NexCen Brands, Inc.
Form 10-Q
May 10, 2007

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**

# FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended March 31, 2007**

**Or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number: 000-27707**

**NEXCEN BRANDS, INC.**
(Exact name of registrant as specified in its charter)

| **Delaware** | **20-2783217** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |
| **1330 Avenue of the Americas, 34th Floor, New York, NY** | **10019-5400** |
| (Address of principal executive offices) | (Zip Code) |

(Registrant's telephone number, including area code): **(212) 277-1100**

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(Former name, former address and former fiscal year, if changed since last report)

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 ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer | o | Accelerated filer | ý | Non-accelerated filer | o |
|---|---|---|---|---|---|

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of May 1, 2007, 50,525,395 shares of the Registrant's common stock, $.01 par value per share, were outstanding.

**NEXCEN BRANDS, INC.**

**QUARTERLY REPORT ON FORM 10-Q**
**THE QUARTER ENDED MARCH 31, 2007**

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**PART I—FINANCIAL INFORMATION**

**ITEM I: FINANCIAL STATEMENTS**

**NEXCEN BRANDS, INC**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
(IN THOUSANDS, EXCEPT SHARE DATA)

| | | **March 31, 2007 (Unaudited)** | | **December 31, 2006** |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ | 37,980 | $ | 83,536 |
| Restricted cash | | 5,586 | | - |
| Trade receivables, net of allowances of $1,069 and $530 | | 3,323 | | 2,042 |
| Interest and other receivables | | 1,663 | | 511 |
| Prepaid expenses and other current assets | | 2,519 | | 2,210 |
| Total current assets | | 51,071 | | 88,299 |
| | | | | |
| Property and equipment, net | | 2,912 | | 389 |
| Goodwill | | 45,303 | | 15,607 |
| Trademarks | | 131,600 | | 49,000 |
| Other intangible assets, net of amortization | | 6,242 | | 3,792 |
| Deferred financing costs and other assets | | 908 | | - |
| Restricted cash | | 1,428 | | 1,298 |
| Total Assets | $ | 239,464 | $ | 158,385 |
| | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Accounts payable and accrued expenses | $ | 8,142 | $ | 4,713 |
| Deferred revenue | | 5,333 | | 40 |
| Current portion of long-term debt | | 958 | | - |
| Acquisition related liabilities | | 5,450 | | 4,000 |
| Other current liabilities | | - | | 484 |
| Total current liabilities | | 19,883 | | 9,237 |
| | | | | |
| Long-term debt | | 25,542 | | - |
| Deferred tax liability | | 20,493 | | 218 |
| Acquisition related liabilities | | 2,954 | | - |
| Other long-term liabilities | | 2,376 | | 2,317 |
| Total Liabilities | | 71,248 | | 11,772 |
| Minority interest | | 2,824 | | - |
| Commitments and Contingencies | | | | |
| | | | | |
| Stockholders' Equity | | | | |
| Preferred stock, $0.01 par value; 1,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2007 and December 31, 2006. | | - | | - |
| Common stock, $0.01 par value; 1,000,000,000 shares authorized; 50,502,561 and 47,966,085 shares issued and outstanding at March 31, 2007 and | | 506 | | 481 |

| December 31, 2006 | | | | |
|---|---|---|---|---|
| Additional paid-in capital | | 2,634,694 | | 2,615,742 |
| Treasury stock | | (352) | | (352) |
| Accumulated deficit | | (2,469,456) | | (2,469,258) |
| Total stockholders' equity | | 165,392 | | 146,613 |
| Total liabilities, minority interest and stockholders' equity | $ | 239,464 | $ | 158,385 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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**NEXCEN BRANDS, INC**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| *Revenues:* | | | | |
| Royalty revenues | $ | 2,175 | $ | - |
| Licensing revenues | | 1,607 | | - |
| Franchise fee revenues | | 103 | | - |
| Total Revenues | | 3,885 | | - |
| | | | | |
| *Operating Expenses:* | | | | |
| Selling, general and administrative expenses | | (3,543) | | (729) |
| Professional fees | | (789) | | (49) |
| Depreciation and amortization | | (189) | | (23) |
| Stock based compensation | | (640) | | (71) |
| Total Operating Expenses | | (5,161) | | (872) |
| | | | | |
| Operating Loss | | (1,276) | | (872) |
| | | | | |
| *Non-Operating income (expense)* | | | | |
| Interest Income | | 763 | | 260 |
| Interest Expense | | (160) | | - |
| Other Income, net | | 81 | | 60 |
| Minority Interest | | (53) | | - |
| Total non-operating income | | 631 | | 320 |
| | | | | |
| Loss from continuing operations before income taxes | | (645) | | (552) |
| Provision for income taxes | | - | | - |
| | | | | |
| Loss from continuing operations | | (645) | | (552) |
| | | | | |
| Gain from discontinued operations, net of taxes | | 447 | | 419 |
| | | | | |
| Net Loss | $ | (198) | $ | (133) |
| | | | | |
| Loss per share (basic and diluted) from continuing operations | $ | (0.01) | $ | (0.01) |
| Income per share (basic and diluted) from discontinuing operations | | 0.01 | | 0.01 |
| Net income per share - basic and diluted | $ | 0.00 | $ | 0.00 |
| | | | | |
| Weighted average shares outstanding - basic and diluted | | 49,159 | | 44,019 |

See accompanying notes to the unaudited condensed consolidated financial statements.

**NEXCEN BRANDS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
(IN THOUSANDS)
(UNAUDITED)

| | PREFERRED STOCK | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED DEFICIT | TREASURY STOCK | TOTAL |
|---|---|---|---|---|---|---|
| Balance at December 31, 2005 | $ - | $ 440 | $ 2,593,085 | $ (2,467,138) | $ - | $ 126,387 |
| Exercise of options and warrants | - | - | - | - | - | - |
| Stock compensation expense | - | - | 71 | - | - | 71 |
| Net loss | - | - | - | (133) | - | (133) |
| Balance at March 31, 2006 | $ - | $ 440 | $ 2,593,156 | $ (2,467,271) | $ - | $ 126,325 |
| | | | | | | |
| Balance at December 31, 2006 | $ - | $ 481 | $ 2,615,742 | $ (2,469,258) | $ (352) | $ 146,613 |
| Exercise of options and warrants | - | 1 | - | - | - | 1 |
| Stock compensation expense | - | - | 650 | - | - | 650 |
| Common stock issued | - | 24 | 18,302 | - | - | 18,326 |
| Net loss | - | - | - | (198) | - | (198) |
| Balance at March 31, 2007 | $ - | $ 506 | $ 2,634,694 | $ (2,469,456) | $ (352) | $ 165,392 |

See accompanying notes to unaudited condensed consolidated financial statements.

**NEXCEN BRANDS, INC**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**
(IN THOUSANDS)
(UNAUDITED)

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| *Cash flow from operating activities:* | | | | |
| Net loss from continuing operations | $ | (645) | $ | (552) |
| Adjustments to reconcile net loss from continuing operations to net cash (used in) provided by operating activities: | | | | |
| Depreciation and amortization | | 189 | | 23 |
| Stock based compensation | | 640 | | 71 |
| Changes in assets and liabilities, net of acquired assets and liabilities: | | | | |
| Increase in trade receivables, net of allowances | | (689) | | - |
| (Increase) decrease in interest and other receivables | | (172) | | 566 |
| (Increase) decrease in prepaid expenses and other current assets | | (411) | | 322 |
| Decrease in accounts payable and accrued expenses | | (83) | | (917) |
| Increase in deferred revenues | | 354 | | - |
| Cash provided by discontinued operations | | 447 | | 1,137 |
| Net cash (used in) provided by operating activities | | (370) | | 650 |
| | | | | |
| *Cash flows from investing activities:* | | | | |
| Increase in restricted cash | | (5,716) | | - |
| Purchases of property and equipment | | (2,191) | | - |
| Increase in minority interest | | 53 | | - |
| Acquisitions, net of cash acquired | | (66,876) | | - |
| Cash provided by discontinued operations | | - | | 157,806 |
| Net cash (used in) provided by investing activities | | (74,730) | | 157,806 |
| | | | | |
| *Cash flows from financing activities:* | | | | |
| Proceeds from the sale of minority interest in Bill Blass Jeans | | 2,771 | | - |
| Increase in debt from borrowings | | 26,500 | | - |
| Proceeds from the exercise of options and warrants | | 273 | | - |
| Cash used in discontinued operations | | - | | (133,924) |
| Net cash provided by (used in) financing activities | | 29,544 | | (133,924) |
| Net (decrease) increase in cash and cash equivalents | | (45,556) | | 24,532 |
| Cash and cash equivalents, at beginning of period | | 83,536 | | 1,092 |
| Cash and cash equivalents, at end of period | $ | 37,980 | $ | 25,624 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the period for interest | $ | - | $ | 1,403 |
| Cash paid during the period for taxes | $ | 117 | $ | - |

See accompanying notes to unaudited condensed consolidated financial statements

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**NEXCEN BRANDS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## (1) ORGANIZATION, DESCRIPTION OF THE BUSINESS, AND BASIS OF PRESENTATION

(a) ORGANIZATION, DESCRIPTION OF THE BUSINESS, AND BASIS OF PRESENTATION

NexCen engages in the acquisition and management of established consumer brands in intellectual property-centric industries. NexCen's goal is to be a world leader in brand management for the 21st century. Our business is focused on acquiring, managing and developing intellectual property, which we refer to as IP, and IP-centric businesses. IP that we have acquired and expect to acquire in the future includes trademarks, trade names, copyrights, franchise rights, patents, trade secrets, know-how and other similar, valuable property, primarily used in the retail and consumer branded products and franchise businesses. In building our IP business, we focus on three vertical segments: retail franchising, consumer branded products and quick service restaurant franchising (which we refer to as "QSR" franchising).

We commenced our IP business in June 2006, when we acquired UCC Capital Corporation, which we refer to as UCC. In November 2006, we entered the retail franchising business by acquiring Athletes Foot Brands, LLC, along with an affiliated company and certain related assets. As a result of this acquisition, we are now the owner of The Athlete's Footâ brand and related marks. The Athlete's Foot ("TAF") is an athletic footwear and apparel franchisor with 600 locations in over 37 countries.

