

ICONIX BRAND GROUP, INC.  
Form 10-Q  
August 06, 2014

**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 June 30, 2014**

**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 0-10593**

**ICONIX BRAND GROUP, INC.**

**(Exact name of registrant as specified in its charter)**

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

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

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

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

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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

Common Stock, \$.001 Par Value 48,033,232 shares as of August 5, 2014.

## Part I. Financial Information

## Item 1. Financial Statements

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

## Condensed Consolidated Balance Sheets

(in thousands, except par value)

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	(unaudited)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 131,864	\$ 278,789
Restricted cash - current	60,554	58,858
Accounts receivable, net	135,045	101,190
Deferred income tax assets	5,040	4,160
Other assets - current	24,398	33,631
Total Current Assets	356,901	476,628
Property and equipment:		
Furniture, fixtures and equipment	21,991	21,197
Less: Accumulated depreciation	(13,774)	(12,360)
	8,217	8,837
Other Assets:		
Other assets	44,022	23,630
Trademarks and other intangibles, net	2,055,235	1,955,644
Deferred financing costs, net	20,944	25,103
Investments and joint ventures	127,226	139,376
Goodwill	232,067	230,976
	2,479,494	2,374,729
Total Assets	\$ 2,844,612	\$ 2,860,194
<b>Liabilities, Redeemable Non-Controlling Interest and Debt, and Stockholders</b>		
<b>Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 27,548	\$ 30,482
Deferred revenue	31,404	29,126
Current portion of long-term debt	666,109	61,250
Other liabilities - current	7,000	7,000

Total current liabilities	732,061	127,858
Deferred income tax liability	294,527	260,605
Long-term debt, less current maturities	745,013	1,366,069
Deferred revenue, net of current portion		724
Other liabilities	12,425	2,996
Total Liabilities	1,784,026	1,758,252
Redeemable Non-Controlling Interest	13,866	
Equity component of currently redeemable convertible notes	95,141	
Commitments and contingencies		
Stockholders' Equity		
Common stock, \$.001 par value shares authorized 150,000; shares issued 78,049 and 77,048, respectively	78	77
Additional paid-in capital	827,505	910,145
Retained earnings	752,964	657,877
Accumulated other comprehensive loss	13,866	16,486
Less: Treasury stock 29,906 and 25,920 shares at cost, respectively	(758,099)	(599,816)
Total Iconix Brand Group, Inc. Stockholders' Equity	836,314	984,769
Non-controlling interest	115,265	117,173
Total Stockholders' Equity	951,579	1,101,942
Total Liabilities, Redeemable Non-Controlling Interest and Debt, and Stockholders' Equity	\$ 2,844,612	\$ 2,860,194

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Unaudited Condensed Consolidated Income Statements

(in thousands, except earnings per share data)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Licensing and other revenue	\$ 118,943	\$ 115,125	\$ 235,081	\$ 220,187
Selling, general and administrative expenses	44,293	43,611	92,495	82,437
Operating income	74,650	71,514	142,586	137,750
Other (income) expenses:				
Interest expense	21,247	19,097	42,403	33,292
Interest and other income	(482)	(5,995)	(38,976)	(6,323)
Equity earnings on joint ventures	(5,675)	(2,264)	(8,797)	(4,200)
Other (income) expenses net	15,090	10,838	(5,370)	22,769
Income before income taxes	59,560	60,676	147,956	114,981
Provision for income taxes	20,778	18,661	46,332	33,692
Net income	\$ 38,782	\$ 42,015	\$ 101,624	\$ 81,289
Less: Net income attributable to non-controlling interest	\$ 3,463	\$ 3,299	\$ 6,537	\$ 8,384
Net income attributable to Iconix Brand Group, Inc.	\$ 35,319	\$ 38,716	\$ 95,087	\$ 72,905
Earnings per share:				
Basic	\$ 0.73	\$ 0.69	\$ 1.94	\$ 1.21
Diluted	\$ 0.60	\$ 0.66	\$ 1.63	\$ 1.16
Weighted average number of common shares outstanding:				
Basic	48,551	56,405	49,034	60,316
Diluted	58,595	58,994	58,237	62,853

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 38,782	\$ 42,015	\$ 101,624	\$ 81,289
Other comprehensive income:				
Foreign currency translation	(2,332)	4,239	(2,620)	(7,195)
Total other comprehensive income	(2,332)	4,239	(2,620)	(7,195)
Comprehensive income	\$ 36,450	\$ 46,254	\$ 99,004	\$ 74,094
Less: comprehensive income attributable to non-controlling interest	3,463	3,299	6,537	8,384
Comprehensive income attributable to Iconix Brand Group, Inc.	\$ 32,987	\$ 42,955	\$ 92,467	\$ 65,710

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

## Unaudited Condensed Consolidated Statement of Stockholders' Equity

Six Months Ended June 30, 2014

(in thousands)

	Additional		Accumulated			Non-Controlling Interest	Total	
	Common Stock Shares	Paid-In Capital	Retained Earnings	Comprehensive Loss	Treasury Stock			
Balance at January 1, 2014	77,048	\$ 77	\$ 910,145	\$ 657,877	\$ 16,486	\$ (599,816)	\$ 117,173	\$ 1,101,942
Shares issued on exercise of stock options and warrants	277		3,440					3,440
Shares issued on vesting of restricted stock	724	1						1
Tax benefit of stock option exercises			1,172					1,172
Compensation expense in connection with restricted stock and stock options			8,247					8,247
Shares repurchased on the open market						(144,312)		(144,312)
Cost of shares repurchased on vesting of restricted stock and exercise of stock options						(13,971)		(13,971)
Change in redemption value of redeemable non-controlling interest			(358)					(358)
Equity component of currently redeemable convertible notes			(95,141)					(95,141)



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Net income				95,087				6,537	101,624
Foreign currency translation				(2,620)					(2,620)
Distributions to non-controlling interest holders								(8,445)	(8,445)
Balance at June 30, 2014	78,049	\$ 78	\$ 827,505	\$ 752,964	\$ 13,866	\$ (758,099)	\$ 115,265	\$	951,579

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

## Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	<b>Six Months Ended June 30, 2014</b>	<b>Six Months Ended June 30, 2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 101,624	\$ 81,289
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of property and equipment	1,404	1,241
Amortization of trademarks and other intangibles	2,468	3,781
Amortization of deferred financing costs	2,711	1,727
Amortization of convertible note discount	14,428	10,537
Stock-based compensation expense	8,247	7,931
Non-cash gain on re-measurement of equity investment	(37,893)	
Provision for doubtful accounts	1,956	2,140
Earnings on equity investments in joint ventures	(8,797)	(4,200)
Distributions from equity investments	4,767	3,034
Gain on sale of securities		(5,395)
Deferred income tax provision	27,911	8,412
<b>Changes in operating assets and liabilities, net of business acquisitions:</b>		
Accounts receivable	(30,646)	(20,403)
Other assets - current	5,860	(3,145)
Other assets	(18,592)	(2,185)
Deferred revenue	433	18,968
Accounts payable, accrued expenses and other liabilities	8,350	(1,780)
<b>Net cash provided by operating activities</b>	<b>84,231</b>	<b>101,952</b>
<b>Cash flows used in investing activities:</b>		
Purchases of property and equipment	(851)	(668)
Acquisition of interest in IPH Unltd		(45,000)
Acquisition of interest in Buffalo		(76,500)
Acquisition of Lee Cooper		(66,667)
Gain on sale of securities		5,395
Acquisition of interest in Iconix Latin America	(42,000)	
Proceeds from sale of trademarks	9,168	16,141
Additional investments in joint ventures	(2,500)	(37)
Additions to trademarks	(295)	(126)
<b>Net cash used in investing activities</b>	<b>(36,478)</b>	<b>(167,462)</b>
<b>Cash flows (used in) provided by financing activities:</b>		

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Shares repurchased on the open market	(144,312)	(302,764)
Proceeds from long-term debt		662,188
Proceeds from sale of warrants		57,707
Payment for purchase of convertible note hedge		(84,106)
Payment of long-term debt	(30,624)	(67,500)
Deferred financing costs		(3,839)
Acquisition of interest in MG Icon		(3,000)
Distributions to non-controlling interest holders	(8,445)	(4,294)
Excess tax benefit from share-based payment arrangements	1,172	
Shares repurchased on vesting of restricted stock and exercise of stock options	(13,971)	(2,488)
Proceeds from exercise of stock options and warrants	3,440	122
Restricted cash - current	(1,696)	(31,406)
Net cash provided by (used in) financing activities	(194,436)	220,620
Effect of exchange rate changes on cash	(242)	(468)
Net increase (decrease) in cash and cash equivalents	(146,925)	154,642
Cash and cash equivalents, beginning of period	278,789	238,672
Cash and cash equivalents, end of period	\$ 131,864	\$ 393,314

**Supplemental disclosure of cash flow information:**

(in thousands)	Six Months Ended June 30,	
	2014	2013
Cash paid during the period:		
Income taxes	\$ 3,508	\$ 16,022
Interest	\$ 24,448	\$ 16,999
Non-cash investing activities:		
Sale of trademarks for note receivable	\$ 4,516	\$ 7,294

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

## Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2014

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

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Iconix Brand Group, Inc. (the Company, we, us, or our), all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ( Current Quarter ) and the six months ( Current Six Months ) ended June 30, 2014 are not necessarily indicative of the results that may be expected for a full fiscal year.

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

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 ( FY 2013 ).

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

Trademarks and other intangibles, net consist of the following:

		June 30, 2014		December 31, 2013	
	Estimated Lives in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>(000's omitted)</i>					
Indefinite life trademarks and copyrights	Indefinite	\$ 2,040,893	\$	\$ 1,939,534	\$
Definite life trademarks	10-15	19,628	10,258	19,622	9,531
Non-compete agreements	2-15	940	332	940	215
Licensing contracts	1-9	24,652	20,288	23,979	18,685
		\$ 2,086,113	\$ 30,878	\$ 1,984,075	\$ 28,431
Trademarks and other intangibles, net			\$ 2,055,235		\$ 1,955,644

In June 2014, the Company contributed certain trademarks in Korea, Europe and Turkey to its Iconix Southeast Asia joint venture, thereby decreasing indefinite-lived trademarks by approximately \$3.6 million. Also in June 2014, the Company sold the exclusive right to use the sharperimage.com domain name and Sharper Image trademark in connection with the operation of a branded website and catalog distribution in specified jurisdictions, thereby decreasing indefinite-lived trademarks by approximately \$2.2 million.

