

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

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

OR

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

Commission file number 1-10593

ICONIX BRAND GROUP, INC.

(Exact name of registrant as specified in its charter)

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

(212) 730-0030

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

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

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

## Part I. Financial Information

## Item 1. Financial Statements

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Balance Sheets

(in thousands, except par value)

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

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

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Operations

(in thousands, except earnings per share data)

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

to Iconix Brand Group, Inc.

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

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income

(in thousands)

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

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statement of Stockholders' Deficit

Nine Months Ended September 30, 2018

(in thousands)

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



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

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

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

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

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

Supplemental disclosure of cash flow information:

Nine Months  
Ended September

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

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

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

### 1. Basis of Presentation

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

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

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

#### Assessment of Going Concern

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

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

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

that its plans alleviate this substantial doubt, and therefore the management believes that it will continue as a going concern for the next twelve months.

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

## 2. Discontinued Operations

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



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

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

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

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

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

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

|  | Nine<br>Months<br>Ended<br><br>September<br>30,<br>2017 |
|--|---|
| Net cash used in discontinued operating activities | \$—\$(6,966 )   |
| Net cash used in discontinued investing activities | \$—\$(84 )  |
| Net cash used in discontinued financing activities | \$—\$(23,873)   |

### 3. Revenue Recognition

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

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

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

#### Revenue Recognition

##### Licensing Revenue

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

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

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

Licensing revenue is comprised of revenue related to the Company’s entry into various trade name license agreements that provide revenues based on minimum royalties and advertising/marketing fees and additional revenues based on a percentage of defined sales. Minimum royalty amounts are recognized as revenue on a straight-line basis over the full contract term. Minimum royalties that escalate on an annual basis over the contract term are recognized on a

straight-line basis over the full contract term. Royalties exceeding the defined minimum amounts in a specific contract year (sales-based royalties), as defined in each license agreement, are recognized only in the subsequent periods to when the minimum guarantee for the contract year has been achieved and when the later of the following events occur: (i) the subsequent sale occurs, or (ii) the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied).

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

The following table presents our revenues disaggregated by license type:

|   | Three Months Ended |           | Nine Months Ended |            |
|---|--------------------|-----------|-------------------|------------|
|   | September 30,      |           | September 30,     |            |
|   | 2018               | 2017      | 2018              | 2017       |
| <b>Licensing revenue by license type:</b> |                    |           |                   |            |
| Direct-to-retail license                  | \$ 19,344          | \$ 27,640 | \$ 60,651         | \$ 96,438  |
| Wholesale licenses                        | 26,682             | 25,477    | 81,238            | 76,927     |
| Other licenses <sup>(1)</sup>             | 198                | 48        | 3,095             | 170        |
|   | \$ 46,224          | \$ 53,165 | \$ 144,984        | \$ 173,535 |

<sup>(1)</sup>Included in Other licenses for the Current Quarter and the Current Year Nine Months is \$0.2 million and \$2.8 million, respectively, of revenue associated with the Umbro business purchases discussed above as compared to less than \$0.1 million for both the Prior Year Quarter and Prior Year Nine Months.

The following table represents our revenues disaggregated by geography:

|  | Three Months Ended |           | Nine Months Ended |            |
|--|--------------------|-----------|-------------------|------------|
|  | September 30,      |           | September 30,     |            |
|  | 2018               | 2017      | 2018              | 2017       |
| <b>Total licensing revenue by geographic region:</b> |                    |           |                   |            |
| United States  | \$ 29,430          | \$ 39,792 | \$ 96,532         | \$ 129,737 |
| Other <sup>(1)</sup>                                 | 16,794             | 13,373    | 48,452            | 43,798     |
|  | \$ 46,224          | \$ 53,165 | \$ 144,984        | \$ 173,535 |

<sup>(1)</sup>No single country represented 10% of the Company's revenues in the periods presented.

#### Remaining Performance Obligation

We enter into long-term license agreements with our licensees across all operating segments. Revenues are recognized on a straight line basis consistent with the nature, timing and extent of our services, which primarily relate to the ongoing brand management and maintenance of the intellectual property. As of October 1, 2018, the Company and its joint ventures had a contractual right to receive over \$425 million of aggregate minimum licensing revenue through the balance of all of their current licenses, excluding any renewals.

As of September 30, 2018, future minimum license revenue to be recognized is as follows: \$29.6 million, \$98.1 million, \$71.5 million, \$48.9 million, \$42.1 million and \$137.4 million for the remainder of FY 2018, FY 2019, FY 2020, FY 2021, FY 2022 and thereafter, respectively.

#### Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to licensees. We record a receivable when amounts are contractually due or when revenue is recognized prior to invoicing. Deferred revenue is recorded when amounts are contractually due prior to satisfying the performance obligations of the contracts. For multi-year license agreements, as the performance obligation is providing the licensee with the right of access to the Company's

intellectual property for the contractual term, the Company uses a time-lapse measure of progress and straight lines the guaranteed minimum royalties over the contract term.

#### Contract Asset

We record contract assets when revenue is recognized in advance of cash payment being due from our licensees. Contract assets due within one year of the most recent balance sheet date are recorded within Other assets – current and long term contract assets are recorded within Other assets on the Company’s condensed consolidated balance sheet. As of September 30, 2018, our contract assets – current and long term contract assets were \$6.4 million and \$12.9 million, respectively, which has been included within other assets – current and other assets, respectively, in the Company’s condensed consolidated balance sheet.

## Deferred Revenue

We record deferred revenue when cash payment is received or due in advance of our performance, including amounts which are refundable. Advanced royalty payments are recognized ratably over the period indicated by the terms of the license and are reflected in the Company's consolidated balance sheet in deferred revenue at the time the payment is received. The increase in deferred revenues for the Current Nine Months is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by \$4.3 million of revenues recognized that were included in the deferred revenue balance at the beginning of the period.

## 4. Goodwill and Trademarks and Other Intangibles, net

### Goodwill

Goodwill by reportable operating segment and in total, and changes in the carrying amounts, as of the dates indicated are as follows:

|  | Women's  | Men's | Home | International | Consolidated |
|--|----------|-------|------|---------------|--------------|
| Net goodwill at December 31, 2017              | \$37,812 | \$ —  | \$ — | \$ 26,070     | \$ 63,882    |
| Impairment                                     | (37,812) | —     | —    | —             | (37,812)     |
| Acquisition of 5% interest in Iconix Australia | —        | —     | —    | 29            | 29           |
| Net goodwill at September 30, 2018             | \$—      | \$ —  | \$ — | \$ 26,099     | \$ 26,099    |

The annual evaluation of the Company's goodwill, by segment, is typically performed as of October 1, the beginning of the Company's fourth fiscal quarter.

During the second quarter of 2018, based upon the results of step 1 of the goodwill impairment test in accordance with ASC 350 for the women's segment, the Company noted that the carrying value of the women's segment exceeded its fair value after first reflecting the impairment of the Mossimo trademark as discussed below. In accordance with step 2 of the goodwill impairment test, the Company recorded a non-cash impairment charge of \$37.8 million in the second quarter of 2018, which is due to the projected decline in royalties associated with the license agreements for the Mossimo brand.

In July 2018, the Company purchased an additional 5% ownership interest in Iconix Australia from its joint venture partner. As a result of this transaction, the Company recorded goodwill of less than \$0.1 million. Refer to Note 5 for further details.

### Trademarks and Other Intangibles, net

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

|          | September 30, 2018 |              | December 31, 2017 |              |
|----------|--------------------|--------------|-------------------|--------------|
|          | Estimated          | Gross        | Gross             |              |
| Lives in | Carrying           | Accumulated  | Carrying          | Accumulated  |
| Years    | Amount             | Amortization | Amount            | Amortization |

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|                                       |            |           |            |           |            |
|---------------------------------------|------------|-----------|------------|-----------|------------|
| Indefinite-lived trademarks           | Indefinite | \$397,579 | \$ —       | \$465,391 | \$ —       |
| Definite-lived trademarks             | 10-15      | 8,958     | 8,948      | 8,958     | 8,917      |
| Non-compete agreements                | 2-15       | —         | —          | 940       | 940        |
| Licensing contracts                   | 1-9        | 988       | 874        | 3,412     | 3,122      |
|                                       |            | \$407,525 | \$ 9,822   | \$478,701 | \$ 12,979  |
| Trademarks and other intangibles, net |            |           | \$ 397,703 |           | \$ 465,722 |

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, Ed Hardy, Umbro, Modern Amusement, Buffalo, Lee Cooper, Hydraulic and Pony have been determined to have an indefinite useful life. Each of these intangible assets are tested for impairment annually and as needed on an individual basis as separate single units of accounting representing domestic and various international assets, with any related impairment charge recorded to the income statement at the time of determining such impairment. The annual evaluation of the Company's indefinite-lived trademarks is typically performed as of October 1, the beginning of the Company's fourth fiscal quarter.



As of September 30, 2018, given the ongoing financial distress of Sears' Holding Corporation ("Sears") and its continuing liquidity challenges, the Company conducted an indefinite-lived intangible asset impairment test in accordance with ASC 350 for the Joe Boxer, Cannon and Bongo trademarks whose future revenues and earnings are either exclusively or heavily dependent on the existing license agreements with Sears. As part of its indefinite-lived intangible asset impairment test for the Joe Boxer, Cannon and Bongo trademarks, the Company developed a number of potential scenarios of the future forecasted cash flows of the Joe Boxer, Cannon and Bongo trademarks in the event of a potential bankruptcy filing by Sears and applied a probability of occurrence to each potential scenario. As a result, based on the indefinite-lived intangible asset impairment tests, the Company recorded a non-cash impairment charge of \$4.4 million in the Current Quarter to reduce the Joe Boxer trademark to fair value. The fair value of the Bongo and Cannon trademarks remained above their current book value and thus no impairment charge was recorded. On October 15, 2018, Sears filed for Chapter 11 bankruptcy. The Company will continue to monitor the Sears bankruptcy proceeding. As new and additional information is learned about the Sears bankruptcy filing, the Company will update its forecasted future earnings for the Joe Boxer, Cannon and Bongo brands as is deemed necessary. At this time, the Company is uncertain of the outcome of the Sears bankruptcy filing and how it could affect the future revenues and cash flows of these brands as well as if any future indefinite-lived intangible asset impairment charge for these trademarks is expected. Refer to Note 22 for further details.

As of June 30, 2018, the Company revised its forecasted future earnings for the Mossimo brand and accordingly, conducted an indefinite-lived intangible asset impairment test in accordance with ASC 350. Consequently, the Company recorded a non-cash impairment charge of \$73.3 million in the Current Nine Months in the women segment to reduce the Mossimo trademark to fair value.

In accordance with ASC 360, there were no impairment charges to the Company's definite-lived trademarks during the Current Nine Months or Prior Year Nine Months.

During the Current Nine Months, the Company completed the sale of the Badgley Mischka and Sharper Image intellectual property and related assets from the Iconix Southeast Asia, Iconix MENA, Iconix Europe and Iconix Australia joint ventures. Refer to Note 6 for further details.

During the Current Quarter, the Company purchased an additional 5% ownership interest in Iconix Australia which resulted in the Company consolidating the entity on its condensed consolidated balance sheet and the statement of operations for the Current Quarter. As a result of this transaction, the Company recorded \$12.3 million of trademarks on its condensed consolidated balance sheet. Refer to Note 5 for further details.

Other amortizable intangibles primarily include non-compete agreements and contracts, which are amortized on a straight-line basis over their estimated useful lives of 1 to 15 years. Certain trademarks are amortized using estimated useful lives of 10 to 15 years with no residual values.

Amortization expense for intangible assets for the Current Quarter was less than \$0.1 million as compared to amortization expense for intangible assets of approximately \$0.2 million for the Prior Year Quarter. Amortization expense for intangible assets for the Current Nine Months was approximately \$0.2 million as compared to

amortization expense for intangible assets of \$0.6 million for the Prior Year Nine Months.

## 5. Joint Ventures and Investments

## Joint Ventures

As of September 30, 2018, the following joint ventures are consolidated with the Company:

| Entity Name                                | Date of Original Formation / Investment | Iconix's Ownership % as of September 30, 2018 | Joint Venture Partner                     | Put / Call Options, as applicable |
|--|---|---|---|-----------------------------------|
| Lee Cooper China Limited <sup>(5)</sup>    | June 2018                               | 100%  | POS Lee Cooper HK Co. Ltd.                | —                                 |
| Starter China Limited <sup>(4)</sup>       | March 2018                              | 100%  | Photosynthesis Holdings Co. Ltd.          | —                                 |
| Danskin China Limited                      | October 2016                            | 100%  | Li-Ning (China) Sports Goods Co. Ltd.     | —                                 |
| Umbro China Limited                        | July 2016                               | 95%   | Hong Kong MH Umbro International Co. Ltd. | Call Options                      |
| US Pony Holdings, LLC                      | February 2015                           | 75%   | Anthony L&S Athletics, LLC                | —                                 |
| Iconix MENA Ltd. <sup>(1)</sup>            | December 2014                           | 55%   | Global Brands Group Asia Limited          | Put / Call Options                |
| Iconix Israel, LLC <sup>(1)</sup>          | November 2013                           | 50%   | MGS                                       | —                                 |
| Iconix Europe LLC <sup>(1)</sup>           | December 2009                           | 51%   | Global Brands Group Asia Limited          | Put / Call Options                |
| Iconix Australia <sup>(6)</sup>            | September 2013                          | 55%   | Pac Brands USA, Inc.                      | Put / Call Options                |
| Hydraulic IP Holdings LLC <sup>(1)</sup>   | December 2014                           | 100% <sup>(3)</sup>                           | Top On International                      | —                                 |
| Diamond Icon <sup>(1)</sup>                | March 2013                              | 51%   | Albion Agencies Ltd.                      | —                                 |
| Buffalo brand joint venture <sup>(1)</sup> | February 2013                           | 51%   | Buffalo International                     | —                                 |
| Icon Modern Amusement, LLC <sup>(1)</sup>  | December 2012                           | 51%   | Dirty Bird Productions                    | —                                 |
| Hardy Way, LLC                             | May 2009                                | 85%   | Donald Edward Hardy                       | —                                 |

- (1) The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and its respective joint venture partner, the entity is a variable interest entity (VIE) and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.
- (2) Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for material terms of the put and call options associated with certain of the Company's joint ventures.
- (3) In April 2018, pursuant to a letter agreement entered into simultaneously with the Company's acquisition of a 51% equity interest in Hydraulic, the Company acquired the remaining 49% ownership interest from its joint venture partner for no cash consideration as a result of an affiliate of the joint venture partner not making its minimum guaranteed royalty payment obligations to the Company in accordance with the respective license agreement. This transaction resulted in the Company effectively increasing its ownership interest in Hydraulic to 100%. The Company will retain 100% ownership interest in Hydraulic unless the affiliate of such joint venture partner satisfies its outstanding payment obligations by making all payments of the minimum guaranteed royalties to the Company under the terminated license agreement.
- (4) In March 2018, the Company entered into an agreement with Photosynthesis Holdings, Co. Ltd. ("PHL") to sell up to no less than a 50% interest and up to a total of 60% interest in its wholly-owned indirect subsidiary, Starter China Limited, a newly registered Hong Kong subsidiary of Iconix China ("Starter China"), and which will hold the Starter trademarks and related assets in respect of the Greater China territory. PHL's purchase of the initial 50% equity interest in Starter China is expected to occur over a three-year period commencing on January 15, 2020 for cash consideration of \$20.0 million. The additional 10% equity interest (for a total equity interest of 60% interest) purchase right of PHL is expected to occur over a three-year period commencing January 16, 2022 for cash consideration equal to the greater of \$2.7 million or 2.5 times the royalty received under the respective license agreement in the previous twelve months based on other terms and conditions specified in the share purchase agreement.
- (5) In June 2018, the Company entered into an agreement with POS Lee Cooper HK Co. Ltd. ("PLC") to sell up to no less than a 50% interest and up to a total of 60% interest in its wholly-owned indirect subsidiary, Lee Cooper China Limited, a newly registered Hong Kong subsidiary of Iconix China ("Lee Cooper China"), and which will hold the Lee Cooper trademarks and related assets in respect of the Greater China territory. PLC's purchase of the initial 50% equity interest in Lee Cooper China is expected to occur over a four-year period commencing on October 15, 2020 for cash consideration of approximately \$8.2 million. The additional 10% equity interest (for a total equity interest of 60% interest) purchase right of PLC is expected to occur over a two-year period commencing January 15, 2024 for cash consideration equal to the greater of \$2.5 million or 2.5 times the royalty received under the respective license agreement in the previous twelve months based on other terms and conditions specified in the share purchase agreement.

(6) In July 2018, the Company entered into the Third Amended and Restated Shareholders Agreement (“the Amended Agreement”) for Iconix Australia in which the Company purchased an additional 5% ownership interest in Iconix Australia from Brand Collective (USA), Inc. (“BrandCo”) for \$0.7 million in cash. As a result of this transaction, the Company’s ownership interest in Iconix Australia effectively increased to 55% and reduced BrandCo’s ownership interest in Iconix Australia to 45%. The Amended Agreement also resulted in a change in rights, duties and obligations of the Company and BrandCo in their capacity as joint venture partners in respects of the Iconix Australia joint venture. Additionally, as a result of this transaction and in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and BrandCo, Iconix Australia has been determined to be a VIE, and thus is subject to consolidation and included in the Company’s condensed consolidated financial statements as of July 2018.

The estimated fair value of the assets acquired, less liabilities assumed, is allocated as follows:

|   |    |          |
|---|----|----------|
| Fair value of 50% interest in Iconix Australia                                      | \$ | 6,507    |
| Book value of Company equity investment prior to purchase of additional 5% interest |    | (1,904 ) |
| Gain on re-measurement of initial equity investment                                 |    | 8,410    |
|   | \$ | 13,013   |
| Trademarks  |    | 12,349   |
| Cash  |    | 44       |
| Accounts receivable   |    | 360      |
| Intercompany receivables, net   |    | 368      |
| Accounts payable and accrued expenses   |    | (85 )    |
| Deferred revenue  |    | (52 )    |
| Goodwill  |    | 29       |
|   | \$ | 13,013   |

The Iconix Australia trademarks have been determined by management to have an indefinite useful life and accordingly, no amortization is being recorded in the Company’s condensed consolidated statement of operations. The goodwill and trademarks are subject to a test for impairment on an annual basis. Additionally, as a result of the acquisition, the Company recognized a \$5.9 million non-controlling interest associated with BrandCo’s 45% ownership interest in the Iconix Australia joint venture on the date of consolidation. Given the put option associated with the joint venture, the Company has recorded the non-controlling interest in Redeemable Non-controlling interest on the Company’s condensed consolidated balance sheet.

For both the Current Quarter and Current Nine Months, post-acquisition, the Company recognized approximately \$0.4 million, in revenue from such assets. In addition, the Company’s selling, general and administrative expenses increased by less than \$0.1 million for both the Current Quarter and Current Nine Months, and net income attributable to non-controlling interest increased by \$0.2 million for both the Current Quarter and Current Nine Months as a result of consolidating Iconix Australia on the Company’s condensed consolidated statement of operations.

Additionally, pursuant to the Amended Agreement, the specified put and call rights held by BrandCo and the Company, respectively, relating to BrandCo's ownership interest in the joint venture, were amended and restated as follows:

**Two-Year Put/Call Option:** At any time from December 20, 2020, BrandCo may deliver a put notice to the Company and the Company may deliver a call notice to BrandCo, in each case, for the Company's purchase of all units in the joint venture held by BrandCo. Upon the exercise of such put/call, the purchase price for BrandCo's units in the joint venture will be an amount equal to (i) the percentage interest represented by BrandCo's units, multiplied by (ii) 5, multiplied by (iii) RR, where RR is equal to:

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

2

A = trailing 12 months royalty revenue; and

CAGR = 36 month compound annual rate

As part of the formation of certain joint ventures, the Company entered into arrangements whereby the joint venture partner paid for its investment in the joint venture entity through payment of a portion of the purchase price in cash at closing and the remainder due over a pre-determined period of time.