In February 2007, we entered the consumer branded products business by acquiring Bill Blass Holding Co., Inc. and two affiliated businesses ("Blass"). The Bill Blass label represents timeless style modern American and is an American legacy brand in the fashion industry.

In February 2007, we acquired MaggieMoo's International, LLC ("MaggieMoo's") and the assets of Marble Slab Creamery, Inc. ("Marble Slab"), two well known and established brands within the hand-mixed premium ice cream category. These acquisitions mark NexCen's entry into the QSR franchising sector.

On March 13, 2007 we signed a definitive agreement to acquire the Waverly brand from F. Schumacher & Co. for $36.75 million in cash and a warrant to purchase 50,000 common shares. Waverly is a home décor lifestyle brand for harmonious and tasteful decorating. As discussed below in Note 16, we completed this transaction on May 2, 2007.

We are actively in discussions to acquire additional IP-centric businesses. Our operating strategy is to generate revenue from licensing and other commercial arrangements with third parties who want to use the IP that we acquire. These third parties will pay us licensing and other contractual fees and royalties for the right to use our IP on either an exclusive or non-exclusive basis. Our contractual arrangements may apply to a specific product market, a specific geographic market or to multiple markets.

We expect that licensing and other contractual fees paid to us will include a mixture of upfront payments, required periodic minimum payments (regardless of sales volumes), and volume-dependent periodic royalties (based upon the number or dollar amount of branded products and services sold). Accordingly, we expect that our revenues will reflect both recurring and non-recurring payment streams.

(b) BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. The Condensed Consolidated Balance Sheet as of March 31, 2007 and the Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006, and the Condensed Consolidated Statements of Cash

Flows for the three months ended March 31, 2007 and 2006, are unaudited. In the opinion of management, all adjustments have been made, which include normal recurring adjustments necessary to present fairly the Condensed Consolidated Financial Statements. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the operating results for the full year. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on From 10-K for the year ended December 31, 2006. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

(c) RECLASSIFICATIONS

Certain 2006 amounts have been reclassified to conform to the current year presentation. All 2006 activity related to our MBS business has been classified as discontinued operations.



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OUR SIGNIFICANT INTERIM ACCOUNTING POLICIES INCLUDE THE FOLLOWING:
(a) CASH AND CASH EQUIVALENTS

Cash equivalents include all highly liquid investments purchased with original maturities of three months or less. Cash and cash equivalents consisted of the following:

| (in thousands) | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Cash | $ 4,562 | $ 10,694 |
| Money market accounts | 33,418 | 72,842 |
| Total | $ 37,980 | $ 83,536 |

(b) REVENUE RECOGNITION

Royalties from franchise operations are recorded as revenues as the fees are earned and become receivable from franchisees. Franchise fee income is recognized when all initial required services are performed, which is generally considered to be upon the opening of the franchisee's store. Royalties from licensee operations are recorded as revenues as the fees are earned and become receivable from the licensees.

(c) GOODWILL, TRADEMARKS, AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of costs over the fair value of assets related to acquired businesses, and trademarks represents the value of future royalty income associated with the ownership of The Athlete's Foot, Bill Blass, Marble Slab, and MaggieMoo's trademarks. Other identifiable intangible assets include the value of non-compete agreements of key executives, and franchise agreements and master development agreements of acquired businesses that are being amortized on a straight-line basis over a period ranging from one to twenty years. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144. Goodwill and trademarks acquired in a purchase business combination determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of SFAS No. 142, "*Goodwill and Other Intangible Assets*." At each reporting period, we assess trademarks to determine if facts and circumstances have changed, requiring a re-evaluation of the estimated life of the trademarks.

(d) TRADE RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade receivables consist of amounts the Company expects to collect from franchisees for royalties and franchise fees, and from licensees for license fees, net of allowance for doubtful accounts of $1.1 million as of March 31, 2007 and $530,000 as of December 31, 2006. The Company provides a reserve for uncollectible amounts based on its assessment of individual accounts. Trade receivables are not collateralized. Cash flows related to trade receivable activity are classified as increases or decreases in trade receivables on the consolidated statement of cash flows.

(e) RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," Accounting for Income Taxes." FIN 48 establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by the Company in the first quarter of fiscal 2007. Our assessment of the impact that this standard has on our consolidated results of operations, financial position, and cash flows is included in Note 5.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which applies to any accounting pronouncement that requires or permits fair value measurements. SFAS No. 157 provides a common definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants. The new standard also provides guidance on the methods used to measure fair value and requires expanded disclosures related to fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently assessing the impact that this standard will have on our consolidated results of operations, financial position, or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), SFAS No. 159 permits entities to choose to measure most financial instruments and certain other items at fair value that are currently required to be measured at historical costs. Adoption of SFAS No. 159 is optional. We currently do not expect to adopt SFAS No. 159.

**(2) GOODWILL, TRADEMARKS, AND INTANGIBLE ASSETS**

The net carrying value of goodwill as of March 31, 2007 and December 31, 2006 by acquired entity is as follows (in thousands):

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| UCC | $ 10,130 | $ 10,135 |
| The Athlete's Foot | 2,066 | 5,472 |
| Bill Blass | 28,291 | - |
| Marble Slab | 4,254 | - |
| MaggieMoo's | 562 | - |
| Total | $ 45,303 | $ 15,607 |

The change in the net carrying amount of goodwill for The Athlete's Foot is primarily related to the Company not having to pay any additional consideration under the TAF purchase agreement, as discussed in Note 10.

Trademarks as of March 31, 2007 and December 31, 2006 by acquired entity are as follows (in thousands):

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| The Athlete's Foot | $ 49,000 | $ 49,000 |
| Bill Blass | 46,100 | - |
| Marble Slab | 20,000 | - |
| MaggieMoo's | 16,500 | - |
| Total | $ 131,600 | $ 49,000 |

The increase in trademarks from December 31, 2006 is a result of the Bill Blass, Marble Slab, and MaggieMoo's acquisitions during the three months ended March 31, 2007. Trademarks have an indefinite life and are analyzed for impairment on an annual basis.

Other intangibles as of March 31, 2007 and December 31, 2006 by acquired entity are as follows (in thousands):

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| UCC | $ 1,370 | $ 1,370 |
| The Athlete's Foot | 2,600 | 2,600 |
| Bill Blass | 779 | - |
| Marble Slab | 1,109 | - |
| MaggieMoo's | 700 | - |
| Total Other Intangibles | 6,558 | 3,970 |
| Less: Accumulated Amortization | (316) | (178) |

| | | | | |
|---|---|---|---|---|
| Other Intangibles, net | $ | 6,242 | $ | 3,792 |

Other intangibles is comprised of non-compete agreements of key executives, franchise agreements, license agreements and master development agreements, and are being amortized over a period ranging from 1 to 20 years.

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**(3) PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

| (in thousands) | Estimated Useful Lives | March 31, 2007 | December 31, 2006 |
|---|---|---|---|
| Furniture and fixtures | 7 - 10 years | $ 533 | $ 206 |
| Computer and equipment | 3 - 5 years | 225 | 126 |
| Software | 3 Years | 120 | 112 |
| Leasehold improvements | Term of Lease | 2,533 | 393 |
| Total Property & Equipment | | $ 3,411 | $ 837 |
| Less: Accumulated Depreciation and Amortization | | (499) | (448) |
| Property & Equipment, Net | | $ 2,912 | $ 389 |

Leasehold improvements at December 31, 2006 relate primarily to $2.0 million of costs for the build out of the Company's corporate offices in New York. Depreciation and leasehold amortization expense recorded for the periods ending March 31, 2007 and 2006 was $51,000 and $23,000, respectively.

**(4) STOCK BASED COMPENSATION**

Total stock-based compensation expense was approximately $640,000 and $71,000 for the three months ended March 31, 2007 and 2006, respectively. In the first quarter of 2007, 5,000 restricted shares that were granted to non-officer employees in the second quarter of 2006 became vested and were exercised.

A summary of stock option activity under the 2006 Plan, 1999 Plan, the 2000 Plan and warrants outstanding as of March 31, 2007 and
changes during the three months then ended is presented below:

| | 2006 Plan | | 1999 Plan | | 2000 Plan | | Warrants | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares (in thousands) | Weighted - Average Exercise Price | Number of Shares (in thousands) | Weighted - Average Exercise Price | Number of Shares (in thousands) | Weighted - Average Exercise Price | Number of Shares (in thousands) | Weighted - Average Exercise Price | Number of Shares (in thousands) | Weighted - Average Exercise Price |
| Outstanding at January 1, 2007 | 426 | $ 6.88 | 4,689 | $ 4.19 | 123 | $ 3.23 | 1,936 | $ 3.60 | 7,174 | $ 4.17 |
| Granted | 57 | 9.12 | - | - | - | - | 133 | 8.89 | 190 | 8.96 |
| Exercised | - | - | 100 | 2.64 | 5 | - | 6 | 1.60 | 111 | 2.47 |
| Forfeited | - | - | 104 | 3.05 | - | - | - | - | 104 | 3.05 |
| Expired | - | - | - | - | - | - | - | - | - | - |
| Outstanding at March 31, 2007 | 483 | $ 7.14 | 4,485 | $ 4.25 | 118 | $ 3.37 | 2,063 | $ 3.95 | 7,149 | $ 4.34 |

The total number of options and warrants issued by the Company since January 1, 2007 includes the following:

- On January 24, 2007, as part of bonuses distributed to employees for the year ended December 31, 2006, the Company issued options to employees exercisable through January 24, 2017 to purchase 51,500 shares of

Company common stock at an exercise price of $8.95.

- On February 15, 2007, in connection with the acquisition of Bill Blass, the Company issued warrants exercisable through February 15, 2017 to purchase 400,000 shares of Company common stock at exercise prices of $8.89. The vesting of these warrants is contingent upon Blass meeting three earnings targets on September 30, 2008, December 31, 2009, and December 31, 2010. As of March 31, 2007, the first earnings target is the only one that has been deemed probable, therefore, the Company has only deemed the first tranche of 133,333 shares as outstanding. On February 21, 2007, the Company issued options exercisable through February 21, 2017 to purchase 5,000 shares of the Company common stock to an employee of Bill Blass at an exercise price of $10.90 per share.