In February 2014, the Company acquired the 50% interest in Iconix Latin America held by its joint venture partner, thereby increasing its ownership in Iconix Latin America to 100%. As a result of this transaction, Iconix Latin America is now consolidated with the Company, which increased the Company's indefinite life trademarks by \$82.4 million. In January 2014, the Company acquired a 1% interest in Iconix Europe, thereby increasing its ownership in Iconix Europe to 51%. As a result of this transaction, Iconix Europe is now consolidated with the Company, which increased the Company's indefinite life trademarks by \$27.0 million. See Note 3 for further explanation of these transactions.

Amortization expense for intangible assets for the Current Quarter and for the three months ended June 30, 2013 (the Prior Year Quarter) was \$1.0 million and \$1.9 million, respectively. Amortization expense for intangible assets for the Current Six Months and for the six months ended June 30, 2013 (the Prior Year Six Months) was \$2.5 million and \$3.8 million, respectively.

The trademarks of Candie's, Bongo, Joe Boxer, Rampage, Mudd, London Fog, Mossimo, Ocean Pacific, Danskin, Rocawear, Cannon, Royal Velvet, Fieldcrest, Charisma, Starter, Waverly, Ecko, Zoo York, Peanuts, Ed Hardy, Sharper Image, Umbro, Modern Amusement, Buffalo and Lee Cooper have been determined to have an indefinite useful life and accordingly, consistent with ASC Topic

350, no amortization has been recorded in the Company's unaudited condensed consolidated income statements. Instead, each of these intangible assets are tested for impairment annually and as needed on an individual basis as separate single units of accounting, with any related impairment charge recorded to the statement of operations at the time of determining such impairment. The annual evaluation of the Company's indefinite-lived trademarks is performed as of October 1, the beginning of the Company's fourth fiscal quarter. Consistent with ASC Topic 350, there was no impairment of the indefinite-lived trademarks during the Current Quarter or the Prior Year Quarter. Further, as it relates to the Company's definite-lived trademarks, and consistent with ASC Topic 360, there was no impairment of the definite-lived trademarks during the Current Quarter or the Prior Year Quarter.

### 3. Acquisitions, Investments and Joint Ventures

#### Acquisitions

##### *Iconix Latin America*

In December 2008, the Company contributed substantially all rights to its brands in Mexico, Central America, South America, and the Caribbean (the Latin America Territory) to Iconix Latin America LLC (Iconix Latin America), a then newly formed subsidiary of the Company. On December 29, 2008, New Brands America LLC (New Brands), an affiliate of the Falic Group, purchased a 50% interest in Iconix Latin America. In consideration for its 50% interest in Iconix Latin America, New Brands agreed to pay \$6.0 million to the Company. New Brands paid \$1.0 million upon closing of this transaction and committed to pay an additional \$5.0 million over the 30-month period following closing. As of December 31, 2011 this obligation was paid in full.

During FY 2011, the Company contributed to Iconix Latin America its share of the rights to revenues from IPH Unltd (see below) for the exploitation of the Ecko brands in the Latin America Territory. Also in FY 2011, the Company contributed to Iconix Latin America its rights to the Ed Hardy brands for the Latin America Territory. During FY 2012, the Company contributed to Iconix Latin America the rights to the Zoo York and Sharper Image brands for the Latin America Territory. In aggregate consideration for these contributions, New Brands agreed to pay an aggregate of approximately \$5.7 million to the Company. As of December 31, 2013, the balance owed to the Company under this obligation was approximately \$1.7 million, \$1.2 million of which was included in other assets - current and \$0.5 million of which is included in other assets on the Company's consolidated balance sheet. The Company has recorded the consideration associated with these transactions as other liabilities, which was to be recognized over a period of three years.

Prior to the 2014 Buy-out (defined below), based on the corporate structure, voting rights and contributions of the Company and New Brands, Iconix Latin America was not subject to consolidation. This conclusion was based on the Company's determination that the entity met the criteria to be considered a business, and therefore was not subject to consolidation due to the business scope exception of ASC Topic 810. As such, prior to the 2014 Buy-out, the Company had recorded its investment under the equity method of accounting.

In February 2014, the Company purchased from New Brands its 50% interest in Iconix Latin America for \$42.0 million, which was funded entirely from cash on hand (the 2014 Buy-out), thereby taking full ownership of 100% of the equity interests in Iconix Latin America. The following is a reconciliation of cash paid to New Brands:

*(000's omitted)*

Fair value of 50% interest in Iconix Latin America	\$ 42,698
Less: note receivable owed to the Company	997

Add: accrued distributions due to New Brands	(1,695)
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Cash paid to New Brands	\$ 42,000
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As a result of the 2014 Buy-out and in accordance with ASC Topic 805, the Company recorded a non-cash pre-tax re-measurement gain of approximately \$37.9 million, representing the increase in fair value of its original 50% investment in Iconix Latin America. This re-measurement gain is included in interest and other income on the Company's unaudited condensed consolidated income statement in the Current Six Months. Further, as a result of the 2014 Buy-out, the balance owed to the Company from New Brands was settled. As a result of the 2014 Buy-out, Iconix Latin America is subject to consolidation and is included in the Company's unaudited condensed consolidated financial statements at June 30, 2014.

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

Fair value of 50% interest in Iconix Latin America	\$ 42,698
Value of initial equity investment prior to 2014 Buy-out	4,805
Gain on re-measurement of initial equity investment	37,893
	\$ 85,396
Trademarks	82,400
License agreements	700
Cash	1,842
Net working deficit, excluding cash	(676)
Goodwill	1,130
	\$ 85,396

The Iconix Latin America trademarks have been determined by management to have an indefinite useful life and accordingly, consistent with ASC Topic 350, no amortization is being recorded in the Company's consolidated income statements. The goodwill and trademarks are subject to a test for impairment on an annual basis. The \$1.1 million of goodwill resulting from the 2014 Buy-out is deductible for income tax purposes.

As of June 30, 2014, the impact of consolidating Iconix Latin America on the Company's unaudited consolidated balance sheet has increased current assets by \$6.8 million, non-current assets by \$84.3 million, current liabilities by \$0.9 million and total liabilities by \$0.9 million. For the Current Six Months, the impact of consolidating Iconix Latin America on the Company's consolidated income statement has increased licensing and other revenue by \$3.2 million and operating income by \$2.7 million.

### ***Lee Cooper***

In February 2013, the Company, through its wholly-owned subsidiary Iconix Luxembourg Holdings SÀRL, acquired the Lee Cooper brand for approximately \$72.7 million, of which the Company paid \$66.7 million in cash (funded entirely from cash on hand) and assumed liabilities of approximately \$6.0 million. Founded in 1908, Lee Cooper is an iconic British denim brand that has expanded into multiple lifestyle categories including men's and women's casual wear, footwear and accessories.

### **Joint Ventures**

#### ***Iconix Europe***

In December 2009, the Company contributed substantially all rights to its brands in the European Territory (defined as all member states and candidate states of the European Union and certain other European countries) to Iconix Europe LLC, a then newly formed wholly-owned subsidiary of the Company (Iconix Europe). Also in December 2009 and shortly after the formation of Iconix Europe, an investment group led by The Licensing Company and Albion Equity Partners LLC purchased a 50% interest in Iconix Europe through Brand Investments Vehicles Group 3 Limited (BIV), to assist the Company in developing, exploiting, marketing and licensing the Company's brands in the European Territory. In consideration for its 50% interest in Iconix Europe, BIV agreed to pay \$4.0 million, of which \$3.0 million was paid upon closing of this transaction in December 2009 and the remaining \$1.0 million of which was paid in January 2011. As a result of this transaction, the Company recognized a gain of approximately \$7.0 million for 2009 which is included in licensing and other revenue on the consolidated income statement in 2009. Pursuant to the



terms of the Iconix Europe operating agreement and subject to certain conditions, the Company was entitled to recognize a preferred profit distribution from Iconix Europe of at least \$6.0 million, after which all profits and losses are recognized 50/50 in accordance with each principal's membership interest percentage.

At inception and prior to the January 2014 transaction described below, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and BIV, that Iconix Europe is not a variable interest entity and was not subject to consolidation. The Company had recorded its investment under the equity method of accounting.

In January 2014, the Company consented to the purchase of BIV's 50% ownership interest in Iconix Europe by LF Asia Limited (LF Asia), an affiliate of Li & Fung Limited. In exchange for this consent, the Company received \$1.5 million from LF Asia. As a result of this transaction, the Company recorded a gain of \$1.5 million, which is included in licensing and other revenue in the Company's unaudited condensed consolidated income statement for the Current Six Months. In addition, the Company acquired an additional 1% equity interest in Iconix Europe from LF Asia, and amended the operating agreement (herein referred to as the IE Operating Agreement) thereby increasing its ownership in Iconix Europe to a controlling 51% interest and reducing its preferred profit distribution from Iconix Europe to \$3.0 million after which all profits and losses are recognized 51/49 in accordance with each principal's membership interest percentage.

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

Fair value of 50% interest in Iconix Europe	\$ 13,800
Value of initial equity investment prior to this transaction	13,800
Gain on re-measurement of initial equity investment	
	\$ 27,600
Trademarks	27,000
Cash	677
Net working deficit, excluding cash	(77)
	\$ 27,600

ASC Topic 810 affirms that consolidation is appropriate when one entity has a controlling financial interest in another entity. As a result of this transaction, the Company owns a 51% membership interest in Iconix Europe compared to the minority owner's 49% membership interest. Further, the Company believes that the voting and veto rights of the minority shareholder are merely protective in nature and do not provide the minority shareholder with substantive participating rights in Iconix Europe. As such, Iconix Europe is subject to consolidation with the Company, which is reflected in the unaudited condensed consolidated financial statements as of June 30, 2014.

