subject to impairment evaluation based on related estimated fair values, with such testing to be done at least annually. While, to date, no impairment write-downs have been necessary, any write-down of goodwill or intangible assets resulting from future periodic evaluations would, as applicable, either decrease our net income or increase our net loss and those decreases or increases could be material.

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

In March 2015, the Company issued 465,272 shares of common stock to Novel Fashion Brands ( Novel ) as a portion the purchase price for the Company s purchase of Novel s 50% interest in Iconix China. Such shares were valued at approximately \$15.7 million. These shares were issued pursuant to an exemption from registration provided under Section 4(a)(2) of the Securities Act of 1933.

The following table represents information with respect to purchases of common stock made by the Company during the Current Quarter:

Month of purchase	Total number of shares purchased*	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)(2)	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
January 1 - January 31	273,354	\$ 34.06		\$ 525,668,099
February 1 - February 28	177	\$ 35.24		\$ 525,668,099

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March 1	March 31	12,721	\$ 33.17	200,000	\$ 518,686,845
Total		286,252	\$ 34.03	200,000	\$ 518,686,845

- (1) On July 22, 2013, the Board of Directors authorized the repurchase of up to \$300 million of the Company's common stock over a period ending July 22, 2016, herein referred to as the July 2013 Program. The July 2013 Program is in addition to the February 2013 Program and the 2011 Program. The July 2013 Program does not obligate the Company to repurchase any specific number of shares and may be suspended at any time at management's discretion.
  - (2) On February 18, 2014, the Board of Directors authorized the repurchase of up to \$500 million of the Company's common stock over a period ending February 18, 2017, herein referred to as the 2014 Program. The 2014 Program is in addition to prior programs. The 2014 Program does not obligate the Company to repurchase any specific number of shares and may be suspended at any time at management's discretion.
- \* Amounts not purchased under the repurchase plan represent shares surrendered to the Company to pay withholding taxes due upon the vesting of restricted stock.

**Item 6. Exhibits**

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
Exhibit 31.1	Certification of Chief Executive Officer Pursuant To Rule 13a-14 or 15d-14 of The Securities Exchange Act of 1934, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002*
Exhibit 31.2	Certification of Interim Chief Financial Officer Pursuant To Rule 13a-14 or 15d-14 of The Securities Exchange Act of 1934, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002*
Exhibit 32.1	Certification of Chief Executive Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002*
Exhibit 32.2	Certification of Interim Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002*
Exhibit 101.INS	XBRL Instance Document*
Exhibit 101.SCH	XBRL Schema Document*
Exhibit 101.CAL	XBRL Calculation Linkbase Document*
Exhibit 101.DEF	XBRL Definition Linkbase Document*
Exhibit 101.LAB	XBRL Label Linkbase Document*
Exhibit 101.PRE	XBRL Presentation Linkbase Document*

\* Filed herewith.

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Iconix Brand Group, Inc.  
(Registrant)**

Date: November 27, 2015

/s/ F. Peter Cuneo  
F. Peter Cuneo  
Interim Chief Executive Officer

Date: November 27, 2015

/s/ David K. Jones  
David K. Jones  
Executive Vice President and Chief Financial Officer