A summary of the status of the Company's outstanding grants of options and restricted stock that remain subject to vesting as of March 31, 2007, and changes during the three months then ended is presented below:

| | 2006 Plan | | 1999 Plan | | 2000 Plan | | Warrants | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares (in thousands) | Weighted - Average Grant Date Fair Value | Number of Shares (in thousands) | Weighted - Average Grant Date Fair Value | Number of Shares (in thousands) | Weighted - Average Grant Date Fair Value | Number of Shares (in thousands) | Weighted - Average Grant Date Fair Value | Number of Shares (in thousands) | Weighted - Average Grant Date Fair Value |
| Non-Vested at January 1, 2007 | 426 | $ 2.19 | 3,619 | $ 1.32 | 87 | $ 2.28 | 125 | $ 1.20 | 4,257 | $ 1.43 |
| Granted | 57 | 3.17 | - | - | - | - | 133 | 6.22 | 190 | 5.31 |
| Vested | - | - | - | - | 33 | 2.69 | - | - | 33 | 2.69 |
| Forfeited | - | - | - | - | - | - | - | - | - | - |
| Non-Vested at March 31, 2007 | 483 | $ 2.31 | 3,619 | $ 1.32 | 54 | $ 1.93 | 258 | $ 3.79 | 4,414 | $ 1.58 |

The total unrecognized compensation cost related to non-vested share-based compensation agreements granted under all stock option plans as of March 31, 2007 is approximately $5.8 million. The cost is expected to be recognized over the weighted-average exercise period of approximately 9.27 years.

The following table includes information on fully vested stock options and stock options outstanding for each plan as of March 31, 2007:

| | 2006 Plan | | 1999 Plan | | 2000 Plan | | Warrants | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stock Options Outstanding | Stock Options Currently Exercisable and Vested | Stock Options Outstanding | Stock Options Currently Exercisable and Vested | Stock Options Outstanding | Stock Options Currently Exercisable and Vested | Warrants Outstanding | Warrants Currently Exercisable and Vested | Stock Options Outstanding | Stock Options and Warrants Currently Exercisable and Vested |
| Number (in thousands) | 483 | - | 4,485 | 867 | 118 | 64 | 2,063 | 1,805 | 7,149 | 2,736 |
| Weighted - average exercise price | $ 7.14 | $ - | $ 4.25 | $ 5.13 | $ 3.37 | $ 2.63 | $ 3.95 | $ 3.57 | $ 4.34 | $ 4.04 |
| Aggregate intrinsic value (in thousands) | $ 1,339 | $ - | $ 25,436 | $ 4,156 | $ 773 | $ 467 | $ 12,317 | $ 11,452 | $ 39,865 | $ 16,074 |
| | 9.67 | - | 8.11 | 3.57 | 8.82 | 8.60 | 3.25 | 2.34 | 6.82 | 2.88 |

| Weighted - average remaining contractual term | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

**(5) INCOME TAXES**

The Company recorded 0% tax in the first quarter of 2007 as we are not in a position to recognize tax benefits due to our losses.

The Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48 Accounting for Income Taxes (“FIN 48”) an interpretation of FASB Statement No. 109 (“SFAS”) on January 1, 2007. The Interpretation prescribes recognition threshold and measurement parameters for the financial statement recognition and measurement of tax positions taken or expected to be taken in the Company’s tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. At the adoption date of January 1, 2007 and at March 31, 2007, the Company had approximately $73.7 million of total gross unrecognized tax benefits. If recognized, the unrecognized tax benefits would be subject to a valuation allowance and would not affect our effective tax rate. There are no significant increases or decreases to unrecognized tax benefits anticipated within the next 12 months. As a result of adopting FIN 48, the Company’s net amount of assets and liabilities recognized in the condensed consolidated balance sheet did not change. Therefore, the Company was not required to record a cumulative effect adjustment relating to the adoption.

The Company's practice is to recognize interest and/or penalties related to uncertain tax positions in income tax expense. The Company had no accrued interest or penalties as of December 31, 2006 and March 31, 2007. The Company is subject to U.S. federal income tax as well as income tax of multiple state and local jurisdictions. Tax returns for all years after 2003 are subject to future examination by tax authorities. Currently, no federal or state income tax returns are under examination.

**(6) PER SHARE DATA**

Basic earnings per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The dilutive effects of options, warrants and their equivalents are computed using the "treasury stock" method.

Information relating to the calculation of earnings per share is summarized as follows:

| (dollars are in thousands, except per share data) | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | **2007** | | **2006** |
| Net loss | $ | (198) | $ | (133) |
| Weighted-average shares outstanding-basic and diluted | | 49,159 | | 44,019 |
| Loss per share - basic and diluted from continuing operations | $ | (0.01) | $ | (0.01) |
| Income per share - basic and diluted from discontinued operations | $ | 0.01 | $ | 0.01 |
| Net loss per share - basic and diluted | $ | 0.00 | $ | 0.00 |

**(7) RELATED PARTY TRANSACTIONS**

The Company receives legal services from Kirkland & Ellis LLP, which is considered a related party because a partner at that firm is a member of the Company's Board of Directors. For the three months ended March 31, 2007 and 2006, expenses related to Kirkland & Ellis LLP were approximately $663,000 and $118,000, respectively. At March 31, 2007 and December 31, 2006, the Company had outstanding payables due to Kirkland & Ellis LLP of approximately $457,000 and $492,000, respectively.

**(8) COMMITMENTS AND CONTINGENCIES**

(a) LEGAL PROCEEDINGS

IPO Litigation. NexCen is among the hundreds of defendants named in a series of class action lawsuits seeking damages due to alleged violations of securities law. The case is being heard in the United States District Court for the Southern District of New York. The court has consolidated the actions against all of the named defendants that actually issued the securities in question. There are approximately 310 consolidated cases before Judge Scheindlin, including this action, under the caption In Re Initial Public Offerings Litigation, Master File 21 MC 92 (SAS).

As to NexCen, these actions were filed on behalf of persons and entities that acquired the Company's stock after its initial public offering in October 20, 1999. Among other things, the complaints claim that prospectuses, dated

October 20, 1999 and September 27, 2000 and issued by NexCen in connection with the public offerings of common stock, allegedly contained untrue statements of material fact or omissions of material fact in violation of securities laws because the prospectuses allegedly failed to disclose that the offerings' underwriters had solicited and received additional and excessive fees, commissions and benefits beyond those listed in the arrangements with certain of their customers which were designed to maintain, distort and/or inflate the market price of the Company's common stock in the aftermarket. The actions seek unspecified monetary damages and rescission. NexCen believes the claims are without merit and is vigorously contesting these actions.

After initial procedural motions and the start of discovery in 2002 and 2003, the plaintiffs voluntarily dismissed without prejudice the officer and director defendants of each of the 310 named issuers, including NexCen. Then in June 2003, the Plaintiff's Executive Committee announced a proposed settlement with the issuer-defendants, including NexCen, and the officer and director defendants of the issuers (the "Issuer Settlement"). A settlement agreement was signed in 2004 and presented to the District Court for approval. The proposed Issuer Settlement does not include the underwriter-defendants, and they have continued to defend the actions and have objected to the proposed settlement. (One of the defendant-underwriters signed a memorandum of understanding in April 2006 agreeing to a $425 million settlement of claims against it.) Under terms of the proposed Issuer Settlement, NexCen has a reserve of $465,000 for its estimated exposure. If the proposed settlement is approved by the court, it is extremely unlikely that NexCen would incur any material financial or other liability.

The District Court granted preliminary approval of the proposed Issuer Settlement in 2005 and held a fairness hearing on the matter in April 2006. In December 2006, before final action by the District Court on the proposed Issuer Settlement, the U.S. Court of Appeals for the Second Circuit issued a ruling vacating class certification for certain plaintiffs in the actions against the underwriter-defendants. Plaintiffs filed a petition in early 2007 seeking rehearing of this decision and/or a rehearing en banc. On April 6, 2007, the Second Circuit denied the petition for rehearing in an opinion. The impact of the Second Circuit's decision vacating class certification on the claims against the issuer-defendants and on the proposed Issuer Settlement is unclear. Since December 2006, the District Court has stayed all proceedings in these cases pending further action by the Second Circuit.

Transportation Business Sale. On March 13, 2006, a complaint captioned Geologic Solutions, Inc., v. Aether Holdings, Inc. was filed against the Company in the Supreme Court for the State of New York, New York County. The complaint generally alleges that plaintiff Geologic was damaged as a result of certain alleged breaches of contract and fraudulent inducement arising out of NexCen's alleged misrepresentations and failure to disclose certain information in connection with the asset purchase agreement dated as of July 20, 2004 for the purchase and sale of our Transportation business. The allegations in Geologic's complaint are substantially similar to claims Geologic made in a previous request to the Company for indemnification. The complaint seeks monetary damages in an amount not less than $30 million and other relief. During the second quarter of 2006, the plaintiff agreed to substitute Aether Systems, Inc. for Aether Holdings, Inc. as defendant in the case because Aether Systems, Inc. was the party to the asset purchase agreement upon which Geologic's claims are based. The Company believes it has a meritorious defense to Geologic's claims and is vigorously defending against this action; however, we cannot predict the outcome of this litigation, and an adverse resolution of such claims could require us to make a significant cash payment to Geologic. The Company has incurred costs in connection with the defense of this lawsuit, which have been recorded against discontinued operations, further increasing the loss on the sale of the Transportation segment, and decreasing the amount of cash we have available for acquisitions and operations.