In accordance with ASC Topic 810, the Company recognizes the non-controlling interest of Iconix Europe as equity in consolidated financial statements and separate from the parent's equity. As such, the amount of net income attributable to the non-controlling interest of Iconix Europe for the Current Quarter and Current Six Months has been included in net income attributable to non-controlling interest in the unaudited condensed consolidated income statement.

Pursuant to the IE Operating Agreement, for a period following the fifth anniversary of the closing of this transaction (i.e. January 2014) and again following the eighth anniversary of the closing of this transaction, the Company has a call option to purchase, and LF Asia has a put option to initiate the Company's purchase, LF Asia's the 49% equity interests in Iconix Europe for a calculated amount as defined in the IE Operating Agreement. As a result of the January 2014 transaction, the Company will carry this redeemable non-controlling interest as mezzanine equity on the Company's unaudited condensed consolidated balance sheet. The Company will accrete the difference between the fair value of the put option and the non-controlling interest at inception over the five year term of the first put option to additional paid-in-capital on the Company's balance sheet.

As of June 30, 2014, the impact of consolidating Iconix Europe on the Company's unaudited consolidated balance sheet has increased current assets by \$2.4 million, non-current assets by \$27.0 million, current liabilities by \$1.1 million and total liabilities by \$1.1 million. For the Current Six Months, the impact of consolidating Iconix Europe on the Company's consolidated income statement has increased licensing and other revenue by \$1.5 million and operating income by \$0.3 million.

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

In March 2014, the Company, through its wholly-owned subsidiary domiciled in Luxembourg, contributed its rights to the Lee Cooper trademarks in the U.S. through a royalty-free perpetual master license agreement to LC Partners U.S. LLC (LCP), a then newly formed wholly-owned Delaware limited liability company. Subsequent to this contribution, the Company sold 50% of the equity interests in LCP to Rise Partners LLC (Rise Partners) for \$4.0 million, of which \$0.8 million was received during the Current Six Months, with the remaining \$3.2 million to be paid in four equal

annual installments on the first through the fourth anniversaries of the closing date. As of June 30, 2014, \$0.8 million of the \$3.2 million is included in other assets current, with the remaining \$2.4 million included in other assets in the unaudited condensed consolidated balance sheet. As a result of this transaction the Company recorded a \$4.0 million gain, which is included in licensing and other revenue in the unaudited condensed consolidated income statement in the Current Six Months.

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

### ***Buffalo Brand Joint Venture***

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

The following table is a reconciliation of cash paid to sellers and the fair value of the sellers' non-controlling interest:

Cash paid to sellers	\$ 76,500
Fair value of 49% non-controlling interest to sellers	59,489
	\$ 135,989

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

Trademarks	\$ 142,600
License agreements	2,400
Non-compete agreement	940
Goodwill	4,060
Deferred tax liability	(14,011)

\$ 135,989

ASC Topic 810 affirms that consolidation is appropriate when one entity has a controlling financial interest in another entity. The Company owns a 51% membership interest in Alberta ULC compared to the minority owner's 49% membership interest. Further, the Company believes that the voting and veto rights of the minority shareholder are merely protective in nature and do not provide the minority shareholder with substantive participating rights in Alberta ULC. As such, Alberta ULC is subject to consolidation with the Company, which is reflected in the unaudited condensed consolidated financial statements.

In accordance with ASC Topic 810, the Company recognizes the non-controlling interest of Alberta ULC as equity in the unaudited condensed consolidated financial statements and separate from the parent's equity. As such, the amount of net income attributable to the non-controlling interest has been included in net income attributable to non-controlling interest in the unaudited condensed consolidated income statement for the Current Quarter.

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

In November 2013, the Company contributed substantially all rights to its wholly-owned and controlled brands in the State of Israel and the geographical regions of the West Bank and the Gaza Strip (together, the Israel Territory) to Iconix Israel LLC (Iconix Israel), a then newly formed subsidiary of the Company through an exclusive, royalty-free perpetual master license agreement with Iconix Israel. Shortly thereafter, M.G.S. Sports Trading Limited (MGS) purchased a 50% interest in Iconix Israel for approximately \$3.3 million. MGS paid \$1.0 million upon the closing of the transaction and committed to pay an additional \$2.3 million over the 36-month period following closing. As a result of this transaction, the Company recorded a gain of \$2.3 million at the closing, which was included in licensing and other revenue in FY 2013. As of June 30, 2014, of the \$2.0 million remaining due to the Company from MGS, approximately \$0.8 million is included in other assets—current and \$1.2 million is included in other assets on the unaudited condensed consolidated balance sheet.

Pursuant to the Iconix Israel amended and restated operating agreement, for a period following the second anniversary of the closing of this transaction (i.e. November 2013), the Company has a call option to purchase from MGS 5% of the equity interests held by MGS in Iconix Israel for a calculated amount as defined in the amended and restated operating agreement.

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

***Iconix Southeast Asia Joint Venture***

In October 2013, the Company contributed substantially all rights to its wholly-owned and controlled brands in Indonesia, Thailand, Malaysia, Philippines, Singapore, Vietnam, Cambodia, Laos, Brunei, Myanmar and East Timor (together, the Southeast Asia Territory ) to Lion Network Limited ( Iconix SE Asia ), a then newly formed subsidiary of the Company through an exclusive, royalty-free perpetual master license agreement with Iconix SE Asia. Shortly thereafter, LF Asia purchased a 50% interest in Iconix SE Asia for \$12.0 million. LF Asia paid \$7.5 million upon the closing of the transaction and committed to pay an additional \$4.5 million over the 24-month period following closing. The Company may earn an additional \$2.0 million based on certain criteria relating to the achievement of Iconix SE Asia revenue targets through the year ending December 31, 2014. As a result of this transaction, the Company recorded a gain of \$4.7 million, which was included in licensing and other revenue in FY 2013.

In June 2014, the Company contributed substantially all rights to its wholly-owned and controlled brands in the Republic of Korea, and its Ecko, Zoo York, Ed Hardy and Sharper Image Brands in the European Union, and Tutkery, in each case, to Iconix SE Asia. In return, LF Asia agreed to pay the Company \$15.9 million, of which \$4.0 million was paid at closing. As a result of this transaction, the Company recorded a gain of \$13.6 million in the Current Quarter, which is included in licensing and other revenue in the unaudited condensed consolidated income statement.

As of June 30, 2014, of the \$15.9 million remaining due to the Company from LF Asia, \$7.5 million is included in other assets - current and \$8.4 million is included in other assets on the unaudited condensed consolidated balance sheet.

Pursuant to the Iconix SE Asia shareholders' agreement, for a period following the second anniversary of the closing of this transaction (i.e. October 2013), the Company has a call option to purchase from LF Asia 5% of the equity interests held by LF Asia in Iconix SE Asia for a calculated amount as defined in the Iconix SE Asia shareholders' agreement. Further, following the fifth anniversary and again following the eighth anniversary of the closing of this transaction, the Company has a call option to purchase from LF Asia all of the remaining equity interests held by LF Asia in Iconix SE Asia, or the right to the Europe territory, the Southeast Asia territory or the Korean territory on an individual basis, and LF Asia has a put option to initiate the Company's purchase from LF Asia all of the remaining equity interests held by LF Asia in Iconix SE Asia, in each case for a calculated amount as defined in the Iconix SE Asia shareholders' agreement.

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

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

In June 2013, the Company contributed substantially all economic rights to its brands in Canada to Iconix Canada L.P. and ICO Brands L.P. (together with general partner 8560854 Canada, Inc., Iconix Canada ), each then a newly formed joint venture with BII and its subsidiaries. In consideration for its aggregate 50% interest in Iconix Canada, BII agreed to pay \$17.7 million in cash to the Company, of which approximately \$8.8 million was paid upon closing of this transaction in June 2013, the remaining \$8.8 million of which is a note payable to the Company to be paid over five years from the date of closing, with final payment in June 2018. Of the \$8.2 million note receivable at June 30, 2014, approximately \$2.9 million is included in other assets - current, the remaining \$5.3 million of which is included in other assets on the unaudited condensed consolidated balance sheet. As a result of this transaction, the Company recognized a gain of approximately \$9.8 million which is included in licensing and other revenue on the consolidated income statement for FY 2013.

Pursuant to the limited partnership agreements between the Company and BII and its subsidiaries, between the second and third anniversaries of June 2013, the Company has a call option to purchase from BII and its subsidiaries 5% of the equity interests held by BII and its subsidiaries in Iconix Canada for a calculated amount as defined in the partnership agreements.

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

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

In September 2013, the Company formed Iconix Australia, LLC ( Iconix Australia ), a Delaware limited liability company and a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned

and controlled brands in Australia and New Zealand through an exclusive, royalty-free perpetual master license agreement with Iconix Australia. Shortly thereafter Pac Brands USA, Inc. ( Pac Brands ) purchased a 50% interest in Iconix Australia for \$7.2 million in cash, all of which was received upon closing of this transaction in September 2013. As a result of this transaction, the Company recorded a gain of \$5.1 million, which is included in licensing and other revenue in the FY 2013.

Following the second anniversary of the closing of this transaction (i.e. September 2013) and for a period of six months thereafter, the Company may exercise a call option to purchase a 5% interest in Iconix Australia from Pac Brands for a calculated amount as defined in the Iconix Australia operating agreement. Subsequent to the earlier of any exercise of the call option by the Company and six months following the second anniversary of the closing of this transaction, Pac Brands may exercise a put option to initiate the purchase of all of Pac Brands' ownership interests in Iconix Australia by the Company for a calculated amount as defined in the Iconix Australia operating agreement.

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

### ***IPH Unltd***

In October 2009, the Company consummated, through IPH Unltd, a then newly formed subsidiary of the Company, a transaction with the sellers of the Ecko portfolio of brands, including Ecko and Zoo York (the Ecko Assets), pursuant to which the sellers sold and/or contributed the Ecko Assets to IPH Unltd in exchange for a 49% membership interest in IPH Unltd and \$63.5 million in cash which had been contributed to IPH Unltd by the Company. As a result of this transaction, the Company owned a 51% controlling membership interest in IPH Unltd. In addition, as part of this transaction, IPH Unltd borrowed \$90.0 million from a third party to repay certain indebtedness of the sellers.

