

ICONIX BRAND GROUP, INC.

Form 10-Q/A

November 27, 2015

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q/A

Amendment No.2

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended June 30, 2015

OR

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

Commission file number 1-10593

ICONIX BRAND GROUP, INC.

(Exact name of registrant as specified in its charter)

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

(212) 730-0030

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  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.

As of November 20, 2015, 48,393,703 shares of the registrant's Common Stock, par value \$.001 per share, were outstanding.

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EXPLANATORY NOTE – RESTATEMENT OF FINANCIAL INFORMATION

Iconix Brand Group, Inc. (the “Company”) is filing this Amendment No. 2 on Form 10-Q/A (the “Amended Filing”) to amend our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, originally filed with the U.S. Securities and Exchange Commission, (“SEC”) on August 12, 2015 (the “Original Filing”), to restate our unaudited consolidated financial statements and related footnote disclosures as of June 30, 2015 and for the six month period ended June 30, 2015.

Background and Effects of the Restatement

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

Items Amended in This Filing

This Amended Filing amends and restates the following items of the Company's Original Filing as of, and for the period ended June 30, 2015.

Part I - Item 1. Financial Statements

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

Part I - Item 4. Controls and Procedures

Part II - Item 6. Exhibits

Additionally, conforming changes occur throughout the document because of changes to the financial statements.

In accordance with applicable SEC rules, this Amended Filing includes certifications as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) from the Company’s Interim Principal

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Executive Officer and Principal Financial Officer dated as of the date of this Amended Filing.

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

## Part I. Financial Information

## Item 1. Financial Statements

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Balance Sheets

(in thousands, except par value)

	June 30,	December 31,
	2015	2014
	(restated)	(restated)
	(unaudited)	
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 117,874	\$ 128,019
Restricted cash	64,923	59,560
Accounts receivable, net	126,257	115,066
Deferred income tax assets	21,436	10,328
Other assets – current	49,780	66,781
<b>Total Current Assets</b>	<b>380,270</b>	<b>379,754</b>
<b>Property and equipment:</b>		
Furniture, fixtures and equipment	23,435	22,704
Less: Accumulated depreciation	(15,839 )	(14,946 )
	7,596	7,758
<b>Other Assets:</b>		
Other assets	52,341	63,334
Trademarks and other intangibles, net	2,183,447	2,024,541
Deferred financing costs, net	17,383	19,842
Investments and joint ventures	182,760	140,910
Goodwill	238,187	231,738
	2,674,118	2,480,365
<b>Total Assets</b>	<b>\$ 3,061,984</b>	<b>\$ 2,867,877</b>
<b>Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 45,173	\$ 38,762
Deferred revenue	29,439	24,978
Current portion of long-term debt	347,918	61,123
Other liabilities – current	15,447	12,741
<b>Total current liabilities</b>	<b>437,977</b>	<b>137,604</b>
Deferred income tax liability	359,721	320,792
Long-term debt, less current maturities	1,130,667	1,332,954
Other liabilities	10,570	11,660
<b>Total Liabilities</b>	<b>1,938,935</b>	<b>1,803,010</b>
Redeemable Non-Controlling Interest	14,582	14,224
Commitments and contingencies		

## Stockholders' Equity:

Common stock, \$.001 par value shares authorized 150,000; shares issued 80,339 and 79,263, respectively	80	79
Additional paid-in capital	970,000	948,714
Retained earnings	883,997	805,526
Accumulated other comprehensive loss	(55,003 )	(24,186 )
Less: Treasury stock – 31,997 and 31,310 shares at cost, respectively	(836,256 )	(812,429 )
Total Iconix Brand Group, Inc. Stockholders' Equity	962,818	917,704
Non-controlling interest	145,649	132,939
Total Stockholders' Equity	1,108,467	1,050,643
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	\$3,061,984	\$2,867,877

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		Six Months Ended	
	Ended June 30, 2015 (restated)	2014 (restated)	June 30, 2015 (restated)	2014 (restated)
Licensing revenue	\$96,221	\$96,071	\$190,018	\$207,723
Other revenue	—	16,038	—	20,009
<b>Total Revenue</b>	<b>96,221</b>	<b>112,109</b>	<b>190,018</b>	<b>227,732</b>
Selling, general and administrative expenses	46,656	43,855	87,864	91,619
<b>Operating income</b>	<b>49,565</b>	<b>68,254</b>	<b>102,154</b>	<b>136,113</b>
Other expenses (income):				
Interest expense	21,401	21,247	42,697	42,403
Interest income	(1,016 )	(482 )	(1,773 )	(1,083 )
Other income	(790 )	—	(48,155 )	(37,893 )
Foreign currency translation loss (gain)	2,006	—	(8,494 )	—
Equity earnings on joint ventures	(3,618 )	(5,675 )	(6,820 )	(8,797 )
Other expenses (income) – net	17,983	15,090	(22,545 )	(5,370 )
<b>Income before income taxes</b>	<b>31,582</b>	<b>53,164</b>	<b>124,699</b>	<b>141,483</b>
Provision for income taxes	12,193	18,539	38,558	44,066
<b>Net income</b>	<b>\$19,389</b>	<b>\$34,625</b>	<b>\$86,141</b>	<b>\$97,417</b>
Less: Net income attributable to non-controlling interest	\$4,603	\$3,463	\$7,670	\$6,537
<b>Net income attributable to Iconix Brand Group, Inc.</b>	<b>\$14,786</b>	<b>\$31,162</b>	<b>\$78,471</b>	<b>\$90,880</b>
Earnings per share:				
Basic	\$0.31	\$0.64	\$1.63	\$1.85
Diluted	\$0.30	\$0.53	\$1.55	\$1.56
Weighted average number of common shares outstanding:				
Basic	48,243	48,551	48,201	49,034
Diluted	49,595	58,595	50,752	58,237