Legacy UCC Litigation. UCC and Mr. D'Loren in his capacity as president of UCC are parties along with unrelated parties to litigation resulting from a default on a loan to The Songwriter Collective, LLC ("TSC"), which UCC had referred to a third party. A shareholder of TSC filed a lawsuit in the U.S. District Court for the Middle District of Tennessee alleging, that certain misrepresentations by TSC and its agents (including UCC and D'Loren) induced the shareholder to contribute certain rights to musical compositions to TSC. The lawsuit, which is captioned Tim Johnson v. Fortress Credit Opportunities I, L.P., et al., seeks declaratory judgment, reformation and rescission, and monetary damages relating to the loan and alleged loss of value on contributed assets. UCC and Mr. D'Loren have filed cross-claims against TSC and certain TSC officers claiming indemnity. TSC has filed various cross and third-party claims against UCC, Mr. D'Loren and another TSC shareholder, Annie Roboff. Roboff has filed a separate action in the Chancery Court in Davidson County, Tennessee, which is captioned Roboff v. Mason, et al., as well as claims in the federal court lawsuit, against UCC, Mr. D'Loren, TSC and the other parties. The claims include fraud and negligent misrepresentation allegations against Mr. D'Loren, and UCC. Ms. Roboff previously made these same claims in a lawsuit that she filed in state court in New York. That lawsuit was dismissed on procedural grounds, and Ms. Roboff has appealed the dismissal. UCC believes these claims are without merit and is vigorously defending the actions. UCC's insurance carrier is defending the litigation. The litigation is in discovery and the outcome cannot be estimated at this time; however, settlement discussions are being held. The loss, if any, could exceed existing insurance coverage and any excess could adversely affect our financial condition and results.

(b) CONTRACTUAL COMMITMENTS

On October 23, 2006, the Company entered into a new lease for its corporate office having a 126 month term with monthly payments of $70,896 per month starting in month seven and continuing thereafter for five years, and $74,313 per month for the subsequent five years. The Company will record this expense on a straight-line basis of $69,147 per month for each of the 126 months. The lease provides for a security deposit in the form of a letter of credit in the amount of $549,000, which is secured by a cash deposit of equal sum and is included in restricted cash on the balance sheet of the Company at March 31, 2007 and December 31, 2006.

In connection with the entities acquired during the three months ended March 31, 2007, there are various leases for office space in New York, and Norcross, Georgia which expire at various dates through 2014. Those office space leases which are for more than one year contain scheduled rent increases or escalation causes. The Bill Blass lease also provides for a security deposit in the form of a letter of credit in the amount of $130,000 secured by a cash deposit of equal sum which has been included in restricted cash at March 31, 2007.

On March 12, 2007, NexCen Acquisition Corp. (“the Issuer”) entered into a master loan agreement with BTMU Capital Corporation. This master loan agreement provides for borrowings pursuant to the issuance of a single class of notes to the Issuer and its wholly-owned subsidiaries (“Co-Issuers”) which are jointly and severally liable for payments required under the notes *(See Note 14 to the Consolidated Financial Statements).*

(c) RESTRICTED CASH

Restricted cash of $7.0 million at March 31, 2007, includes $5.1 million and $350,000 held in escrow related to the Marble Slab and Blass acquisitions, respectively. These amounts will be paid within one year of the acquisition dates. In addition, $1.4 million relates to security deposits and letters of credit for the facility leases of Bill Blass and the Company headquarters in New York, and a security deposit held by the Company for a sub-lease with the buyer of a former business owned by the Company.

At December 31, 2006, the company had restricted cash of $1.3 million relating to funds held in money market accounts as security for outstanding letters of credit established for the facility leases of the Mobile Government headquarters in Massachusetts (which the Company sub leases), and the Company's headquarters in New York.

**(9) ACQUISITION OF UCC**

On June 6, 2006, NexCen acquired UCC for 2.5 million shares of common stock, plus the right to contingent consideration of up to an additional 2.5 million shares of common stock and up to $10 million in cash if future performance targets are met within five years (or such shorter period as provided in the merger agreement) as follows:

- an additional 900,000 shares of Company common stock and $3,333,333 will be payable if (i) the 30-day average price of NexCen common stock is at least $6.00 per share and (ii) the Company's annualized Adjusted EBITDA (as defined in the Merger Agreement) is least $10 million;

- an additional 800,000 shares of Company common stock and $3,333,333 in cash will be payable if (i) the 30-day average price is at least $8 per share and (ii) the Company's annualized Adjusted EBITDA is at least $20 million; and

- an additional 800,000 shares of Company common stock and $3,333,334 in cash will be payable if (i) the 30-day average price is at least $10 per share and (ii) the Company's annualized Adjusted EBITDA is at least $30 million.

As of March 31, 2007, none of these performance targets have been met, and it is uncertain as to if and when these targets will be met. In addition, the contingent consideration will become payable in full (1) if the average price of the Company's stock is $10 per share for 90 consecutive trading days and the Company's annualized Adjusted EBITDA is $10 million or (2) upon a change of control of the Company (as defined in the merger agreement). The stock price targets are subject to adjustment as set forth in the merger agreement. The merger agreement requires the escrow of 900,000 shares of the contingently issuable common stock. These shares will not be included in our outstanding share count or weighted average outstanding shares until the contingency has been resolved.

The Company allocated the purchase price of the assets acquired and liabilities assumed at the estimated fair values at the acquisition date. The recorded goodwill will not be deductible for tax purposes. The total purchase price used to allocate the estimated fair values did not include amounts for the contingent consideration because it is not considered probably that some of all of the consideration will be paid. If additional consideration is paid, the amounts will be recorded as additional goodwill.

**(10) ACQUISITION OF THE ATHLETE'S FOOT**

On November 7, 2006, our NexCen Acquisition Corp. subsidiary acquired Athlete's Foot Brands, LLC ("TAF"), along with an affiliated advertising and marketing fund, and certain nominal fixed assets owned by an affiliated company. The Athlete's Foot is an athletic footwear and apparel franchisor with 600 retail locations in over 40 countries. The business also provides advertising and marketing support for the benefit of the franchisees, using a portion of the royalties it receives from franchisees. This business operates in our retail franchising segment. The purchase price for this acquisition, excluding contingent consideration, was $53.1 million, consisting of approximately $42.1 million in cash and $9.2 million in our common stock (approximately 1.4 million shares which were valued at $6.55 per share), and $1.8 million in other deal related costs. At the closing on November 7, 2006, we also issued to one of the sellers a three-year warrant to purchase an additional 500,000 shares of our common stock at a per share price of $6.49. On March 12, 2007, we borrowed $26.5 million under a new senior credit facility secured by the assets of The Athletes Foot. The purchase agreement required a stand-alone audit of the 2006 financial results of Athletes Foot Brands, LLC to be completed by March 31, 2007 to determine the amount of contingent consideration to be paid to the sellers. Based on the audit of the 2006 financial results of TAF, the contingent consideration will not be paid.

Prior to this acquisition, there were executory contracts between UCC and TAF. UCC provided financial advisory services to TAF. UCC earned advisory and loan servicing revenues during the course of the arrangement, which terminated with the acquisition. The estimated fair value of these agreements was recorded when we acquired UCC and the amounts were included in intangible assets. The settlement of these agreements was recorded in purchase accounting at fair value without recognition of any amounts in our statement of operations.

The Company allocated the purchase price of the assets and liabilities assumed at the estimated fair values at the acquisition date resulting in goodwill, a trademark valued at $49 million and franchise and master development agreements valued at approximately $2.6 million. The recorded goodwill and trademarks will not be deductible for tax purposes.

**(11) ACQUISITION OF BILL BLASS**

On February 15, 2007 the Company, through its subsidiary Blass Acquisition Corp., completed the purchase of all of the outstanding equity interests of Blass. The Bill Blass label represents timeless and modern American style and is an American legacy brand. The Bill Blass brand has from its inception offered women modern, sophisticated and tailored clothing. This business operates in our consumer brands segment. The purchase price for the Blass acquisition included initial consideration of $54.6 million, consisting of $39.1 million in cash and 2.2 million shares of our common stock valued at $15.5 million, all in accordance with the terms of the Stock Purchase Agreement dated December 19, 2006. The Company issued 2,191,819 shares of common stock to the Stockholders based on the Signing Date Reference Price (as that term is defined in the Purchase Agreement) of $7.09 per share. For financial reporting purposes, and in accordance with SFAS 141 and related guidance thereto, the value of shares issued as consideration in connection with the Purchase Agreement is determined by multiplying the number of shares issued by the average closing quoted market price of the shares for the 5 day period beginning two days prior to the effective date (the date that principal terms of the acquisition were agreed to and announced) of the Purchase Agreement and ending two days after the effective date, or $7.11. Under the terms of the Purchase Agreement, the Stockholders may be entitled to additional consideration of up to $16.2 million provided certain financial goals relating to the business of Blass are achieved. The contingent consideration is payable in cash or stock at the option of the Company.

Immediately following the Acquisition, the Company formed the subsidiary Bill Blass Jeans, LLC ("Jeans") and contributed its ownership of Bill Blass International, LLC to Jeans. The Company then sold a 10% minority interest in Jeans to DEHC, an affiliate of DLH, for initial cash consideration of $2.7 million and a subscribed interest of $2.7 million which together represent approximately 10% of the aggregate purchase price of Blass (the "Minority Sale"). In addition, The Company issued a Warrant to DEHC to purchase up to 400,000 shares of the Company's stock at a per share exercise price of $8.89, provided certain financial goals are achieved.

The Company allocated the purchase price of the assets acquired and liabilities assumed at the estimated fair values at the acquisition date. The goodwill and trademarks will not be deductible for tax purposes.

| | | |
|---|---|---|
| **Purchase price:** | | |
| Cash payments | $ | 39,060 |
| Stock consideration | | 15,593 |
| Direct acquisition costs | | 1,246 |
| Total purchase price | $ | 55,899 |
| | | |
| **Allocation of purchase price:** | | |
| Trademarks | $ | 46,100 |
| Goodwill | | 28,291 |
| License agreements | | 779 |
| Assets acquired | | 2,302 |
| Total assets acquired | | 77,472 |

| | | |
|---|---|---|
| Total liabilities assumed | | (21,573) |
| Net assets acquired | $ | 55,899 |

Prior to this acquisition, there were executory contracts between UCC and Blass. UCC provided financial advisory services to Blass. UCC earned advisory and loan servicing revenues during the course of the arrangement, which terminated with the acquisition. The estimated fair value of these agreements was recorded when we acquired UCC and the amounts were included in intangible assets. The settlement of these agreements was recorded in purchase accounting at fair value without recognition of any amounts in our statement of operations.