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As of September 30, 2018, the following amounts due from such joint venture partners remain recorded on the Company's consolidated balance sheet:

| Entity                     | Joint Venture Partner | Amount   | Recorded in            |
|----------------------------|-----------------------|----------|------------------------|
| Iconix India joint venture | Reliance Brands Ltd.  | \$ 1,000 | Other Assets - Current |

## Investments

### Equity Method Investments

| Entity Name                               | Date of Original Formation / Investment | Partner                           | Put / Call Options, as applicable <sup>(3)</sup> |
|---|---|-----------------------------------|--|
| Iconix India joint venture <sup>(1)</sup> | June 2012                               | Reliance Brands Ltd.              | —  |
| Iconix SE Asia, Ltd. <sup>(4)</sup>       | October 2013                            | Global Brands Group Asia Limited  | Put / Call Options                               |
| MG Icon <sup>(1)</sup>                    | March 2010                              | Purim LLC                         | —  |
| Galore Media, Inc. <sup>(1)(2)</sup>      | April 2016                              | Various minority interest holders | —  |

<sup>(1)</sup>The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and its respective joint venture partner, that the joint venture is not a VIE and not subject to consolidation. The Company has recorded its investment under the equity method of accounting since inception.

<sup>(2)</sup>In September 2017, the Company entered into a stock repurchase agreement with Galore Media, Inc. ("Galore") whereby the Company sold, and Galore agreed to repurchase, the Company's 50,050 outstanding shares of Series A Preferred Stock of Galore for \$0.5 million. Pursuant to the stock repurchase agreement, the Company received \$0.3 million upon execution of the agreement and the remaining \$0.2 million was received in December 2017. Additionally, pursuant to the stock repurchase agreement, the Company forfeited and surrendered the 46,067 shares of Series A Preferred Stock of Galore that were received in April 2016 upon the Company's exercise of the initial warrant. All remaining warrants to purchase additional shares of Series A Preferred Stock of Galore were also forfeited as part of the stock repurchase arrangement. This transaction resulted in the Company's ownership interest in Galore being reduced to zero.

<sup>(3)</sup>Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for material terms of the put and call options associated with the Company's joint venture.

<sup>(4)</sup>In the Prior Year Nine Months, the Company received the final purchase price installment payment due from its joint venture partner, in respect of such partner's interest in the joint venture, which resulted in the Company no longer having a de facto agency relationship with the Iconix SE Asia, Ltd. joint venture partner. In accordance with ASC 810, the receipt of the final purchase price installment payment was considered a reconsideration event and although the joint venture remains a VIE, the Company is no longer the primary beneficiary. As a result, the Company deconsolidated the entity from its condensed consolidated balance sheet as of June 30, 2017 and recognized a pre-tax gain on deconsolidation of \$3.8 million in its condensed consolidated statement of operations for the Prior Year Nine Months. Subsequent to the deconsolidation of the joint venture, Iconix SE Asia, Ltd. is

being accounted as an equity-method investment with earnings from the investment being recorded in equity earnings from joint ventures in the Company's condensed consolidated statement of operations.

Additionally, through its ownership of Iconix China Holdings Limited, the Company has equity interests in the following private companies which are accounted for as equity method investments:

| Brands Placed | Partner  | Ownership<br>by<br>Iconix<br>China | Value of Investment               |                      |
|---------------|--|------------------------------------|-----------------------------------|----------------------|
|               |  |                                    | as of<br>September<br>30,<br>2018 | December<br>31, 2017 |
| Candie's      | Candies Shanghai Fashion Co. Ltd.                | 20%                                | \$10,343                          | \$10,539             |
| Marc Ecko     | Shanghai MuXiang Apparel & Accessory Co. Limited | 15%                                | 2,270                             | 2,270                |
| Material Girl | Ningo Material Girl Fashion Co. Ltd.             | 20%                                | 2,129                             | 2,217                |
| Ecko Unltd    | Ai Xi Enterprise (Shanghai) Co. Limited          | 20%                                | 10,568                            | 10,542               |
|               |  |                                    | \$25,310                          | \$25,568             |



## Other Equity Investments

|   | Date of Original       |
|---|------------------------|
| Entity Name                                   | Formation / Investment |
| China Outfitters Holdings Ltd. <sup>(3)</sup> | September 2008         |
| Marcy Media Holdings, LLC <sup>(1)</sup>      | July 2013              |
| Complex Media <sup>(1)(2)</sup>               | September 2013         |
| iBrands International, LLC <sup>(1)</sup>     | April 2014             |

- (1) Historically, given that the Company does not have significant influence over the entity, its investment has been recorded under the cost method of accounting. During the three months ended March 31, 2018, the Company adopted ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. As a result of the adoption of the standard, given that these investments do not have readily determinable fair values and the Company does not have significant influence over the entity, the Company assesses these investments for potential impairment on a quarterly basis. As of September 30, 2018, there were no indicators of impairment for these investments.
- (2) In July 2016, the Company received \$35.3 million in connection with the sale of its interest in Complex Media. An additional \$3.7 million was held in escrow to satisfy specified indemnification claims, with a portion of such escrow released twelve months following the closing of the transaction and the remainder released eighteen months following the closing of the transaction, subject to any such claims, at which time, the Company recorded the gain within its consolidated statement of operations. The Company recognized a gain of \$10.2 million as a result of this transaction which has been recorded in Other Income on the Company's consolidated statement of operations during the third quarter of the year ended December 31, 2016. In July 2017, the Company received \$2.7 million in cash of the total \$3.7 million being held in escrow. As a result, the Company has recognized a gain of \$2.7 million recorded within Other Income on the Company's condensed consolidated statement of operations in FY 2017. In January 2018, the Company received the remaining \$1.0 million in cash being held in escrow. As a result, the Company has recognized a gain of \$1.0 million recorded within Other Income on the Company's condensed consolidated statement of operations in the Current Nine Months.
- (3) As part of the 2015 purchase of our joint venture partners' interest in Iconix China, the Company acquired available-for-sale securities in China Outfitters Holdings Ltd. The Company historically recorded the change in fair value through accumulated other comprehensive income on the Company's condensed consolidated balance sheet. In the three months ended March 31, 2018, the Company adopted ASU 2016-01 and accordingly, adjustments to the fair value of this entity will be recorded through other income on the Company's condensed consolidated statement of operations prospectively. As of January 1, 2018, the Company reclassified the \$3.2 million cumulative loss in fair value of these available-for-sale securities which were historically recorded in accumulated other comprehensive loss to accumulated losses in accordance with ASU 2016-01. As of September 30, 2018, the fair value of this investment was approximately \$1.1 million.

## 6. Gains on Sale of Trademarks, Net

The following table details transactions comprising gains on sale of trademarks, net in the condensed consolidated statement of operations:

|   | Three<br>Months<br>Ended | Nine Months<br>Ended  |        |
|---|--------------------------|-----------------------|--------|
|   | September<br>30,<br>2018 | September 30,<br>2017 |        |
| Interest in Sharper Image                 |                          |                       |        |
| trademark in Iconix                       |                          |                       |        |
| Southeast Asia <sup>(1)</sup>             | \$ —                     | \$ —                  | \$236  |
| Interest in Sharper Image                 |                          |                       |        |
| trademark in Iconix                       |                          |                       |        |
| Europe <sup>(1)</sup>                     | —                        | —                     | 352    |
| Interest in Sharper Image                 |                          |                       |        |
| trademark in Iconix                       |                          |                       |        |
| MENA <sup>(1)</sup>                       | —                        | —                     | 250    |
| Interest in Sharper Image                 |                          |                       |        |
| trademark in Iconix                       |                          |                       |        |
| Australia <sup>(1)</sup>                  | —                        | —                     | 125    |
| Interest in Sharper Image                 |                          |                       |        |
| trademark in Iconix                       |                          |                       |        |
| Canada <sup>(3)</sup>                     | —                        | 500                   | —      |
| Interest in Badgley Mischka               |                          |                       |        |
| trademark in Iconix                       |                          |                       |        |
| Southeast Asia <sup>(2)</sup>             | —                        | —                     | 478    |
| Interest in Badgley Mischka               |                          |                       |        |
| trademark in Iconix Europe <sup>(2)</sup> | —                        | —                     | (244 ) |
| Interest in Badgley Mischka               |                          |                       |        |
| trademark in Iconix                       |                          |                       |        |
| Southeast Asia <sup>(2)</sup>             | —                        | —                     | 71     |

|   |     |        |          |        |
|---|-----|--------|----------|--------|
| trademark in Iconix MENA <sup>(2)</sup>   |     |        |          |        |
| Interest in Badgley Mischka               |     |        |          |        |
| trademark in Iconix Canada <sup>(4)</sup> | —   | 375    | —        | 375    |
| Net gains on sale of trademarks           | \$— | \$ 875 | \$ 1,268 | \$ 875 |

- (1) In December 2016, the Company sold its rights to the Sharper Image intellectual property and related assets to 360 Holdings, Inc. The Sharper Image intellectual property and related assets within other foreign territories, which was owned by certain of the Company's joint venture entities, required the Company to negotiate and finalize the sale of the intellectual property with its respective joint venture partners. As a result, in the Current Nine Months, the Company recognized an additional combined gain of approximately \$1.0 million upon final execution of the agreement for the sale of the Sharper Image intellectual property and related assets which were previously owned by the Iconix Southeast Asia, Iconix Europe, Iconix MENA and Iconix Australia joint ventures.
- (2) In February 2016, the Company sold its rights to the Badgley Mischka intellectual property and related assets to Titan Industries, Inc. in partnership with the founders, Mark Badgley and James Mischka, and the apparel license MJCLK LLC. The Badgley Mischka intellectual property and related assets within other foreign territories, which was owned by certain of the Company's joint venture entities, required the Company to negotiate and finalize the sale of the intellectual property with its respective joint venture partners. As a result, in the Current Nine Months, the Company recognized an additional combined net gain of approximately \$0.3 million upon final execution of the agreement for the sale of the Badgley Mischka intellectual property and related assets which were previously owned by the Iconix Southeast Asia, Iconix Europe and Iconix MENA joint ventures.
- (3) In September 2017, the Company sold its interest in the Sharper Image trademark in Canada for \$0.5 million in cash. The Company recognized a gain of \$0.5 million as a result of this transaction.
- (4) In September 2017, the Company sold its interest in certain Badgley Mischka trademarks for shoes and handbags in Canada for \$0.4 million in cash. The Company recognized a gain of \$0.4 million as a result of this transaction.

## 7. 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 may purchase hedge instruments to mitigate income statement risk and cash flow risk of revenue and receivables. As of September 30, 2018, the Company had no hedge instruments.

### Financial Instruments

As of September 30, 2018 and December 31, 2017, 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 other equity 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 other equity investments as of September 30, 2018 or December 31, 2017. 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:

|  | September 30, 2018 |            | December 31, 2017 |            |
|--|--------------------|------------|-------------------|------------|
|  | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
| Long-term debt, including current portion <sup>(1)</sup> | \$691,638          | \$685,810  | \$800,842         | \$747,818  |

<sup>(1)</sup>Carrying amounts include aggregate unamortized debt discount and debt issuance costs.

Additionally, the fair value of the other equity investments acquired as part of the 2015 purchase of our joint venture partners' interest in Iconix China was approximately \$1.1 million as of September 30, 2018. Due to the adoption of ASU 2016-01, changes in fair value of this other equity investment will be prospectively recorded in the Company's condensed consolidated statement of operations in future periods.

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 as well as certain of our joint venture partners – see Note 5.

#### 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. The Company recorded impairment charges on the Mossimo and Joe Boxer indefinite-lived trademarks and women's segment goodwill during the Current Nine Months. The Company recorded impairment charges on certain indefinite-lived and definite-lived assets during the Prior Year Nine Months. Refer to Note 4 for further details.

#### 8. Fair Value Option

During the Current Nine Months, the Company elected to account for its 5.75% Convertible Notes under the fair value option. The fair value carrying amount and the contractual principal outstanding balance of the 5.75% Convertible Notes accounted for under the fair value option as of September 30, 2018 is \$55.9 million and \$111.0 million, respectively. The change of \$17.2 million and \$73.7 million in the fair value of the 5.75% Convertible Notes accounted for under the fair value option are included in the Company's condensed consolidated statement of operations for the Current Quarter and Current Nine Months, respectively, within Other Income.

The primary reason for electing the fair value option is for simplification and cost-benefit considerations of accounting for the 5.75% Convertible Notes (the hybrid financial instrument) at fair value in its entirety versus bifurcation of the embedded derivatives. The 5.75% Convertible Notes contain bifurcatable embedded derivatives and do not require settlement by physical delivery of non-financial assets.

The significant inputs to the valuation of the 5.75% Convertible Notes at fair value are Level 1 inputs as they are based on the quoted prices of the notes in the active market.

#### 9. Debt Arrangements

The Company's debt obligations consist of the following:

|  | September<br>30,  | December<br>31,   |
|--|-------------------|-------------------|
|  | 2018              | 2017              |
| Senior Secured Notes                                     | \$ 376,154        | \$ 408,174        |
| 1.50% Convertible Notes                                  | —                 | 233,898           |
| Variable Funding Note, net of original issue discount    | 94,250            | 91,363            |
| Senior Secured Term Loan, net of original issue discount | 170,865           | 74,813            |
| 5.75% Convertible Notes <sup>(1)</sup>                   | 55,878            | —                 |
| Unamortized debt issuance costs                          | (5,509 )          | (7,406 )          |
| <b>Total debt</b>  | <b>691,638</b>    | <b>800,842</b>    |
| Less current maturities                                  | 50,406            | 44,349            |
| <b>Total long-term debt</b>                              | <b>\$ 641,232</b> | <b>\$ 756,493</b> |

<sup>(1)</sup>On February 12, 2018, the Company entered into the Exchange Agreements and consummated the Note Exchange on February 22, 2018, pursuant to which the Company exchanged approximately \$125.0 million aggregate principal amount of its 1.50% Convertible Notes for 5.75% Convertible Notes issued by the Company in an aggregate principal amount of approximately \$125.0 million. See below for further details.

## 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 2012 Senior Secured Notes in an offering exempt from registration under the Securities Act.

Simultaneously with the issuance of the 2012 Senior Secured Notes, the Co-Issuers also entered into a revolving financing facility of 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 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.

On June 21, 2013, the Co-Issuers issued \$275.0 million aggregate principal amount of 2013 Senior Secured Notes in an offering exempt from registration under the Securities Act.

The Senior Secured Notes and the Variable Funding Notes are referred to collectively as the “Securitization Notes.” The Securitization Notes were issued in securitization transactions pursuant to which the Securitized Assets, 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 Ecko Unltd trademarks, the Mark Ecko trademarks, the Artful Dodger trademarks, the Umbro trademarks, and the Lee Cooper trademarks, (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 Modern Amusement trademarks, the Buffalo trademarks, the Pony trademarks, and the Hydraulic trademarks.

The Securitization Notes were issued under the Securitization Notes Indenture among the Co-Issuers and Citibank, N.A., as Trustee and securities intermediary. The Securitization Notes Indenture allows the Co-Issuers to issue additional series of notes in the future subject to certain conditions.

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. Following the anticipated repayment date in January 2020, 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 August 18, 2017, the Company entered into an amendment to the Securitization Notes Supplemental Indenture to, among other things, (i) extend the anticipated repayment date for the Variable Funding Notes from January 2018 to January 2020, (ii) decrease the L/C Commitment and the Swingline Commitment (as such terms are defined in the amendment) available under the Variable Funding Notes to \$0 as of the closing date, (iii) replace Barclays Bank PLC with Guggenheim Securities Credit Partners, LLC, as provider of letters of credit, as swingline lender and as administrative agent under the purchase agreement and (iv) provide that, upon the disposition of intellectual property assets by the Co-Issuers as permitted by the Securitization Notes Base Indenture, (x) the holders of the Variable Funding Notes will receive a mandatory prepayment, pro rata based on the amount of Variable Funding Notes held by such holder, and (y) the maximum commitment will be permanently reduced by the amount of the mandatory



prepayment.

At the issuance of the Securitization Notes, the Company was required to make principal payments of interest on a quarterly basis while the Securitization Notes are outstanding. To the extent funds were available, principal payments in the amount of \$10.5 million and \$4.8 million were required to be made on the 2012 Senior Secured Notes and 2013 Senior Secured Notes, respectively, on a quarterly basis. The amount of quarterly principal payments changed in subsequent periods due to the prepayments made on the Securitization Notes. See below for further discussion.

The legal final maturity date of the Senior Secured Notes is in January of 2043, but it is anticipated that, unless earlier prepaid to the extent permitted under the Securitization Notes 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 at a rate 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 Securitization Notes Indenture, the Securitization Notes are the joint and several obligations of the Co-Issuers only. The Securitization 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, and Charisma; (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, and a 100% interest in ZY Holdings LLC which owns the Zoo York brand; and (iv) certain cash accounts established under the Securitization Notes Indenture.

If the Company contributes an Additional IP Holder 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 Securitization Notes Base Indenture pursuant to which such Additional IP Holder will guarantee the obligations of the Co-Issuers in respect of any Securitization Notes issued under the Securitization Notes 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 Securitization Notes Indenture or the Securitization Notes.

The Securitization 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 Securitization Notes, (ii) provisions relating to optional and mandatory prepayments, including mandatory prepayments in the event of a change of control (as defined in the Securitization Notes 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 Securitization Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. As of September 30, 2018, the Company is in compliance with all covenants under the Securitization Notes.

The Company’s Securitization Notes include a test that measures the amount of principal and interest required to be paid on the Co-Issuers’ debt to the approximate cash flow available to pay such principal and interest; the test is referred to as the debt service coverage ratio (“DSCR”). As a result of the decline in royalty collections received by the Co-Issuers during the twelve months ended June 30, 2018, the DSCR fell below 1.45x as of June 30, 2018. Beginning July 1, 2018, the Co-Issuers were required to allocate 25% of residual royalty collections (i.e. collections less debt service, management, servicing, administrative and other fees) to a restricted reserve account administered by the securitization program’s trustee, which will result in cash remaining inside the securitization program. The DSCR fell below 1.35x as of September 30, 2018 and as a result, beginning October 1, 2018, the Co-Issuers are required to allocate 50% of residual royalty collections (i.e. collections less debt service, management, servicing, administrative and other fees) to a restricted reserve account administered by the securitization program’s trustee, which will result in cash remaining inside the securitization program and not being distributed to the Company. The cash required to be maintained inside the securitization program may be released to the Company if the DSCR is at least 1.45x for two consecutive quarters.

The Securitization Notes are also subject to customary rapid amortization events provided for in the Securitization Notes Indenture, including events tied to (i) the failure to maintain a stated DSCR, (ii) certain manager termination events, (iii) the occurrence of an event of default and (iv) the failure to repay or refinance the Securitization 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" 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.

In January 2017, in connection with the sale of the Sharper Image intellectual property and related assets, the Company made a mandatory principal prepayment on its Senior Secured Notes of \$36.7 million. The Company wrote off a pro-rata portion of the Senior Secured Notes' deferred financing costs of \$0.5 million. As a result of this transaction, the Company recognized a loss on extinguishment of debt of \$0.5 million which has been recorded on the Company's consolidated statement of operations. Additionally, the quarterly principal payments on the 2012 Senior Secured notes and 2013 Senior Secured Notes were reduced to \$9.9 million and \$4.5 million, respectively.