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Comprehensive Income

(in thousands)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2015	2014	2015	2014
	(restated)	(restated)	(restated)	(restated)
Net income	\$19,389	\$ 34,625	\$86,141	\$ 97,417
Other comprehensive income:				
Foreign currency translation gain (loss)	7,123	(2,332 )	(31,116)	(2,620 )
Change in fair value of available for sale securities	299	—	299	—
Total other comprehensive income	7,422	(2,332 )	(30,817)	(2,620 )
Comprehensive income	\$26,811	\$ 32,293	\$55,324	\$ 94,797
Less: comprehensive income attributable to non-controlling				
interest	4,603	3,463	7,670	6,537
Comprehensive income attributable to Iconix Brand Group, Inc.	\$22,208	\$ 28,830	\$47,654	\$ 88,260

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, 2015

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Comprehensive Loss	Other Treasury Stock	Non-Controlling Interest	Total
Balance at January 1, 2015	79,263	\$ 79	\$ 948,714	\$ 805,526	\$ (24,186 )	\$ (812,429)	\$ 132,939	\$ 1,050,643
Issuance of common stock								
related to acquisition of interest								
in joint venture	465	0	15,703	—	—	—	—	15,703
Shares issued on vesting of								
restricted stock	596	1	—	—	—	—	—	1
Shares issued on exercise of stock								
options and warrants	15	0	—	—	—	—	—	0
Tax benefit of stock option								
exercises	—	—	44	—	—	—	—	44
Compensation expense in								
connection with restricted								
stock	—	—	5,897	—	—	—	—	5,897
Shares repurchased on the								
open market	—	—	—	—	—	(12,391 )	—	(12,391 )
Cost of shares repurchased on								
vesting of restricted stock	—	—	—	—	—	(11,436 )	—	(11,436 )

Change in redemption value of									
redeemable non-controlling									
interest	—	—	(358 )	—	—	—	—	(358 )	
Change in fair value of available									
for sale securities	—	—	—	—	299	—	—	299	
Net income	—	—	—	78,471	—	—	7,670	86,141	
Foreign currency translation	—	—	—	—	(31,116 )	—	—	(31,116 )	
Distributions to joint ventures	—	—	—	—	—	—	(7,293 )	(7,293 )	
Non-controlling interest of									
acquired companies	—	—	—	—	—	—	12,333	12,333	
Balance at June 30, 2015 (restated)	80,339	\$ 80	\$ 970,000	\$ 883,997	\$ (55,003 )	\$ (836,256)	\$ 145,649	\$ 1,108,467	

See Notes to Unaudited Condensed Consolidated Financial Statements.

## Iconix Brand Group, Inc. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended June 30,	
	2015	2014
	(restated)	(restated)
<b>Cash flows from operating activities:</b>		
Net income	\$86,141	\$97,417
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of property and equipment	809	1,404
Amortization of trademarks and other intangibles	1,724	2,468
Amortization of deferred financing costs	2,459	2,711
Amortization of convertible note discount	15,069	14,428
Stock-based compensation expense	5,899	8,247
Non-cash gain on re-measurement of equity investment	(47,365 )	(37,893 )
Provision for doubtful accounts	3,917	1,956
Earnings on equity investments in joint ventures	(6,820 )	(8,797 )
Distributions from equity investments	1,333	4,767
Gain on sale of fixed assets	(225 )	—
Gain on sale of trademarks	—	(20,009 )
Deferred income tax provision	22,862	25,644
Gain on foreign currency translation	(8,494 )	—
<b>Changes in operating assets and liabilities, net of business acquisitions:</b>		
Accounts receivable	(13,689 )	(21,509 )
Other assets – current	19,007	6,239
Other assets	(1,617 )	(2,581 )
Deferred revenue	4,936	433
Accounts payable and accrued expenses	14,211	9,306
Net cash provided by operating activities	100,157	84,231
<b>Cash flows used in investing activities:</b>		
Purchases of property and equipment	(802 )	(851 )
Acquisition of interest in Iconix China, net of cash acquired	(20,400 )	—
Acquisition of interest in Pony	(37,000 )	—
Acquisition of interest in Strawberry Shortcake	(105,000)	—
Acquisition of interest in Iconix Latin America	—	(42,000 )
Additional investments in joint ventures	—	(2,500 )
Proceeds from sale of trademarks and related notes receivable	13,372	9,168
Proceeds from sale of fixed assets	223	—
Additions to trademarks	(108 )	(295 )
Net cash used in investing activities	(149,715)	(36,478 )
<b>Cash flows (used in) provided by financing activities:</b>		
Shares repurchased on the open market	(12,391 )	(144,312)
Proceeds from Variable Funding Notes	100,000	—
Payment of long-term debt	(30,562 )	(30,624 )
Additional payment to Purim	(2,000 )	—

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Distributions to non-controlling interests	(7,293 )	(8,445 )
Excess tax benefit from share-based payment arrangements	44	1,172
Cost of shares repurchased on vesting of restricted stock and exercise of stock		
options	(3,156 )	(13,971 )
Proceeds from exercise of stock options and warrants	—	3,440
Restricted cash	(5,362 )	(1,696 )
Net cash provided by (used in) financing activities	39,280	(194,436)
Effect of exchange rate changes on cash	133	(242 )
Net decrease in cash and cash equivalents	(10,145 )	(146,925)
Cash and cash equivalents, beginning of period	128,019	278,789
Cash and cash equivalents, end of period	\$117,874	\$131,864

## Supplemental disclosure of cash flow information:

(in thousands)	Six Months Ended	
	June 30, 2015 (restated)	2014 (restated)
Cash paid during the period:		
Income taxes (net of refunds received)	\$(12,546)	\$ 3,508
Interest	\$23,736	\$ 24,448
Non-cash investing and financing activities:		
Sale of trademarks for note receivable	\$—	\$ 22,138
Issuance of shares in connection with purchase of Iconix China	\$15,703	\$—
Note receivable in connection with Strawberry Shortcake acquisition	\$9,470	\$—
Shares repurchased on vesting of restricted stock included in accrued expenses	\$11,436	\$—

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2015

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

## 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Iconix Brand Group, Inc. (the “Company,” “we,” “us,” or “our”), all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months (“Current Quarter”) and the six months (“Current Six Months”) ended June 30, 2015 are not necessarily indicative of the results that may be expected for a full fiscal year.