Blass' results of operations beginning on February 15, 2007, the date of acquisition, through March 31, 2007, are included in the Condensed Consolidated Statements of Operations.

**(12) ACQUISITIONS OF MARBLE SLAB AND MAGGIEMOO'S**

*Marble Slab* On February 28, 2007, the Company completed the purchase of substantially all of the assets of Marble Slab used or intended for use in connection with the operation of the Marble Slab franchising system (the "Acquisition"). Marble Slab is the franchisor of 388 stores located in the United States, Canada, and the United Arab Emirates as of March 31, 2007. Since 1983, each Marble Slab Creamery has featured homemade super-premium ice cream that is hand-rolled in freshly baked waffle cones. This business operates in our QSR segment. The results of operations for the Company include the results of operations of Marble Slab from February 28, 2007, the date of acquisition, through March 31, 2007. The initial consideration of $21 million consisted of cash of $16 million, a promissory note in the principal amount of $3.5 million, and a second promissory note in the principal amount of $1.5 million (together with the first note, the "Promissory Notes"). The Promissory Notes accrue interest at the annual rate of 6% per annum until maturity, which is 12 months from the date of issuance. The Company shall have the right to withhold payment of principal due and owing under the second note in accordance with terms of the escrow agreement.

The Company allocated the purchase price of the Marble Slab assets acquired and liabilities assumed at the estimated fair values at the acquisition date. The recorded goodwill and trademarks will not be deductible for tax purposes.

| (in thousands) | | |
|---|---|---|
| **Purchase price:** | | |
| Cash payments | $ | 21,000 |
| Direct acquisition costs | | 841 |
| Total purchase price | $ | 21,841 |
| | | |
| **Allocation of purchase price:** | | |
| Trademarks | $ | 20,000 |
| Goodwill | | 4,254 |
| Franchise agreements | | 1,109 |
| Assets acquired | | 381 |
| Total assets acquired | | 25,744 |
| Total liabilities assumed | | (3,903) |
| Net assets acquired | $ | 21,841 |

*MaggieMoo’s* On February 28, 2007, the Company and MM Acquisition Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (“Merger Sub”) was merged with and into MaggieMoo's, and MaggieMoo's became a wholly owned subsidiary of the Company (the “Merger”). MaggieMoo’s is the franchisor of 190 stores located in 39 states as of March 31, 2007. Each location features a menu of freshly made super-premium ice creams, mix-ins, smoothies, and custom ice cream cakes. This business operates in our QSR segment. The results of operations for the Company include the results of MaggieMoo’s from February 28, 2007, the date of acquisition, through March 31, 2007. The sellers received initial consideration of approximately $15.9 million, after purchase adjustments of $216,000, consisting of cash of approximately $10.5 million and 234,242 shares of common stock of the Company, with an aggregate value of approximately $2.4 million (based on the average closing quoted market price of the shares for the 15 consecutive trading days ending on (and including) the trading day prior to the date of the Purchase Agreement, or $10.21). For financial reporting purposes, and in accordance with SFAS 141 and related guidance thereto, the value of shares issued as consideration in connection with the Purchase Agreement is determined by multiplying the number of shares issued by the average closing quoted market price of the shares for the 5 day period beginning two days prior to the date of the closing of the Merger and ending two days after the date of the closing of the Merger, or $10.51. Included in the intial consideration is approximately $3 million of stock and cash, in the same proportion as the ratio of stock and cash included in the initial consideration, which is being held back by the Company for two years to satisfy potential post-closing purchase price adjustments and indemnity claims. The sellers have the right to receive up to an additional $2 million of consideration in the form of an earn-out, payable on March 31, 2008.

The Company allocated the purchase price of the MaggieMoo's assets acquired and liabilities assumed at the estimated fair values at the acquisition date. The recorded goodwill and trademarks will not be deductible for tax purposes.

| (in thousands) | | |
|---|---|---|
| **Purchase price:** | | |
| Cash payments | $ | 10,492 |
| Stock consideration | | 2,462 |
| Initial consideration payable | | 2,954 |
| Direct acquisition costs | | 500 |
| Total purchase price | $ | 16,408 |
| | | |
| **Allocation of purchase price:** | | |
| Trademarks | $ | 16,500 |
| Goodwill | | 562 |
| Franchise agreements | | 700 |
| Assets acquired | | 1,600 |
| Total assets acquired | | 19,362 |
| Total liabilities assumed | | (2,954) |
| Net assets acquired | $ | 16,408 |

**(13) PRO FORMA INFORMATION RELATED TO THE ACQUISITIONS**

As the purchases of Bill Blass, MaggieMoo's, and Marble Slab were material acquisitions, we are providing the pro forma financial information set forth below, which presents the consolidated results as if the current year acquisitions had occurred on January 1, 2006. This pro forma information is not necessarily indicative of the results that actually would have occurred nor does it intend to indicate future operating results.

| (in thousands) | **Three Months Ended March 31, 2007 (unaudited)** | **Three Months Ended March 31, 2006 (unaudited)** |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Pro forma revenues: | | | | |
| TAF | $ | 1,795 | $ | 2,115 |
| Bill Blass | | 2,081 | | 2,392 |
| MaggieMoo's | | 551 | | 771 |
| Marble Slab | | 888 | | 989 |
| | $ | 5,315 | $ | 6,267 |
| | | | | |
| Pro forma net income (loss): | | | | |
| Corporate | $ | (1,830) | $ | (133) |
| TAF | | 636 | | 621 |
| Bill Blass | | 1,398 | | 954 |
| MaggieMoo's | | (666) | | (495) |
| Marble Slab | | (554) | | (429) |
| | $ | (1,016) | $ | 518 |
| | | | | |
| Pro forma loss per share - basic and diluted | $ | (0.02) | $ | 0.01 |

These amounts include the historical results of the businesses we acquired. We do not intend to assume their historical overhead costs in our corporate structure. As discussed in Note 12, TAF was acquired in the prior year on November 7, 2006.

**(14) DEBT**

On March 12, 2007, NexCen Acquisition Corp. (“the Issuer”) entered into a master loan agreement with BTMU Capital Corporation. This master loan agreement provides for borrowings pursuant to the issuance of a single class of notes to the Issuer and its wholly-owned subsidiaries (“Co-Issuers”) which are jointly and severally liable for payments required under the notes. The assets of the Issuers and Co-Issuers are pledged as collateral security under each note, and secure the obligations of the Issuer and all Co-Issuers under all of the notes. The notes are non-recourse to the Company. The pledged assets are those of the Issuer and Co-Issuers (mainly IP assets and the related royalties). Each note is repayable in full after five years. The facility has no expiration date and can be terminated by the Co-Issuers upon 30 days notice and by BTMU Capital Corporation by electing not to fund future advances, however, each note funding maintains its respective maturity date. The maximum aggregate amount of borrowings that may be outstanding at any one time under the agreement is $150 million. The borrowing rate is LIBOR plus an interest rate margin, which ranges from 1.50% to 3.00%. The Company may refinance all or part of the notes with no pre-payment penalties. This allows us to refresh available borrowing capacity under the facility, such as by completing securitization transactions involving certain of our acquired IP assets and using the proceeds from these transactions to repay notes under the master loan agreement. The borrowing rate is based on 3-month LIBOR which is a floating rate. The LIBOR rate resets every 90 days.

On March 14, 2007, we borrowed $26.5 million under the new credit facility, secured by the assets of The Athlete's Foot. The Company paid a one-percent borrowing fee of $265,000, which is being amortized over five years.

As of March 31, 2007, borrowings under the facility totaled $26.5 million at an initial, floating borrowing rate of 7.983%. The rate is reset each quarter based upon debt leverage to cash flow. Approximately $958,000 of this amount has been classified as current portion of long-term debt on March 31, 2007. Interest expense recorded by the Company for the period was approximately $100,000. Additionally, the company incurred financing fees of $625,000 to enter the facility, which is being amortized over five years.

**(15) SEGMENT REPORTING**

The Company operates three segments: retail franchising, consumer brand products, and quick service restaurants. The Company's reportable operating segments have been determined in accordance with the Company's internal management structure. The following tables set forth the Company's financial performance by reportable operating segment.

| (in thousands) | **Three Months Ended March 31** | | | |
|---|---|---|---|---|
| | | **2007** | | **2006** |
| **Revenues:** | | | | |
| Retail franchising | $ | 1,795 | $ | - |
| Consumer branded products | | 1,597 | | - |
| Quick service restaurants | | 493 | | - |
| | $ | 3,885 | $ | - |
| | | | | |
| **Operating income (loss):** | | | | |
| Retail franchising | $ | 719 | $ | - |
| Consumer branded products | | 1,400 | | - |
| Quick service restaurants | | (297) | | - |
| Corporate and unallocated expenses | | (3,098) | | (872) |
| | $ | (1,276) | $ | (872) |

| | | **March 31, 2007** | | **December 31, 2006** |
|---|---|---|---|---|
| **Total Assets:** | | | | |
| Retail franchising | $ | 57,357 | $ | 59,937 |
| Consumer branded products | | 78,508 | | - |
| Quick service restaurants | | 45,364 | | - |
| Corporate and unallocated expenses | | 58,235 | | 98,448 |
| | $ | 239,464 | $ | 158,385 |

At December 31, 2006, we had only one operating segment - our intellectual property business.

**(16) SUBSEQUENT EVENTS**

On May 1, 2007, the Company borrowed an additional $27.3 million under the new credit facility, which is secured by the assets of Blass. The initial, floating borrowing rate is 7.998%. The rate is reset each quarter based upon debt leverage to cash flow. The Company paid a one-percent borrowing fee of $273,000, which will be amortized over five years.