In July 2017, in connection with the sale of the businesses underlying the Entertainment segment, the Company made a mandatory principal prepayment on its Senior Secured Notes of \$152.2 million. The Company wrote off a pro-rata portion of the Senior Secured Notes' deferred financing costs of \$2.0 million as well as paid a prepayment penalty of \$0.3 million. As a result of this transaction, the Company recognized a loss on extinguishment of debt of \$2.3 million which has been allocated to discontinued operations on the Company's consolidated statement of operations in FY 2017. Additionally, the quarterly principal payments on the 2012 Senior Secured Notes and 2013 Senior Secured Notes were reduced to \$7.3 million and \$3.4 million, respectively.

As of September 30, 2018 and December 31, 2017, the total outstanding principal balance of the Securitization Notes was \$476.2 million and \$508.2 million, respectively, of which \$42.7 million is included in the current portion of long-term debt on the consolidated balance sheet for both periods. As of September 30, 2018 and December 31, 2017, \$20.3 million and \$29.9 million, respectively, is included in restricted cash on the 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.

For the Current Quarter and the Prior Year Quarter, cash interest expense relating to the Securitization Notes was approximately \$5.6 million and \$6.2 million, respectively. For the Current Nine Months and the Prior Year Nine Months, cash interest expense relating to the Senior Secured Note was approximately \$16.8 million and \$21.3 million, respectively.

#### Senior Secured Term Loan

On August 2, 2017, the Company entered into the Senior Secured Term Loan, among IBG Borrower, the Company's wholly-owned direct subsidiary, as borrower, the Company and certain wholly-owned subsidiaries of IBG Borrower, as Guarantors, Cortland, as administrative agent and collateral agent and the lenders party thereto from time to time, including Deutsche Bank AG, New York Branch which was a privately negotiated transaction. Pursuant to the Senior Secured Term Loan, the lenders provided to IBG Borrower the Senior Secured Term Loan, scheduled to mature on August 2, 2022 in an aggregate principal amount of \$300 million and bearing interest at LIBOR plus an applicable margin of 7% per annum.

Pursuant to the terms of the Senior Secured Term Loan, the net proceeds of the Senior Secured Term Loan were to be used to repay the Company's 1.50% Convertible Notes on or before their maturity (with any remaining funds going toward general corporate purposes).

On the Closing Date the net cash proceeds of the Senior Secured Term Loan were deposited into an escrow account. Effective as of the Closing Date, the funds in the escrow account were subject to release to IBG Borrower from time to time, subject to the satisfaction of customary conditions precedent upon each withdrawal, to finance repurchases of, or at the maturity date thereof to repay in full, the 1.50% Convertible Notes. The Company had the ability to make these repurchases in the open market or privately negotiated transactions, depending on prevailing market conditions and other factors.

Borrowings under the Senior Secured Term Loan were to amortize quarterly at 0.5% of principal, commencing on September 30, 2017. IBG Borrower was obligated to make mandatory prepayments annually from excess cash flow and periodically from net proceeds of certain asset dispositions and from net proceeds of certain indebtedness, if incurred (in each case, subject to certain exceptions and limitations provided for in the Senior Secured Term Loan).

IBG Borrower's obligations under the Senior Secured Term Loan are guaranteed jointly and severally by the Company and the other Guarantors pursuant to a separate facility guaranty. IBG Borrower's and the Guarantors' obligations under the Senior Secured Term Loan are secured by first priority liens on and security interests in substantially all assets of IBG Borrower, the Company and the other Guarantors and a pledge of substantially all equity interests of the Company's subsidiaries (subject to certain limits including with respect to foreign subsidiaries) owned by the Company, IBG Borrower or any other Guarantor. However, the security interests will not cover certain intellectual property and licenses owned, directly or indirectly by the Company's subsidiary Iconix Luxembourg Holdings SÀRL or those subject to the Company's securitization facility. In addition, the pledges exclude certain equity interests of Marcy Media Holdings, LLC, and the subsidiaries of Iconix China Holdings Limited and any interest in the proceeds related to the Company's previously announced sale of its equity interest in Complex Media, Inc.

In connection with the Senior Secured Term Loan, IBG Borrower, the Company and the other Guarantors made customary representations and warranties and have agreed to adhere to certain customary affirmative covenants. Additionally, the Senior Secured Term Loan mandates that IBG Borrower, the Company and the other Guarantors enter into account control agreements on certain deposit accounts, maintain and allow appraisals of their intellectual property, perform under the terms of certain licenses and other agreements scheduled in the Senior Secured Term Loan and report significant changes to or terminations of licenses generating guaranteed minimum royalties of more than \$0.5 million. Prior to the First Amendment (as discussed below), IBG Borrower was required to satisfy a minimum asset coverage ratio of 1.25:1.00 and maintain a leverage ratio of no greater than 4.50:1.00.

#### Amendments to Senior Secured Term Loan

##### First Amendment

On October 27, 2017, the Company entered into the First Amendment to the Senior Secured Term Loan pursuant to which, among other things, the remaining escrow balance of approximately \$231 million (after taking into account approximately \$59.2 million that was used to buy back 1.50% Convertible Notes in open market purchases in the third quarter of 2017) was returned to the lenders.

The First Amendment also provided for, among other things, (a) a reduction in the existing \$300 million term loan, (b) a new senior secured delayed draw term loan facility in the aggregate amount of up to \$165.7 million, consisting of (i) a \$25 million First Delayed Draw Term Loan to be drawn on or prior to March 15, 2018, which was drawn on October 27, 2017 and (ii) a \$140.7 million Second Delayed Draw Term Loan to be drawn on March 14, 2018 for the purpose of repaying the 1.50% Convertible Notes; (c) an increase of the Total Leverage Ratio permitted under the Senior Secured Term Loan from 4.50:1.00 to 5.75:1.00; (d) a reduction in the debt service coverage ratio multiplier in the Company's asset coverage ratio under the Senior Secured Term Loan; (e) an increase in the existing amortization rate from 2 percent per annum to 10 percent per annum commencing July 2019; and (f) amendments to the mandatory prepayment provisions to (i) permit the Company not to prepay borrowings under the Senior Secured Term Loan from the first \$100 million of net proceeds resulting from Permitted Capital Raising Transactions (as defined in the Senior Secured Term Loan) effected prior to March 15, 2018, and (ii) eliminate the requirement that the Company pay a Prepayment Premium (as defined in the Senior Secured Term Loan) on any payments or prepayments made prior to December 31, 2018. Indebtedness issued under the Delayed Draw Term Loan Facility was issued with original issue discount.

Conditions to the availability of the Second Delayed Draw Term Loan included (i) the Company raising additional funds through various sources (and/or achieving a reduction in the outstanding principal amount of the 2018 Notes) in an aggregate amount of at least \$100 million which will be utilized to repay the 2018 Notes and provide at least \$25 million of additional cash to enhance liquidity and be used for general corporate purposes, (ii) the Company being in financial covenant compliance, on a pro forma basis as of the time of the requested borrowing and on a projected basis for the succeeding 12 months, and (iii) there not existing a default or event of default as of the time of the borrowing.

##### Second Amendment

Given that the Company was unable to timely file its quarterly financial statements for the quarter ended September 30, 2017 with the SEC by November 14, 2017 and became in default under the terms of the Senior Secured Term Loan, as amended by the First Amendment, on November 24, 2017, the Company entered into the Second Amendment to the Senior Secured Term Loan. Pursuant to the Second Amendment, among other things, the lenders under the Senior Secured Term Loan agreed, subject to the Company's compliance with the requirements set forth in the Second Amendment, to waive until December 22, 2017, the potential defaults and events of default arising under the Senior Secured Term Loan (a) from the failure to furnish to the Administrative Agent for the Senior Secured Term

Loan (i) the financial statements, reports and other documents as required under Section 6.01(b) of the Senior Secured Term Loan with respect to the fiscal quarter of the Company ended September 30, 2017 and (ii) the related deliverables required under Sections 6.02(b), 6.02(c) and 6.02(e) of the Senior Secured Term Loan or (b) relating to certain other affirmative covenants that may have been abrogated by such failure to make such timely deliveries.

In connection with the Second Amendment, Deutsche Bank was granted additional pricing flex in the form of price protection upon syndication of the Senior Secured Term Loan (“Flex”) and ticking fees on the unfunded portion of the loan. The Second Amendment allows, among other things, for cash payments on account of the Flex and ticking fees to be paid from the proceeds of the First Delayed Draw Term Loan, which was previously fully funded in accordance with the terms of the Senior Secured Term Loan. After giving effect to the additional Flex provided in the Second Amendment, the Company estimates that it could be responsible for payments on account of Flex in an aggregate total amount of up to \$12.0 million. As of September 30, 2018, the Company has paid a total of approximately \$5.0 million in Flex which is being amortized over the remaining life of the debt facility utilizing the effective interest rate method with the amortization expense being recorded in interest expense on the Company’s condensed consolidated statement of operations.

The Senior Secured Term Loan, as amended, contains customary negative covenants and events of default. The Senior Secured Term Loan limits the ability of IBG Borrower, the Company and the other Guarantors, with respect to themselves, their subsidiaries and certain joint ventures, from, among other things, incurring and prepaying certain indebtedness, granting liens on certain assets, consummating certain types of acquisitions, making fundamental changes (including mergers and consolidations), engaging in substantially different lines of business than those in which they are currently engaged, making restricted payments and amending or terminating certain licenses scheduled in the Senior Secured Term Loan. Such restrictions, failure to comply with which may result in an event of default under the terms of the Senior Secured Term Loan, are subject to certain customary and specifically negotiated exceptions, as set forth in the Senior Secured Term Loan.

If an event of default occurs, in addition to the Interest Rate increasing by an additional 3% per annum, Cortland shall, at the request of lenders holding more than 50% of the then-outstanding principal of the Senior Secured Term Loan, declare payable all unpaid principal and accrued interest and take action to enforce payment in favor of the lenders. An event of default includes, among other events: a change of control by which a person or group becomes the beneficial owner of 35% of the voting stock of the Company or IBG Borrower; the failure to extend of the Series 2012-1 Class A-1 Senior Notes Renewal Date (as defined in the Senior Secured Term Loan); the failure of any of Icon Brand Holdings LLC, Icon NY Holdings LLC, Icon DE Intermediate Holdings LLC, Icon DE Holdings LLC and their respective subsidiaries (the "Securitization Entities") to perform certain covenants; and the entry into amendments to the securitization facility that would be materially adverse to the lenders or Cortland without consent. Subject to the terms of the Senior Secured Term Loan, both voluntary and certain mandatory prepayments will trigger a premium of 5% of the aggregate principal amount during the first year of the loan and a premium of 3% of the aggregate principal amount during the second year of the loan, with no premiums payable in subsequent periods.

As a result of the First Amendment, on October 27, 2017, the Company repaid \$231.0 million which represented \$240.7 million of outstanding principal balance. As this transaction was accounted for as a debt modification in accordance ASC 470-50-40, and based on the Company's accounting policy for debt modifications, the Company wrote-off a pro-rata portion of the original issue discount and deferred financing costs of \$9.3 million and \$5.4 million, respectively, which were both recorded to interest expense on the Company's consolidated statement of operations for FY 2017. As a result of this transaction, the Company's outstanding principal balance of the Senior Secured Term Loan was reduced to \$57.8 million at that time and the Company recorded a gain on modification of debt of \$8.8 million (which is net of \$0.8 million of additional deferred financing costs associated with the First Amendment) which has been recorded in interest expense on the Company's consolidated statement of operations for FY 2017.

On November 2, 2017, the Company drew down the full amount of \$25.0 million on the First Delayed Draw Term Loan of which the Company received \$24.0 million in cash as this amount was net of the \$1.0 million of original issue discount.

As a result of the Second Amendment, the Company incurred \$0.2 million of additional deferred financing costs. In accordance with ASC 470-50-40, the Company accounted for this amendment as a debt modification and has recorded the additional deferred financing costs against the gain on modification of debt on the Company's consolidated statement of operations for FY 2017.

On December 7, 2017, the Company paid approximately \$5.0 million of Flex of which the Company has recorded this amount against the outstanding principal balance of Senior Secured Term Loan on the Company's consolidated balance sheet and is being amortized over the remaining term of loan.



Third Amendment

On February 12, 2018, the Company, through IBG Borrower, entered into the Third Amendment to the Senior Secured Term Loan. The Third Amendment provides for, among other things, amendments to certain restrictive covenants and other terms set forth in the Senior Secured Term Loan, as amended, to permit (i) IBG Borrower to enter into the 5.75% Notes Indenture (as described above) and a related intercreditor agreement that was executed and (ii) the Note Exchange. In connection with the Third Amendment, Deutsche Bank was granted additional pricing flex in the form of price protection upon syndication of the loan (“Third Amendment Flex”). After giving effect to the additional Third Amendment Flex, the Company estimates that it could be responsible for payments on account of the Third Amendment Flex in an aggregate total amount of up to \$6.1 million.

#### Fourth Amendment

The Company, through IBG Borrower, entered into the Fourth Amendment to the Senior Secured Term Loan as of March 12, 2018. The Fourth Amendment provides, among other things, that the funding date for the Second Delayed Draw Term Loan is March 14, 2018 instead of March 15, 2018. Accordingly, the conditions to the availability of the Second Delayed Draw Term Loan (described above) were satisfied as of March 14, 2018 due, in part, to the transactions contemplated by the Note Exchange, and the Company was able to draw on the Second Delayed Draw Term Loan. On March 14, 2018, the Company drew down \$110 million under the Second Delayed Draw Term Loan and used those proceeds, along with cash on hand, to make a payment to the trustee under the indenture governing the 1.50% Convertible Notes to repay the remaining 1.50% Convertible Notes at maturity on March 15, 2018.

As of September 30, 2018 and December 31, 2017, the outstanding principal balance of the Senior Secured Term Loan is \$170.9 million (which is net of \$19.5 million of original issue discount) and \$74.8 million (which is net of \$8.0 million of original issue discount) of which \$7.7 million and \$1.7 million is recorded in current portion of long term debt on the Company's consolidated balance sheet, respectively.

The Company recorded cash interest expense of approximately \$4.5 million relating to the Senior Secured Term Loan during the Current Quarter as compared to \$4.0 million for the Prior Year Quarter. The Company recorded cash interest expense (including a commitment fee of approximately \$1.2 million) of approximately \$12.5 million relating to the Senior Secured Term Loan during the Current Nine Months as compared to \$4.0 million for the Prior Year Nine Months, respectively.

The Company recorded an expense for the amortization of original issue discount and deferred financing fees of approximately \$1.3 million relating to the Senior Secured Term Loan, included in interest expense on the unaudited condensed consolidated statement of operations, during the Current Quarter as compared to \$0.5 million for the Prior Year Quarter. The Company recorded an expense for the amortization of original issue discount and deferred financing fees of approximately \$3.0 million relating to the Senior Secured Term Loan, included in interest expense on the unaudited condensed consolidated statement of operations, during the Current Nine Months as compared to \$0.5 million for the Prior Year Nine Months.

#### 5.75% Convertible Notes

On February 12, 2018, the Company entered into the Exchange Agreements which was an offering exempt from registration under the Securities Act. On February 22, 2018, the Company consummated the Note Exchange, pursuant to which the Company exchanged approximately \$125 million aggregate principal amount of 1.50% Convertible Notes for 5.75% Convertible Notes issued by the Company in an aggregate principal amount of approximately \$125 million.

Consummation of the Note Exchange satisfied one of the principal conditions to the availability of the Second Delayed Draw Term Loan under the Senior Secured Term Loan that the Company achieve a reduction in the outstanding principal amount of the 1.50% Convertible Notes of at least \$100.0 million. In addition, the Company satisfied the remaining conditions to the availability of the Second Delayed Draw Term Loan, which included (i) the Company being in financial covenant compliance, on a pro forma basis as of the time of the requested borrowing and on a projected basis for the succeeding 12 months based on projections reasonably acceptable to the lenders, and (ii) there not existing a default or event of default under the Senior Secured Term Loan as of the time of the borrowing. On March 14, 2018, the Company drew down \$110 million under the Second Delayed Draw Term Loan and used those proceeds, along with cash on hand, to make a payment to the trustee under the indenture governing the 1.50% Convertible Notes in an amount to repay the remaining 1.50% Convertible Notes at maturity on March 15, 2018.

Interest on the 5.75% Convertible Notes may be paid in cash, shares of the Company's common stock, or a combination of both, at the Company's election. If the Company elects to pay all or a portion of an interest payment in shares of common stock, the number of shares of common stock payable will be equal to the applicable interest payment divided by the average of the 10 individual volume-weighted average prices for the 10-trading day period ending on and including the trading day immediately preceding the relevant interest payment date.

The 5.75% Convertible Notes are (i) secured by a second lien on the same assets that secure the obligations of IBG Borrower under the Senior Secured Term Loan and (ii) guaranteed by IBG Borrower and same guarantors as those under the Senior Secured Term Loan, other than the Company.

Subject to certain conditions and limitations, the Company may cause all or part of the 5.75% Convertible Notes to be automatically converted.

Holders converting their 5.75% Convertible Notes (including in connection with a mandatory conversion) shall also be entitled to receive a payment from the Company equal to the Conversion Make-Whole Payment if such conversion occurs after a regular record date and on or before the next succeeding interest payment date, through and including the maturity date (determined as if such conversion did not occur).

If the Company elects to pay all or a portion of a Conversion Make-Whole Payment in shares of common stock, the number of shares of common stock payable will be equal to the applicable Conversion Make-Whole Payment divided by the average of the 10 individual volume-weighted average prices for the 10-trading day period immediately preceding the applicable conversion date.

Subject to certain limitations pursuant to the Senior Secured Term Loan, from and after the one-year anniversary of the closing of the Note Exchange, the Company may redeem for cash all or part of the 5.75% Convertible Notes at any time by providing at least 30 days' prior written notice to holders of the 5.75% Convertible Notes.

If the Company undergoes a fundamental change (which would occur if the Company experiences a change of control or is delisted from NASDAQ) prior to maturity, each holder will have the right, at its option, to require the Company to repurchase for cash all or a portion of such holder's 5.75% Convertible Notes at a fundamental change purchase price equal to 100% of the principal amount of the 5.75% Convertible Notes to be repurchased, together with interest accrued and unpaid to, but excluding, the fundamental change purchase date.

The Company is subject to certain restrictive covenants pursuant to the 5.75% Convertible Note Indenture, including limitations on (i) liens, (ii) indebtedness, (iii) asset sales, (iv) restricted payments and investments, (v) prepayments of indebtedness and (vi) transactions with affiliates.

On various dates subsequent to the Exchange on February 22, 2018 and through March 16, 2018, certain noteholders converted an aggregate outstanding principal balance of \$8.8 million of their 5.75% Convertible Notes in to approximately 4.5 million shares of the Company's common stock. Pursuant to the note agreement, the Company was required to make a conversion make-whole payment which was also settled in the issuance of approximately 1.9 million shares of the Company's common stock. As a result of this transaction, the conversion of the outstanding principal balance of \$8.8 million of its 5.75% Convertible Notes represented a reduction of \$9.6 million in the fair value of the 5.75% Convertible Notes and \$0.8 million was recorded for the difference in the fair value of the debt and the fair value of the common stock issued has been recorded within Other Income in the Company's condensed consolidated statement of operations for the first quarter of 2018.

Additionally, in April 2018 and June 2018, certain noteholders converted an aggregate outstanding principal balance of \$5.2 million of their 5.75% Convertible Notes in to approximately 2.7 million shares of the Company's common stock. Pursuant to the note agreement, the Company was required to make a conversion make-whole payment which was also settled in the issuance of approximately 2.0 million shares of the Company's common stock. As a result of this transaction, the conversion of the outstanding principal balance of \$5.2 million of its 5.75% Convertible Notes represented a reduction of \$4.2 million in the fair value of the 5.75% Convertible Notes and \$0.2 million was recorded for the difference in the fair value of the debt and the fair value of the common stock issued has been recorded within Other Income in the Company's condensed consolidated statement of operations for the Current Nine Months.