As previously disclosed, the Company’s Board of Directors formed a Special Committee consisting of independent directors to review the accounting treatment related to certain of the Company’s transactions. The Special Committee has completed its review as of the date of this Amendment No. 2 on this Form 10-Q/A. See Note 12 for further information on the result of the Special Committee’s review.

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

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

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 Amendment No. 2 on Form 10-K/A for the year ended December 31, 2014 (“FY 2014”), filed on November 25, 2015.

## 2. Trademarks and Other Intangibles, net

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

	June 30, 2015			December 31, 2014	
	Estimated Gross			Gross	
	Lives in Years	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Indefinite-lived trademarks and copyrights	Indefinite	\$2,171,953	\$—	\$2,012,333	\$—
Definite-lived trademarks	10-15	19,629	11,537	19,629	10,985
Non-compete agreements	2-15	940	568	940	450
Licensing contracts	1-9	25,140	22,110	24,323	21,249
		\$2,217,662	\$34,215	\$2,057,225	\$32,684
Trademarks and other intangibles, net			\$2,183,447		\$2,024,541

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

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

In February 2015, the Company acquired through its wholly-owned subsidiary, US Pony Holdings, LLC, the rights to the Pony brand in respect of the United States, Canada and Mexico. Immediately following such acquisition, a third party contributed specified assets

to US Pony Holdings, LLC in exchange for a 25% non-controlling interest in the entity. As a result of these transactions, US Pony Holdings, LLC is consolidated with the Company, which increased the Company's indefinite-lived trademarks by \$46.8 million. See Note 3 for further details on this transaction.

Amortization expense for intangible assets for the Current Quarter and for the three months ended June 30, 2014 (the "Prior Year Quarter") was \$0.8 million and \$1.0 million, respectively. Amortization expense for intangible assets for the Current Six Months and for the six months ended June 30, 2014 (the "Prior Year Six Months") was \$1.7 million and \$2.5 million, respectively.

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

### 3. Acquisitions, Joint Ventures and Investments

#### Consolidated Entities

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

#### Iconix China

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

In March 2015, the Company purchased from Novel its 50% interest in Iconix China for \$57.4 million, of which \$40.4 million was paid in cash, \$15.7 million was paid in the Company's common stock, and \$1.3 million was an amount due the Company from Iconix China that was offset against the Company's accounts receivable (the "2015 Buy-out"), thereby taking 100% of the equity interest in Iconix China. The following is a reconciliation of consideration paid to Novel Fashion Brands Limited:



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

As a result of the 2015 Buy-out, Iconix China is subject to consolidation and is included in the Company's unaudited condensed consolidated financial statements as of June 30, 2015.

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

Fair value of 50% interest in Iconix China	\$57,372
Book value of Company equity investment prior to 2015	
Buy-out	10,006
Gain on re-measurement of initial equity investment	47,365
	\$114,743
Trademarks	40,500
Investments in private companies	42,659
Cash	20,184
Other assets	5,997
Accrued expenses	(447 )
Goodwill	5,850
	\$114,743

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

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

For the Current Quarter and Current Six Months, post-acquisition, the Company's selling, general and administrative expenses increased by \$0.6 million and other income increased by \$0.6 million as a result of consolidating Iconix China on the Company's unaudited condensed consolidated income statement.

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

#### Strawberry Shortcake

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

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

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

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

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

For the Current Quarter and Current Six Months, post-acquisition, the Company recognized approximately \$2.0 million and \$3.4 million, respectively, in revenue from such assets. The \$0.5 million of goodwill resulting from the 2015 acquisition is deductible for income tax purposes.

## PONY

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

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

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

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

Trademarks	\$46,750
License agreements	250
Accounts Receivable	2,000
Goodwill	333
Fair value of PONY	\$49,333

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

For the Current Quarter and Current Six Months, post-acquisition, the Company recognized approximately \$0.7 million and \$1.1 million in revenue from Pony Holdings. The \$0.3 million of goodwill resulting from the 2015 acquisition is deductible for income tax purposes.

Unaudited Pro Forma Information

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

Iconix Latin America

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

Iconix Europe

In December 2009, the Company contributed substantially all rights to its wholly-owned brands in all member states and candidate states of the European Union, and certain other European countries, to Iconix Europe, a then newly formed wholly-owned subsidiary

of the Company. Shortly thereafter, an investment group led by Albion Equity Partners LLC, purchased a 50% interest in Iconix Europe for \$4 million through Brand Investments Vehicle Group 3 Limited (“BIV”). Also, as part of this transaction, Iconix Europe entered into a multi-year brand management and services agreement with The Licensing Company to assist in developing, exploiting, marketing and licensing the contributed brands in the European territory.

