ICONIX BRAND GROUP, INC.
Form 424B4
December 08, 2006
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Registration No. 333-138582
333-139193

PROSPECTUS

12,065,000 Shares

Iconix Brand Group, Inc.

Common Stock

We are selling 9,375,000 shares of our common stock and the selling stockholders identified in this prospectus, which include members of our senior management, are selling 2,690,000 shares of our common stock. We will not receive any proceeds from the sale of shares by the selling stockholders.

Our common stock is quoted on the Nasdaq Global Market under the symbol ICON. On December 6, 2006, the last reported sale price of our common stock on the Nasdaq Global Market was $18.75 per share.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 8 of this prospectus.

	Per Share	Total
Public offering price	$18.75	$ 226,218,750
Underwriting discounts and commissions	$1.0781	$ 13,007,277
Proceeds to us (before expenses)	$17.6719	$ 165,674,063
Proceeds to selling stockholders (before expenses)	$17.6719	$ 47,537,411

The underwriters may also purchase up to an additional 1,809,750 shares of our common stock (up to 1,409,750 shares from us and up to 400,000 shares from certain of the selling stockholders) at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus. The underwriters may exercise this option only to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about December 13, 2006.

Merrill Lynch & Co. **Lehman Brothers**

Lazard Capital Markets **Piper Jaffray** **Wachovia Securities**

The date of this prospectus is December 7, 2006.

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You should rely only on the information contained in this document or other documents to which we have referred you. We have not, and the underwriters have not, authorized any other person or entity to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus regardless of the time of delivery of this prospectus or of any sale of shares. Our business, financial condition, results of operations and prospects may have changed since that date. Except where the context requires otherwise, in this prospectus, the Company, Iconix, we, us, and our refer to the combined business of Iconix Brand Group, Inc., a Delaware corporation, and all of its consolidated entities.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus or incorporated by reference into this prospectus and does not contain all of the information you should consider in making your investment decision. To understand this offering fully, you should read this summary together with the more detailed information included elsewhere in, or incorporated by reference into, this prospectus, including our historical consolidated financial statements and the related notes. You should also carefully consider, among other things, the matters discussed in this prospectus in the section entitled Risk factors.

Our company

We are a brand management company engaged in licensing, marketing and providing trend direction for our portfolio of owned consumer brands. Our portfolio currently includes nine iconic brands Candie s, Bongo, Badgley Mischka, Joe Boxer, Rampage, Mudd, London Fog, Mossimo and Ocean Pacific which we license directly to leading retailers and wholesalers. Our brands are used in connection with numerous product categories, are distributed across a wide range of distribution channels and are marketed to a broad range of customers worldwide. We seek to maximize the value of our brands by developing innovative marketing campaigns to increase brand awareness and by providing trend direction to our licensees to enhance product appeal.

For the year ended December 31, 2005 and the nine months ended September 30, 2006, we had net revenues of $30.2 million and $53.8 million, respectively, and, as of December 6, 2006, we had over 115 royalty producing licenses with respect to our nine brands. We estimate that products sold in the marketplace under these brands collectively represent in excess of $3.5 billion in net retail sales per year.

Our business model

We believe we have a unique business model. As opposed to operating companies that design, manufacture and distribute product, we transfer these responsibilities to our licensees, allowing us to focus on the core elements of managing brands. As part of our licensing agreements, we maintain significant approval rights with respect to product design, packaging, channel selection and presentation to ensure consistency with our overall brand direction. Our model is further differentiated by our diverse portfolio of brands, which are sold in numerous channels across multiple product categories, as well as by our accelerated growth via acquisitions.

We believe our business model allows us to grow faster and generate higher margins with lower operating risk than under a traditional business model. Key aspects of our model include its:

- applicability to a broad universe of consumer brands;
- efficient approach to acquisitions, permitting us to quickly evaluate and integrate brand acquisitions;
- scalable platform that enables us to add and manage new licenses with a minimal associated increase in infrastructure;
- predictable base of guaranteed minimum royalties; and
- low overhead, absence of inventory risk and minimal working capital and capital expenditure requirements.

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Our business strengths

Our unique business model differentiates us from other companies and enables us to generate strong financial results. Included in our business strengths are the following:

- *Diversified portfolio of iconic brands*: We believe our diverse brand portfolio creates a natural hedge against the risks associated with dependence upon any single brand, product category or distribution channel.