The Company has elected to account for the 5.75% Convertible Notes based on the Fair Value Option accounting as outlined in ASC 825. Refer to Note 8 for further details. As of September 30, 2018, while the debt balance recorded at fair value on the Company's condensed consolidated balance sheet is \$55.9 million, the actual outstanding principal balance of the 5.75% Convertible Notes is \$111.0 million.

The Company recorded interest expense of approximately \$1.6 million relating to the 5.75% Convertible Notes during the Current Quarter as compared to none for the Prior Year Quarter. The Company recorded interest expense of approximately \$3.9 million relating to the 5.75% Convertible Notes during the Current Nine Months as compared to none for the Prior Year Nine Months. The Company paid its first interest payment which was due on August 15, 2018 in shares of the Company's common stock which resulted in the issuance of approximately 6.3 million shares.

#### 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 Notes in a private offering to certain institutional investors which was exempt from registration under the Securities Act. 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.

During FY 2016, the Company repurchased \$104.9 million par value of the 1.50% Convertible Notes with a combination of \$36.7 million in cash (including interest and trading fees) and the issuance of approximately 7.4 million shares of the Company's common stock. The Company accounted for this transaction in accordance with ASC 470-20 resulting in the recognition of a \$9.6 million gain which is included in gain on extinguishment of debt, net in the Company's consolidated statement of income for FY 2016, and a reacquisition of approximately \$1.2 million of the embedded conversion option recorded within additional paid in capital on the Company's consolidated balance sheet.

During FY 2017, the Company repurchased \$58.9 million par value of the 1.50% Convertible Notes for \$59.3 million in cash (including interest and trading fees). The Company accounted for this transaction in accordance with ASC 470-20 resulting in the recognition of a \$1.5 million loss which was included in loss on extinguishment of debt in the Company's consolidated statement of operations during FY 2017.

On February 22, 2018, the Company exchanged \$125 million of aggregate principal amount of 1.50% Convertible Notes for \$125 million of aggregate principal amount of 5.75% Convertible Notes, and on March 15, 2018 (the maturity date), the Company repaid the remaining outstanding principal balance of \$111.2 million of the 1.50% Convertible Notes, with the proceeds of the Second Delayed Draw Term Loan of \$110 million plus cash on hand, effectively extinguishing the 1.50% Convertible Notes by its terms. The exchange of the 1.50% Convertible Notes for the 5.75% Convertible Notes was accounted for as a debt extinguishment in accordance with ASC 470 and resulted in the Company recording a gain on extinguishment of debt of \$4.5 million, which is recorded in the Company's condensed consolidated statement of operations for the Current Nine Months.

For the Current Quarter, the Company recorded no non-cash interest expense (given the extinguishment of the debt as is discussed above) as compared to \$3.5 million for the Prior Year Quarter, 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 the Current Nine Months and the Prior Year Nine Months, the Company recorded additional non-cash interest expense of approximately \$1.9 million and \$10.8 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 the Current Quarter, the Company recorded no cash interest expense relating to the 1.50% Convertible Notes (given the extinguishment of the debt as is discussed above) as compared to approximately \$1.1 million in the Prior Year Quarter. For the Current Nine Months and the Prior Year Nine Months, the Company recorded cash interest expense relating to the 1.50% Convertible Notes of approximately \$0.6 million and \$3.3 million, respectively.

#### 2016 Senior Secured Term Loan

On March 7, 2016, the Company entered into a credit agreement (the "Credit Agreement"), among IBG Borrower LLC, the Company's wholly-owned direct subsidiary, as borrower ("IBG Borrower"), the Company and certain wholly-owned subsidiaries of IBG Borrower, as guarantors (the "Guarantors"), Cortland Capital Market Services LLC, as administrative agent and collateral agent ("Cortland") and the lenders party thereto from time to time (the "Lenders"), including CF ICX LLC and Fortress Credit Co LLC ("Fortress") which was a privately negotiated transaction. Pursuant to the Credit Agreement, the Lenders are providing to IBG Borrower a 2016 Senior Secured Term Loan (the "2016 Senior Secured Term Loan"), scheduled to mature on March 7, 2021, in an aggregate principal amount of \$300 million and bearing interest at LIBOR (with a floor of 1.50%) plus an applicable margin of 10% per annum.

The net cash proceeds of the 2016 Senior Secured Term Loan, which were approximately \$264.2 million (after deducting financing, investment banking and legal fees), were, pursuant to the terms of the Credit Agreement, deposited by the Lenders into an escrow account on April 4, 2016. IBG Borrower deposited into the escrow account certain additional funds, so that the total amount of cash on deposit in the escrow account was sufficient to pay all

outstanding obligations, plus accrued interest, under the Company's 2.50% Convertible Notes due June 2016. In accordance with the terms of the 2016 Senior Secured Term Loan, the funds in the escrow account were used to repay the 2.50% Convertible Notes (see above discussion on repayment of the 2.50% Convertible Notes) on or before their maturity, with any remaining funds going toward general corporate purposes permitted under the terms of the Credit Agreement.

In December 2016, as a result of the sale of the Sharper Image intellectual property and related assets and in accordance with the Credit Agreement, the Company was required to make a mandatory principal prepayment of \$28.7 million and a corresponding prepayment premium of \$4.3 million. The Company wrote off a pro-rata portion of the 2016 Senior Secured Term Loan's original issue discount and deferred financing costs of \$2.1 million and \$1.0 million, respectively. As a result of this transaction, the Company recognized a loss on extinguishment of debt of \$7.4 million which has been recorded on the Company's consolidated statement of operations in FY 2016.

In January 2017, the Company made a voluntary prepayment and an additional mandatory prepayment of \$23.0 million and \$23.5 million, respectively, as well as a corresponding prepayment premium of \$3.4 million and \$3.4 million, respectively. As the Company was contractually obligated to pay the prepayment premium prior to December 31, 2016, the Company recorded the aggregate \$6.8 million of prepayment premium in accrued expenses on the Company's consolidated balance sheet as of December 31, 2016, with a corresponding amount recorded in loss on extinguishment of debt on the Company's consolidated statement of operations for FY 2016. For each of the voluntary prepayment of \$23.0 million and the mandatory prepayment of \$23.5 million, the Company wrote off a pro-rata portion of the 2016 Senior Secured Term Loan's original issue discount and deferred financing costs of \$1.7 million and \$0.8 million, respectively, which resulted in an aggregate loss on extinguishment of debt of \$5.0 million recorded in the Company's consolidated statement of operations in FY 2017.

On June 30, 2017, in connection with the sale of the Entertainment segment, the Company made a mandatory prepayment of \$140.0 million with a corresponding prepayment premium of \$15.2 million of the 2016 Senior Secured Term Loan, of which the prepayment premium was allocated to discontinued operations in the Company's consolidated statement of operations. As part of this mandatory prepayment, the Company wrote-off a pro-rata portion of the original issue discount and deferred financing costs of \$9.4 million and \$4.7 million, respectively, which was also allocated to discontinued operations in the Company's consolidated statement of operations in FY 2017. Additionally, on June 30, 2017, the Company made a voluntary prepayment of \$66.0 million with a corresponding prepayment premium of \$7.2 million of which the prepayment premium was recorded in loss on extinguishment of debt within continuing operations on the Company's consolidated statement of operations in FY 2017. Accordingly, the Company wrote off the remaining portion of the original issue discount and deferred financing costs of \$4.4 million and \$2.3 million, respectively, which was recorded in loss on extinguishment of debt in the Company's consolidated statement of operations in FY 2017. As a result of these prepayments, the Company's outstanding principal balance of the 2016 Senior Secured Term Loan was zero as of June 30, 2017 and the facility has since been terminated.

Given the principal balance of the loan was reduced to zero as of June 30, 2017, the Company recorded no cash interest during the Current Quarter and Prior Year Quarter and recorded no interest during the Current Nine Months as compared to \$12.4 million in the Prior Year Nine Months.

#### Debt Maturities

As of September 30, 2018, the Company's debt maturities on a calendar year basis are as follows:

|   | Total            | 2018             | 2019            | 2020             | 2021            | 2022             | Thereafter       |
|---|------------------|------------------|-----------------|------------------|-----------------|------------------|------------------|
| Senior Secured Notes                    | \$376,154        | \$ 10,673        | \$42,693        | \$42,693         | \$42,693        | \$42,693         | \$ 194,709       |
| Variable Funding Notes <sup>(1)</sup>   | \$94,250         | —                | —               | 94,250           | —               | —                | —                |
| Senior Secured Term Loan <sup>(2)</sup> | \$170,865        | 964              | 11,570          | 19,284           | 19,284          | 119,763          | —                |
| 5.75% Convertible Notes <sup>(3)</sup>  | \$55,878         | —                | —               | —                | —               | —                | 55,878           |
| <b>Total</b>                            | <b>\$697,147</b> | <b>\$ 11,637</b> | <b>\$54,263</b> | <b>\$156,227</b> | <b>\$61,977</b> | <b>\$162,456</b> | <b>\$250,587</b> |



- (1) Reflects the net debt carrying amount, effected by the outstanding balance of the original issue discount, in the unaudited condensed consolidated balance sheet as of September 30, 2018. The actual principal outstanding balance of the Variable Funding Notes is \$100.0 million as of September 30, 2018.
- (2) Reflects the net debt carrying amount, effected by the outstanding balance of the original issue discount, in the unaudited condensed consolidated balance sheet as of June 30, 2018. The actual principal outstanding balance of the Senior Secured Term Loan is \$190.4 million as of September 30, 2018.
- (3) Reflects the debt carrying amount which is accounted for under the Fair Value Option in the unaudited condensed consolidated balance sheet as of September 30, 2018. The actual principal outstanding balance of the 5.75% Convertible Notes is \$111.0 million as of September 30, 2018.

## 10. Stockholders' Equity

### 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.

### 2015 Executive Incentive Plan

On December 4, 2015, the Company's stockholders approved the Company's 2015 Executive Incentive Plan ("2015 Plan"). Under the 2015 Plan, the Company's officers and other key employees designated by the Compensation Committee are eligible to receive awards of cash, common stock or stock units issuable under the Amended and Restated 2009 Plan, or any other combination thereof. Awards under the 2015 Plan are based on the achievement of certain pre-determined, non-discretionary performance goals established by the Compensation Committee and are further subject, among other things, the 2015 Plan participant's continuous employment with the Company until the applicable payment date.

### 2016 Omnibus Incentive Plan

On November 4, 2016, the Company's stockholders approved the Company's 2016 Omnibus Incentive Plan ("2016 Plan"). The 2016 Plan replaced and superseded the Amended and Restated 2009 Plan. Under the 2016 Plan, all employees, directors, officers, consultants and advisors of the Company, including those of the Company's subsidiaries, are eligible to be granted common stock, options or other stock-based awards. At inception, there were 2.4 million shares of the Company's common stock available for issuance under the 2016 Plan. The 2016 Plan was amended at the 2017 Annual Meeting of Stockholders to increase the number of shares available under the plan by 1.9 million shares.

### Shares Reserved for Issuance

As of September 30, 2018, there were approximately 3.4 million common shares available for issuance under the 2016 Plan. On May 7, 2018, the Company filed a Form S-8 to register the 1.9 million shares available for issuance under the 2016 Plan that were approved at the 2017 Annual Meeting of Stockholders.

### Amendment of Certification of Incorporation

At the Special Meeting of Stockholders of the Company held on April 26, 2018, the Company's stockholders entitled to vote at the meeting voted to approve the amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of its common stock, \$.001 par value per share, from 150 million to 260 million.

## 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 Nine Months or Prior Year Nine Months as all prior awards have been fully expensed. Additionally, no stock options or warrants were granted during the Current Nine Months or Prior Year Nine Months.

As of September 30, 2018, there was a total of 20,000 stock options outstanding and exercisable at a weighted average exercise price of \$12.29. As of September 30, 2018, there was a total of 20,000 warrants outstanding and exercisable at a weighted average exercise price of \$6.64. During the Current Nine Months, there were no canceled, exercised or expired/forfeited stock options or warrants.

The weighted average contractual term (in years) of options outstanding and exercisable and warrants outstanding and exercisable as of September 30, 2018 was 0.75 and 0.01, respectively.

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.

#### 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 table summarize information about unvested restricted stock transactions:

|                                |            | Weighted<br>Average<br>Grant<br>Date Fair |
|--------------------------------|------------|---|
|                                | Shares     | Value                                     |
| Non-vested, January 1, 2018    | 1,308,084  | \$ 25.29                                  |
| Granted                        | 50,000     | 0.75                                      |
| Vested                         | (581,372 ) | 7.12                                      |
| Forfeited/Canceled             | 116,395    | 7.48                                      |
| Non-vested, September 30, 2018 | 893,107    | \$ 33.43                                  |

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 approximately 3 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 (inclusive of the restricted stock grants awarded as part of the long-term incentive plans discussed below) for the Current Quarter and Prior Year Quarter was approximately \$0.2 million and \$0.6 million, respectively.

Compensation expense related to restricted stock grants (inclusive of the restricted stock grants awarded as part of the long-term incentive plans discussed below) for the Current Nine Months and Prior Year Nine Months was approximately \$1.9 million and \$2.9 million, respectively.

An additional amount of \$0.7 million of expense of compensation expense related to restricted stock grants (inclusive of the restricted stock grants awarded as part of the long-term incentive plans discussed below) is expected to be expensed evenly over a period of approximately eighteen months.

For both the Current Quarter and Prior Year Quarter, the Company repurchased shares valued at less than \$0.1 million of its common stock in connection with net share settlement of restricted stock grants and option exercises. For the Current Nine Months and the Prior Year Nine Months, the Company repurchased shares valued at approximately \$0.1 million and approximately \$1.1 million, respectively, of its common stock in connection with net share settlement of restricted stock grants and option exercises.

## Retention Stock

On January 7, 2016, the Company awarded to certain employees a retention stock grant of approximately 1.3 million shares in the aggregate with a then current value of approximately \$7.5 million. The awards cliff vest in three years based on the Company's total shareholder return measured against a peer group, as described in the Company's Form 10-K/A filed on April 29, 2016. The measurement period began on the grant date and the beginning measurement amount was calculated based on the 20 day average closing stock price leading up to the grant date. The measurement period ends on December 31, 2018 and the ending measurement amount is based on the 20 day average closing stock price leading up to December 31, 2018. The award will vest on a scaled pay out based on the Company's total shareholder return versus the peer group.

In accordance with ASC 718, the Company valued these shares utilizing a Monte Carlo simulation as the awards are based on market conditions.

The grant date fair value of the awards issued on January 7, 2016 was \$4.25 and was based on the following range of assumptions for the Company and the peer group:

|  | January<br>7, 2016    |
|--|-----------------------|
| <b>Valuation Assumptions:</b>  |                       |
| Beginning average stock price (20 trading days prior to<br>January 7, 2016)          | \$4.85 -<br>\$63.41   |
| Valuation date stock price (closing values on<br>January 7, 2016)                    | \$4.53 -<br>\$59.08   |
| Risk free interest rate  | 1.21 %                |
| Expected dividend yield used when simulating the total<br>shareholder return         | 0.00 %                |
| Expected dividend yield used when simulating the<br>Company's stock price            | 0.00 %                |
| Stock price volatility (based on historical stock price<br>over the last 2.98 years) | 21.09%<br>-<br>72.17% |
| Correlation coefficients   | 0.04 -<br>0.47        |

Mr. Haugh, the Company's former Chief Executive Officer, was issued an Employment Inducement Award pursuant to his employment agreement. The terms of the Employment Inducement Award are similar to the retention stock awards provided to all other employees as described above. The grant date fair value of Mr. Haugh's award issued on February 23, 2016 was \$5.75 and was based on the following range of assumptions for the Company and the peer group:

February 23, 2016

|   |                  |   |
|---|------------------|---|
| Valuation Assumptions:                                  |                  |   |
| Beginning average stock price (20 trading days prior to |                  |   |
| February 23, 2016)                                      | \$4.86 - \$66.71 |   |
| Valuation date stock price (closing values on           |                  |   |
| February 23, 2016)                                      | \$5.52 - \$69.92 |   |
| Risk free interest rate                                 | 0.90             | % |
| Expected dividend yield used when simulating the total  |                  |   |
| shareholder return                                      | 0.00             | % |
| Expected dividend yield used when simulating the        |                  |   |
| Company's stock price                                   | 0.00             | % |
| Stock price volatility (based on historical stock price |                  |   |
| over the last 3.00 years)                               | 24.23% - 74.33%  |   |
| Correlation coefficients                                | 0.06 - 0.50      |   |

As of June 15, 2018, Mr. Haugh, the Company's former Chief Executive Officer and President, was no longer an employee of the Company or member of the Company's board of directors. As of Mr. Haugh's termination date, given that the retention stock awards were not earning out, the vesting of shares associated with Mr. Haugh's awards resulted in zero shares issuable.

Compensation expense related to the retention stock awards was approximately \$0.2 million for both the Current Quarter and Prior Year Quarter. Compensation expense related to the retention stock awards was approximately \$0.7 million for both the Current Nine Months and Prior Year Nine Months.

An additional amount of \$0.2 million of expense of compensation expense related to retention stock awards is expected to be expensed evenly over the remainder of FY 2018.

#### Long-Term Incentive Compensation

On March 31, 2016, the Company approved a new plan for long-term incentive compensation (the “2016 LTIP”) for key employees and granted equity awards under the 2016 LTIP in the aggregate amount of 707,028 shares at a weighted average share price of \$7.31 with a then current value of approximately \$5.2 million. For each grantee other than Mr. Haugh, the Company’s former Chief Executive Officer, 33% of the award was in the form of restricted stock units (“RSUs”) and 67% of the award was in the form of target level performance stock units (“PSUs”). Mr. Haugh’s award under the 2016 LTIP consisted of 25% RSUs and 75% PSUs. The RSUs for each grantee vest in three equal installments annually over a three-year period. Other than for Mr. Haugh, the PSUs cliff vest over three years based on the achievement of an aggregate adjusted operating income performance target established by the Compensation Committee. Subject to his continued employment, one-third of Mr. Haugh’s PSUs were to be converted to time-based awards on December 31, 2016, December 31, 2017 and December 31, 2018, based on the achievement of aggregate adjusted operating income performance targets established by the Compensation Committee, and such time-based awards shall vest and be settled on December 31, 2018. As noted above, as of Mr. Haugh’s termination date, approximately 0.2 million shares of this award vested, but will be issued on December 31, 2018 and the Company accelerated approximately \$0.3 million of stock compensation expense for these awards. Additionally, given Mr. Haugh’s termination date, the one-third awards that would have converted to time-based awards on December 31, 2018 were forfeited and the Company reversed approximately \$0.6 million of stock compensation expense for this tranche. For the Current Quarter and the Current Nine Months, less than 0.1 million shares and approximately 0.1 million shares, respectively, were forfeited in respect of the 2016 LTIP. The weighted average remaining contractual term (in years) of the PSUs is less than one year.

On March 7, 2017, the Company approved a new plan for long-term incentive compensation (the “2017 LTIP”) for certain employees and granted equity awards under the 2017 LTIP in the aggregate amount of 871,011 shares at a weighted average share price of \$7.52 with a then current value of \$6.6 million. For each grantee, 33% of the award was in the form of RSUs and 67% of the award was in the form of target level PSUs. The material terms of the PSUs and RSUs are substantially similar to those set forth in the 2016 LTIP. Specifically, the RSUs vest one third annually on each of March 30, 2018, March 30, 2019 and March 30, 2020. The PSUs vest based on performance metrics approved by the Compensation Committee, which, for the performance period commencing January 1, 2017 and ending on December 31, 2019, are based on the Company’s achievement of an aggregate adjusted operating income performance target as set forth in the applicable award agreements, and continued employment through December 31, 2019. For the Current Quarter and Current Nine Months, less than 0.1 million shares and approximately 0.2 million, respectively, were forfeited in respect of the 2017 LTIP. The weighted average remaining contractual term (in years) of the PSUs is two years.