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

#### Hydraulic IP Holdings, LLC

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

#### NGX, LLC

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

#### Buffalo Brand Joint Venture

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

#### Icon Modern Amusement

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

Peanuts Holdings

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

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

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

#### Hardy Way

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

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

#### Scion

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

In March 2009, the Company, through its investment in Scion, effectively acquired a 16.6% interest in one of its licensees, Roc Apparel Group LLC (“RAG”), whose principal owner is Shawn “Jay-Z” Carter, for nominal consideration. The Company has determined that this entity is a variable interest entity as defined by ASC 810. However, the Company is not the primary beneficiary of this entity. The investment in this entity is accounted for under the cost method of accounting. Subsequent to March 2009, this investment in RAG was assigned from Scion to the Company. From March 2009 through January 2014, the Company and its partner contributed approximately \$11.8 million to Scion, which was deposited as cash collateral under the terms of RAG’s financing agreements. In June 2010, \$3.3 million was released from collateral and distributed to the Scion members equally. In July 2014, the lender under such financing arrangement made a cash collateral call, reducing the Company’s restricted cash by \$8.5 million. In FY 2014, the Company recorded a \$2.7 million charge to reduce this receivable to \$5.8 million. RAG caused such amount to be repaid pursuant to a binding term sheet dated April 2015, which resulted in a final agreement on July 6, 2015, between the Company and the managing member of RAG. In addition, on July 6, 2015, in accordance with the terms of such final agreement, the Company sold its 16.6% interest in RAG to an affiliate of Shawn “Jay-Z” Carter for nominal consideration.



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

Additionally, in April 2015, the Company entered into a binding term sheet, which resulted in a final agreement on July 6, 2015, to purchase the remaining 50% interest in Scion, which the Company has consolidated since inception, from an affiliate of Shawn “Jay-Z” Carter for \$6.0 million increasing the Company’s ownership to 100%, also effectively increasing its interest in BBC Ice Cream LLC to 50% and Artful Holdings LLC to 100%.

#### Joint Ventures/Equity Method Investees

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

##### Iconix Middle East Joint Venture

In December 2014, the Company formed Iconix MENA (“Iconix Middle East”) a wholly owned subsidiary of the Company and contributed substantially all rights to its wholly-owned and controlled brands in the United Arab Emirates, Qatar, Kuwait, Bahrain,

Saudi Arabia, Oman, Jordan, Egypt, Pakistan, Uganda, Yemen, Iraq, Azerbaijan, Kyrgyzstan, Uzbekistan, Lebanon, Tunisia, Libya, Algeria, Morocco, Cameroon, Gabon, Mauritania, Ivory Coast, Nigeria and Senegal (the “Middle East Territory”). Shortly thereafter, Global Brands Group Asia Limited (“GBG”), purchased a 50% interest in Iconix Middle East for approximately \$18.8 million. GBG paid \$6.3 million in cash upon the closing of the transaction and committed to pay an additional \$12.5 million over the 24-month period following closing. As a result of this transaction, the Company recorded a gain of \$10.3 million in FY 2014 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture. As of June 30, 2015, of the \$12.2 million, net of discount for present value, remaining due to the Company from GBG, approximately \$6.3 million is included in other assets - current and \$5.9 million is included in other assets on the unaudited condensed consolidated balance sheet.

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

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

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

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

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

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

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

#### LC Partners U.S.

In March 2014, the Company formed LC Partners US, LLC (“LCP”), a wholly-owned subsidiary of the Company, and contributed substantially all its rights to the Lee Cooper brand in the US through an agreement with LCP. Shortly thereafter, Rise Partners, LLC (“Rise Partners”), purchased a 50% interest in LCP for \$4.0 million, of which \$0.8 million in cash was received during FY 2014, with the remaining \$3.2 million to be paid in four equal annual installments on the first through the fourth anniversaries of the closing date. As of June 30, 2015, of the \$2.4 million remaining due to the Company, approximately \$0.8 million is included in other assets - current and \$1.6 million is included in other assets on the unaudited condensed consolidated balance sheet.

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

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

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

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

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

#### Iconix Southeast Asia Joint Venture

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

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

In September 2014, the Company's subsidiaries contributed substantially all rights to their Lee Cooper and Umbro brands in the People's Republic of China, Hong Kong, Macau and Taiwan (together, the "Greater China Territory"), to Iconix SE Asia. In return, GBG agreed to pay the Company \$21.5 million, of which \$4.3 million was paid at closing. The Company guaranteed minimum distributions of \$5.1 million in the aggregate through FY 2017 to GBG from the exploitation in the Greater China Territory of the brands contributed to Iconix SE Asia as part of this transaction. As a result of this transaction the Company recorded an \$18.7 million gain in FY 2014 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture.

As of June 30, 2015, of the aggregate \$21.9 million, net of discount for present value, remaining due to the Company from GBG for the above transactions, \$9.3 million is included in other assets - current and \$12.6 million is included in other assets on the unaudited condensed consolidated balance sheet.

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

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

Five-Year and Eight-Year Put/Call Options on South East Asia Territory Rights, Europe/Turkey Rights and Korea Rights: At any time during the six month period commencing October 1, 2018, and again at any time during the six month period commencing October 1, 2021, GBG may deliver a put notice to the Company, and the Company may deliver a call notice to GBG, in each case, for the

Company's purchase of the Europe/Turkey Rights, South East Asia Territory Rights and/or Korea Rights. In the event of the exercise of such put or call rights, the purchase price for such rights is an amount equal to (x) the Agreed Value (in event of a GBG put) or (y) 120% of Agreed Value (in event of a Company call). The purchase price is payable in cash.

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

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

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

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

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

Greater China Territory Put/Call Distribution: Prior to closing of a GBG put or a Company call in respect of the Greater China Territory Rights, Iconix SE Asia is required to make pro rata distributions to GBG and the Company in an amount equal to the lesser of: (i) the amount of cash in Iconix SE Asia; (ii) the maximum amount of distributions permitted by applicable law; and (iii) the amount the Company pays to GBG in respect of minimum guaranteed distributions provided for pursuant to the September 2014 Iconix SE Asia transaction described above. GBG is required to pay all amounts it receives from the Greater China Territory Put/Call Distribution to the Company.