On May 2, 2007 we acquired the Waverly brand from F. Schumacher & Co. ("Schumacher") for $34.0 million in cash. We also paid $2.75 million in cash and issued a 10-year warrant to purchase 50,000 shares of our common stock to Ellery Homestyles, LLC, an existing Waverly licensee, in satisfaction of a right of first refusal held by Ellery to acquire the Waverly brand. The warrant was priced at the market price on the date of issuance. Waverly is a home décor lifestyle brand for harmonious and tasteful decorating. The purchase agreement contains customary representations, warranties and covenants. Subject to limited exceptions, the representations and warranties of Schumacher will survive the closing for 12 months. Specified fundamental representations, such as sufficiency of assets and title to assets, will survive indefinitely. Indemnification claims by us for breaches of representations and warranties are generally capped at the purchase price and are subject to a $150,000 threshold.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)**

**FORWARD-LOOKING STATEMENTS**

We make statements in the Quarterly Report that are considered forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended. The words "anticipate," "believe," "estimate," "intend," "may," "will," "expect" similar words often indicate that a statement is a "forward-looking statement." Statements about non-historic results also are considered to be forward-looking statements. None of these forward-looking statements are guarantees of future performance or events, and they are subject to numerous risks, uncertainties and other factors. These risks, uncertainties and other factors include, but are not limited to:

- we may not be successful in implementing the our new IP strategy;
- we may not be able to acquire IP or IP centric companies or finance or exploit them on terms that are acceptable to us;
- we are likely to face substantial competition in seeking to acquire and market desirable IP and IP centric companies, and competitors may have substantially greater resources than we do;
- we may not be successful in operating or expanding our acquired businesses or integrating them into an overall IP business strategy;
- we may not be able to borrow desired amounts at desired times under our master loan agreement;
- we will be subject to risks associated with incurring indebtedness, including interest expense and the obligation to satisfy covenants contained in our master loan agreement, and these could have a negative impact on our business and results and could reduce our flexibility in some circumstances;
- risks associated with marketing and licensing our acquired trademarks and with successfully developing and marketing new products particularly in light of rapidly changing fashion and market trends;

- risks associated with the ability of licensees and franchisees to successfully market and sell branded products, competition;

- we may not be able to realize value from our accumulated tax loss carry forwards, because of a failure to generate sufficient taxable earnings, regulatory limits or both;

- general regional and national economic conditions; and

- loss or departure of one or more members of our senior management.

Given the risks, uncertainties and other factors, you should not place undue reliance on any forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include those discussed throughout this Report, in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006 and our other periodic reports filed with the Securities and Exchange Commission. Forward-looking statements reflect our reasonable beliefs and expectations as of the date of this Report, and we have no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**OVERVIEW**

NexCen Brands is a company that engages in the acquisition and management of established consumer brands in intellectual property-centric industries. NexCen's goal is to be the world leader in brand management for the 21st century. Our business is focused on acquiring, managing and developing intellectual property, which we refer to as IP, and IP-centric businesses. IP-centric companies own, license or otherwise possess rights to trademarks, trade names, copyrights, patents, trade secrets and other intangible assets. IP that we have acquired and expect to acquire in the future includes trademarks, trade names, copyrights, franchise rights, patents, trade secrets, know-how and other similar, valuable property, primarily used in the retail and consumer branded products and franchise businesses. In building our IP business, we have focused on three vertical segments: retail franchising, consumer branded products and quick service restaurant franchising (which we refer to as "QSR" franchising).

We transitioned to this IP-centric business model in the second half of 2006, when we began to acquire IP-centric businesses (following our June 2006 acquisition of UCC Capital Corporation, which established the platform for our IP business strategy). When we acquired UCC, Robert W. D'Loren, who was the president and chief executive officer of UCC, became our president and chief executive officer and a member of our Board of Directors. Mr. D'Loren, together with the other members of our senior management team (some of whom formerly worked for UCC), implemented our IP business strategy.

Through May 7, 2007, we had acquired five businesses, as follows:

Retail Franchising

- The Athlete's Foot (acquired November 7, 2006)

Consumer Branded Products

- Bill Blass (acquired February 15, 2007)
- Waverly (acquired May 2, 2007)

QSR franchising

- Maggie Moo's (acquired February 28, 2007)
- Marble Slab (acquired February 28, 2007)

Our three operating segments are discussed in *Note 15* to our *Unaudited Condensed Consolidated Financial Statements* included in this Report.

We are continuously evaluating additional potential acquisitions and are actively in discussions to acquire additional IP-centric businesses. However, as of the date of this Report, we have not entered into any binding agreements to complete any additional acquisitions.

Before transitioning to our IP business, we managed a leveraged portfolio of mortgage-backed securities ("MBS"). We liquidated our MBS portfolio and exited that business in the fourth quarter of 2006. We also previously owned and operated various mobile and wireless communications businesses, which we sold in 2004. For the periods reflected in our financial statements, the MBS business and related assets and liabilities, as well as anything related to our former mobile and wireless communications businesses, are reported as discontinued operations. The results of our IP business are reported as our continuing operations.

Our IP business strategy is to generate revenue from licensing and other commercial arrangements with third parties who want to use the IP that we acquire and manage. These third parties pay us licensing and other contractual fees and royalties (including franchise fees) for the right to use our IP on either an exclusive or non-exclusive basis. Our contractual arrangements may apply to a specific product market, a specific geographic market, or to multiple markets..

Because of the changes in our business, our financial results have varied significantly from one period to the next. As we expand our IP strategy, our financial results are likely to continue to change significantly over the near term.

In reviewing our results for the first quarter of 2007, you should keep in mind the following factors:

- Comparisons to prior periods are not yet meaningful, because we did not initiate our IP business strategy until the second half of 2006 and did not begin to earn royalties or license and franchise fees until halfway through the fourth quarter of 2006, when we acquired The Athlete's Foot.
- Of the five IP brands we now own and operate, we owned only one -- The Athlete's Foot -- for the entire first quarter of 2007. Our first quarter results include Bill Blass for half of the quarter, and Maggie Moo's and Marble Slab for one-third of the quarter. We did not acquire Waverly until the second quarter, and so our first quarter results do not include the results of Waverly. Consequently, our first quarter results are not indicative of what we expect our results to be in future periods.
- If we continue to acquire IP-centric businesses (as we expect to do), future period results will continue to change due to the inclusion of such additional businesses. Accordingly, period-to-period changes may continue to be significant comparisons. However, as we own a group of businesses for a longer period, we expect to be able to evaluate changes in our results from those businesses owned for multiple periods (isolating the effect on our results of newly acquired businesses).

References in the Report to "we," "our" and "the Company" are to NexCen Brands and its subsidiaries, collectively. We discuss our business in detail in Item 1 of our 2006 Annual Report on Form 10-K, and we discuss the risks affecting our business in Item 1A of that Annual Report.

We own the proprietary rights to a number of trademarks used in this Report which are important to our business, including The Athlete's Foot, Bill Blass, MaggieMoo's, Marble Slab and Waverly. We have omitted the "®" and "TM" trademark designations for such trademarks in this Report. Nevertheless, all rights to such trademarks named in this Report are reserved.

**TAX CONSIDERATIONS**

An important aspect of our business strategy is to realize value, in the form of tax savings, from our accumulated tax loss carryforwards. Under federal and state tax laws, we may use these carryforwards to substantially reduce the income taxes we otherwise would have to pay on future taxable income. As a result, we could have little or no income tax liability for a period of time. Our ability to realize value from these tax loss carryforwards is subject to various risks and uncertainties, including regulations that, under certain circumstances, may limit our ability to use these carryforwards to reduce future taxes that we might otherwise owe. These risks and uncertainties are discussed at length in our 2006 Annual Report on Form 10-K, in item 1 under the heading "Tax Loss Carry Forwards" and in Item 1A under the heading "Risks of Our Tax Loss Carry Forwards." Additionally, *see Note 5 to the Unaudited Condensed Consolidated Financial Statements,* for discussion of the differences between book and tax expense for the period.

**CRITICAL ACCOUNTING POLICIES**

Critical accounting policies are the accounting policies that are most important to the presentation of our financial condition and results of operations and require management's most difficult, subjective or complex estimates and judgments. Our critical accounting policies include valuation of our deferred tax assets and impairment of goodwill and intangible assets. These critical accounting policies are discussed in detail in our 2006 Annual Report on Form 10-K in Item 7 under the heading "Critical Accounting Policies." We also discuss our significant accounting policies in *Note 1* to our *Unaudited Condensed Consolidated Financial Statements* contained in this Report and in *Notes 2 and 3* to our *Audited Consolidated Financial Statements* included in Item 8 in our 2006 Annual Report on Form 10-K.

New accounting pronouncements are discussed in *Note 1 to the Unaudited Condensed Consolidated Financial Statements* contained in this Report.

**COMPARISON OF RESULTS FOR THREE MONTH PERIODS ENDED MARCH 31, 2007 AND MARCH 31, 2006**

**RESULTS OF CONTINUING OPERATIONS**

RESULTS OF CONTINUING OPERATIONS

*Loss From Continuing Operations*

Loss from continuing operations of $645,000 for the three months ended March 31, 2007 increased $93,000, or 17% in 2007 from a loss of $552,000 in 2006. The loss reflects the increase in corporate expenses for the IP business and the fact that only a portion of the revenues from acquired businesses are reflected in this period due to the acquisitions occurring during the quarter.

*Royalty, Licensing and Franchise Fee Revenue*

We recognized $3.9 million in revenues for three months ended March 31, 2007 a result of owning four brands, three of which were acquired during the quarter. Of the $3.9 million in revenues, $2.2 million related to royalties, $1.6 million related to licensing, and $103,000 related to franchise fees, compared to $0 in 2006. Royalty and licensing revenues are recorded as they are earned and become receivable from franchisees. Franchise fee revenue is recognized when all initial services are performed, which is generally considered to be upon the opening of the applicable franchisee store.

*Total Operating Expenses*

Operating expenses of approximately $5.2 million for the three months ended March 31, 2007 increased $4.3 million, or 478% in 2007 from approximately $900,000 in the first quarter of 2006. The increase primarily reflects an increase in selling, general and administrative costs and stock based compensation following the acquisitions of UCC, The Athlete’s Foot, Bill Blass, Marble Slab and MaggieMoo’s.

Operating expenses that have been reclassified to discontinued operations are directly attributable to businesses that have been sold. All other costs are corporate expenses that would have been incurred regardless of our business operations, and therefore remain included as part of continuing operations.

*Selling, General and Administrative Expenses*

Selling, general and administrative (“SG&A”) expenses consist primarily of compensation and personnel related costs, rent, facility related support costs, travel and advertising.