On July 27, 2011 the Company, through its newly formed wholly owned subsidiary ZY Holdings LLC (ZY Holdings), acquired the Zoo York trademark and related assets from IPH Unltd for a net purchase price of \$18.0 million, effectively increasing its ownership in the Zoo York assets from 51% to 100%. In accordance with ASC Topic 810, no gain was recognized on this transaction as the Company retained a controlling interest in the Zoo York assets before and after the increase in its ownership interest.

ASC Topic 810 affirms that consolidation is appropriate when one entity has a controlling financial interest in another entity. Prior to May 17, 2013, the Company owned a 51% membership interest in IPH Unltd compared to the minority owner's 49% membership interest. Further, the Company believed that the voting and veto rights of the minority shareholder were merely protective in nature and did not provide them with substantive participating rights in IPH Unltd. As such, prior to May 17, 2013, IPH Unltd was subject to consolidation with the Company, which is reflected in the consolidated financial statements.

In accordance with ASC Topic 810, prior to May 17, 2013, the Company recognized the non-controlling interest of IPH Unltd as equity in the consolidated financial statements and separate from the parent's equity.

On May 17, 2013 the Company purchased the remaining 49% minority interest in IPH Unltd for \$45.0 million in cash, increasing its ownership in IPH Unltd from 51% to 100%. In accordance with ASC Topic 810, no gain was recognized on this transaction as the Company retained a controlling interest in IPH Unltd before and after the increase in its ownership interest.

On May 30, 2013, the Company paid to the holders of the Ecko Note (see Note 5) approximately \$52.7 million, representing total outstanding principal and accrued interest to date. This Ecko Note was issued by IPH Unltd in connection with the Company's original acquisition of a 51% interest in the Ecko and Zoo York brands and related assets in October 2009.

### ***Peanuts Holdings***

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

Further, on the Closing Date, IE and Beagle entered into an operating agreement with respect to Peanuts Holdings (the Peanuts Operating Agreement). Pursuant to the Peanuts Operating Agreement, the Company, through IE, and Beagle made capital contributions of \$141.0 million and \$34.0 million, respectively, in connection with the acquisition of



Peanuts Worldwide. The Interests were then purchased for \$172.1 million in cash, as adjusted for acquired working capital.

In connection with the Peanuts Operating Agreement, the Company through IE, loaned \$17.5 million to Beagle (the Beagle Note ), the proceeds of which were used to fund Beagle's capital contribution to Peanuts Holdings in connection with the acquisition of Peanuts Worldwide. The Beagle Note bears interest at 6% per annum, with minimum principal payable in equal annual installments of approximately \$2.2 million on June 3, with any remaining unpaid principal balance and accrued interest to be due on June 3, 2015, the Beagle Note maturity date. Principal may be prepaid at any time. The Beagle Note is secured by the membership interest in Peanuts Holdings owned by Beagle. As of June 30, 2014, the current portion of approximately \$2.6 million is included in other assets current in the unaudited condensed consolidated balance sheet.

ASC Topic 810 affirms that consolidation is appropriate when one entity has a controlling financial interest in another entity. The Company owns an 80% membership interest in Peanuts Holdings, compared to the non-controlling owner's 20% membership interest. As such, Peanuts Holdings is subject to consolidation with the Company, which is reflected in the Company's unaudited condensed consolidated financial statements as of June 30, 2014.

In accordance with ASC Topic 810, the Company recognizes the non-controlling interest of Peanuts Holdings as equity in the consolidated financial statements and separate from the parent's equity.

### **Investments**

#### ***Marcy Media LLC***

In July 2013, the Company purchased a 10% minority interest in Marcy Media LLC ( *Marcy Media* ), a multi-media portfolio company which owns a 50% interest in Roc Nation LLC, an entertainment and talent management company, for \$32.0 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Marcy Media is not a variable interest entity and not subject to consolidation. As the Company does not have significant influence over Marcy Media, its investment has been recorded under the cost method of accounting.

Also in July 2013, the Company acquired the global rights to the *Roc Nation* name, a diffusion brand of Rocawear, to use and register as a trademark for apparel, footwear and related categories for \$8.0 million.

#### ***Complex Media Inc.***

In September 2013, the Company purchased convertible preferred shares which, on an as converted basis as of the closing date, equaled an approximate 14.4% minority interest in Complex Media Inc. ( *Complex Media* ), a multi-media lifestyle company which, among other things, owns Complex magazine and its online counterpart, Complex.com, for \$25.0 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Complex Media is not a variable interest entity and not subject to consolidation. As the Company does not have significant influence over Complex Media, its investment has been recorded under the cost method of accounting.

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

Unaudited pro forma information for the transactions completed in the Current Six Months is not presented, as such pro forma disclosure is not required with respect to such transactions because the effects of such transactions, each by themselves or in the aggregate, are considered immaterial to the Company.

## **4. Fair Value Measurements**

ASC Topic 820 *Fair Value Measurements*, which the Company adopted on January 1, 2008, 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 1 inputs generated by market transactions of identical instruments where available, Level 2 inputs generated by market transactions of similar instruments where available and in the absence of Level 1 inputs, 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.

### ***Financial Instruments***

As of June 30, 2014 and December 31, 2013, 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 receivables and note payable from and to our joint venture partners approximate their carrying values, and the fair value of our cost basis investments approximate their carrying values. 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 and the related carrying amounts are as follows:

	<b>June 30, 2014</b>		<b>December 31, 2013</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<i>(000 s omitted)</i>				
Long-term debt, including current portion	\$ 1,411,122	\$ 1,834,869	\$ 1,427,319	\$ 1,786,232

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

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

The Company accounts for non-recurring adjustments to the fair values of its non-financial assets and liabilities under ASC Topic 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 Topic 350. Further, in accordance with ASC Topic 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 Topic 360 as it relates to accounting for the impairment or disposal of long-lived assets, the Company assesses whether or not there is impairment of the Company's definite-lived trademarks. There was no impairment, and therefore no write-down, of any of the Company's long-lived assets during the Current Quarter or FY 2013.

## **5. Debt Arrangements**

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

	<b>June 30,</b>	<b>December 31,</b>
<i>(000 s omitted)</i>	<b>2014</b>	<b>2013</b>
Senior Secured Notes	\$ 806,263	\$ 836,888
1.50% Convertible Notes	331,563	323,418

2.50% Convertible Notes	273,296	267,013
Total	\$ 1,411,122	\$ 1,427,319

***Senior Secured Notes***

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

Simultaneously with the issuance of the 2012 Senior Secured Notes, the Co-Issuers also entered into a revolving financing facility of Series 2012-1 Variable Funding Senior Notes, Class A-1 (the Variable Funding Notes ), which allows for the funding of up to \$100 million of Variable Funding Notes and certain other credit instruments, including letters of credit. The Variable Funding Notes were

issued under the Indenture and allow for drawings on a revolving basis. Drawings and certain additional terms related to the Variable Funding Notes are governed by the Class A-1 Note Purchase Agreement dated November 29, 2012 (the Variable Funding Note Purchase Agreement), among the Co-Issuers, Iconix, as manager, certain conduit investors, financial institutions and funding agents, and Barclays Bank PLC, as provider of letters of credit, as swingline 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.

As of June 30, 2014, no amounts under the Variable Funding Notes have been drawn. There is a commitment fee on the unused portion of the Variable Funding Notes facility of 0.5% per annum. It is anticipated that any outstanding principal of and interest on the Variable Funding Notes will be repaid in full on or prior to January 2018. Following the anticipated repayment date, additional interest will accrue on the Variable Funding Notes equal to 5% per annum. The Variable Funding Notes and other credit instruments issued under the Variable Funding Note Purchase Agreement are secured by the collateral described below.

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

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

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

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

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 have a security interest pursuant to the Indenture. As a result of this permitted disposition, the Company will pay an additional \$1.6 million in principal on the next quarterly payment date. The Company made this payment in July 2014.

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 Indenture, the Senior Secured Notes will be repaid in January of 2020. If the Co-Issuers have not repaid or refinanced the Senior Secured Notes prior to the anticipated repayment date, additional interest will accrue on the Senior Secured Notes equal to the greater of (A) 5% per annum and (B) a per annum

interest rate equal to the excess, if any, by which the sum of (i) the yield to maturity (adjusted to a quarterly bond-equivalent basis), on the anticipated repayment date of the United States treasury security having a term closest to 10 years plus (ii) 5% plus (iii) with respect to the 2012 Senior Secured Notes, 3.4%, or with respect to the 2013 Senior Secured Notes, 3.14%, exceeds the original interest rate. The Senior Secured Notes rank pari passu with the Variable Funding Notes.

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

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

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

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

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

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

As of June 30, 2014, the total principal balance of the Notes is \$806.3 million, of which \$62.9 million is included in the current portion of long-term debt on the Company's unaudited condensed consolidated balance sheet. As of June 30, 2014 and December 31, 2013, \$51.1 million and \$52.4 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.

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

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



and sale of warrants (described below) and including transaction fees, were approximately \$390.6 million.

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

applicable conversion rate; (2) during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 1.50% Convertible Notes for each day of that period was less than 98% of the product of (a) the closing price of the Company's common stock for each day in that period and (b) the conversion rate per \$1,000 principal amount of the 1.50% Convertible Notes; (3) if specified distributions to holders of the Company's common stock are made, as set forth in the indenture governing the 1.50% Convertible Notes ( "1.50% Indenture" ); (4) if a change of control or other fundamental change, each as defined in the 1.50% Indenture, occurs; and (5) during the 90 day period prior to maturity of the 1.50% Convertible Notes. If the holders of the 1.50% Convertible Notes exercise the conversion provisions under the circumstances set forth, the Company will need to remit the lower of the principal balance of the 1.50% Convertible Notes or their conversion value to the holders in cash. As such, the Company would be required to classify the entire amount outstanding of the 1.50% Convertible Notes as a current liability in the following quarter. The evaluation of the classification of amounts outstanding associated with the 1.50% Convertible Notes will occur every quarter.

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

Pursuant to guidance issued under ASC Topic 815, the 1.50% Convertible Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded conversion option in the 1.50% Convertible Notes has not been accounted for as a separate derivative. For a discussion of the effects of the 1.50% Convertible Notes and the 1.50% Convertible Notes Hedges and Sold Warrants defined and discussed below on earnings per share, see Note 7.