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

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

#### Iconix Israel Joint Venture

In November 2013, the Company formed Iconix Israel. LLC (“Iconix Israel”), a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in the State of Israel and the geographical regions of the West Bank and the Gaza Strip (together, the “Israel Territory”) through an agreement with Iconix Israel. Shortly thereafter, M.G.S. Sports Trading Limited (“MGS”) purchased a 50% interest in Iconix Israel for approximately \$3.3 million. MGS paid \$1.0 million in cash upon the closing of the transaction and committed to pay an additional \$2.3 million over the 36-month period following closing. As a result of this transaction, the Company recorded a gain of \$2.3 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture, which was included in other revenue in FY 2013. As of June 30, 2015, of the \$1.2 million remaining due to the Company from MGS, approximately \$0.8 million is included in other assets - current and \$0.4 million is included in other assets on the unaudited condensed consolidated balance sheet.

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

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

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

#### Iconix Australia Joint Venture

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

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



ownership interest in the joint venture.

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

$$A + (A \times (100\% + GR))$$

2

A = trailing 12 months royalty revenue

GR = Year on year growth rate

Four-Year Put/Call Option: At any time following September 17, 2017, Pac Brands may deliver a put notice to the Company, and the Company may deliver a call notice to Pac Brands, in each case, for the Company's purchase of all units in the joint venture held by

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Pac Brands. Upon the exercise of such put/call, the purchase price for Pac Brands' units in the joint venture will be an amount equal to (i) the percentage interest represented by Pac Brands' units, multiplied by (ii) 5, multiplied by (iii) RR, where RR is equal to:

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

2

A = trailing 12 months royalty revenue

CAGR = 36 month compound annual growth rate

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

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

#### Iconix Canada Joint Venture

In June 2013, the Company formed Iconix Canada L.P. ("Ico Canada") and Ico Brands L.P. ("Ico Brands" and, together with Ico Canada, collectively, "Iconix Canada", as wholly-owned indirect subsidiaries of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in Canada (the "Canada Territory") through agreements with the Iconix Canada partnerships. Shortly thereafter through their acquisitions of limited partnership and general partnership interests, Buffalo International ULC and BIU Sub Inc. purchased 50% interests in the Iconix Canada partnerships for \$17.8 million in the aggregate, of which approximately \$8.9 million in the aggregate, was paid in cash upon closing of these transactions in June 2013, and the remaining \$8.9 million of which are notes payable to the Company to be paid, as amended, over the five year period following the date of closing, with final payment in June 2018. As a result of these transactions, the Company recognized a gain of approximately \$9.8 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint ventures. As of June 30, 2015, of the \$5.7 million note receivable, approximately \$2.9 million is included in other assets – current and \$2.8 million is included in other assets on the unaudited condensed consolidated balance sheet.

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

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

respect of the Ico Canada marks for the subsequent three fiscal periods.

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

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

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

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

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

#### Iconix India Joint Venture

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

As of June 30, 2015, of the \$1.9 million note receivable, approximately \$1.0 million is included in other assets – current and \$0.9 million is included in other assets on the unaudited condensed consolidated balance sheet.

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

#### MG Icon

In March 2010, the Company acquired a 50% interest in MG Icon, the owner of the Material Girl and Truth or Dare brands and trademarks and other rights associated with the artist, performer and celebrity known as "Madonna", from Purim LLC ("Purim") for \$20.0 million, \$4.0 million of which was paid at closing. In connection with the launch of Truth or Dare brand and based on certain qualitative criteria, Purim is entitled to an additional \$3.0 million. Through June 30, 2015, \$21.0 million was paid to Purim with the remaining \$2.0 million owed to Purim included in other liabilities-current on the Company's unaudited condensed consolidated balance sheet.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Purim, MG Icon is a variable interest entity and not subject to consolidation, as

the Company is not the primary beneficiary of MG Icon. The Company has recorded its investment under the equity method of accounting.

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

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## Investments in Iconix China

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

Brands Placed	Partner	Ownership by Iconix China	Value of Investment As of June 30, 2015
Candie's	Candies Shanghai Fashion Co., Ltd.	20	% \$ 9,494
Marc Ecko	Marc Ecko China Ltd.	15	% 2,293
Material Girl	Ningbo Material Girl Fashion Co., Ltd.	20	% 5,439
Ed Hardy	Tangli International Holdings Ltd,	20	% 10,486
Ecko Unltd	Ecko Industry (Shanghai) Co., Ltd.	20	% 11,158
Joe Boxer	Joe Boxer China, Ltd.	25	% 3,789
			\$ 42,659

## Cost Method Investments

The following investments are carried at cost:

## Marcy Media Holdings, LLC

In July 2013, the Company purchased a minority interest in Marcy Media Holdings, LLC ("MM Holdings"), resulting in the Company's indirect ownership of 5% interest in Roc Nation, LLC for \$32 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Marcy Media is not a 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.

## Complex Media Inc.

In September 2013, the Company purchased convertible preferred shares, on an as-converted basis as of December 31, 2014, equaling an approximate 14.4% minority interest in Complex Media Inc. ("Complex Media"), a multi-media lifestyle company which, among other things, owns Complex magazine and its online counterpart, Complex.com, for \$25 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Complex Media is not a 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.

## 4. Other Revenue

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

	Three Months Ended June 30, 201 <del>3</del> 014	Six Months Ended June 30, 201 <del>3</del> 014
LCP (see Note 3)	\$—\$—	\$—\$3,971
Iconix SE Asia (see Note 3)	— 8,251	— 8,251
Sharper Image- eCommerce/Domain Name	— 7,787	— 7,787
Total other revenue	\$—\$16,038	\$—\$20,009

## 5. Fair Value Measurements

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

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

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

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

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

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

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

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

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

### Hedge Instruments

From time to time, the Company will purchase hedge instruments to mitigate income statement risk and cash flow risk of revenue and receivables. As of June 30, 2015, the Company had no hedge instruments other than the 2.50% Convertible Note Hedges and 1.50% Convertible Note Hedges (see Note 6).