- *Demonstrated ability to increase brand value*: We believe we have demonstrated an ability to build brand awareness and increase brand value through creative marketing, unified trend direction and careful selection of our licensees.

- *Broad network of licensees*: We maintain a strong, diverse licensee network that enables us to identify and partner with best-in-class retailers and wholesalers who are leaders in their respective channels and/or product categories. This network also enables us to more easily add new licenses and product categories, replace licenses within existing product categories and quickly evaluate potential licensing streams for acquisition opportunities.

- *Proven acquisition approach*: Our acquisition approach is unique as we evaluate opportunities based primarily on brand strength and the viability of future royalty streams. This focus allows us to screen a wider pool of consumer brand candidates, identify acquisition targets more quickly and complete our due diligence more efficiently than traditional operating companies. We have made seven acquisitions since October 2004, including six since July 2005.

Our growth strategy

Our objective is to continue building a diversified portfolio of iconic consumer brands by successfully growing our existing portfolio and by adding leading brands that leverage our brand management expertise and existing infrastructure. To achieve our objective, we intend to:

- *extend our existing brands* by adding new product categories, expanding the brands retail presence and optimizing the sales of their licensees;

- *expand internationally* to capitalize on the overseas demand for American culture and brands; and

- *continue acquiring consumer brands* with high consumer awareness, broad appeal, applicability to a range of merchandise categories and an ability to diversify our brand portfolio.

Our business model transition

We have a limited history operating solely as a brand management company. Prior to 2003, we operated as a traditional apparel and footwear operating company. Our initial brand was Candie s, which we acquired in 1993 and then built into one of the most well-recognized junior footwear brands in the United States. In 1995, we began designing, manufacturing, selling and marketing footwear under the Bongo name. From 2003 to 2004, we implemented a shift in our business model from our historic operating model to a brand management model. By the end of 2004, we had eliminated all of our legacy retail and manufacturing operations, reduced our workforce from over 200 to under 40 and entered into our first multi-category retail license agreement with Kohl s Department Stores, Inc., sometimes referred to herein as Kohl s, for the exclusive right in the United States to design, manufacture, sell and distribute a broad range of Candie s products. In October 2004, we also began to expand our consumer brand portfolio and, by November 2006, we had acquired seven additional brands: Badgley Mischka, Joe Boxer, Rampage, Mudd, London Fog, Mossimo and Ocean Pacific.

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Recent developments

On October 31, 2006, we acquired all of the capital stock of Mossimo, Inc., a company engaged in the design and licensing of apparel and related products principally under the Mossimo brand, in a merger transaction, sometimes referred to herein as the Mossimo merger. In consideration for such acquisition, we paid the stockholders of Mossimo, Inc. a total of approximately $67.5 million in cash and 3,608,810 shares of our common stock. In addition, if our common stock does not close at or above $18.71 per share for at least 20 consecutive trading days during the 12 months ending October 31, 2007, the recipients of the initial merger consideration will be entitled to receive additional shares of our common stock (the aggregate of which will not exceed 40,965 shares). In connection with this merger, we also paid Cherokee Inc. a total of $33.0 million in cash in consideration for its withdrawal of a proposal it had submitted to acquire the capital stock of, and the termination of its finder s agreement with, Mossimo, Inc. The cash portion of the merger consideration, the related withdrawal/termination fee and the costs and expenses related to the merger were financed through the issuance by one of our subsidiaries of a secured note in the principal amount of $90.0 million, maturing on December 18, 2008, together with approximately $17.5 million of the funds we acquired in the merger.

On November 6, 2006, we acquired certain of the assets of Ocean Pacific Apparel Corp., a subsidiary of Warnaco Group, Inc., related to the Ocean Pacific brand, associated trademarks, intellectual property and related names worldwide. In consideration for these assets, we paid the seller $10.0 million in cash and issued the seller a note in the principal amount of $44.0 million. The note, which is secured by the acquired assets, matures on December 31, 2006 (subject to extension at our option until January 31, 2007 under certain circumstances) and is payable in, at our option, cash or a combination of cash and shares of our common stock. In connection with this acquisition, we assumed 30 licenses, including 15 international licenses. We also entered into a new license agreement with the seller. Pursuant to this license, the seller has the exclusive right to the use of the Ocean Pacific trademark in the United States in connection with the design, manufacture and sale of women s and juniors swimwear for a period of three years and has guaranteed us certain minimum annual royalties in connection with the use of the license.