As of June 30, 2014 and December 31, 2013, the amount of the 1.50% Convertible Notes accounted for as a liability was approximately \$331.6 million and \$323.4 million, respectively, and is reflected on the consolidated balance sheet as follows:

<i>(000's omitted)</i>	June 30, 2014	December 31, 2013
Equity component carrying amount	\$ 49,931	\$ 49,931
Unamortized discount	68,437	76,582
Net debt carrying amount	331,563	323,418

As of June 30, 2014, the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on and including the last trading day of the immediately preceding fiscal quarter was more than 130% of the conversion price per share of the 1.50% Convertible Notes. If the holders of the 1.50% Convertible Notes were to exercise the conversion option, the principal amount is payable in cash and any amount payable in excess of the \$400 million principal amount will be paid in cash or shares of the Company's common stock, at the Company's election. As a result, the 1.50% Convertible Notes are included in current portion of long-term debt on the unaudited condensed consolidated balance sheet as of June 30, 2014, reflecting the redemption rights of the holders to convert their notes during the three months ending September 30, 2014. Further, the Company has classified \$68.4 million as the equity component of the 1.50% Convertible Notes subject to redemption, and together

with the net debt carrying value of the 1.50% Convertible Notes, represents the full \$400.0 million par value of the 1.50% Convertible Notes. This \$68.4 million is included in equity component of currently redeemable convertible notes on the unaudited condensed consolidated balance sheet as of June 30, 2014.

For the Current Quarter and the Prior Year Quarter, the Company recorded additional non-cash interest expense of approximately \$3.9 million and \$3.7 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 Six Months and the Prior Year Six Months, the Company recorded additional non-cash interest expense of approximately \$7.5 million and \$4.3 million, respectively, representing the difference between the stated interest rate on the 1.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

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

For the Current Six Months and the Prior Year Six Months, cash interest expense relating to the 1.50% Convertible Notes was approximately \$3.0 million and \$1.7 million, respectively.

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

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

In connection with the sale of the 1.50% Convertible Notes, the Company entered into hedges for the 1.50% Convertible Notes ( 1.50% Convertible Note Hedges ) with respect to its common stock with one entity (the 1.50% Counterparty ). Pursuant to the agreements governing these 1.50% Convertible Note Hedges, the Company purchased call options (the 1.50% Purchased Call Options ) from the 1.50% Counterparty covering up to approximately 13.0 million shares of the Company s common stock. These 1.50% Convertible Note Hedges are designed to offset the Company s exposure to potential dilution upon conversion of the 1.50% Convertible Notes in the event that the market value per share of the Company s common stock at the time of exercise is greater than the strike price of the 1.50% Purchased Call Options (which strike price corresponds to the initial conversion price of the 1.50% Convertible Notes and is simultaneously subject to certain customary adjustments). On March 13, 2013, the Company paid an aggregate amount of approximately \$84.1 million of the proceeds from the sale of the 1.50% Convertible Notes for the 1.50% Purchased Call Options, of which \$29.4 million was included in the balance of deferred income tax assets at March 13, 2013 and is being recognized over the term of the 1.50% Convertible Notes. As of June 30, 2014, the balance of deferred income tax assets related to this transaction was approximately \$21.8 million.

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

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

The Company has evaluated the impact of adopting guidance issued under ASC Topic 815 regarding embedded features as it relates to the 1.50% Sold Warrants, and has determined it had no impact on the Company s results of operations and financial position through June 30, 2014, and will have no impact on the Company s results of operations and financial position in future fiscal periods.

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

If the market value per share of the Company s common stock at the time of conversion of the 1.50% Convertible Notes is above the strike price of the 1.50% Purchased Call Options, the 1.50% Purchased Call Options entitle the Company to receive from the 1.50% Counterparties net shares of the Company s common stock, cash or a combination of shares of the Company s common stock and cash, depending on the consideration paid on the underlying 1.50% Convertible Notes, based on the excess of the then current market price of the Company s common stock over the strike price of the 1.50% Purchased Call Options. Additionally, if the market price of the Company s common stock at the time of exercise of the 1.50% Sold Warrants exceeds the strike price of the 1.50% Sold Warrants, the Company

will owe the 1.50% Counterparty net shares of the Company's common stock or cash, not offset by the 1.50% Purchased Call Options, in an amount based on the excess of the then current market price of the Company's common stock over the strike price of the 1.50% Sold Warrants.

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

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

## **2.50% Convertible Notes**

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

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

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

Pursuant to guidance issued under ASC Topic 815, the 2.50% Convertible Notes are accounted for as convertible debt in the accompanying consolidated balance sheet and the embedded conversion option in the 2.50% Convertible Notes has not been accounted for as a separate derivative. For a discussion of the effects of the 2.50% Convertible Notes and the 2.50% Convertible Notes Hedges and Sold Warrants defined and discussed below on earnings per share, see Note 7.

As of June 30, 2014 and December 31, 2013, the amount of the 2.50% Convertible Notes accounted for as a liability was approximately \$273.3 million and \$267.0 million, respectively, and is reflected on the consolidated balance sheet as follows:

<i>(000 s omitted)</i>	June 30, 2014	December 31, 2013
Equity component carrying amount	\$ 35,996	\$ 35,996
Unamortized discount	26,704	32,987
Net debt carrying amount	273,296	267,013

As of June 30, 2014, the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on and including the last trading day of the immediately preceding fiscal quarter was more than 130% of the conversion price per share of the 2.50% Convertible Notes. If the holders of the 2.50% Convertible Notes were to exercise the conversion option, the principal amount is payable in cash and any amount payable in excess of the \$300 million principal amount will be paid in cash or shares of the Company's common stock, at the Company's election. As a result, the 2.50% Convertible Notes are included in current portion of long-term debt on the unaudited condensed consolidated balance sheet as of June 30, 2014, reflecting the redemption rights of the holders to convert their notes during the three months ending September 30, 2014. Further, the Company has classified \$26.7 million as the equity component of the 2.50% Convertible Notes subject to redemption, and together with the net debt carrying value of the 2.50% Convertible Notes, represents the full \$300.0 million par value of the 1.50% Convertible Notes. This \$26.7 million is included in equity component of currently redeemable convertible notes on the unaudited condensed consolidated balance sheet as of June 30, 2014.

For the Current Quarter and the Prior Year Quarter, the Company recorded additional non-cash interest expense of approximately \$2.8 million and \$2.6 million, respectively, representing the difference between the stated interest rate on the 2.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

For the Current Six Months and the Prior Year Six Months, the Company recorded additional non-cash interest expense of approximately \$5.7 million and \$5.3 million, respectively, representing the difference between the stated interest rate on the 2.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

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

For each of the Current Six Months and the Prior Year Six Months, cash interest expense relating to the 2.50% Convertible Notes was approximately \$3.8 million.

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

In connection with the sale of the 2.50% Convertible Notes, the Company entered into hedges for the 2.50% Convertible Notes ( 2.50% Convertible Note Hedges ) with respect to its common stock with two entities (the 2.50% Counterparties ). Pursuant to the agreements governing these 2.50% Convertible Note Hedges, the Company purchased call options (the 2.50% Purchased Call Options ) from the 2.50% Counterparties covering up to approximately 9.8 million shares of the Company s common stock. These 2.50% Convertible Note Hedges are designed to offset the Company s exposure to potential dilution upon conversion of the 2.50% Convertible Notes in the event that the market value per share of the Company s common stock at the time of exercise is greater than the strike price of the 2.50% Purchased Call Options (which strike price corresponds to the initial conversion price of the 2.50% Convertible Notes and is simultaneously subject to certain customary adjustments). On May 23, 2011, the Company paid an aggregate amount of approximately \$58.7 million of the proceeds from the sale of the 2.50% Convertible Notes for the 2.50% Purchased Call Options, of which \$20.6 million was included in the balance of deferred income tax assets at May 23, 2011 and is being recognized over the term of the 2.50% Convertible Notes. As of June 30, 2014, the balance of deferred income tax assets related to this transaction was approximately \$8.0 million.

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

Pursuant to guidance issued under ASC Topic 815 Derivatives and Hedging as it relates to accounting for derivative financial instruments indexed to, and potentially settled in, a company s own stock, the 2.50% Convertible Note Hedge and the proceeds received from the issuance of the 2.50% Sold Warrants were recorded as a charge and an increase, respectively, in additional paid-in capital in stockholders equity as separate equity transactions. As a result of these transactions, the Company recorded a net reduction to additional paid-in-capital of \$9.4 million in May 2011.

The Company has evaluated the impact of adopting guidance issued under ASC Topic 815 regarding embedded features as it relates to the 2.50% Sold Warrants, and has determined it had no impact on the Company s results of operations and financial position through June 30, 2014, and will have no impact on the Company s results of operations and financial position in future fiscal periods.



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

If the market value per share of the Company's common stock at the time of conversion of the 2.50% Convertible Notes is above the strike price of the 2.50% Purchased Call Options, the 2.50% Purchased Call Options entitle the Company to receive from the 2.50% Counterparties net shares of the Company's common stock, cash or a combination of shares of the Company's common stock and cash, depending on the consideration paid on the underlying 2.50% Convertible Notes, based on the excess of the then current market price of the Company's common stock over the strike price of the 2.50% Purchased Call Options. Additionally, if the market price of the Company's common stock at the time of exercise of the 2.50% Sold Warrants exceeds the strike price of the 2.50% Sold Warrants, the

Company will owe the 2.50% Counterparties net shares of the Company's common stock or cash, not offset by the 2.50% Purchased Call Options, in an amount based on the excess of the then current market price of the Company's common stock over the strike price of the 2.50% Sold Warrants.