### Financial Instruments

As of June 30, 2015 and December 31, 2014, the fair values of cash, receivables and accounts payable approximated their carrying values due to the short-term nature of these instruments. The fair value of notes receivable and notes payable from and to our joint venture partners approximate their carrying values. The fair value of our cost method investments is not readily determinable and it is not practical to obtain the information needed to determine the value. However, there has been no indication of an impairment of these cost method investments as of June 30, 2015 and



December 31, 2014. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on Level One inputs including broker quotes or quoted market prices or rates for the same or similar instruments and the related carrying amounts are as follows:

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	\$1,478,585	\$1,554,098	\$1,394,077	\$1,601,418

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

## Non-Financial Assets and Liabilities

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

## 6. Debt Arrangements

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

	June 30,	December 31,
	2015	2014
Senior Secured Notes	\$743,469	\$774,030
1.50% Convertible Notes	348,321	339,943
2.50% Convertible Notes	286,795	280,104
Variable Funding Note	100,000	—
<b>Total</b>	<b>\$1,478,585</b>	<b>\$1,394,077</b>

## Senior Secured Notes and Variable Funding Note

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

Simultaneously with the issuance of the 2012 Senior Secured Notes, the Co-Issuers also entered into a revolving financing facility of Series 2012-1 Variable Funding Senior Notes, Class A-1 (the “Variable Funding Notes”), which allows for the funding of up to \$100 million of Variable Funding Notes and certain other credit instruments, including letters of credit. The Variable Funding Notes were issued under the Indenture and allow for drawings on a revolving basis. Drawings and certain additional terms related to the Variable Funding Notes are governed by the Class A-1 Note Purchase Agreement dated November 29, 2012 (the “Variable Funding Note Purchase Agreement”), among the Co-Issuers, Iconix, as manager, certain conduit investors, financial institutions and funding agents, and Barclays Bank PLC, as provider of letters of credit, as swing line lender and as administrative agent. The Variable Funding Notes

will be governed, in part, by the Variable Funding Note Purchase Agreement and by certain generally applicable terms contained in the Indenture. Interest on the Variable Funding Notes will be payable at per annum rates equal to the CP Rate, Base Rate or Eurodollar Rate, as defined in the Variable Funding Note Purchase Agreement.

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

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

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

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

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

The legal final maturity date of the Senior Secured Notes is in January of 2043, but it is anticipated that, unless earlier 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 (other than for a “Sharper Image” branded website or catalog in the United States and other specified jurisdictions); (ii) the rights (including the rights to receive payments) and obligations under all license agreements for use of those trademarks; (iii) the following equity interests in the following joint ventures: an 85% interest in Hardy Way LLC which owns the Ed Hardy brand, a 50% interest in MG Icon LLC which owns the Material Girl and Truth or Dare brands, a 100% interest in ZY Holdings LLC which owns the Zoo York brand, and an 80% interest in Peanuts Holdings LLC which owns the Peanuts brand and characters; and (iv) certain cash accounts established under the Indenture.

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

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

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

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

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

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

As of June 30, 2015 and December 31, 2014, the total principal balance of the Notes was \$843.5 million and \$774.0 million, respectively, of which \$61.1 million was included in the current portion of long-term debt on the Company's unaudited condensed consolidated balance sheet for each period. As of June 30, 2015 and December 31, 2014, \$64.1 million and \$59.6 million, respectively, is included in restricted cash on the unaudited condensed consolidated balance sheet and represents short-term restricted cash consisting of collections on behalf of the Securitized Assets, restricted to the payment of principal, interest and other fees on a quarterly basis under the Senior Secured Notes.

#### 1.50% Convertible Notes

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

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

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

Upon conversion, a holder will receive an amount in cash equal to the lesser of (a) the principal amount of the 1.50% Convertible Note or (b) the conversion value, determined in the manner set forth in the 1.50% Indenture. If the conversion value exceeds the principal amount of the 1.50% Convertible Notes on the conversion date, the Company will also deliver, at its election, cash or the Company's common stock or a combination of cash and the Company's common stock for the conversion value in excess of the principal amount. In the event of a change of control or other fundamental change, the holders of the 1.50% Convertible Notes may

require the Company to purchase all or a portion of their 1.50% Convertible Notes at a purchase price equal to 100% of the principal amount of the 1.50% Convertible Notes, plus accrued and unpaid interest, if any. Holders of the 1.50% Convertible Notes who convert their 1.50% Convertible Notes in connection with a fundamental change may be entitled to a make-whole premium in the form of an increase in the conversion rate.

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

As of June 30, 2015 and December 31, 2014, the amount of the 1.50% Convertible Notes accounted for as a liability was approximately \$348.3 million and \$339.9 million, respectively, and is reflected on the unaudited condensed consolidated balance sheets as follows:

	June 30,	December 31,
	2015	2014
Equity component carrying amount	\$49,931	\$49,931
Unamortized discount	51,679	60,057
Net debt carrying amount	348,321	339,943

For each of the Current Quarter and Prior Year Quarter, the Company recorded additional non-cash interest expense of approximately \$3.9 million 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 Prior Year Six Months, the Company recorded additional non-cash interest expense of approximately \$7.7 million and \$7.5 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 Prior Year Quarter, cash interest expense relating to the 1.50% Convertible Notes was approximately \$1.5 million.

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

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

On March 18, 2013, the Company used a portion of the proceeds from the 1.50% Convertible Notes to repurchase 2,964,000 shares of its common stock in a private transaction with a third party for \$69.0 million. See note 7 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, 2015 and December 31, 2014, the balance of deferred income tax assets related to this transaction was approximately \$15.9 million and \$18.9 million, respectively.