On March 15, 2018, the Company approved a new plan for long-term incentive compensation (the “2018 LTIP”) for certain employees which consisted of (i) equity awards in the aggregate amount of 2,241,828 shares at a weighted average share price of \$1.38 with a then current value of \$3.1 million and (ii) cash awards in the aggregate amount of approximately \$3.1 million. For each grantee, 50% of the award was in the form of PSUs and 50% of such award was in the form of cash (the “Cash Grant”). The Cash Grants comprising the 2018 LTIP vest in 48 equal semi-monthly installments on the 15<sup>th</sup> and last days of each month, beginning March 31, 2018 and ending March 15, 2020, subject in each case to continued employment through the applicable vesting date. Each installment is paid within 15 days of the applicable vesting date. Upon the end of an employee’s employment with the Company, any remaining unpaid portion of the Cash Grant is forfeited. The PSUs vest based on performance metrics approved by the Compensation Committee over three separate performance periods, commencing on January 1 of each of 2018, 2019 and 2020 and ending on December 31 of each of 2018, 2019 and 2020, which, for each such performance period, are based on the



Company's achievement of an aggregated adjusted operating income performance target to be set by the Compensation Committee prior to March 30 of each applicable performance period, and continued employment through the settlement date. For the Current Quarter and Current Nine Months, there were less than 0.1 million shares and approximately 0.9 shares, respectively, forfeited in respect of the 2018 LTIP. The weighted average remaining contractual term (in years) of the PSUs is three years.

Compensation benefit was recognized related to the PSUs granted as part of the long-term incentive plans of \$2.1 million and \$1.7 million in the Current Quarter and Prior Year Quarter, respectively. Compensation benefit was recognized related to the PSUs issued as part of the long-term incentive plans of \$2.8 million in the Current Nine Months as compared to compensation expense of \$0.6 million in the Prior Year Nine Months. The compensation benefit recognized during the Current Quarter and Current Nine Months is as a result of the Company revising its future forecasted earnings associated with the Sears bankruptcy filing which in accordance with ASC 718, required the Company to reverse compensation expense recognized in prior periods as the PSUs were no longer projected to earn-out on the vesting date for the 2017 LTIP as well as a reduction in the projected earn-out on the vesting date for the 2016 LTIP. Refer to Note 22 for further details.

An additional amount of \$0.1 million of expense of compensation expense related to the PSUs granted as part of 2016 LTIP is expected to be expensed evenly over the remainder of FY 2018.

## 11. 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 reflects, 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.

For the Current Quarter, of the total potentially dilutive shares related to restricted stock-based awards, stock options and warrants, all or approximately 0.2 million shares were anti-dilutive, as compared to approximately 0.4 million shares that were anti-dilutive for the Prior Year Quarter.

For the Current Quarter, approximately 0.1 million of the performance related restricted stock-based awards issued to the Company's named executive officers were anti-dilutive as compared to approximately 0.2 million of the performance related restricted stock-based awards issued to the Company's named executive officers were anti-dilutive in the Prior Year Quarter.

For both the Prior Year Quarter and Prior Year Nine Months, warrants issued in connection with the Company's 1.50% Convertible Notes financing were anti-dilutive and therefore were not included in this calculation. Note there were no warrants associated with the Company's 1.50% Convertible Notes for the Current Quarter or the Current Nine Months as the outstanding principal balance was repaid on March 15, 2018 (the maturity date).

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

| (in thousands)                                    | For the Three Months Ended |        | For the Nine Months Ended |        |
|---|----------------------------|--------|---------------------------|--------|
|   | September 30,<br>2018      | 2017   | September 30,<br>2018     | 2017   |
| Basic   | 71,844                     | 57,189 | 64,577                    | 57,081 |
| Effect of convertible notes subject to conversion | 104,066                    | —      | 58,519                    | —      |
| Effect of exercise of stock options               | —                          | —      | —                         | —      |
| Effect of assumed vesting of dilutive shares      | —                          | —      | —                         | —      |
| Diluted   | 175,910                    | 57,189 | 123,096                   | 57,081 |

As a result of the Company being in a net loss position during the Current Nine Months, dilution from the exercise of vesting of restricted stock has been excluded in the diluted earnings per share calculation.



In accordance with ASC 480, the Company considers its redeemable non-controlling interest in its computation of both basic and diluted earnings per share. In addition, in accordance with ASC 260, the Company considers its 5.75% Convertible Notes in its computation of diluted earnings per share. For the Current Quarter, Prior Year Quarter, Current Nine Months, and Prior Year Nine Months, adjustments to the Company's redeemable non-controlling interest and effects of potential conversion on the 5.75% Convertible Notes had impacts on the Company's earnings per share calculations as follows:

|   | Three Months Ended    |                       | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| <b>For earnings (loss) per share - basic:</b>   |                       |                       |                       |                       |
| Net income (loss) from continuing operations attributable to Iconix Brand Group, Inc.   | \$20,224              | \$(550,571)           | \$(31,446)            | \$(559,707)           |
| Accretion of redeemable non-controlling interest  | (5,744 )              | (547 )                | (8,652 )              | (1,641 )              |
| Net income (loss) attributable to Iconix Brand Group, Inc. after accretion of redeemable non- controlling interest for basic earnings (loss) per share  | 14,480                | (551,118)             | (40,098)              | (561,348)             |
| Net income (loss) from discontinued operations attributable to Iconix Brand Group, Inc.   |                       |                       |                       |                       |
|   | —                     | (2,130 )              | —                     | 46,369                |
| Net income (loss) attributable to Iconix Brand Group, Inc. for basic earnings (loss) per share  |                       |                       |                       |                       |
|   | \$14,480              | \$(553,248)           | \$(40,098)            | \$(514,979)           |
| <b>For earnings (loss) per share - diluted:</b>   |                       |                       |                       |                       |
| Net income (loss) from continuing operations attributable to Iconix Brand Group, Inc.   | \$20,224              | \$(550,571)           | \$(31,446)            | \$(559,707)           |
| Effect of potential conversion of 5.75% Convertible Notes   | (15,641)              | —                     | (59,066)              | —                     |
| Accretion of redeemable non-controlling interest  | (5,744 )              | (547 )                | (8,652 )              | (1,641 )              |
| Net loss attributable to Iconix Brand Group, Inc. after the effect of potential conversion of 5.75% Convertible Notes and accretion of redeemable non- controlling interest for diluted earnings (loss) per share | \$(1,161 )            | \$(551,118)           | \$(99,164)            | \$(561,348)           |
| Net income (loss) from discontinued operations attributable to Iconix Brand Group, Inc.   |                       |                       |                       |                       |
|   | —                     | (2,130 )              | —                     | 46,369                |
| Net loss attributable to Iconix Brand Group, Inc.   |                       |                       |                       |                       |
|   | \$(1,161 )            | \$(553,248)           | \$(99,164)            | \$(514,979)           |

## Group, Inc. for diluted earnings (loss) per share

## Earnings (loss) per share - basic:

|                                   |        |         |           |           |   |
|-----------------------------------|--------|---------|-----------|-----------|---|
| Continuing operations             | \$0.20 | \$(9.64 | ) \$(0.62 | ) \$(9.83 | ) |
| Discontinued operations           | \$—    | \$(0.04 | ) \$—     | \$0.81    |   |
| Earnings (loss) per share - basic | \$0.20 | \$(9.67 | ) \$(0.62 | ) \$(9.02 | ) |

## Earnings (loss) per share - diluted:

|                                     |         |           |           |           |   |
|-------------------------------------|---------|-----------|-----------|-----------|---|
| Continuing operations               | \$(0.01 | ) \$(9.64 | ) \$(0.81 | ) \$(9.83 | ) |
| Discontinued operations             | \$—     | \$(0.04   | ) \$—     | \$0.81    |   |
| Earnings (loss) per share - diluted | \$(0.01 | ) \$(9.67 | ) \$(0.81 | ) \$(9.02 | ) |

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|  |         |        |         |        |
|--|---------|--------|---------|--------|
| Weighted average number of common shares |         |        |         |        |
| outstanding:                             |         |        |         |        |
| Basic                                    | 71,844  | 57,189 | 64,577  | 57,081 |
| Diluted                                  | 175,910 | 57,189 | 123,096 | 57,081 |

## 12. Contingencies

On May 1, 2017, 3TAC, LLC, referred to as 3TAC, a former licensee of the Company, and West Loop South, LLC, referred to as West Loop (3TAC and West Loop collectively referred to as Plaintiffs), filed a second amended complaint against the Company, its affiliate, IP Holdings Unltd., LLC, referred to as IPHU, and the Company's former CEO, Neil Cole (the Company, IPHU, and Cole are collectively referred to as the Iconix Parties), in the action captioned 3TAC, LLC and West Loop South, LLC v. Iconix Brand Group, Inc., IP Holdings Unltd, LLC and Neil Cole, Case No. 16-cv-08795-GBD-RWL in the United States District Court for the Southern District of New York. Plaintiffs asserted claims for breach of contract, tortious interference with contract and business relations, unjust enrichment, trade libel, unfair competition and prima facie tort relating to the Iconix Parties' alleged breach of a Global License Agreement, as amended, between 3TAC and IPHU concerning intellectual property rights in and to the Marc Ecko brands, the Iconix Parties' alleged interference with 3TAC's performance thereunder, and the Iconix Parties' alleged interference with a related sublicense between 3TAC and West Loop. On October 27, 2017, Judge Katherine B. Forrest granted the Iconix Parties' motion to dismiss Plaintiffs' unjust enrichment, trade libel, unfair competition and prima facie tort claims. Plaintiffs filed a Third Amended Complaint on June 11, 2018, in which no new claims were asserted, and the only additional allegations are related to the allegedly "inconsistent" exclusive license of New Rise Brand Holdings, LLC. Plaintiffs seek damages of at least \$22 million for their remaining claims as well as punitive damages, attorneys' fees and costs. The Iconix Parties are vigorously defending against the remaining claims. At this time, the Company is unable to estimate the ultimate outcome of this matter.

On November 1, 2017, Seth Gerszberg and EGRHC, LLC, collectively referred to as Plaintiffs, (EGRHC, LLC suing in its capacity as a successor-in-interest to Suchman, LLC, referred to as Suchman, a company wholly-owned by Gerszberg that entered into a joint venture with the Company pursuant to which they formed IP Holdings Unltd., LLC, referred to as IPHU), filed an action captioned Gerszberg and EGRHC, LLC v. Iconix Brand Group, Inc., IP Holdings Unltd, LLC and Neil Cole, Case No. 17-cv-08421-GBD-RWL in the United States District Court for the Southern District of New York. Plaintiffs asserted claims against the Company, IPHU, and Neil Cole (collectively referred to as the Iconix Parties) for breach of IPHU's Operating Agreement and related breaches of fiduciary duties, breach of an agreement pursuant to which the Company bought out Suchman's interest in IPHU and fraudulent inducement and unjust enrichment regarding that buyout agreement; and also asserted claims for fraudulent inducement regarding the fourth amendment of the Global License Agreement between 3TAC, LLC and IPHU concerning the intellectual property rights in and to the Marc Ecko brands. On May 7, 2018, Judge Katherine B. Forrest dismissed the breach of fiduciary duty, breach of the IPHU Operating Agreement, and unjust enrichment claims, based largely upon a release provision in the buyout agreement. Further, the court narrowed the remaining claims in the following manner: limiting the fraudulent inducement claim to the fourth amendment to the Global License Agreement (ruling that the fraudulent inducement claim as to the buyout agreement was released), and limiting the breach of the buyout agreement claim to the government investigation representation. Plaintiffs seek more than \$100 million in damages,

including compensatory and punitive damages, disgorgement and restitution. The Iconix Parties are vigorously defending against the remaining claims asserted by Plaintiffs. At this time, the Company is unable to estimate the ultimate outcome of this matter.

In April 2016, New Rise Brands Holdings, LLC, referred to as New Rise, a former licensee of the Ecko Unlimited trademark, and Sichuan New Rise Import & Export Co. Ltd., referred to as Sichuan, the guarantor under New Rise's license agreement, commenced an action captioned New Rise Brands Holdings, LLC and Sichuan New Rise Import & Export Co. Ltd v. IP Holdings Unltd, LLC, et al., Index No. 652278/2016 in the New York State Supreme Court, New York County against the Company's subsidiary, IP Holdings Unltd, LLC, referred to as IP Holdings, seeking damages of at least \$15 million, plus punitive damages of \$50 million, counsel fees and costs. Among other claims, New Rise and Sichuan allege improper termination of New Rise's license agreement, fraud and misappropriation. On September 21, 2018, New Rise and Sichuan served an expert report claiming damages ranging from \$15.6 million to \$44.2 million. IP Holdings is vigorously defending against the claims and has asserted counterclaims against New Rise and Sichuan. At this time, the Company is unable to estimate the ultimate outcome of this matter.

Two shareholder derivative complaints captioned James v. Cuneo et al, Docket No. 1:16-cv-02212 and Ruthazer v. Cuneo et al, Docket No. 1:16-cv-04208 have been consolidated in the United States District Court for the Southern District of New York, and three shareholder derivative complaints captioned De Filippis v. Cuneo et al. Index No. 650711/2016, Gold v. Cole et al, Index No. 53724/2016 and Rosenfeld v. Cuneo et al., Index No. 510427/2016 have been consolidated in the Supreme Court of the State of New York, New York County. The complaints name the Company as a nominal defendant and assert claims for breach of fiduciary duty, insider trading and unjust enrichment against certain of the Company's current and former directors and officers arising out of the Company's restatement of financial reports and certain employee departures. At this time, the Company is unable to estimate the ultimate outcome of these matters.

The Company continues to cooperate in the previously disclosed SEC investigation.

Three securities class actions have been consolidated in the United States District Court for the Southern District of New York, under the caption In re Iconix Brand Group, Inc., et al., Docket No. 1:15-cv-4860, against the Company and certain former officers and one current officer (the "Class Action"). The plaintiffs in the Class Action purport to represent a class of purchasers of the Company's securities from February 22, 2012 to November 5, 2015, inclusive, and claim that the Company and individual defendants violated sections 10(b) and 20(a) of the Exchange Act, by making allegedly false and misleading statements regarding certain aspects of the Company's business operations and prospects. On October 25, 2017, the Court granted the motion to dismiss the consolidated amended complaint filed by the Company and the individual defendants with leave to amend. On November 14, 2017, the plaintiffs filed a second consolidated amended complaint. On February 2, 2018, the defendants moved to dismiss the second consolidated amended complaint. The Company and the individual defendants intend to vigorously defend against the claims. At this time, the Company is unable to estimate the ultimate outcome of these matters.

From time to time, the Company is also made a party to litigation incurred in the normal course of business. In addition, in connection with litigation commenced against licensees for non-payment of royalties, certain licensees have asserted unsubstantiated counterclaims against the Company. While any litigation has an element of uncertainty, the Company believes that the final outcome of any of these routine matters will not, individually or in the aggregate, have a material effect on the Company's financial position or future liquidity.

### 13. Related Party Transactions

For the Prior Year Nine Months, the Company paid less than \$0.1 million to Galore Media, Inc. in relation to certain marketing services to promote the Company's brands and for the rights to certain warrants of Galore Media, Inc. as compared to none during the Current Year Nine Months. The Company owned a minority interest in Galore Media, Inc. The Company sold its interest in Galore Media during FY 2017. Management believes that all transactions were made on terms and conditions no less favorable than those available in the marketplace from unrelated parties.



The Company has entered into certain license agreements in which the core licensee is also one of our joint venture partners. In the case of Sports Direct International plc (“Sports Direct”), the Company maintains license agreements with Sports Direct, but in addition, during the Current Quarter, the Company entered into a cooperation agreement with Sports Direct that allowed Sports Direct to appoint two members to the Company’s Board of Directors. For the Current Quarter, Current Nine Months, Prior Year Quarter and Prior Year Nine Months, the Company recognized the following royalty revenue amounts:

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| <b>Joint Venture Partner</b>                     |                       |                       |                       |                       |
| Global Brands Group Asia Limited <sup>(1)</sup>  | \$ 2,587              | \$ 6,472              | \$ 14,353             | \$ 14,168             |
| Buffalo International ULC <sup>(2)</sup>         | —                     | —                     | —                     | 690                   |
| <b>Rise Partners, LLC / Top On International</b> |                       |                       |                       |                       |
| Group Limited                                    | 242                   | —                     | 725                   | 695                   |
| M.G.S. Sports Trading Limited                    | 139                   | 188                   | 475                   | 405                   |
| Pac Brands USA, Inc.                             | 47                    | 74                    | 171                   | 197                   |
| Albion Equity Partners LLC / GL Damek            | 776                   | 448                   | 1,993                 | 1,366                 |
| Anthony L&S                                      | —                     | 98                    | 617                   | 98                    |
| MHMC   | 732                   | 450                   | 2,195                 | 1,350                 |
| Sports Direct International plc                  | 275                   | —                     | 275                   | —                     |
|  | \$ 4,798              | \$ 7,730              | \$ 20,804             | \$ 18,969             |

<sup>(1)</sup>Global Brands Group Asia Limited also served as agent to Peanuts Worldwide in respect of the Greater China Territory for Peanuts brands. As of June 30, 2017, due to the completion of the sale of the Entertainment segment, Global Brands Group Asia Limited is no longer a related party in its capacity as agent of Peanuts Worldwide. For the Prior Year Quarter and Prior Year Nine Months, Global Brands Group Asia Limited earned fees of approximately \$0 million and less than \$1.6 million, respectively, in its capacity as agent to Peanuts Worldwide, which have been recorded within discontinued operations in the Company’s condensed consolidated statement of operations.

<sup>(2)</sup>Prior to FY 2017, Buffalo International ULC maintained the Buffalo license agreement. However, starting in February 2017, Buffalo International ULC effectively assigned the Buffalo license agreement to GBG. The license revenue from the Buffalo license agreement represents approximately \$2.3 million and \$6.0 million of the total license revenue for GBG shown in the table above for the Current Quarter and Prior Year Quarter, respectively. The license revenue from the Buffalo license agreement represents approximately \$13.4 million and \$12.7 million of the total license revenue for GBG shown in the table above for the Current Nine Months and Prior Year Nine Months, respectively.

#### 14. Income Taxes

The Company computes its expected annual effective income tax rate in accordance with ASC 740 and makes changes on a quarterly basis, as necessary, based on certain factors such as changes in forecasted annual pre-tax income; changes to actual or forecasted permanent book to tax differences; impacts from tax audits with state, federal

or foreign tax authorities; impacts from tax law changes; or change in judgment as to the realizability of deferred tax assets. The Company identifies items which are unusual and non-recurring in nature and treats these as discrete events. The tax effect of discrete items is recorded in the quarter in which the discrete events occur. Due to the volatility of these factors, the Company's consolidated effective income tax rate can change significantly on a quarterly basis.