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

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

### ***Debt Maturities***

As of June 30, 2014, the Company's debt maturities on a calendar year basis are as follows:

<i>(000 s omitted)</i>	Total	July 1 through December 31, 2014	2015	2016	2017	2018	Thereafter
Senior Secured	\$ 806,263	\$ 32,264	\$ 61,250	\$ 61,250	\$ 61,250	\$ 61,250	\$ 528,999
1.50% Convertible Notes (1)	331,563					331,563	
2.50% Convertible Notes (2)	273,296			273,296			
<b>Total</b>	<b>\$ 1,411,122</b>	<b>\$ 32,264</b>	<b>\$ 61,250</b>	<b>\$ 334,546</b>	<b>\$ 61,250</b>	<b>\$ 392,813</b>	<b>\$ 528,999</b>

(1) Reflects the net debt carrying amount of the 1.50% Convertible Notes in the consolidated balance sheet as of June 30, 2014, in accordance with accounting for convertible notes. The principal amount owed to the holders of the 1.50% Convertible Notes is \$400.0 million.

(2) Reflects the net debt carrying amount of the 2.50% Convertible Notes in the consolidated balance sheet as of June 30, 2014, in accordance with accounting for convertible notes. The principal amount owed to the holders of the 2.50% Convertible Notes is \$300.0 million.

## **6. Stockholders' Equity**

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

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

\$500 million of the Company's common stock over a three year period (the February 2014 Program and together with the 2011 Program and the February 2013 Program, the Repurchase Programs ). The February 2014 Program is in addition to the July 2013 Program.

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

	<b># of shares repurchased as part of stock repurchase programs</b>	<b>Cost of shares repurchased (in 000 s)</b>
Q2 YTD 2014	3,700,000	\$ 144,312
FY 2013	15,812,566	436,419
FY 2012	7,185,257	125,341
FY 2011	1,150,000	19,138
<b>Total, FY 2011 through June 30, 2014</b>	<b>27,847,823</b>	<b>\$ 725,210</b>

As of June 30, 2014, \$74.8 million and \$500.0 million remained available for repurchase under the July 2013 Program and February 2014 Program, respectively.

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

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

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

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

At June 30, 2014, 2,330,868 common shares were reserved for issuance under the Amended and Restated 2009 Plan. At June 30, 2014 there were no common shares available for issuance under any previous Company plan.

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

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

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

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

	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2014	1,313,077	\$ 6.22
Granted		
Canceled		
Exercised	(137,000)	3.04
Expired/Forfeited		
Outstanding at June 30, 2014	1,176,077	\$ 6.59
Exercisable at June 30, 2014	1,176,077	\$ 6.59

**Warrants**

	<b>Warrants</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2014	190,000	\$ 19.80
Granted		
Canceled		
Exercised	(140,000)	21.63
Expired/Forfeited		
Outstanding at June 30, 2014	50,000	\$ 14.67
Exercisable at June 30, 2014	50,000	\$ 14.67

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

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

**Restricted stock**

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

The following tables summarize information about unvested restricted stock transactions:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested, January 1, 2014	2,770,147	\$ 20.53
Granted	253,316	40.62
Vested	(143,883)	18.49
Forfeited/Canceled	(30,288)	23.58
Non-vested, June 30, 2014	2,849,292	\$ 22.39

The Company has awarded time-based restricted shares of common stock to certain employees. The awards have restriction periods tied to employment and vest over a maximum period of 5 years. The cost of the time-based

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

Compensation expense related to restricted stock grants for the Current Quarter and the Prior Year Quarter was approximately \$5.7 million and \$6.0 million, respectively. Compensation expense related to restricted stock grants for the Current Six Months and the Prior Year Six Months was approximately \$8.2 million and \$7.9 million, respectively. An additional amount of \$9.6 million of expense related to time-based restricted shares is expected to be expensed evenly over a period of approximately three years. During the Current Quarter and the Prior Year Quarter, the Company repurchased shares valued at \$.4 million and \$0.3 million, respectively, of its common stock in connection with net share settlement of restricted stock grants and option exercises. During the Current Six Months and the Prior Year Six Months, the Company repurchased shares valued at \$14.0 million and \$2.4 million, respectively, of its common stock in connection with net share settlement of restricted stock grants and option exercises.

## 7. Earnings Per Share

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

As of June 30, 2014, of the total potentially dilutive shares related to restricted stock-based awards, stock options and warrants, none were anti-dilutive, compared to less than 0.1 million as of June 30, 2013.

As of June 30, 2014 and 2013, none of the performance related restricted stock-based awards issued in connection with the Company's named executive officers were anti-dilutive.

The 1.50% Convertible Notes and Warrants and the 2.50% Convertible Notes and Warrants that would be subject to conversion to common stock were dilutive as of June 30, 2014 and therefore have been included in this calculation.

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

(000 shares omitted)	For the Three Months Ended		For the Six Months Ended	
	June 30, (unaudited)	June 30, (unaudited)	June 30, (unaudited)	June 30, (unaudited)
	2014	2013	2014	2013
Basic	48,551	56,405	49,034	60,316
Effect of exercise of stock options	1,016	1,145	1,061	1,106
Effect of assumed vesting of restricted stock	1,339	1,444	1,361	1,431
Effect of convertible notes subject to conversion	5,743		5,240	
Effect of convertible notes warrants subject to conversion	1,946		1,541	
Diluted	58,595	58,994	58,237	62,853

## 8. Commitments and Contingencies

### *Normal Course litigation*

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

## 9. Related Party Transactions

### *The Candie's Foundation*

The Candie's Foundation, a charitable foundation founded by Neil Cole for the purpose of raising national awareness about the consequences of teenage pregnancy, owed the Company \$0.3 million at June 30, 2014 and less than \$0.1



million at December 31, 2013. The Candie's Foundation intends to pay-off the entire borrowing from the Company during 2014, although additional advances will be made as and when necessary.

***Travel***

The Company recorded expenses of approximately \$33 in the Prior Year Quarter and \$95 and \$72 in the Current Six Months and the Prior Year Six Months, respectively, for the hire and use of aircraft solely for business purposes owned by a company in which the Company's chairman, chief executive officer and president is the sole owner. There were no such expenses in the Current Quarter. Management believes that all transactions were made on terms and conditions no less favorable than those available in the marketplace from unrelated parties.

## 10. Segment and Geographic Data

The Company has one reportable segment, licensing and commission revenue generated from its brands. The geographic regions consist of the United States, Japan and Other (which principally represents Canada and Europe). Revenues attributed to each region are based on the location in which licensees are located.

The net revenues by type of license and information by geographic region are as follows:

(000 \$ omitted)	For the three months ended		For the six months ended	
	June 30, (unaudited)		June 30, (unaudited)	
	2014	2013	2014	2013
<b>Licensing and other revenue by category:</b>				
Direct-to-retail license	\$ 44,737	\$ 43,237	\$ 86,418	\$ 84,082
Wholesale license	43,589	55,074	87,974	113,955
Entertainment and other	30,617	16,814	60,689	22,150
	\$ 118,943	\$ 115,125	\$ 235,081	\$ 220,187
<b>Licensing and other revenue by geographic region:</b>				
United States	\$ 74,933	\$ 71,326	\$ 157,974	\$ 146,272
Japan	7,630	5,806	16,518	11,893
Other <sup>(1)</sup>	36,380	37,993	60,589	62,022
	\$ 118,943	\$ 115,125	\$ 235,081	\$ 220,187

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

## 11. Subsequent Events

As of June 30, 2014, there was an aggregate of \$8.6 million included in restricted cash, representing cash collateral related to a financing arrangement on behalf of a licensee in which the Company has a minority interest accounted for under the cost method of accounting. In July 2014, the lender under this financing arrangement made a cash collateral call, reducing the Company's restricted cash by \$8.5 million. The Company expects to recover this \$8.5 million through assets secured by this financing arrangement as well as through contractual obligations under an agreement between the licensee and the Company. Accordingly, no loss was recognized on this asset account.

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

*Executive Summary.* We are a brand management company engaged in licensing, marketing and providing trend direction for a diversified and growing consumer brand portfolio. Our brands are sold across every major segment of retail distribution, from luxury to mass. As of June 30, 2014, we owned the following iconic consumer brands: Candie's, Bongo, Badgley Mischka, Joe Boxer, Rampage, Mudd, London Fog, Mossimo, Ocean Pacific/OP, Danskin/Danskin Now, Rocawear, Cannon, Royal Velvet, Fieldcrest, Charisma, Starter, Waverly, Ecko, Zoo York, Sharper Image, Umbro and Lee Cooper. In addition, Peanuts Holdings, a joint venture in which we have an 80% controlling investment, owns, through its wholly-owned subsidiary Peanuts Worldwide, the Peanuts brands and characters; Alberta ULC, a joint venture in which we have a 51% controlling investment, owns the Buffalo brand; Hardy Way, a joint venture in which we have an 85% controlling investment, owns the Ed Hardy brands; MG Icon, a joint venture in which we have a 50% investment, owns the Material Girl and Truth or Dare brands; Scion LLC, a joint venture in which we have a 50% controlling investment, owns the Artful Dodger brand and has investments in the BBC and Ice Cream brands; and Icon Modern Amusement, a joint venture in which we have a 51% controlling investment, owns the Modern Amusement brand. We license our brands worldwide through over 1,000 direct-to-retail and wholesale licenses for use across a wide range of product categories, including sportswear, fashion accessories, footwear, entertainment, home products and décor, and beauty and fragrance. Our business model allows us to focus on our core competencies of marketing and managing brands without many of the risks and investment requirements associated with a more traditional operating company.

Our licensing agreements with leading retail and wholesale licensees throughout the world provide us with a predictable stream of guaranteed minimum royalties.

Our growth strategy is focused on increasing licensing revenue from our existing portfolio of brands through the addition of new product categories, expanding the retail penetration of our existing brands and optimizing the sales of our licensees. We will also seek to continue the international expansion of our brands by partnering with leading licensees and/or joint venture partners throughout the world. In addition, we believe we will continue to acquire iconic consumer brands and other asset light businesses with applicability to a wide range of merchandise categories and an ability to further diversify our brand portfolio.