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

Pursuant to guidance issued under ASC 815 as it relates to accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock, the 1.50% Convertible Note Hedge and the proceeds received from the issuance of the 1.50% Sold

Warrants were recorded as a charge and an increase, respectively, in additional paid-in capital in stockholders' equity as separate equity transactions. As a result of these transactions, the Company recorded a net increase to additional paid-in-capital of \$3.0 million in March 2013.

The Company has evaluated the impact of adopting guidance issued under ASC 815 regarding embedded features as it relates to the 1.50% Sold Warrants, and has determined it had no impact on the Company's results of operations and financial position through June 30, 2015, and will have no impact on the Company's results of operations and financial position in future fiscal periods.

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

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

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

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

## 2.50% Convertible Notes

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

The 2.50% Convertible Notes bear interest at an annual rate of 2.50%, payable semi-annually in arrears on June 1 and December 1 of each year, beginning December 1, 2011. However, the Company recognizes an effective interest rate of 7.25% on the carrying amount of the 2.50% Convertible Notes. The effective rate is based on the rate for a similar instrument that does not have a conversion feature. The 2.50% Convertible Notes will be convertible into cash and, if applicable, shares of the Company's common stock based on a conversion rate of 32.5169 shares of the Company's common stock, subject to customary adjustments, per \$1,000 principal amount of the 2.50% Convertible Notes (which is equal to an initial conversion price of approximately \$30.75 per share) only under the following circumstances: (1) during any fiscal quarter beginning after June 30, 2011 (and only during such fiscal quarter), if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is more than 130% of the conversion price per share, which is \$1,000

divided by the then applicable conversion rate; (2) during the five business day period immediately following any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 2.50% Convertible Notes for each day of that period was less than 98% of the product of (a) the closing price of the Company's common stock for each day in that period and (b) the conversion rate per \$1,000 principal amount of the 2.50% Convertible Notes; (3) if specified distributions to holders of the Company's common stock are made, as set forth in the indenture governing the 2.50% Convertible Notes ("2.50% Indenture"); (4) if a "change of control" or other "fundamental change," each as defined in the 2.50% Indenture, occurs; and (5) during the 90 day period prior to maturity of the 2.50% Convertible Notes. If the holders of the 2.50% Convertible Notes exercise the conversion provisions under the circumstances set forth, the Company will need to remit the lower of the principal balance of the 2.50% Convertible Notes or their conversion value to the holders in cash. As such, the Company would be required to classify the entire amount outstanding of the 2.50% Convertible Notes as a current liability in the following quarter. The evaluation of the classification of amounts outstanding associated with the 2.50% Convertible Notes will occur every quarter.

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

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

As of June 30, 2015 and December 31, 2014, the amount of the 2.50% Convertible Notes accounted for as a liability was approximately \$286.8 million (which is included in current portion of long-term debt) and \$280.1 million, respectively, and is reflected on the condensed consolidated balance sheets as follows:

	June 30,	December 31,
	2015	2014
Equity component carrying amount	\$35,996	\$35,996
Unamortized discount	13,205	19,896
Net debt carrying amount	286,795	280,104

For the Current Quarter and Prior Year Quarter, the Company recorded additional non-cash interest expense of approximately \$3.1 million and \$2.8 million, respectively, representing the difference between the stated interest rate on the 2.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

For the Current Six Months and Prior Year Six Months, the Company recorded additional non-cash interest expense of approximately \$6.1 million and \$5.7 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 Prior Year Quarter, cash interest expense relating to the 2.50% Convertible Notes was \$1.9 million.

For each of the Current Six Months and 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, 2015 and December 31, 2014, the balance of deferred income tax assets related to this transaction was approximately \$3.8 million and \$5.9 million, respectively.

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

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

The Company has evaluated the impact of adopting guidance issued under ASC 815 regarding embedded features as it relates to the 2.50% Sold Warrants, and has determined it had no impact on the Company's results of operations and financial position through June 30, 2015, and will have no impact on the Company's results of operations and financial position in future fiscal periods.

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

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

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

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

#### Debt Maturities

As of June 30, 2015, the Company's debt maturities on a calendar year basis are as follows:

		July 1					
		through					
		December 31,					
	Total	2015	2016	2017	2018	2019	Thereafter
Senior Secured Notes	\$743,469	\$ 30,562	\$61,123	\$61,123	\$61,123	\$61,123	\$468,415
1.50% Convertible Notes <sup>(1)</sup>	\$348,321	—	—	—	348,321	—	—

2.50% Convertible Notes <sup>(2)</sup>	\$286,795	—	286,795	—	—	—	—
Variable Funding Notes	\$100,000				100,000		
Total	\$1,478,585	\$ 30,562	\$347,918	\$61,123	\$509,444	\$61,123	\$468,415

- (1) Reflects the net debt carrying amount of the 1.50% Convertible Notes in the consolidated balance sheet as of June 30, 2015, in accordance with accounting for convertible notes. The principal amount owed to the holders of the 1.50% Convertible Notes is \$400.0 million.
- (2) Reflects the net debt carrying amount of the 2.50% Convertible Notes in the consolidated balance sheet as of June 30, 2015, in accordance with accounting for convertible notes. The principal amount owed to the holders of the 2.50% Convertible Notes is \$300.0 million.

## 7. Stockholders' Equity

### Stock Repurchase Program

In October 2011, the Company's Board of Directors authorized a program to repurchase up to \$200 million of the Company's common stock over a period of approximately three years (the "2011 Program"). In February 2013, the Company's Board of Directors authorized another program to repurchase up to \$300 million of the Company's common stock over a three year period (the "February

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

The following table illustrates the activity under the Repurchase Programs, in the aggregate, for FY 2015, FY 2014, FY 2013, FY 2012 and FY 2011:

	# of shares		
	repurchased as	Cost of	
	part of stock	shares	Weighted
	repurchase	repurchased	Average
	programs	(in 000’s)	Price
Q2 YTD 2015	360,000	\$ 12,391	\$ 34.42
FY 2014	4,994,578	193,434	38.73
FY 2013	15,812,566	436,419	27.60
FY 2012	7,185,257	125,341	17.44
FY 2011	1,150,000	19,138	16.64
Total, FY 2011 through June 30, 2015	29,502,401	\$ 786,723	\$ 26.67

As of June 30, 2015, \$13.3 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, 2015, 2,231,195 common shares were reserved for issuance under the Amended and Restated 2009 Plan. At June 30, 2015 there were no common shares available for issuance under any previous Company plan.