SG&A expenses of $3.5 million for the three months ended March 31, 2007 increased $2.8 million, or 400% in 2007 from $700,000 in 2006. The increase primarily reflects additional costs resulting from our acquisitions. Of the $3.5 million recorded for the period ended March 31, 2007, $1.8 million related to corporate and unallocated expenses, $900,000 related to our retail franchising segment, $700,000 related to our QSR segment, and the remainder related to the consumer branded products segment .

*Professional Fees*

Professional fees of $789,000 and $49,000 for March 31, 2007 and March 31, 2006, respectively, consist of the costs of outside professionals, primarily related to legal expense associated with our public reporting, compliance and corporate finance activities and accounting fees related to auditing and tax services.

*Depreciation and Amortization*

Depreciation expenses arise from property and equipment purchased for use in our operations. Amortization costs arise from intangible assets acquired in acquisitions.

Depreciation and amortization of $189,000 for the three months ended March 31, 2007 increased $166,000, or 722% in 2007 from $23,000 in 2006. The increase primarily reflects the amortization of intangible assets related to a non-compete agreement with our chief executive officer, and amortization of intangibles of franchise agreements, license agreements, and master development agreements related to TAF, Blass, Marble Slab, and MaggieMoo’s acquisitions.

*Stock Compensation Expense*

We adopted SFAS No. 123R, "Share-Based Payment" in the first quarter of 2006. At that time we began to recognize compensation expense over the service period for the fair value of all equity based award grants issued after January 1, 2006, as well as expense attributable to the remaining service period for all prior grants that had not fully vested by that date.

Stock compensation expense of $640,000 for the three months ended March 31, 2007, increased $569,000, or 801% in 2007 from $71,000 in 2006. The increase primarily reflects the granting of approximately 5,366,000 and 190,000 options and warrants in 2006 and 2007, respectively. These options and warrants were issued to provide long-term incentive packages to new key executives and other senior managers that we hired in 2006 and 2007, including individuals who were employed by UCC, The Athlete's Foot, and Bill Blass prior to their acquisition by us (*See Note 4 to the Condensed Consolidated Financial Statements).*

*Interest Income*

Interest income of $763,000 for the three months ended March 31, 2007 increased $503,000, or 193% in 2007 from $260,000 in 2006. The higher amounts in 2007 primarily reflect interest earned on our cash balances. In the first quarter of 2006, most of our available cash was invested in MBS, and earnings on such investments are reported as part of the results of discontinued operations.

*Interest Expense*

Interest expense of $160,000 for the three months ended March 31, 2007 primarily reflects interest payable of $100,000 on the borrowings under the BTMU agreement (*See Note 14 to the Condensed Consolidated Financial Statements*), and $46,000 of imputed interest related to a long-term consulting agreement liability, assumed with The Athlete's Foot acquisition, which expires in 2028.

*Other Income (Expense)*

Other income of $81,000 in 2007 primarily reflects payments of $49,000 received from a venture capital investment, which we had written off in 2002. We record these payments when we receive them as the extent of future payments, if any, cannot be readily determined. We also recorded $28,000 of loan servicing revenue received by UCC in 2007. We expect the loan servicing activity to decrease throughout 2007 and beyond as the underlying loans are paid-off. Other income of $60,000 in 2006 also relates to the venture capital investment.

*Minority Interest*

Minority interest of $53,000 for the three months ended March 31, 2007 represents the 10% ownership in Bill Blass Jeans by DEHC, an affiliate of DLH.

*Income Taxes*

The Company's effective tax rate from continuing operations is 0% in the first quarter of 2007 and 2006. The Company computes its quarterly income tax expense or benefit based upon an estimate of the annual effective tax rate from continuing operations. For the first quarter, the Company reported a loss from continuing operations with no tax benefit. The tax benefit was not recorded due to the Company's historical accumulated losses which are subject to a valuation allowance through March 31, 2007. This tax benefit will be realized in subsequent quarters based upon the realization of fiscal year 2007 financial forecasts. We expect the components of our estimated annual effective tax rate to be primarily current state income tax expense and deferred income tax expense. The deferred income tax expense is attributable to the difference in accounting for the Company's Athlete's Foot, MaggieMoo's, Marble Slab and Waverly trademarks, which are amortized over 15 years for tax purposes but not amortized for book purposes. This net deferred tax liability cannot be offset against the company's deferred tax assets under U.S. generally accepted accounting principles since it relates to an indefinite-lived asset and is not anticipated to reverse in the same period.

*Discontinued Operations*

During 2007, discontinued operations of $447,000 reflects the reversal of $627,000 in sales tax liabilities where the statue of limitations has expired, and tax settlements with three states related to income tax and voluntary disclosure events, offset by legal fees of $180,000 incurred in connection with litigation related to the Transportation business sale *(See Note 8 to the Unaudited Condensed Consolidated Financial Statements).* Discontinued operations in the first quarter of 2006 includes $431,000 of profit, or $0.01 per share, related to operations of our MBS business that have been reclassified to discontinued operations.

FINANCIAL CONDITION

During the first quarter of 2007, our total assets increased by $81.1 million, while our total liabilities increased by $59.5 million. These changes primarily reflect the additional trademarks and goodwill related to the acquisitions of Bill Blass, MaggieMoo's, and Marble Slab during the three months ended March 31, 2007, offset by a decrease in cash which was utilized for the acquisitions. In addition, we borrowed $26.5 million in March 2007 secured by the assets of The Athlete's Foot under our credit facility with BTMU, which is described in *Note 14 to the Unaudited Condensed Consolidated Financial Statements.* These borrowings increased both our cash balance on hand and our indebtedness.

In May 2007, we borrowed an additional $27.3 million under the BTMU facility secured by the assets of Bill Blass. On May 2, 2007, we acquired Waverly for $36.8 million in cash and the issuance of warrants to acquire shares of our common stock (*See Note 16 to the Unaudited Condensed Consolidated Financial Statements)*. We intend to finance 50% of this acquisition with borrowings under the BTMU facility. As of May 4, 2007, our total outstanding indebtedness under the BTMU facility was approximately $54 million and our cash balance (excluding restricted cash) was approximately $30 million.

*Liquidity and Capital Resources*

Liquidity refers to our ability to meet financial obligations that arise during the normal course of business. Sources of liquidity can include cash generated by operations, available borrowings, and proceeds from the sale of securities or assets. Our operations have not been profitable historically, and thus they have consumed, rather than generated, cash. One of our key objectives is to achieve profitability in our IP business, so that our operations will enhance our liquidity and increase the amount of cash we have available for investment in the growth and development of our business.

Our business model does not involve significant capital asset investment (other than planned acquisitions of IP assets and IP-centric businesses.) Accordingly, we do not expect to be required to fund any material capital expenditures outside of our core IP acquisition program.

Although we had more than $83 million of cash on hand at December 31, 2006, we concluded that securing an additional source of liquidity was important to ensure our continued ability to fund acquisitions and the expansion of our business. Accordingly, on March 12, 2007 we entered into a new $150 million bank credit facility, the terms of which are discussed in *Note14 to the Unaudited Condensed Consolidated Financial Statements*. We believe that the combination of cash on hand and available borrowings under this new credit facility will provide us with sufficient liquidity to meet current operations and planned business growth for at least the next twelve months.

Additional sources of liquidity, if needed, may be available through additional bank borrowings and market sales or private placements of debt or equity securities. We cannot assure that any such additional borrowings or sales of securities will be available to us (should they be needed in the future) on favorable terms and conditions or at all. Such sources of additional liquidity are subject to many risks and uncertainties that are not within our control, such as changes in the condition of the capital markets and prevailing bank loan terms, as well as the trading price of our common stock. In addition, as discussed in Item 1A of our 2006 Annual Report on From 10-K under the heading "Risks of Our Tax Loss Carry Forwards," issuing significant amounts of additional shares of our capital stock can result in limitations on our ability to use our tax loss carry forwards in the future. The market price of our common stock has been, and may continue to be, volatile, which could reduce the market price of our common stock and, among other things, make it more expensive for us to complete acquisitions using our stock as consideration. Our ability to grow through the acquisition of additional IP assets and businesses will depend on the availability of capital to complete acquisitions.

On March 12, 2007, NexCen Acquisition Corp. ("the Issuer") entered into a master loan agreement with BTMU Capital Corporation *(See Note 14 of the Condensed Consolidated Financial Statements).*

The following table reflects use of net cash for operations, investing, and financing activities for the three-month periods ending March 31,

| **(IN THOUSANDS)** | | **2007** | | **2006** |
|---|---|---|---|---|
| Net cash (used in) provided by operating activities | $ | (370) | $ | 650 |
| Net cash (used in) provided by investing activities | | (74,730) | | 157,806 |
| Net cash provided by (used in) financing activities | | 29,544 | | (133,924) |
| Net (decrease) increase in cash and cash equivalents | $ | (45,556) | $ | 24,532 |

Net cash used in operating activities was $370,000 compared to net cash provided by operating activities of $650,000 in 2007 and 2006, respectively. The cash used in operating activities in 2007 is primarily a result of the increase in accounts receivable and prepaid expenses reflecting the growth in the businesses we acquired. The cash provided from operations in 2006 was a result of the MBS activity. Historically, our operations have not been profitable. As discussed above under the heading "Overview," our IP business did not generate any royalty and franchise fee revenue until November 2006, when we acquired The Athlete's Foot. However, we incurred operating expenses throughout all of 2006, as we transitioned out of the MBS business and into our IP business.

Net cash used in investing activities was $74.7 million in 2007, primarily resulting from the acquisitions of Bill Blass, Marble Slab, and MaggieMoo's during the three months ended March 31, 2007. Cash provided by investing activities of $157.8 million for 2006, related to approximately $139.0 million in proceeds from the sale of certain MBS investments and $18.8 million of principal repayments on our MBS investments.

Net cash provided by financing activities in 2007 of $29.5 million primarily reflects the funds received by The Athlete's Foot from the BTMU facility which is discussed in *Note 14 to the Unaudited Condensed Consolidated*

*Financial Statements*, as well as, the funds received by the Company from the sale of minority interest in Bill Blass Jeans as discussed in *Note 11 to the Unaudited Condensed Consolidated Financial Statements.* Net cash used in financing activities in 2006 of $133.9 million primarily related to the repayment of all of the Company's remaining outstanding short-term borrowings under repurchase agreements that were used to fund MBS investments. These borrowings were repaid out of the proceeds from sales of, and principal payments on, MBS investments.