### **Highlights of Current Quarter**

Record Q2 revenue of \$118.9 million

Record Q2 operating income of \$74.7 million

Gain related to the sale of certain trademarks to our Iconix Southeast Asia joint venture

Gain related to the sale of certain categories under the Sharper Image trademark

### **Results of Operations**

#### *The Current Quarter compared to the Prior Year Quarter*

*Licensing and Other Revenue.* Licensing and other revenue for the Current Quarter totaled \$118.9 million, a 3% increase as compared to \$115.1 million for the Prior Year Quarter. The increase of approximately \$3.8 million of revenue was driven by (i) a \$13.6 million gain realized on the sale of certain trademarks to our Iconix SE Asia joint

venture (see Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements for descriptions of these transactions), (ii) \$7.8 million gain on the sale of the sharperimage.com domain name and certain categories under the Sharper Image trademark, and (iii) strong performance by our character, women's and home brands. This aggregate increase was partially offset by (i) the \$9.8 million gain realized in the Prior Year Quarter on the formation of our Iconix Canada joint venture as compared to the gain on our Iconix SE Asia joint venture (see above), (ii) general weakness in revenue related to our men's brands, and (iii) a decrease in revenue from our sports brands primarily related to our Umbro brand due to the timing of the transition from Nike operated territories to our new licensee base.

*Operating Expenses.* SG&A totaled \$44.3 million for the Current Quarter as compared to \$43.6 million for the Prior Year Quarter, an increase of \$0.7 million. This increase in SG&A was driven by an increase of \$3.2 million in compensation expense primarily due to the timing of bonus compensation. These increases were partially offset by a decrease of \$2.7 million in advertising expenses due to the timing of certain initiatives.

*Operating Income.* Operating income for the Current Quarter increased to \$74.7 million, or approximately 63% of total revenue, compared to approximately \$71.5 million or approximately 62% of total revenue in the Prior Year Quarter.

*Other (Income) Expenses Net.* Other expenses net was approximately \$15.1 million in the Current Quarter as compared to \$10.8 million other expense net in the Prior Year Quarter. Interest expense increased approximately \$2.2 million primarily due to interest related to our Senior Secured Notes (issued November 2012 and June 2013), which was approximately \$8.7 million in the Current Quarter as compared to \$6.8 million in the Prior Year Quarter due to the second tranche of Senior Secured Notes issued in June 2013. This increase was partially offset by \$0.7 million of interest expense related to our Ecco Note which was extinguished in May 2013. Interest and other income decreased \$5.5 million from \$6.0 million in the Prior Year Quarter to \$0.5 million in the Current Quarter due to a gain in the Prior Year Quarter related to the sale of securities for which there is no comparable transaction in the Current Quarter. Our equity earnings on joint ventures increased approximately \$3.4 million from approximately \$2.3 million in the Prior Year Quarter to \$5.7 million in the Current Quarter, primarily due to international joint ventures created after the Prior Year Quarter in 2013 see Note 3 to Notes to Unaudited Condensed Consolidated Financial Statements for a description of these joint ventures.

*Provision for Income Taxes.* The effective income tax rate for the Current Quarter is approximately 34.8% resulting in a \$20.8 million income tax expense, as compared to an effective income tax rate of 30.8% in the Prior Year Quarter which resulted in the \$18.7 million income tax expense. The increase in our effective tax rate primarily relates to a one-time tax assessment of approximately \$2.1 million related to new legislation on income earned in New York State, as well as a smaller portion of our income in the Current Quarter as compared to the Prior Year Quarter being generated and permanently reinvested in countries outside the U.S. that have lower statutory rates than the U.S.

*Net Income.* Our net income was approximately \$38.8 million in the Current Quarter, compared to net income of approximately \$42.0 million in the Prior Year Quarter, as a result of the factors discussed above.

*The Current Six Months compared to the Prior Year Six Months*

*Licensing and Other Revenue.* Licensing and other revenue for the Current Six Months totaled \$235.1 million, a 7% increase as compared to \$220.2 million for the Prior Year Six Months. This increase of \$14.9 million was driven by (i) a \$13.6 million gain realized on the sale of certain trademarks to our Iconix SE Asia joint venture (see Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements for descriptions of this transaction), (ii) \$7.8 million gain on the sale of the sharperimage.com domain name and certain categories under the Sharper Image trademark, (iii) a \$4.0 million gain on the formation of LC USA joint venture., (iv) revenue recognized for the renewal of the license for Peanuts television specials with ABC Networks and (v) strong performance by our women's and home brands. This aggregate increase was partially offset by (i) the \$9.8 million gain realized in the Prior Year Six Months on the formation of our Iconix Canada joint venture as compared to the gain on our Iconix SE Asia joint venture (see above), (ii) general weakness in revenue related to our men's brands (particularly Rocawear, Ecko and Ed Hardy), and (iii) a decrease in revenue from our sports brands primarily related to our Umbro brand due to the timing of the transition from Nike operated territories to our new licensee base.

*Operating Expenses.* SG&A totaled \$92.5 million for the Current Six Months compared to \$82.4 million for the Prior Year Six Months an increase of \$10.1 million. This increase in SG&A was driven by (i) an increase of \$11.0 million in talent expenses related to the incremental increase in revenue in our Peanuts business (see above), and (ii) a \$5.3 million increase in compensation mostly due to recently completed acquisitions. These increases were partially offset by (i) a decrease of \$3.7 million in advertising expenses due to the timing of certain initiatives and (ii) a decrease of \$3.7 million in professional fees primarily related to professional fees incurred in connection with an unconsummated transaction in the Prior Year Six Months.

*Operating Income.* Operating income for the Current Six Months increased to \$142.6 million, or approximately 61% of total revenue, compared to \$137.8 million or approximately 63% of total revenue in the Prior Year Six Months.

*Other (Income) Expenses Net.* Other income net was approximately \$5.4 million in the Current Six Months as compared to other expenses net of \$22.8 million in the Prior Year Six Months. Interest expense increased approximately \$9.1 million for the following reasons: (i) an increase in interest related to our Senior Secured Notes (issued November 2012 and June 2013) of approximately \$4.4 million, due to the second tranche of Senior Secured Notes issued in June 2013, (ii) an increase of approximately \$4.8 million in interest related to our 1.50% Convertible Notes issued March 2013, partially offset by \$1.7 million of interest expense related to our Ecko Note (extinguished in May 2013) in the Prior Year Six Months for which there is no comparable expense in the Current Six Months. Interest and other income increased \$32.7 million from \$6.3 million in the Prior Year Six Months to approximately \$39.0 million in the Current Six Months primarily due to a \$37.9 million non-cash gain in the Current Six Months related to the fair value re-measurement of our original 50% interest in Iconix Latin America see Note 3 to Notes to Unaudited Condensed Consolidated Financial Statements for a description of this transaction, as compared to a \$5.4 million gain in the Prior Year Six Months related to the sale of securities for which there is no comparable transaction in the Current Six Months. Our equity earnings on joint ventures increased approximately \$4.6 million from approximately \$4.2 million in the Prior Year Six Months to \$8.8 million in the Current Six Months, primarily due to international

joint ventures created after the Prior Year Quarter in 2013 see Note 3 to Notes to Unaudited Condensed Consolidated Financial Statements for a description of these joint ventures.

*Provision for Income Taxes.* The effective income tax rate for the Current Six Months is approximately 31.3% resulting in a \$46.3 million income tax expense, as compared to an effective income tax rate of 29.3% in the Prior Year Six Months which resulted in the \$33.7 million income tax expense. The increase in our effective tax rate primarily relates to a one-time tax assessment of approximately \$2.1 million related to new legislation on income earned in New York State, as well as a smaller portion of our income in the Current Six Months as compared to the Prior Year Six Months being generated and permanently reinvested in countries outside the U.S. that have lower statutory rates than the U.S.

*Net Income.* Our net income was approximately \$101.6 million in the Current Six Months, compared to net income of approximately \$81.3 million in the Prior Year Six Months, as a result of the factors discussed above.

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## Liquidity and Capital Resources

### *Liquidity*

Our principal capital requirements have been to fund acquisitions, working capital needs, share repurchases and, to a lesser extent, capital expenditures. We have historically relied on internally generated funds to finance our operations and our primary source of capital needs for acquisition has been the issuance of debt and equity securities. At June 30, 2014 and December 31, 2013, our cash totaled \$131.9 million and \$278.8 million, respectively, not including short-term restricted cash of \$60.6 million and \$58.9 million, respectively, which primarily consists of cash and cash equivalent deposits, held in accounts primarily for debt service.

As of June 30, 2014, the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on and including the last trading day of the immediately preceding fiscal quarter was more than 130% of the conversion price per share of each the 1.50% Convertible Notes and 2.50% Convertible Notes. If the holders of the 1.50% Convertible Notes and 2.50% Convertible Notes were to exercise their conversion options, the principal amount is payable in cash and any amount payable in excess of the aggregate \$700 million principal amount will be paid in cash or shares of the Company's common stock, at the Company's election. As a result, the 1.50% Convertible Notes and 2.50% Convertible Notes are both included in current portion of long-term debt on the unaudited condensed consolidated balance sheet as of June 30, 2014, reflecting the redemption rights of the holders to convert their notes during the three months ending September 30, 2014. As of the date of this form 10-Q, no holder of our convertible notes has exercised its conversion option. We do not believe holders of our convertible notes will exercise their conversion option and redeem their notes as our convertible notes are trading on the open market at premiums to their respective redemption values.

We believe that cash from future operations, our currently available cash and capacity for additional financings under our Senior Secured Notes facility will be sufficient to satisfy our anticipated working capital requirements, including early redemptions by our convertible notes' holders, for the foreseeable future. We intend to continue financing future brand acquisitions through a combination of cash from operations, bank financing and the issuance of additional equity and/or debt securities. See Note 5 of Notes to the Unaudited Condensed Consolidated Financial Statements for a description of certain prior financings consummated by us.

### *Changes in Working Capital*

At June 30, 2014 and December 31, 2013 the working capital ratio (current assets to current liabilities) was 0.49 to 1 and 3.73 to 1, respectively, primarily related to the reclassification of our convertible notes into current portion of long-term debt due to the reasons discussed above.

### *Operating Activities*

Net cash provided by operating activities decreased approximately \$17.8 million, from \$102.0 million in the Prior Year Six Months to \$84.2 million in the Current Six Months. After excluding the non-cash gain in the Current Six Months related to the fair value re-measurement of our original 50% interest in Iconix Latin America and the deferred taxes associated with that non-cash gain, net cash provided by operating activities increased approximately \$6.9 million, primarily related to a gain on sale of securities in the Prior Year Six Months for which there was no comparable gain in the Current Six Months.