Stock Options and Warrants

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

There was no compensation expense related to stock option grants or warrant grants during the Current Quarter, Current Six Months, Prior Year Quarter or Prior Year Six Months as all prior awards have been fully expensed.

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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:

	Weighted Average	
Options	Options	Exercise Price
Outstanding at January 1, 2015	141,077	\$ 12.10
Granted	—	—
Canceled	—	—
Exercised	(15,000 )	16.33
Expired/Forfeited	(16,077 )	3.11
Outstanding at June 30, 2015	110,000	\$ 12.84
Exercisable at June 30, 2015	110,000	\$ 12.84

	Weighted Average	
Warrants	Warrants	Exercise Price
Outstanding at January 1, 2015	20,000	\$ 6.65
Granted	—	—
Canceled	—	—
Exercised	—	—
Expired/Forfeited	—	—
Outstanding at June 30, 2015	20,000	\$ 6.65
Exercisable at June 30, 2015	20,000	\$ 6.65

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

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

#### Restricted stock

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

The following tables summarize information about unvested restricted stock transactions:

Shares	Weighted
--------	----------

	Average	Grant	Date Fair	Value
Non-vested, January 1, 2015	2,699,732			\$ 22.40
Granted	96,509			29.33
Vested	(596,073 )			31.98
Forfeited/Canceled	(49,290 )			38.90
Non-vested, June 30, 2015	2,150,878			\$ 19.70

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 Prior Year Quarter was approximately \$3.3 million and \$5.7 million, respectively. Compensation expense related to restricted stock grants for the Current Six Months and Prior Year Six Months was approximately \$5.9 million and \$8.2 million, respectively. An additional amount of \$4.4 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 Prior Year Quarter, the Company repurchased shares valued at \$1.4 million and \$0.4 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 Prior Year Six Months, the Company repurchased shares valued at \$11.4 million and \$14.0 million, respectively, of its common stock in connection with net share settlement of restricted stock grants and option exercises.

## 8. Earnings Per Share

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

As of June 30, 2015, of the total potentially dilutive shares related to restricted stock-based awards, stock options and warrants, less than 0.2 million were anti-dilutive. 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.

As of June 30, 2015 and June 30, 2014, none of the performance related restricted stock-based awards issued in connection with the Company's named executive officers were anti-dilutive.

As of June 30, 2015, warrants issued in connection with the Company's 1.50% Convertible Notes financing and 2.50% Convertible Notes financing were anti-dilutive and therefore were not included in this calculation. As of June 30, 2014, warrants issued in connection with the Company's 1.50% Convertible Notes financing and 2.50% Convertible Notes financing were dilutive and therefore were included in this calculation.

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

	For the Three Months		For the Six Months	
	Ended June 30, 2015	2014	Ended June 30, 2015	2014
Basic	48,243	48,551	48,201	49,034
Effect of exercise of stock options	82	1,016	91	1,061
Effect of assumed vesting of restricted stock	1,270	1,339	1,286	1,361
Effect of convertible notes subject to conversion	—	5,743	1,174	5,240
Effect of convertible notes warrants subject to conversion	—	1,946	—	1,541
Diluted	49,595	58,595	50,752	58,237

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

## 9. Commitments and Contingencies

### Legal Proceedings

Two securities class actions, respectively captioned *Lazaro v. Iconix Brand Group, Inc. et al.*, Docket No. 1:15-cv-04981-PGG, and *Niksich v. Iconix Brand Group, Inc. et al.*, Docket No. 1:15-cv-04860-PGG, are pending in the United States District Court for the Southern District of New York against the Company and certain former officers (each, a “Class Action” and, together, the “Class Actions”). The plaintiffs in the Class Actions purport to represent a class of purchasers of the Company’s securities from February 20, 2013 to April 17, 2015, inclusive, and claim that the Company and individual defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, by making allegedly false and misleading statements regarding certain aspects of the Company’s business operations and prospects. The Company and the individual defendants intend to vigorously defend against the claims.

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

## 10. Related Party Transactions

### The Candie's Foundation

The Candie's Foundation is a charitable foundation founded by Neil Cole, the Company's former Chairman and Chief Executive Officer, for the purpose of raising national awareness about the consequences of teenage pregnancy. As of June 30, 2015, the Company owed the Candie's Foundation less than \$0.1 million, and as of December 31, 2014, the Candie's Foundation owed the Company less than \$0.1 million. The Company intends to pay-off the entire amount due the Candie's Foundation during 2015. The Company may make additional advances to the Candie's Foundation as and when necessary.

### Travel

The Company recorded expenses of \$33 in the Prior Year Quarter and \$95 in the Prior Year Six Months, 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 or Current Six Months. Management believes that all transactions were made on terms and conditions no less favorable than those available in the marketplace from unrelated parties.

## 11. Segment and Geographic Data

The Company identifies its operating segments according to how business activities are managed and evaluated: men's, women's,

home, entertainment and corporate. Since the Company does not track, manage and analyze its assets by segments, no disclosure of

segmented assets is reported.

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

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

Three Months		Six Months	
Ended June 30,		Ended June 30,	
2015	2014	2015	2014
(restated)	(restated)	(restated)	(restated)

Licensing and other revenue:

Men's \$