Our financial condition may also be affected by claims relating to the mobile and wireless data businesses that we sold during 2004. Under the definitive purchase agreements that we signed to effect those sales, we have agreed to indemnify the buyers of those businesses for certain breaches of representations and warranties and other covenants that we provided to them with respect to the sales of the businesses. In addition, we remain liable for the operation of each of the business segments prior to their dispositions. As discussed in *Note 8 to the Unaudited Condensed Consolidated Financial Statements*, Geologic, the buyer of our Transportation business, has filed a lawsuit against us seeking damages for alleged breaches of certain of the representations and warranties we made to Geologic when we sold the Transportation business to them in 2004. We have not received any indemnity claims from the buyers of our other two mobile and wireless data businesses, and most of the indemnification provisions relating to the sale of all three of the mobile and wireless businesses have now expired.

**CONTRACTUAL OBLIGATIONS**

The following table reflects our contractual commitments, including our future minimum lease payments as of March 31, 2007:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations ($ in thousands) | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-Term Debt | $ 26,500 | $ 958 | $ 6,947 | $ 18,595 | $ - |
| Capital Lease Obligations | 73 | 40 | 33 | - | - |
| Operating Leases | 13,429 | 1,690 | 3,287 | 2,809 | 5,643 |
| Purchase Obligations | 8,404 | 5,450 | 2,954 | - | - |
| Other Long-Term Liabilities Reflected on the Registrants Balance Sheet under GAAP | - | - | - | - | - |
| Total | $ 48,406 | $ 8,138 | $ 13,221 | $ 21,404 | $ 5,643 |

The long-term debt relates to the borrowings under the BTMU Capital Corporation facility *(See Note 14 to the Unaudited Condensed Consolidated Financial Statements)*. The operating lease obligations reflect real estate leases in New York City, Norcross, Georgia, and Marlborough, Massachusetts (which we sub-lease). The purchase obligations include deferred consideration and contingent consideration related to the Bill Blass, Marble Slab, and MaggieMoo's acquisitions. We have not included contracts for maintenance support on hardware or software that we own because we generally pay in advance for these services and have the option of choosing whether or not to renew these services each year. We also have not included in this table potential contingent liability that we may have to the buyers of our mobile and wireless communications businesses, since we cannot readily estimate the potential amount of liabilities that might arise in the future, if any.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in these forward-looking statements.

At March 31, 2007, the Company had borrowings of $26.5 million under the new credit facility, secured by the assets of The Athlete's Foot. The interest rate on these borrowings is based on LIBOR rate plus a margin. LIBOR is an interest rate that fluctuates on a daily basis. The LIBOR rate for our debt resets every 90 days. At December 31, 2006, we had no outstanding borrowings or other debt.

We invest our cash and cash equivalents in investment funds which normally conform to the following investment strategies; investing at least 80% of assets in U.S. Government securities and repurchase agreements for those securities, investing in U.S. Government securities issued by entities that are chartered or sponsored by Congress but whose securities are neither issued nor guaranteed by the U.S. Treasury, maintaining a dollar-weighted average maturity at sixty days or less. These investments are generally subject to the risks of changes in market interest rates and the impact of any declines in the credit quality of an issuer or a provider of credit support. A 10% change in interest rates would not materially impact the returns on our excess cash balances. In general, the Company accepts a slightly lower rate of interest on its investments in exchange for a higher credit rating from the issuer or the guarantor of the securities in which the Company invests. Our primary objective in investing cash balances is to preserve principal and maintain liquidity, rather than to seek enhanced investment returns.

Under the new bank credit agreement, we are subject to interest rate risk from fluctuations in LIBOR rates. If our bank requests it, we will be obligated to hedge the interest rate exposure on a certain portion of our outstanding loans.

The Athlete's Foot has franchisees located in countries that transact business in currencies other than the U.S. dollar. The foreign currency is translated into U.S dollars to determine the amount of royalties due to the Company. Because the franchisees are located in forty countries and because more than half of The Athlete's Foot revenue is generated from domestic franchisees, the currency risk to the Company is well diversified and the risk of any single currency to the Company is low.

## ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures***

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), management carried out an evaluation, with the participation of the Company's chief financial officer and chief executive officer, of the effectiveness of the Company's disclosure controls and procedures, as of March 31, 2007. Based on their evaluation as of March 31, 2007, the chief executive officer and chief financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. In addition, for the first quarter of 2007, there have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As a result of our recent acquisitions in the first quarter of 2007, we are currently in the process of incorporating the internal controls and procedures of Bill Blass, MaggieMoo's and Marble into our internal controls over financial reporting and extending our Section 404 compliance program under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations under such Act to include such acquisitions. The Company will report on its assessment of the combined operations within the time period provided by the Act and the applicable SEC rules and regulations concerning business combinations. We expect that this assessment will likely materially affect the Company's internal control over financial reporting in subsequent periods.

***Changes in Internal Control Over Financial Reporting and Disclosure Controls and Procedures***

During the quarter ended March 31, 2007, no change occurred in the Company's internal control over financial reporting that materially affected, or is likely to materially affect, the Company's internal control over financial reporting. We acquired The Athlete's Foot in November 2006 and Bill Blass, MaggieMoo's and Marble Slab in February 2007. We are in the process of incorporating The Athlete's Foot, Bill Blass, MaggieMoo's and Marble Slab financial reporting processes with and into our existing system of financial reporting controls. The Company's internal control over financial reporting will likely be materially affected by implementing appropriate internal controls over financial reporting to account for these acquisitions.

# PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

*See Note 8 to the Condensed Consolidated Financial Statements.*

**ITEM 1A. RISK FACTORS**

Information regarding risk factors appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements," in Part I — Item 2 of this Form 10-Q and in Part I — Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006. As of the date of this filing, there have been no material changes in the risk factors previously disclosed in Part I - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS AND REPORTS**

**Exhibits**

| | |
|---|---|
| *2.1 | Agreement and Plan of Merger dated February 14, 2007, by and among NexCen Brands, Inc., MM Acquisition Sub, LLC, MaggieMoo's International, LLC, Stuart Olsten, Jonathan Jameson, and the Securityholders' Representative. (Designated as Exhibit 2.1 to the Form 8−K filed on February 21, 2007) |
| *2.2 | Asset Purchase Agreement dated February 14, 2007, by and among, NexCen Brands, Inc., NexCen Acquisition Corp., Marble Slab Creamery, Inc. (Designated as Exhibit 2.2 to the Form 8−K filed on February 21, 2007) |
| *2.3 | Asset Purchase Agreement dated March 13, 2007, by and among NexCen Brands, Inc., WV IP Holdings, LLC and F. Schumacher & Co. (Designated as Exhibit 2.4 to the Form 10-K filed on March 16, 2007) |
| *4.1 | Common Stock Warrant dated February 15, 2007, issued by NexCen Brands, Inc. to Designer Equity Holding Company, LLC. (Designated as Exhibit 4.1 to the Form 8-K filed on February 21, 2007) |
| *4.2 | Registration Rights Agreement dated February 15, 2007, by and among NexCen Brands, Inc., Haresh Tharani, Mahesh Tharani, Michael Groveman and Designer Equity Holding Company, LLC. (Designated as Exhibit 4.2 to the Form 8-K filed on February 21, 2007) |
| *4.3 | Registration Rights Agreement dated February 28, 2007, by and among NexCen Brands, Inc. and the holders of the outstanding limited liability company interests of MaggieMoo's International, LLC. (Designated as Exhibit 4.1 to the Form 8-K filed on March 6, 2007) |
| *4.4 | Promissory Note in the principal amount of $1,500,000 issued by NexCen Brands, Inc. to Marble Slab Creamery, Inc. (Designated as Exhibit 4.2 to the Form 8-K filed on March 6, 2007) |
| *4.5 | Promissory Note in the principal amount of $3,500,000 issued by NexCen Brands, Inc. to Marble Slab Creamery, Inc. (Designated as Exhibit 4.3 to the Form 8-K filed on March 6, 2007) |
| *9.1 | Voting Agreement dated February 15, 2007, by and between NexCen Brands, Inc. and Haresh Tharani, Mahesh Tharani, and Michael Groveman. (Designated as Exhibit 9.1 to the Form 8-K filed on February 21, 2007) |
| *9.2 | Voting Agreement dated February 28, 2007, by and among NexCen Brands, Inc., Stuart Olsten and Jonathan Jameson. (Designated as Exhibit 9.1 to the Form 8-K filed on March 6, 2007) |
| *10.1 | Security Agreement dated March 12, 2007, by and among NexCen Acquisition Corp., the subsidiary borrowers parties thereto and BTMU Capital Corporation. (Designated as Exhibit 10.19 to the Form 10-K filed on March 16, 2007) |
| *10.2 | Note Funding Agreement dated March 12, 2007, by and among NexCen Acquisition Corp., the subsidiary borrowers parties thereto, Victory Receivables Corporation and BTMU Capital Corporation. (Designated as Exhibit 10.20 to the Form 10-K filed on March 16, 2007) |
| 31.1 | Certification pursuant to 17 C.F.R § 240.15d−14 (a), as adopted pursuant to Section 302 of the Sarbanes−Oxley Act of 2002 for Robert W. D'Loren. |
| 31.2 | Certification pursuant to 17 C.F.R § 240.15d−14 (a), as adopted pursuant to Section 302 of the Sarbanes−Oxley Act of 2002 for David B. Meister. |
| **32.1 | |

Certifications pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002 for Robert W. D'Loren and David B. Meister.

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* Incorporated by reference.

** These certifications are being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and are not being filed as part this Quarterly Report on Form 10-Q or as a separate disclosure document.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
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| *Dated:* | May 10, 2007<br>*NexCen Brands, Inc.* |
| *By:* | /s/ David B. Meister<br>*David B. Meister*<br>*Senior Vice President and Chief Financial Officer*<br>*(Principal Financial and Accounting Officer)* |