### *Investing Activities*

Net cash used in investing activities decreased approximately \$131.0 million, from \$167.5 million in the Prior Year Six Months to \$36.5 million in the Current Six Months. This decrease is primarily due to our purchase of the

remaining 50% interest in Iconix Latin America from our joint venture partner in the Current Six Months for \$42.0 million in cash, as compared to the following acquisitions in the Prior Year Six Months: our acquisition of a 51% interest in Buffalo for \$76.5 million in cash, our acquisition of Lee Cooper for \$66.7 million in cash, and our acquisition of the remaining 49% interest in IPH Unltd from our joint venture partner for \$45.0 million in cash.

*Financing Activities*

Net cash used in financing activities was \$194.4 million in the Current Six Months, compared to \$220.6 million of net cash provided by financing activities in the Prior Year Six Months. In the Prior Year Six Months we issued our 1.50% Convertible Notes which resulted in net proceeds of \$365.6 million (which includes the purchase of hedges and sale of warrants), as well as the issuance of the second tranche of our Senior Secured Notes which resulted in net proceeds of \$270.2 million. There were no comparable financings in the Current Six Months. This was partially offset by a decrease in share repurchases of \$158.5 million from \$302.8 million in the Prior Year Six Months to \$144.3 million in the Current Six Months, and a decrease in principal payments of \$36.9 million from \$67.5 million in the Prior Year Six Months compared to \$30.6 million in the Current Six Months primarily related to the early extinguishment of our Ecko Note in May 2013, partially offset by an increase in principal payments related to the second tranche of our Senior Secured Notes which was issued in June 2013 for which there were no principal payments in the Prior Year Six Months.



## ***Other Matters***

### *New Accounting Standards*

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

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

*Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.* The statements that are not historical facts contained in this report are forward looking statements that involve a number of known and unknown risks, uncertainties and other factors, all of which are difficult or impossible to predict and many of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These risks are detailed our Form 10-K for the fiscal year ended December 31, 2013 and other SEC filings. The words believe , anticipate, expect , confident , project , provide , guidance and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made.

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

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

Moreover, in connection with the warrant transactions with the counterparties related to our 2.50% Convertible Notes and our 1.50% Convertible Notes, to the extent that the price of our common stock exceeds the strike price of the warrants, the warrant transactions could have a dilutive effect on our earnings per share.

The effect, if any, of these transactions and activities on the trading price of our common stock will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock.

**Item 4. Controls and Procedures**

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, herein referred to as the Exchange Act) as of the end of the period covered by this report. The purpose of disclosure controls is to ensure that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are 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.

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, 2014 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 six months ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control.

## **PART II. Other Information**

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

See Note 8 of Notes to Unaudited Condensed Consolidated Financial Statements.

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

In addition to the risk factors disclosed in Part 1, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013, 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, 2013 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 our trademarks.*

As of June 30, 2014, our consolidated balance sheet reflects debt of approximately \$1,411.1 million, including secured debt of \$806.3 million under our Senior Secured Notes. In accordance with ASC 470, our 1.50% Convertible Notes and our 2.50% Convertible Notes are included in our \$1,411.1 million of consolidated debt at a net debt carrying value of \$331.6 and \$273.3 million, respectively; however, the principal amount owed to the holders of our 1.50% Convertible Notes and 2.50% Convertible Notes is \$400.0 million (due March 2018) and \$300.0 million (due June 2016), respectively. We may also assume or incur additional debt, including secured debt, in the future in connection with, or to fund, future acquisitions or refinance our existing debt obligations. Our debt obligations:

could impair our liquidity;

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

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

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

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

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

could place us at a competitive disadvantage when compared to our competitors who have less debt. As of June 30, 2014, the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on and including the last trading day of the immediately preceding fiscal quarter was more than 130% of the conversion price per share of each the 1.50% Convertible Notes and 2.50% Convertible Notes. If the holders of the 1.50% Convertible Notes and 2.50% Convertible Notes were to exercise their conversion options, the principal amount is payable in cash and any amount payable in excess of the aggregate \$700 million principal amount will be paid in cash or shares of the Company's common stock, at the Company's election. As a result, the 1.50% Convertible Notes and 2.50% Convertible Notes are both included in current portion of long-term debt on the unaudited condensed consolidated balance sheet as of June 30, 2014, reflecting the redemption rights of the holders to convert their notes during the three months ending September 30, 2014. While we do not believe holders of our convertible notes will exercise their conversion option and redeem their notes as our convertible notes are trading on the open market at premiums to their respective redemption values, there is no guarantee the holders will not exercise this conversion option which would have adverse consequences on our liquidity and may dilute our earnings per share.

In addition, as of June 30, 2014, approximately \$58.8million, or 31%, of our total cash (including restricted cash) was held in foreign subsidiaries. Our investments in these foreign subsidiaries are considered indefinitely reinvested and unavailable for the payment of any U.S. based expenditures, including debt obligations. Any repatriation of cash from these foreign subsidiaries may require the accrual and payment of U.S. federal and certain state taxes, which could negatively impact our results of operations and/or the amount of available funds. While we currently have no intention to repatriate cash from these subsidiaries, should the need arise domestically, there is no guarantee that we could do so without adverse consequences.

While we believe that by virtue of the cash on our balance sheet as of June 30, 2014, our ability to draw down additional funds under a revolving financing facility consisting of variable funding notes, additional capacity under our Senior Secured Notes facility, and the guaranteed minimum and percentage royalty payments due to us under our licenses we will generate sufficient revenues from our licensing operations to satisfy our obligations for the foreseeable future, in the event that we were to fail in the future to make any required payment under agreements governing our indebtedness or fail to comply with the financial and operating covenants contained in those agreements, we would be in default regarding that indebtedness. A debt default could significantly diminish the market value and marketability of our common stock and could result in the acceleration of the payment obligations under all or a portion of our consolidated indebtedness.

***A substantial portion of our licensing revenue is concentrated with a limited number of licensees such that the loss of any of such licensees could decrease our revenue and impair our cash flows.***

Our licensees Wal-Mart, Target, Kohl's and Kmart/Sears were our four largest direct-to-retail licensees during the Current Six Months, representing approximately 14%, 7%, 5% and 5%, 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, 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.

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

As of June 30, 2014, goodwill represented approximately \$232.1 million, or approximately 8% of our total consolidated assets, and trademarks and other intangible assets represented approximately \$2,055.2 million, or approximately 72% of our total consolidated assets. Under current U.S. GAAP accounting standards, goodwill and indefinite life intangible assets, including some of our trademarks, are no longer amortized, but instead are subject to impairment evaluation based on related estimated fair values, with such testing to be done at least annually. While, to date, no impairment write-downs have been necessary, any write-down of goodwill or intangible assets resulting from future periodic evaluations would, as applicable, either decrease our net income or increase our net loss and those decreases or increases could be material.

***Convertible note hedge and warrant transactions that we have entered into may affect the value of our common stock.***

In connection with the initial sale of our 2.50% Convertible Notes, we purchased convertible note hedges, herein referred to as 2.50% Convertible Note Hedges, from affiliates of Barclays PLC and Goldman Sachs Inc., herein referred to as the 2.50% Hedge Counterparties. At such time, the hedging transactions were expected, but were not guaranteed, to eliminate the potential dilution upon conversion of the 2.50% Convertible Notes. Concurrently, we entered into warrant transactions with the 2.50% Hedge Counterparties, herein referred to as the 2.50% Sold Warrants.

Moreover, in connection with the 2.50% Sold Warrants, to the extent that the price of our common stock exceeds the strike price of the 2.50% Sold Warrants, the warrant transaction could have a dilutive effect on our earnings per share which may affect the value of our common stock.

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

There have been no unregistered sales of equity securities during the Current Quarter. The following table represents information with respect to purchases of common stock made by the Company during the Current Quarter:

Month of purchase		Total number of shares purchased*	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)(2)	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
April 1	April 30	5,872	\$ 42.50		\$ 609,680,075
May 1	May 31	1,034	\$ 41.99		\$ 609,680,075
June 1	June 30	6,225	\$ 44.22	800,000	\$ 574,790,125
Total		13,131	\$ 43.28	800,000	\$ 574,790,125

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

**ITEM 5. Other Information*****Rule 14a-8 Stockholder Proposal Deadline***

The 2014 annual meeting of stockholders will be held on [October 24, 2014], which is more than 30 days after the anniversary of the 2013 annual meeting of stockholders which was held on July 22, 2013. The deadline for a stockholder proposal to be considered for inclusion in our proxy statement for our 2014 annual meeting of stockholders will be a reasonable time before we begin to print and send our proxy statement for the 2014 annual meeting. We currently anticipate printing proxy statements for the meeting on or about [ ]; therefore, we request that all stockholder proposals be submitted by [ ]. Any such proposals, should contain the name

and record address of the stockholder, the class and number of shares of our common stock beneficially owned as of the record date established for the meeting, a description of, and reasons for, the proposal and all information that would be required to be included in the proxy statement file with the SEC if such stockholder was a participant in the solicitation subject to Section 14 of the Securities Exchange Act of 1934. The proposal as well as any questions related thereto, should be directed to the Company's Secretary.

***Director Nominations, Proposals for Action and Other Business Brought Before the Annual Meeting***

Our bylaws have requirements related to proposals of stockholders made outside of the processes of Rule 14a-8 under the Exchange Act and how such proposals must be submitted. Since the first public disclosure of the date of the Company's 2014 annual meeting is less than 100 calendar days prior to the date of such annual meeting (October 24, 2014), such proposals must be received by [August 17, 2014]. Stockholders are advised to review our bylaws, which contain additional requirements with respect to advance notice of stockholder proposals and director nominations.

**Item 6. Exhibits**

EXHIBIT

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

\* Filed herewith.

**Signatures**

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

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

Date: August 6, 2014

/s/ Neil Cole  
Neil Cole  
Chairman of the Board, President and Chief Executive  
Officer

Date: August 6, 2014

/s/ Jeff Lupinacci  
Jeff Lupinacci  
Executive Vice President and Chief Financial Officer