With the exception of the Buffalo brand joint venture, Iconix Middle East joint venture, Diamond Icon joint venture and Umbro China joint venture, the Company is not responsible for the income taxes related to the non-controlling interest's share of the joint venture's earnings. Therefore, the tax liability associated with the non-controlling interest share of the joint venture's earnings is not reported in the Company's income tax expense, despite the joint venture's entire income being consolidated in the Company's reported income before income tax expense. As such, the joint venture's earnings have the effect of lowering our effective tax rate. This effect is more pronounced in periods in which joint venture earnings are higher relative to our other earnings. Since the Buffalo brand joint venture is a taxable entity in Canada, the Iconix Middle East joint venture and Diamond Icon joint venture are taxable entities in the United Kingdom and the Umbro China joint venture is a taxable entity in Hong Kong, the Company is required to report its tax liability, including taxes attributable to the non-controlling interest, in its income statement. All other consolidated joint ventures are partnerships and treated as pass-through entities not subject to taxation in their local tax jurisdiction, and therefore the Company includes only the tax attributable to its proportionate share of income from the joint venture in income tax expense.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries files income tax returns in the U.S., various state and local, and foreign jurisdictions. The Company, joined by its domestic subsidiaries, files a consolidated income tax return for Federal income tax purposes. In the normal course of business, the Company is subject to examination in such domestic and foreign jurisdictions. During the fourth quarter of 2016, the Internal Revenue Service initiated an audit of the 2014 federal income tax return which is still ongoing. The Company recognized no interest expense related to uncertain tax positions in both the Current Quarter and Prior Year Quarter. The Company recognized no interest expense related to uncertain tax positions in the Current Nine Months as compared to approximately \$0.9 million during the Prior Year Nine Months. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on these items and the three consecutive years of pretax losses (resulting from impairment), management has determined that enough uncertainty exists relative to the realization of the deferred income tax asset balances to warrant the application of a full valuation allowance for all taxing jurisdictions starting as of September 30, 2017, other than for Canadian operations. In addition, the Company continues to have deferred tax liabilities related to indefinite lived intangibles on the condensed consolidated balance sheet a portion of which cannot be considered to be a source of taxable income to offset deferred tax assets.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act. The new law, which is also commonly referred to as “U.S. tax reform”, significantly changed U.S. corporate income tax laws. The primary impact on the Company was associated with the effect of reducing the U.S. corporate income tax rate from 35% to 21% starting in 2018. As a result, the Company estimated a net benefit of \$67 million which was recorded during the fourth quarter of 2017. Other provisions of the law took effect January 1, 2018, including, but not limited to, creating a territorial tax system, eliminating or limiting the deduction of certain expenses including interest expense, and requiring a tax on earnings generated by foreign subsidiaries that are in excess of a specified return.

As of September 30, 2018, the Company continues to evaluate its accounting for the tax effects of the enactment of the law. The Company made a reasonable estimate and recorded in the fourth quarter of 2017 (i) a net income tax provision of \$34 million resulting from the remeasurement of the Company’s net deferred income tax assets and liabilities and uncertain tax liabilities based on the new reduced U.S. corporate income tax rate, and (ii) an income tax benefit of \$101 million from the remeasurement of the Company’s valuation allowance for the impact of the law on certain tax attributes. In other cases, the Company has not been able to make a reasonable estimate and continues to account for those items based on its existing accounting under GAAP and the provisions of the tax laws that were in effect prior to enactment. Once the Company finalizes its analysis, it will be able to conclude on further adjustments, if any, to be recorded to these provisional amounts. Any such change will be reported as a component of income taxes in the period in which such adjustments are determined but in no case later than the fourth quarter of 2018.

The Company’s consolidated effective tax rate from continuing operations for the Current Quarter was 4.5% which resulted in a \$1.0 million income tax expense as compared to the consolidated effective tax rate from continuing operations for the Prior Year Quarter of 4.9% which resulted in a \$29.6 million income tax benefit. The decrease in the effective tax rate for the Current Quarter as compared to the Prior Year Quarter is primarily a result of the benefit recognized from the trademark impairment charge of approximately \$4.4 million which was significantly reduced due to a valuation allowance against the deferred tax asset.

The Company’s consolidated effective tax rate from continuing operations for the Current Nine Months was 0.6% which resulted in a \$0.1 million income tax benefit compared to the consolidated effective tax rate from continuing

operations for the Prior Year Nine Months of 4.8% which resulted in a \$29.2 million income tax benefit on a pretax loss of \$613 million. The decrease in the effective tax rate in the Current Nine Months as compared to the Prior Year Nine Months is primarily a result of the benefits recognized in the Prior Year Nine Months from the trademark and goodwill impairment charges which was reduced by a valuation allowance against the impairment charges. Also, during the Prior Year Nine Months, the Company expensed approximately \$2.0 million as a discrete item related to a change in estimate associated with certain state and local income tax audits.

During the second fiscal quarter of 2018, the Company elected to treat its Luxembourg top tier subsidiary (“Luxco”) as a disregarded entity for US tax purposes. All the operations under LuxCo were previously treated as disregarded for US tax purposes. As of the election date, all the foreign operations under LuxCo will be treated as a branch for US tax purposes and subject to US taxation. As such, the Company will no longer have any earnings in foreign subsidiaries that are not currently subject to taxation for US purposes. Before the election, the Company was indefinitely reinvested in all earnings in its foreign subsidiaries.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations; however, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

We have net operating loss (“NOL”) carryforwards for federal and state income tax purposes which, generally, can be used to reduce future taxable income. Our use of our NOL carryforwards is limited under Section 382 of the Internal Revenue Code, as we have had a change in ownership of more than 50% of our capital stock over a three-year period as measured under Section 382 of the Internal Revenue Code. These complex changes of ownership rules generally focus on ownership changes involving shareholders owning directly or indirectly 5% or more of our stock, including certain public “groups” of shareholders as set forth under Section 382 of the Internal Revenue Code, including those arising from new stock issuances and other equity transactions. Some of these NOL carryforwards will expire if they are not used within certain periods. At this time, we consider it more likely than not that we will not have sufficient taxable income in the future that will allow us to realize these NOL carryforwards.

#### 15. Accumulated Other Comprehensive Income

The following table sets forth the activity in accumulated other comprehensive income for the Current Nine Months and Prior Year Nine Months:

|   | Unrealized       |                 |              |  |
|---|------------------|-----------------|--------------|--|
|   | Foreign currency | losses of       |              |  |
|   | translation      | available for   |              |  |
|   | adjustments      | sale securities | Total        |  |
| Balance at December 31, 2017                      | \$ (48,103 )     | \$ (3,177 )     | \$ (51,280 ) |  |
| Changes before reclassifications                  | (3,509 )         | —               | (3,509 )     |  |
| Cumulative adjustment for adoption of ASU 2016-01 | —                | 3,177           | 3,177        |  |
| Current period other comprehensive income         | (3,509 )         | 3,177           | (332 )       |  |
| Balance at September 30, 2018                     | \$ (51,612 )     | \$ —            | \$ (51,612 ) |  |

|   | Unrealized       |                 |              |  |
|---|------------------|-----------------|--------------|--|
|   | Foreign currency | losses of       |              |  |
|   | translation      | available for   |              |  |
|   | adjustments      | sale securities | Total        |  |
| Balance at December 31, 2016              | \$ (67,735 )     | \$ (2,693 )     | \$ (70,428 ) |  |
| Changes before reclassifications          | 20,900           | (625 )          | 20,275       |  |
| Current period other comprehensive income | 20,900           | (625 )          | 20,275       |  |
| Balance at September 30, 2017             | \$ (46,835 )     | \$ (3,318 )     | \$ (50,153 ) |  |

#### 16. Segment and Geographic Data

The Company identifies its operating segments for which separate financial information is available and for which segment results are evaluated regularly by the Chief Executive Officer, the Company's chief operating decision maker, in deciding how to allocate resources and in assessing performance. The Company has disclosed the following operating segments: men's, women's, home, and international. Since the Company does not track, manage and analyze its assets by segments, no disclosure of segmented assets is reported.

Additionally, the Company previously owned and operated an Entertainment segment which is included in the Company's condensed consolidated statement of operations as a discontinued operation for the Prior Year Quarter and Prior Year Nine Months. See Note 2 in Notes to Consolidated Financial Statements for further details.

The geographic regions consist of the United States 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 is as follows:

|                                 | Three Months Ended    |              | Nine Months Ended     |              |
|---------------------------------|-----------------------|--------------|-----------------------|--------------|
|                                 | September 30,<br>2018 | 2017         | September 30,<br>2018 | 2017         |
| <b>Licensing revenue:</b>       |                       |              |                       |              |
| Women's                         | \$ 15,201             | \$ 21,043    | \$ 48,670             | \$ 76,820    |
| Men's                           | 7,282                 | 11,393       | 27,752                | 31,568       |
| Home                            | 7,060                 | 7,515        | 20,533                | 22,676       |
| International                   | 16,681                | 13,214       | 48,029                | 42,471       |
|                                 | \$ 46,224             | \$ 53,165    | \$ 144,984            | \$ 173,535   |
| <b>Operating income (loss):</b> |                       |              |                       |              |
| Women's                         | \$ 3,234              | \$ (281,889) | \$ (77,832 )          | \$ (232,259) |
| Men's                           | 1,855                 | (132,183)    | 8,393                 | (141,442)    |
| Home                            | 3,555                 | (91,203 )    | 15,887                | (77,717 )    |
| International                   | 9,188                 | (82,505 )    | 23,757                | (67,021 )    |
| Corporate                       | (5,726 )              | (8,078 )     | (37,149 )             | (27,930 )    |
|                                 | \$ 12,106             | \$ (595,858) | \$ (66,944 )          | \$ (546,369) |

#### 17. Other Assets- Current and Long-Term

##### Other Assets - Current

|  | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--|--------------------------|-------------------------|
| <b>Other assets- current consisted of the following:</b>   |                          |                         |
| Notes receivables on sale of trademarks <sup>(1)</sup>     | \$ 2,755                 | \$ 3,097                |
| Note receivable in connection with acquisition of interest |                          |                         |
| in Buffalo brand   | —                        | 2,515                   |
| Due from DHX Media, Ltd. <sup>(2)</sup>                    | —                        | 1,175                   |
| Contract asset - current                                   | 6,405                    | —                       |
| Prepaid advertising  | 2,500                    | 2,453                   |
| Prepaid expenses   | 2,409                    | 4,621                   |
| Deferred charges   | 15                       | —                       |
| US federal tax receivables                                 | 15,854                   | 29,662                  |
| Prepaid taxes  | 5,011                    | 2,347                   |
| Prepaid insurance  | 321                      | 1,428                   |
| Due from related parties                                   | 3,894                    | 3,843                   |
| Other current assets                                       | 528                      | 709                     |
| Other current assets                                       | \$ 39,692                | \$ 51,850               |

- (1) Certain amounts due from our joint venture partners are presented net of redeemable non-controlling interest and non-controlling interest in the condensed consolidated balance sheet. Refer to Note 5 for further details.
- (2) This amount represents the remaining amount due from DHX as a result of amounts reimbursable to the Company of \$1.2 million associated with the transitional service agreement between DHX and the Company and other expenses which were incurred by the Company subsequent to the completion of the sale of the Entertainment segment on June 30, 2017. Refer to Note 2 for further details.



## Other Assets – Long Term

|   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|---|--------------------------|-------------------------|
| Other noncurrent assets consisted of the following: |                          |                         |
| Contract asset - long term                          | \$ 12,904                | \$ —                    |
| Prepaid Interest                                    | 5,649                    | 5,601                   |
| Deposits  | 528                      | 616                     |
| Other noncurrent assets                             | 22                       | 51                      |
| Other noncurrent assets                             | \$ 19,103                | \$ 6,268                |

## 18. Other Liabilities – Current

As of September 30, 2018 and December 31, 2017, other current liabilities of \$9.4 million and \$13.6 million, respectively, related to \$9.4 million and \$9.2 million, respectively, due to certain joint ventures that are not consolidated with the Company and \$0 million and \$4.4 million, respectively, owed to Buffalo International for distributions associated with the Buffalo joint venture.

## 19. Foreign Currency Translation

The functional currency of Iconix Luxembourg and Red Diamond Holdings, which are wholly owned subsidiaries of the Company located in Luxembourg, is the Euro. 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 fluctuations in currency in the Current Quarter and the Prior Year Quarter, the Company recorded a \$0.3 million currency translation loss and a \$1.1 million currency translation gain, respectively, that is included in the condensed consolidated statement of operations. Due to fluctuations in currency in the Current Nine Months and the Prior Year Nine Months, the Company recorded a \$0.5 million currency translation loss and a \$2.8 million currency translation loss, respectively, that is included in the condensed consolidated statement of operations.

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. The Company's comprehensive income is primarily comprised of net income and foreign currency translation gain or loss. During the Current Quarter and the Prior Year Quarter, the Company recognized as a component of its comprehensive income, a foreign currency translation loss of \$0.7 million and foreign currency translation gain of \$6.4 million, respectively, due to changes in foreign exchange rates during the Current Quarter and the Prior Year Quarter, respectively. During the Current Nine Months and the Prior Year Nine Months, the Company recognized as a component of its comprehensive income, a foreign currency translation loss of \$3.5 million and a foreign currency translation gain of \$20.9 million, respectively, due to changes in foreign exchange rates during the Current Nine Months and the Prior Year Nine Months.

## 20. Accounting Pronouncements

### Recent Accounting Pronouncements

In May 2014, FASB issued ASU No. 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 such company expects to be entitled in exchange for those goods or services. The Company adopted the new standard in the first quarter of FY 2018. Refer to Note 3 for further details.

In January 2016, FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”, includes amendments on recognition, measurement, presentation, and disclosure of financial instruments. It requires an entity to (1) measure equity investments at fair value through net income, with certain exceptions; (2) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (3) present financial assets and financial liabilities by measurement category and form of financial asset; (4) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (5) assess a valuation allowance on deferred tax assets related to unrealized losses on available-for-sale debt securities in connection with other deferred tax assets. The ASU provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Certain provisions of the ASU are eligible for early adoption. The Company adopted the new standard in the first quarter of FY 2018 which resulted in the Company reclassifying the cumulative loss in fair value of our available-for-sale securities of \$3.2 million from accumulated other comprehensive loss to accumulated losses as of January 1, 2018 in the Company’s condensed consolidated balance sheet. Change in the fair value of the available-for-sale securities will be recorded within the Company’s condensed consolidated statement of operations in future periods. Additionally, the Company’s previously cost method investments are now being categorized as other equity investments and continue to be recorded on the Company’s condensed consolidated balance sheet at cost and assessed for potential impairment on a quarterly basis. Refer to Note 5 and Note 7 for further details.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company’s leases are considered operating leases and are not capitalized under ASC 840. Under ASC 842, the majority of these leases will qualify for capitalization and will result in the recognition of lease assets and lease liabilities once the new standard is adopted. The Company is in the process of reviewing lease contracts to determine the impact of adopting ASC 2016-02.

In August 2016, the FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments”, which clarifies how certain cash receipts and cash payments are presented in the statement of cash flows. The amendment addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The Company adopted the new standard in the first quarter of FY 2018 which did not have a material impact to our financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory”, which was issued as part of the FASB’s simplification initiative and, intends to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under this ASU, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company adopted the new standard in the first quarter of FY 2018 which did not have a material impact to our financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows: Restricted Cash.” The primary purpose of this ASU is to reduce the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU will require that a statement of cash flows explain the

change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted the new standard in the first quarter of FY 2018.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business", to clarify the definition of a business, which is fundamental in the determination of whether transactions should be accounted for as acquisition (or disposals) of assets or businesses. The guidance is generally expected to result in fewer transactions qualifying as business combinations. The Company adopted the new standard in the first quarter of FY 2018 which did not have a material impact to our financial statements.

In February 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment", which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test and eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The ASU is effective for public business entities for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. This ASU should be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We will adopt this accounting guidance in future periods.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718)”, which provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation – Stock Compensation, to a change to the terms or conditions of a share-based payment award. The ASU is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted the new standard in the first quarter of FY 2018 which did not have a material impact to our financial statements.

## 21. Other Matters

During the Current Quarter and the Prior Year Quarter, the Company included in its selling, general and administrative expenses approximately \$1.8 million and \$2.4 million, respectively, of charges related to professional fees associated with the continuing correspondence with the Staff of the SEC, the SEC investigation and the class action and derivative litigations. During the Current Nine Months and the Prior Year Nine Months, the Company included in its selling, general and administrative expenses approximately \$7.2 million and \$7.1 million, respectively, of charges related to professional fees associated with the continuing correspondence with the Staff of the SEC, the SEC investigation and the class action and derivative litigations.

As of June 15, 2018, Mr. Haugh, the Company’s former Chief Executive Officer and President, was no longer an employee of the Company or member of the Company’s board of directors. Included in the charges related to professional fees discussed above is \$2.1 million recorded in the Current Nine Months associated with his severance and other benefits.

## 22. Subsequent Events

On October 15, 2018, Sears Holding Corporation (“Sears”) filed for Chapter 11 bankruptcy. The Company maintains license agreements with Sears for its Joe Boxer, Bongo and Cannon trademarks. At this time, the Company is uncertain of the outcome of the Sears bankruptcy filing and how it could affect the future revenues and cash flows of these brands as well as if any future indefinite-lived intangible asset impairment charge for these trademarks is expected. As new and additional information is learned about the Sears bankruptcy filing, the Company will update its forecasted future earnings for the Joe Boxer, Cannon and Bongo trademarks in the fourth quarter of FY 2018 as is deemed necessary. Refer to Note 4 for further details. As a result of the bankruptcy filing, the Company recorded a bad debt reserve of \$8.2 million which represents the outstanding accounts receivable balance due from Sears as of September 30, 2018 of which \$3.9 million was recognized as revenue during the Current Quarter.



## 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 approximately 30 global consumer brands across women's, men's, home and international industry segments. Additionally, the Company previously owned and operated an Entertainment segment which is included in the Company's unaudited condensed consolidated statement of operations as a discontinued operation for the first quarter of FY 2017. Refer to Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements for further details. 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.

As of September 30, 2018, the Company's brand portfolio includes Candie's<sup>®</sup>, Bongo<sup>®</sup>, Joe Boxer<sup>®</sup>, Rampage<sup>®</sup>, Mudd<sup>®</sup>, London Fog<sup>®</sup>, Mossimo<sup>®</sup>, Ocean Pacific/OP<sup>®</sup>, Danskin /Danskin Now<sup>®</sup>, Rocawear<sup>®</sup> /Roc Nation<sup>®</sup>, Artful Dodger<sup>®</sup>, Cannon<sup>®</sup>, Royal Velvet<sup>®</sup>, Fieldcrest<sup>®</sup>, Charisma<sup>®</sup>, Starter<sup>®</sup>, Waverly<sup>®</sup>, Ecko Unltd<sup>®</sup> /Mark Ecko Cut & Sew<sup>®</sup>, Zoo York<sup>®</sup>, Umbro<sup>®</sup> and Lee Cooper<sup>®</sup>; and interests in Material Girl<sup>®</sup>, Ed Hardy<sup>®</sup>, Truth or Dare<sup>®</sup>, Modern Amusement<sup>®</sup>, Buffalo<sup>®</sup>, Hydraulic<sup>®</sup> and Pony<sup>®</sup>.

The Company principally 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" or "DTR"), through a consortia of wholesale licensees, through joint ventures in specific territories and via 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. The licensees are generally responsible for designing, manufacturing and distributing the licensed products. The Company supports its brands with marketing, 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.

Globally, the Company has over 50 DTR licenses and more than 400 total licenses. Licensees are selected based upon the Company's belief that such licensees will be able to produce and sell quality products in the categories and distribution channels 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 generally 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. As of October 1, 2018, the Company had over \$425 million of aggregate guaranteed royalty revenue over the terms of the Company's existing contracts excluding renewals.

The Company's OP DTR license agreement at Walmart was not renewed upon expiration in June 2017. The Company's Starter DTR license agreement at Walmart was not renewed upon expiration in December 2017. In October 2017, the Company also announced that Starter is now available on Amazon exclusively to Amazon Prime members. Additionally, the Company has learned that its Danskin Now license agreement with Walmart will not be renewed upon its expiration in January 2019 and royalty revenue for the Danskin Now brand at Walmart is estimated to decline approximately \$15.5 million in 2018. The Company's Mossimo DTR license agreement at Target will not be renewed upon expiration in October 2018 and royalty revenue for the Mossimo brand at Target is estimated to decline approximately \$10.0 million in 2018. The Company's Material Girl license agreement with Macy's will not be renewed upon its expiration in January 2020. The Company's Royal Velvet license agreement with JC Penney will not be renewed upon its expiration in January 2019. The Company is actively seeking to place OP, Danskin, Mossimo, Material Girl and Royal Velvet with new or existing licensees. At this time, the Company is uncertain how the terms

and conditions of any potential replacement licensing arrangements could affect its future revenues and cash flows.

On December 22, 2017 the United States enacted the Tax Cuts and Jobs Act. The new law, which is also commonly referred to as “U.S. tax reform”, significantly changes U.S. corporate income tax laws by, among other changes, imposing a one-time mandatory tax on previously deferred earnings of foreign subsidiaries, reducing the U.S. corporate income tax rate from 35% to 21% starting on January 1, 2018, creating a territorial tax system which generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, eliminating or limiting the deduction of certain expenses including interest expense, and requiring a minimum tax on earnings generated by foreign subsidiaries, which could have a significant impact on our effective tax rate, cash tax expenses and/or deferred income tax balances.

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 ourselves 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, Iconix Middle East, Umbro China, Danskin China and Starter China.



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's primary goal of maximizing the value of its IP also includes, in certain instances, the sale to third parties of a brand's trademark in specific territories or categories. As such, the Company evaluates potential offers to acquire some or all of a brand's IP by comparing whether the offer is more valuable than the Company's estimate of the current and potential revenue streams to be earned via the Company's traditional licensing model. Further, as part of the Company's evaluation process, it also considers whether or not the buyer's future development of the brand may help to expand the brand's overall recognition and global revenue potential.

The Company identifies its operating segments according to how business activities are managed and evaluated and, for which separate financial information is available and utilized on a regular basis by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

Therefore, the Company has disclosed these reportable segments for the periods shown below.

|                                 | Three Months Ended    |                       | Nine Months Ended     |                       |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                 | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| <b>Licensing revenue:</b>       |                       |                       |                       |                       |
| Women's                         | \$ 15,201             | \$ 21,043             | \$ 48,670             | \$ 76,820             |
| Men's                           | 7,282                 | 11,393                | 27,752                | 31,568                |
| Home                            | 7,060                 | 7,515                 | 20,533                | 22,676                |
| International                   | 16,681                | 13,214                | 48,029                | 42,471                |
|                                 | \$ 46,224             | \$ 53,165             | \$ 144,984            | \$ 173,535            |
| <b>Operating income (loss):</b> |                       |                       |                       |                       |
| Women's                         | \$ 3,234              | \$ (281,889)          | \$ (77,832 )          | \$ (232,259)          |
| Men's                           | 1,855                 | (132,183)             | 8,393                 | (141,442)             |
| Home                            | 3,555                 | (91,203 )             | 15,887                | (77,717 )             |
| International                   | 9,188                 | (82,505 )             | 23,757                | (67,021 )             |
| Corporate                       | (5,726 )              | (8,078 )              | (37,149 )             | (27,930 )             |
|                                 | \$ 12,106             | \$ (595,858)          | \$ (66,944 )          | \$ (546,369)          |

#### Results of Operations

##### Current Quarter compared to Prior Year Quarter

**Licensing Revenue.** Total revenue for the Current Quarter was \$46.2 million, a 13% decrease as compared to \$53.2 million for the Prior Year Quarter. Total licensing revenue was positively impacted by approximately \$0.4 million due to the consolidation of the Australia joint venture. Excluding the Australia joint venture, licensing revenue was down 14%. The women's segment decreased 28% from \$21.0 million in the Prior Year Quarter to \$15.2 million in the

Current Quarter primarily due to a decrease in licensing revenue from our Danskin and Ocean Pacific brands as the brands transition from their historical DTR relationships. The men's segment decreased 36% from \$11.4 million in the Prior Year Quarter to \$7.3 million in the Current Quarter due to a decrease in licensing revenue from our Buffalo and Starter brands. The home segment decreased 6% from \$7.5 million in the Prior Year Quarter to \$7.1 million in the Current Quarter mainly due to weakness in our Waverly brand. The international segment increased 26% from \$13.2 million in the Prior Year Quarter to \$16.7 million in the Current Quarter, mainly due to strength in China, Europe, India and MENA.

**Selling, General and Administrative Expenses.** Total selling, general and administrative expenses (“SG&A”) were \$30.2 million for the Current Quarter as compared to \$21.5 million for the Prior Year Quarter, an increase of \$8.7 million or 40%. SG&A in the Current Quarter included an \$8.2 million accounts receivable reserve for the impact of the Sears bankruptcy. Excluding the reserve for Sears, SG&A for the Current Quarter was \$22.0 million which is an increase of 2% over the Prior Year Quarter. SG&A from the women’s segment increased 234% from \$2.4 million in the Prior Year Quarter to \$7.9 million in the Current Quarter mainly due to a \$5.4 million increase in accounts receivables reserves and write-offs due to the Sears bankruptcy. Excluding Sears, SG&A in the women’s segment decreased 2%. SG&A from the men’s segment increased 106% from \$2.6 million in the Prior Year Quarter to \$5.4 million in the Current Quarter primarily due to a \$1.9 million increase in advertising mostly in our Starter, Umbro and Buffalo brands. SG&A from the home segment increased 318% from \$0.8 million in the Prior Year Quarter to \$3.5 million in the Current Quarter mainly due to a \$2.4 million increase in accounts receivables reserves and write-offs due to the Sears bankruptcy. Excluding Sears, SG&A in the home segment increased 12% mostly due to an increase in advertising. SG&A from the international segment increased 13% from \$7.1 million in the Prior Year Quarter to \$8.0 million in the Current Quarter mainly due to a \$1.0 million increase in advertising costs. Corporate SG&A decreased 38% from \$8.6 million in the Prior Year Quarter to \$5.3 million primarily due to a decrease of \$3.6 million in compensation costs. This mostly related to a decrease in performance based compensation as a result of the Sears bankruptcy.

**Loss on Termination of Licenses.** Loss on termination of licenses was zero for the Current Quarter, compared to \$2.8 million in the Prior Year Quarter. The charge in the Prior Year Quarter was mostly related to the Rocawear brand tied to specific litigation.

**Depreciation and Amortization.** Depreciation and amortization was \$0.5 million for the Current Quarter, compared to \$0.6 million in the Prior Year Quarter, mostly as a result of a decrease in amortization costs in the Current Quarter.

**Equity earnings on joint ventures.** Equity earnings on joint ventures was \$1.0 million for the Current Quarter, compared to \$0.5 million for the Prior Year Quarter. The Prior Year Quarter included a loss of \$0.6 million from our investments in China.

**Gain on Sale of Trademarks.** Gain on Sale of Trademarks was zero for the Current Quarter, compared to \$0.9 million in the Prior Year Quarter. The gain in the Prior Year Quarter was related to the sale of the Badgley Mischka and Sharper Image brands in Canada.

**Trademark & Goodwill Impairment.** Trademark & Goodwill Impairment loss for the Current Quarter was \$4.4 million as compared to a loss of approximately \$625.5 million in the Prior Year Quarter. The Trademark Impairment for the Current Quarter related to Joe Boxer while the Trademark Impairment for the Prior Year Quarter was approximately \$521.7 million primarily related to a write-down in the women’s segment and men’s segment. The Goodwill Impairment for the Prior Year Quarter was \$103.9 million primarily related to a write-down in our women’s segment and men’s segment. The trademark impairment charge in the Current Quarter was primarily due to the ongoing financial distress of Sears and its continued liquidity challenges. The trademark and goodwill impairment charges in the Prior Year Quarter are primarily due to declines in net sales in certain brands within the segments and an inability to secure additional license agreements with guaranteed minimum royalties in future periods for the brands.

**Operating Income (loss).** Total operating income for the Current Quarter was \$12.1 million an increase of \$608.0 million as compared to a loss of approximately \$595.9 million in the Prior Year Quarter. Excluding trademark and goodwill impairment, total operating income was \$16.5 million for the Current Quarter or 36% of total revenue as compared to total operating income of \$29.7 million in the Prior Year Quarter or 56% of total revenue. Operating income from the women’s segment was \$3.2 million in the Current Quarter compared to a loss of \$281.9 million Prior

Year Quarter. Excluding trademark & goodwill impairment and the loss on the termination of licenses, women's operating income in the Current Quarter was \$7.6 million as compared to \$19.0 million in the Prior Year Quarter. Operating income from the men's operating segment was \$1.9 million in the Current Quarter compared to a loss of \$132.2 million in the Prior Year Quarter. Excluding trademark & goodwill impairment and the loss on the termination of licenses, men's operating income in the Prior Year Quarter was \$8.6 million. Operating income from the home segment was \$3.6 million in the Current Quarter compared to a loss of \$91.2 million in the Prior Year Quarter. Excluding trademark & goodwill impairment, home operating income in the Prior Year Quarter was \$6.7 million. Operating income from the international segment was \$9.2 million in the Current Quarter compared to a loss of \$82.5 million in the Prior Year Quarter. Excluding trademark & goodwill impairment, international operating income in the Prior Year Quarter was \$6.2 million. Corporate operating loss was \$5.7 million in the Current Quarter compared to operating loss of \$8.1 million in the Prior Year Quarter.

Other Expenses (income)-Net. Other expenses (income)- net was approximately income of \$10.6 million for the Current Quarter as compared to an expense of \$14.6 million for the Prior Year Quarter, a decrease of \$25.2 million. The decrease was primarily related to (i) a gain of \$17.2 million in the Current Quarter related to the mark-to-market adjustment from the Company's 5.75% Convertible Notes based on the Company's accounting treatment which requires the fair value of the debt at the end of each period and (ii) a gain in the Current Quarter of \$8.4 million due to the consolidation of the Australia joint venture.

Provision for Income Taxes. The effective income tax rate for the Current Quarter is approximately 4.5% resulting in a \$1.0 million income tax, as compared to an effective income tax rate of 4.9% in the Prior Year Quarter which resulted in a \$29.6 million income tax benefit. The decrease in the effective tax rate for the Current Quarter as compared to the Prior Year Quarter is primarily a result of the benefit recognized from the trademark impairment charge of approximately \$4.4 million which was significantly reduced due to a valuation allowance against the deferred tax asset.

Net Income (Loss) from Continuing Operations. Our net income from continuing operations was approximately \$21.7 million in the Current Quarter, compared to a net loss of approximately \$580.8 million in the Prior Year Quarter, as a result of the factors discussed above.

Discontinued Operations. In the three months ended March 31, 2017, our Board of Directors approved a plan to sell the businesses underlying the Entertainment segment. As a result, we have classified the results of our Entertainment segment as discontinued operations in our condensed consolidated statement of operations for all periods presented. On May 9, 2017, we signed a definitive agreement to sell these businesses and completed the sale on June 30, 2017. See Note 2 to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q (this “Quarterly Report”).

#### Current Nine Months compared to Prior Year Nine Months

Licensing Revenue. Total revenue for the Current Nine Months was \$145.0 million, a 16% decrease as compared to \$173.5 million for the Prior Year Nine Months. Total licensing revenue was negatively impacted by approximately \$2.0 million due to the deconsolidation of the SE Asia joint venture and was positively impacted by \$0.4 million due to the consolidation of the Australia joint venture. The women’s segment decreased 37% from \$76.8 million in the Prior Year Nine Months to \$48.7 million in the Current Nine Months primarily due to a decrease in licensing revenue from our Mossimo, Danskin and Ocean Pacific brands as the brands transition from their historical DTR relationships. The men’s segment decreased 12% from \$31.6 million in the Prior Year Nine Months to \$27.8 million in the Current Nine Months mainly due to a decrease in our Starter brand somewhat offset by an increase in our Umbro brand. The home segment decreased 9% from \$22.7 million in the Prior Year Nine Months to \$20.5 million in the Current Nine Months mainly due to weakness in our Waverly brand. The international segment increased 13% from \$42.5 million in the Prior Year Nine Months to \$48.0 million in the Current Nine Months, mainly due to \$2.8 million of replica jersey sales from our Diamond Icon joint venture. The Company generally does this as an accommodation to its licensees to consolidate ordering from the manufacturers. Refer to Note 3 of Unaudited Condensed Consolidated Financial Statements for details. Excluding this increase in licensing revenue for Diamond Icon and the impact of deconsolidating the SE Asia joint venture and consolidation of the Australia joint venture, Licensing Revenue from our international segment increased 11% due to strength in our business in China, Europe and India.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses (“SG&A”) were \$92.4 million for the Current Nine Months as compared to \$73.7 million for the Prior Year Nine Months, an increase of \$18.7 million or 25%. SG&A in the Current Nine Months included an \$8.2 million accounts receivable reserve for the impact of the Sears bankruptcy. Excluding the reserve for Sears, SG&A for the Current Nine Months was \$84.3 million which is an increase of 14% over the Prior Year Quarter. SG&A from the women’s segment increased 61% from \$7.5 million in the Prior Year Nine Months to \$12.2 million in the Current Nine Months due to a \$3.8 million

increase in accounts receivables reserves and write-offs due to the Sears bankruptcy. Excluding Sears, SG&A in the women's segment decreased 13%. SG&A from the men's segment increased 22% from \$11.1 million in the Prior Year Nine Months to \$13.6 million in the Current Nine Months primarily due to a \$1.9 million increase in advertising costs mostly related to the Starter, Umbro and Buffalo brands. SG&A from the home segment increased 85% from \$2.5 million in the Prior Year Nine Months to \$4.6 million in the Current Nine Months mainly due to a \$1.8 million increase in accounts receivables reserves and write-offs due to the Sears bankruptcy. Excluding Sears, SG&A in the home segment decreased 17%. SG&A from the international segment increased 19% from \$21.0 million in the Prior Year Nine Months to \$24.9 million in the Current Nine Months mainly due to a \$2.6 million increase in cost of goods sold due to replica jersey sales by our Diamond Icon joint venture. Refer to Note 3 of Unaudited Condensed Consolidated Financial Statements for details. Corporate SG&A increased 18% from \$31.5 million in the Prior Year Nine Months to \$37.1 million in the Current Nine Months primarily due to a \$7.8 million increase in professional fees, mostly related to costs associated with the 5.75% convertible note.

**Loss on Termination of Licenses.** Loss on termination of licenses was \$5.7 million for the Current Nine Months, compared to \$26.0 million in the Prior Year Nine Months. The charge in the Current Nine Months was related to a litigation settlement with a previous licensee for the Rocawear brand while the Prior Year Quarter related to the transition of a new license for the Umbro brand.

**Depreciation and Amortization.** Depreciation and amortization was \$1.8 million for the Current Nine Months, compared to \$1.8 million in the Prior Year Nine Months.

Equity Earnings on Joint Ventures. Equity earnings on joint ventures was \$2.2 million for the Current Nine Months, compared to \$2.5 million for the Prior Year Nine Months. The decrease was mainly due to the consolidation of the Australia joint venture.

Gain on Deconsolidation of Joint Venture. Gain on deconsolidation of joint venture was zero for the Current Nine Months, compared to \$3.8 million for the Prior Year Nine Months due to the deconsolidation of Southeast Asia joint venture.

Gain on Sale of Trademarks. Gain on Sale of Trademarks was \$1.3 million for the Current Nine Months, compared to \$0.9 million in the Prior Year Nine Months. The gain in the Current Nine Months was related to the completion of the sale of the Sharper Image and Badgley Mischka trademarks in certain of the Company's international joint ventures.

Trademark & Goodwill Impairment. Trademark & Goodwill Impairment loss for the Current Nine Months was approximately \$115.5 million as compared to \$625.5 in the Prior Year Nine Months. The Trademark Impairment in the Current Nine Months was \$77.7 million, comprised of approximately \$73.3 million related to a write-down in the Mossimo trademark and \$4.4 million related to a write-down in the Joe Boxer trademark while the Trademark Impairment in the Prior Year Nine Months was approximately \$521.7 million primarily related to a write-down in the women's segment and men's segment. The Goodwill Impairment in the Current Nine Months was \$37.8 million related to a write-down in our women's segment as a result of the impairment of the Mossimo trademark while the Goodwill Impairment in the Prior Year Nine Months was \$103.9 million. The trademark and goodwill impairment charges in the Current Nine Months are primarily related to a write-down in the Mossimo trademark as a result of the Company's revisions to its forecasted future earnings for the Mossimo brand. The trademark and goodwill impairment charges in the Prior Year Quarter are primarily related to a write-down in our women's segment and men's segment primarily due to declines in net sales in certain brands within the segments and an inability to secure additional license agreements with guaranteed minimum royalties in future periods for these brands.

Operating Income (loss). Total operating loss for the Current Nine Months was \$66.9 million, compared to a loss of approximately \$546.4 million in the Prior Year Nine Months. Excluding trademark and goodwill impairment and the loss on termination of licenses, total operating income was \$54.2 million for the Current Nine Months or 37% of total revenue as compared to the total operating income of the Prior Year Nine Months of \$105.1 million or 61% of total revenue. Operating loss from the women's segment was \$77.8 million in the Current Nine Months compared to a loss of \$232.3 million in the Prior Year Nine Months. Excluding trademark and goodwill impairment and the loss of termination of licenses, operating income from the women's segment was \$37.7 million in the Current Nine Months as compared to income of \$71.2 million in the Prior Year Nine Months. Operating income from the men's operating segment was \$8.4 million in the Current Nine Months compared to a loss of \$141.4 million in the Prior Year Nine Months. Excluding trademark and goodwill impairment and the loss of termination of licenses, operating income from the men's segment was \$14.0 million in the Current Nine Months as compared to income of \$20.0 million in the Prior Year Nine Months. Operating income from the home segment was \$15.9 million in the Current Nine Months compared to a loss of \$77.7 million in the Prior Year Nine Months. Excluding trademark and goodwill impairment, operating income from the home segment was \$20.2 million in the Prior Year Nine Months. Operating income from the international segment was \$23.8 million in the Current Nine Months compared to a loss of \$67.0 million in the Prior Year Nine Months. Excluding trademark and goodwill impairment, operating income from the international segment was \$21.7 million in the Prior Year Nine Months. Corporate operating loss was \$37.2 million in the Current Nine Months compared to operating loss of \$27.9 million in the Prior Year Nine Months.

Other Expenses (income)-Net. Other expenses (income)- net was approximately income of \$44.0 million for the Current Nine Months as compared to an expense of \$66.4 million for the Prior Year Nine Months, a decrease of \$110.4 million. The decrease was primarily related to (i) a gain of \$74.8 million in the Current Nine Months related to the mark-to-market adjustment from the Company's 5.75% Convertible Notes based on the Company's accounting

treatment which requires the fair value of the debt at the end of each period, (ii) a gain on the extinguishment of debt of \$4.5 million in the Current Year Nine Months as compared to a loss of \$20.9 million in the Prior Year Nine Months and (iii) a gain of \$8.4 million in the Current Year Nine Months due to the consolidation of the Australia joint venture.

Provision for Income Taxes. The effective income tax rate for the Current Nine Months is approximately 0.6% which resulted in a \$0.1 million income tax benefit, as compared to an effective income tax rate of 4.8% in the Prior Year Nine Months which resulted in the \$29.2 million income tax benefit. The decrease in the effective tax rate in the Current Nine Months as compared to the Prior Year Nine Months is primarily a result of the benefits recognized from the trademark and goodwill impairment charges which is being reduced by a valuation allowance against the impairment charges. Also, during the Prior Year Nine Months, the Company expensed approximately \$2.0 million as a discrete item related to a change in estimate associated with certain state and local income tax audits.

Net Income Loss from Continuing Operations. Our net loss from continuing operations was approximately \$22.8 million in the Current Nine Months, compared to a net loss from continuing operations of approximately \$583.6 million in the Prior Year Nine Months, as a result of the factors discussed above.



Discontinued Operations. In the three months ended March 31, 2017, our Board of Directors approved a plan to sell the businesses underlying the Entertainment segment. As a result, we have classified the results of our Entertainment segment as discontinued operations in our condensed consolidated income statement for all periods presented. On May 9, 2017, we signed a definitive agreement to sell these businesses and completed the sale on June 30, 2017. See Note 2 to our condensed consolidated financial statements included in this report.

## Liquidity and Capital Resources

### Liquidity

Historically, our principal capital requirements have been to fund acquisitions, working capital needs, share repurchases and, to a lesser extent, capital expenditures. Since FY 2016, our principal capital requirements have been to refinance or extinguish existing indebtedness and working capital needs. 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. Since FY 2016, we have relied on asset sales and issuance of indebtedness to refinance existing indebtedness. At September 30, 2018 and December 31, 2017, our cash totaled \$66.5 million and \$65.9 million, respectively, not including short-term restricted cash of \$21.2 million and \$48.8 million, respectively. Our short term restricted cash primarily consists of collection and investment accounts related to our Securitization Notes. In addition, as of September 30, 2018, approximately \$8.5 million, or 10%, of our total cash (including restricted cash) was held in foreign subsidiaries. As stated earlier, during the second fiscal quarter of 2018, the Company elected to treat its Luxembourg top tier subsidiary (“Luxco”) as a disregarded entity for US tax purposes. All the operations under LuxCo were previously treated as disregarded for US tax purposes. As of the election date, all the foreign operations under LuxCo will be treated as a branch for US tax purposes and subject to US taxation. As such, the Company will no longer have any earnings in foreign subsidiaries that are not currently subject to taxation for US purposes. Before the election, the Company was indefinitely reinvested in all earnings in its foreign subsidiaries.

The Company’s Securitization Notes include a test that measures the amount of principal and interest required to be paid on the Co-Issuers’ debt to the approximate cash flow available to pay such principal and interest; the test is referred to as the debt service coverage ratio (“DSCR”). As a result in the decline in royalty collections received by the Co-Issuers during the twelve months ended June 30, 2018, the DSCR fell below 1.45x as of June 30, 2018. Beginning July 1, 2018, the Co-Issuers are required to allocate 25% of residual royalty collections (i.e. collections less debt service, management, servicing, administrative and other fees) to a restricted reserve account administered by the securitization program’s trustee, which will result in cash remaining inside the securitization program. The DSCR fell below 1.35x as of September 30, 2018 and as a result, beginning October 1, 2018, the Co-Issuers are required to allocate 50% of residual royalty collections (i.e. collections less debt service, management, servicing, administrative and other fees) to a restricted reserve account administered by the securitization program’s trustee, which will result in cash remaining inside the securitization program and not being distributed to the Company. The cash required to be maintained inside the securitization program may be released to the Company if the DSCR is at least 1.45x for two consecutive quarters.

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

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

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

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

We may, from time to time, seek to retire or repurchase our outstanding debt through cash purchases and/or exchanges for equity or debt securities, in open market transactions, privately negotiated transactions, or otherwise. Such repurchase or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved in any such transactions may individually or in the aggregate, be material.

### Changes in Working Capital

At September 30, 2018 and December 31, 2017, the working capital ratio (current assets to current liabilities) was 1.72 to 1 and 2.07 to 1, respectively.

### Operating Activities

Net cash provided by operating activities increased \$53.6 million from net cash used in operating activities of \$3.9 million in the Prior Year Nine Months to net cash provided by operating activities of \$49.7 million in the Current Nine Months. The increase is primarily due to cash provided by working capital items of \$18.9 million in the Current Nine Months as compared to cash used in working capital items of \$50.4 million in the Prior Year Nine Months. Excluding non-cash items, net income decreased from \$102.9 million in the Prior Year Nine Months to \$30.8 million in the Current Nine Months which is primarily as a result of the decrease in total revenues period over period.

### Investing Activities

Net cash used in investing activities increased approximately \$335.8 million, from cash provided by investing activities of \$328.5 million in the Prior Year Nine Months to cash used in investing activities of \$7.3 million in the Current Nine Months. The increase between both periods is primarily due \$336.7 million cash received in the Prior Year Nine Months associated with the sale of the Entertainment segment as compared to cash paid of \$7.1 million associated with the Company's acquisition of the remaining ownership interest in Iconix Canada in the Current Nine Months.

### Financing Activities

Net cash used in financing activities decreased approximately \$254.4 million, from cash used in financing activities of \$323.4 million in the Prior Year Nine Months to cash used in financing activities of \$69.0 million in the Current Nine Months. The decrease between both periods is primarily due to the decrease in the cash used in the payment of long-term debt from \$583.2 million in the Prior Year Nine Months to \$145.7 million in the Current Nine Months offset by the proceeds received of \$95.7 million in the Current Nine Months which represents the drawdown of the Company's Second Delayed Draw Term Loan as compared to \$288.0 million in the Prior Year Nine Months which represents the proceeds received from the Company's Senior Secured Term Loan.

### Other Matters

### Critical Accounting Policies

The Company's consolidated financial statements are based on the accounting policies used. Certain accounting polices require that estimates and assumptions be made by management for use in the preparation of the financial statements. Critical accounting policies are those that are central to the presentation of the Company's financial condition and results and that require subjective or complex estimates by management. With the exception of the adoption of ASC 606 related to revenue recognition (refer to Note 3 in Notes to Condensed Consolidated Financial Statements), there have been no material changes with respect to the Company's critical accounting policies from those disclosed in its 2017 Annual Report on Form 10-K filed with the SEC on March 14, 2018.

### Recent Accounting Pronouncements

See Note 20 of the notes to unaudited condensed consolidated financial statement for recent accounting pronouncements.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995. The statements that are not historical facts contained in this Quarterly 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 in our Form 10-K for the fiscal year ended December 31, 2017 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 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 Euro to U.S. Dollars of less than 10%, the expected effect on net income would be immaterial.

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 principal executive officer and principal financial and accounting 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 Quarterly 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 interim principal executive officer and interim principal financial officer, to allow timely decisions regarding required disclosure. In 2015, 2016 and 2017, material weaknesses were identified in certain of the Company's review and other controls, which have been enumerated in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

#### Addressing the Material Weaknesses

Material weaknesses identified in 2017, related to the financial reporting for reconsideration events of joint venture accounting and monitoring controls related to the identification of the need for a valuation allowance against certain deferred tax assets associated with the Company's intangible asset impairment charges, were remediated at December 31, 2017. However, management concluded at December 31, 2017, that certain management review controls related to our statement of cash flows, our intangible asset impairment testing, the calculation of long term incentive program ("LTIP") compensation expense, and the financial reporting for the modification of our debt were not adequate as the controls in place failed to detect certain material errors. In 2018, management identified a material weakness in internal control over financial reporting, specifically dealing with the management review controls surrounding the calculation of the adjustment to retained earnings resulting from the implementation of the new revenue recognition standard (ASC 606). In 2018, additional review procedures were performed by the former Senior Vice President-Finance and the former Chief Financial Officer until their departure, and are currently being performed by the Vice President – Controller, Senior Director of Financial Reporting and the Interim Chief Financial Officer and certain additional control procedures have been adopted to mitigate these material weaknesses.

We are in the process of remediating the above weaknesses and testing the operating effectiveness of the new and existing controls. The material weaknesses cannot be considered completely remediated until the applicable additional controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As a result of the foregoing, the principal executive officer and the principal financial and accounting officer concluded that as of September 30, 2018, certain of the Company's disclosure controls and procedures, including management review controls related to our statement of cash flows, our intangible asset impairment testing, calculation of LTIP compensation expense, and the financial reporting for the modification of our

debt 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 discussion above, our principal executive officer and principal financial and accounting officer have concluded that the financial statements included in this Quarterly Report 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 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 six months ended June 30, 2018, 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 nine months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control, except for the matters discussed above.

The foregoing has been approved by our management team, including our Interim Chief Executive Officer and Interim Chief Financial Officer, who have been involved with the reassessment and analysis of our internal control over financial reporting.

The Audit Committee, which consists of independent, non-executive directors, will continue to meet regularly with management, the Director of Internal Audit, and the independent accountants to review accounting, reporting, auditing and internal control matters. The Audit Committee has direct and private access to the Director of Internal Audit and the external auditors, and will meet with each, separately, in executive sessions. The Company reviewed the results of management's assessment of its internal control over financial reporting with the Audit Committee of the Board of Directors and they agreed with the conclusions.

## PART II. Other Information

### Item 1. Legal Proceedings.

On May 1, 2017, 3TAC, LLC, referred to as 3TAC, a former licensee of the Company, and West Loop South, LLC, referred to as West Loop (3TAC and West Loop collectively referred to as Plaintiffs), filed a second amended complaint against the Company, its affiliate, IP Holdings Unltd., LLC, referred to as IPHU, and the Company's former CEO, Neil Cole (the Company, IPHU, and Cole are collectively referred to as the Iconix Parties), in the action captioned 3TAC, LLC and West Loop South, LLC v. Iconix Brand Group, Inc., IP Holdings Unltd, LLC and Neil Cole, Case No. 16-cv-08795-GBD-RWL in the United States District Court for the Southern District of New York. Plaintiffs asserted claims for breach of contract, tortious interference with contract and business relations, unjust enrichment, trade libel, unfair competition and prima facie tort relating to the Iconix Parties' alleged breach of a Global License Agreement, as amended, between 3TAC and IPHU concerning intellectual property rights in and to the Marc Ecko brands, the Iconix Parties' alleged interference with 3TAC's performance thereunder, and the Iconix Parties' alleged interference with a related sublicense between 3TAC and West Loop. On October 27, 2017, Judge Katherine B. Forrest granted the Iconix Parties' motion to dismiss Plaintiffs' unjust enrichment, trade libel, unfair competition and prima facie tort claims. Plaintiffs filed a Third Amended Complaint on June 11, 2018, in which no new claims were asserted, and the only additional allegations are related to the allegedly "inconsistent" exclusive license of New Rise Brand Holdings, LLC. Plaintiffs seek damages of at least \$22 million for their remaining claims as well as punitive damages, attorneys' fees and costs. The Iconix Parties are vigorously defending against the remaining claims. At this time, the Company is unable to estimate the ultimate outcome of this matter.

On November 1, 2017, Seth Gerszberg and EGRHC, LLC, collectively referred to as Plaintiffs, (EGRHC, LLC suing in its capacity as a successor-in-interest to Suchman, LLC, referred to as Suchman, a company wholly-owned by Gerszberg that entered into a joint venture with the Company pursuant to which they formed IP Holdings Unltd., LLC, referred to as IPHU), filed an action captioned Gerszberg and EGRHC, LLC v. Iconix Brand Group, Inc., IP Holdings Unltd, LLC and Neil Cole, Case No. 17-cv-08421-GBD-RWL in the United States District Court for the Southern District of New York. Plaintiffs asserted claims against the Company, IPHU, and Neil Cole (collectively referred to as the Iconix Parties) for breach of IPHU's Operating Agreement and related breaches of fiduciary duties, breach of an agreement pursuant to which the Company bought out Suchman's interest in IPHU and fraudulent inducement and unjust enrichment regarding that buyout agreement; and also asserted claims for fraudulent inducement regarding the fourth amendment of the Global License Agreement between 3TAC, LLC and IPHU concerning the intellectual property rights in and to the Marc Ecko brands. On May 7, 2018, Judge Katherine B. Forrest dismissed the breach of fiduciary duty, breach of the IPHU Operating Agreement, and unjust enrichment claims, based largely upon a release provision in the buyout agreement. Further, the court narrowed the remaining claims in the following manner: limiting the fraudulent inducement claim to the fourth amendment to the Global License Agreement (ruling that the fraudulent inducement claim as to the buyout agreement was released), and limiting the breach of the buyout agreement claim to the government investigation representation. Plaintiffs seek more than \$100 million in damages, including compensatory and punitive damages, disgorgement and restitution. The Iconix Parties are vigorously defending against the remaining claims asserted by Plaintiffs. At this time, the Company is unable to estimate the ultimate outcome of this matter.

In April 2016, New Rise Brands Holdings, LLC, referred to as New Rise, a former licensee of the Ecko Unlimited trademark, and Sichuan New Rise Import & Export Co. Ltd., referred to as Sichuan, the guarantor under New Rise's license agreement, commenced an action captioned New Rise Brands Holdings, LLC and Sichuan New Rise Import & Export Co. Ltd v. IP Holdings Unltd, LLC, et al., Index No. 652278/2016 in the New York State Supreme Court, New York County against the Company's subsidiary, IP Holdings Unltd, LLC, referred to as IP Holdings, seeking damages of at least \$15 million, plus punitive damages of \$50 million, counsel fees and costs. Among other claims, New Rise and Sichuan allege improper termination of New Rise's license agreement, fraud and misappropriation. On September



21, 2018, New Rise and Sichuan served an expert report claiming damages ranging from \$15.6 million to \$44.2 million. IP Holdings is vigorously defending against the claims and has asserted counterclaims against New Rise and Sichuan. At this time, the Company is unable to estimate the ultimate outcome of this matter.

Two shareholder derivative complaints captioned James v. Cuneo et al, Docket No. 1:16-cv-02212 and Ruthazer v. Cuneo et al, Docket No. 1:16-cv-04208 have been consolidated in the United States District Court for the Southern District of New York, and three shareholder derivative complaints captioned De Filippis v. Cuneo et al. Index No. 650711/2016, Gold v. Cole et al, Index No. 53724/2016 and Rosenfeld v. Cuneo et al., Index No. 510427/2016 have been consolidated in the Supreme Court of the State of New York, New York County. The complaints name the Company as a nominal defendant and assert claims for breach of fiduciary duty, insider trading and unjust enrichment against certain of the Company's current and former directors and officers arising out of the Company's restatement of financial reports and certain employee departures. At this time, the Company is unable to estimate the ultimate outcome of these matters.

The Company continues to cooperate in the previously disclosed SEC investigation.

Three securities class actions have been consolidated in the United States District Court for the Southern District of New York, under the caption *In re Iconix Brand Group, Inc., et al.*, Docket No. 1:15-cv-4860, against the Company and certain former officers and one current officer (the “Class Action”). The plaintiffs in the Class Action purport to represent a class of purchasers of the Company’s securities from February 22, 2012 to November 5, 2015, inclusive, and claim that the Company and individual defendants violated sections 10(b) and 20(a) of the Exchange Act, by making allegedly false and misleading statements regarding certain aspects of the Company’s business operations and prospects. On October 25, 2017, the Court granted the motion to dismiss the consolidated amended complaint filed by the Company and the individual defendants with leave to amend. On November 14, 2017, the plaintiffs filed a second consolidated amended complaint. On February 2, 2018, the defendants moved to dismiss the second consolidated amended complaint. The Company and the individual defendants intend to vigorously defend against the claims. At this time, the Company is unable to estimate the ultimate outcome of these matters.

From time to time, the Company is also made a party to litigation incurred in the normal course of business. In addition, in connection with litigation commenced against licensees for non-payment of royalties, certain licensees have asserted unsubstantiated counterclaims against the Company. While any litigation has an element of uncertainty, the Company believes that the final outcome of any of these routine matters will not, individually or in the aggregate, have a material effect on the Company’s financial position or future liquidity.

#### 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 for the year ended December 31, 2017, 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 for the year ended December 31, 2017, 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 September 30, 2018, the Company’s consolidated balance sheet reflects debt of approximately \$691.6 million (which is net of \$5.5 million of debt issuance costs), including (i) secured debt of \$641.3 million comprised of our Series 2012-1 4.229% Senior Secured Notes, Class A-2, Series 2013-1 4.352% Senior Secured Notes and Class A-2 (collectively, the “Senior Secured Notes”) of \$376.2 million, Variable Funding Notes of \$94.3 million and Senior Secured Term Loan of \$170.9 million, and (ii) \$55.9 million net debt carrying value of our 5.75% Convertible Notes; however, the principal amount owed to the holders of our 5.75% Convertible Notes, was \$111.0 million as of such date. In accordance with ASC 825, our 5.75% Convertible Notes are included in our \$691.6 million of consolidated debt at a fair value of \$55.9 million. 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 outstanding debt obligations:

- could impair our liquidity;
- could make it more difficult for the Company to satisfy its 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 and/or less leverage.

In addition, as of September 30, 2018, approximately \$8.5 million, or 10%, of the Company's total cash (including restricted cash) was held in foreign subsidiaries.

In the event that we are unable to raise the additional financing referenced above, or we fail 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, result in the acceleration of the payment obligations under all or a portion of our consolidated indebtedness and impact the Company's ability to continue as a going concern.

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 Walmart, Target, Kohls, Kmart/Sears and Global Brands Group represent, each in the aggregate, our five largest licensees during the three-month period ended September 30, 2018, representing approximately 2%, 7%, 10%, 8% and 6%, respectively, of our total revenue for such period.

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.

As previously disclosed, the Company was notified of the following non-renewals of license agreements: (i) the OP and Starter DTR license agreements with Walmart, (ii) the Mossimo DTR license agreement with Target, (iii) the Danskin Now DTR license agreement with Walmart, (iv) the Royal Velvet license agreement with J.C. Penney's and (v) the Material Girl DTR license agreement with Macy's. While the Company is actively working to place these brands with other licensees, the failure to enter into replacement license agreements for these brands on economic terms similar to such DTR arrangements may adversely affect our future revenues and cash flows.

In addition, 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 those 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 or establish their own brands, rather than continue their licensing arrangements with us. In addition, 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.

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 further 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 September 30, 2018, goodwill represented approximately \$26.1 million, or approximately 4% of the Company's total consolidated assets, and trademarks and other intangible assets represented approximately \$397.7 million, or approximately 56% of our total consolidated assets. Under current U.S. GAAP accounting standards, goodwill and indefinite life intangible assets, including most 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.

There can be no assurance that any future downturn in the business of any of the Company's segments, or a continued decrease in our market capitalization, will not result in a further write-down of goodwill or trademarks, which would either decrease the Company's net income or increase the Company's net loss, which may or may not have a material

impact to the Company's consolidated statement of operations.

The risks described herein and in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company, or that are currently deemed to be immaterial, also may materially adversely affect the Company's business, financial condition and/or future operating results.

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

There have been no sales of unregistered equity securities in the Current Quarter.

The following table presents 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 | Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs |   |
|----------------------------|-----------------------------------|------------------------------|--|--|---|
|                            |                                   |                              |  |  |   |
| July 1 - July 31           | —                                 | \$ —                         | —  | \$   | — |
| August 1 - August 31       | —                                 | \$ —                         | —  | \$   | — |
| September 1 - September 30 | 3,456                             | \$ 0.35                      | —  | \$   | — |
| Total                      | 3,456                             | \$ 0.35                      | —  | \$   | — |

\* 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 10.1    | <u>Amendment No. 1, dated as of September 14, 2018, to Employment Agreement of F. Peter Cuneo+***</u>   |
| Exhibit 10.2    | <u>Employment Agreement entered into October 15, 2018 by and between Iconix Brand Group, Inc. and Robert C. Galvin+**</u>   |
| Exhibit 10.3    | <u>Employment Agreement entered into October 15, 2018 by and between Iconix Brand Group, Inc. and F. Peter Cuneo+**</u>   |
| Exhibit 31.1    | <u>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*</u>         |
| Exhibit 31.2    | <u>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*</u> |
| Exhibit 32.1    | <u>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*</u>   |
| Exhibit 32.2    | <u>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*</u>                                       |
| 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.

\*\* Filed as an exhibit to the Company's Current Report on Form 8-K for the event dated October 15, 2018 and incorporated by reference herein.

\*\*\* Filed as an exhibit to the Company's Current Report on Form 8-K for the event dated September 14, 2018 and incorporated by reference herein.

+ Denotes management compensation plan or arrangement.





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 9, 2018 /s/ Robert C. Galvin  
Robert Galvin  
President and Chief Executive Officer

(Principal Executive Officer)

Date: November 9, 2018 /s/ Jeffrey N. Wood  
Jeffrey N. Wood  
Senior Vice President and Interim Chief Financial Officer

(Principal Financial and Accounting Officer)