Additional information

We were incorporated under the laws of the state of Delaware in 1978. In July 2005, we changed our name from Candies, Inc. to Iconix Brand Group, Inc. Our principal executive offices are located at 1450 Broadway, New York, New York 10018 and our telephone number is (212) 730-0300. Our web site address is www.iconixbrand.com. The information on our web site does not constitute part of this prospectus. We have included our website address in this document as an inactive textual reference only. Candie s®, Bongo®, Joe Boxer®, Rampage®, Mudd® and London Fog® are the registered trademarks of our wholly-owned subsidiary, IP Holdings LLC; Badgley Mischka® is the registered trademark of our wholly-owned subsidiary, Badgley Mischka Licensing LLC; Mossimo® is the registered trademark of our wholly-owned subsidiary, Mossimo Holdings LLC; and Ocean Pacific® is the registered trademark of our wholly-owned subsidiary, OP Holdings LLC. Each of the other trademarks, trade names or service marks of other companies appearing in this prospectus or information incorporated by reference into this prospectus is the property of its respective owner.

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The Offering

Shares of common stock offered by us	9,375,000 shares.
Shares of common stock offered by selling stockholders	2,690,000 shares, including 868,577 shares to be issued upon exercise of options.
Shares of common stock to be outstanding after this offering	54,740,738 shares.
Use of proceeds	We estimate that the net proceeds from shares sold by us in this offering will be approximately $164.8 million. We intend to use these net proceeds to repay $90.0 million of indebtedness incurred by us in connection with the Mossimo merger and up to $44.0 million of indebtedness incurred by us in connection with the Ocean Pacific brand acquisition and the balance for general corporate purposes. See Use of Proceeds for additional information.

We will not receive any proceeds from the sale of shares by the selling stockholders, which include members of our senior management.

Risk factors	See Risk factors beginning on page 8 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Nasdaq Global Market symbol	ICON
Overallotment option	We and certain of the selling stockholders have granted the underwriters an option to purchase up to an aggregate of additional shares of our common stock to cover overallotments, if any. See Underwriting.

The number of shares of common stock to be outstanding after this offering is based on the shares outstanding as of December 6, 2006 after giving effect to the issuance of the shares to be sold by us in this offering and the shares that will be issued upon exercise of options held by selling stockholders and sold by them in this offering.

Unless otherwise indicated, information contained in this prospectus regarding the number of shares of our common stock outstanding after this offering (a) does not include a maximum of 40,965 shares which may become issuable to the former stockholders of Mossimo, Inc. as additional merger consideration if our common stock does not close at or above $18.71 per share for at least 20 consecutive trading days during the 12 months ending October 31, 2007, (b) assumes no shares are issued by us in repayment of the note issued by us in connection with the Ocean Pacific brand acquisition and (c) does not include the following:

up to 1,409,750 shares issuable by us upon exercise of the underwriters overallotment option;

799,175 shares issuable by us upon the exercise of outstanding warrants with a weighted average exercise price of $11.02 per share;

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- 5,374,298 shares still issuable by us (after the exercise of options by selling stockholders in connection with this offering) upon exercise of stock options granted under our stock option plans with a weighted average exercise price of $5.02 per share; and

- 600,000 shares issuable by us upon exercise of outstanding non-plan stock options with a weighted average exercise price of $2.75 per share.

Summary Consolidated Financial Information

The following tables set forth summary consolidated financial data for the periods and as of the dates indicated. The summary historical consolidated financial data presented as of December 31, 2005 and for the fiscal year ended December 31, 2005, the 11 months ended December 31, 2004 and the fiscal year ended January 31, 2004 have been derived from our historical audited consolidated financial statements, which are included elsewhere in this prospectus. The summary historical consolidated financial data presented as of September 30, 2006 and for the nine month periods ended September 30, 2005 and 2006 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus, which in the opinion of our management included all adjustments, consisting of primarily normal recurring adjustments, that we considered necessary for a fair presentation of our financial position and results of operations as of such date and for such unaudited periods. The historical results are not necessarily indicative of results to be expected for future periods, and results for the nine months ended September 30, 2006 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2006.

In December 2004, we determined to change our fiscal year end from January 31 to December 31, effective for the period ending December 31, 2004. As a result, while our most recently completed fiscal year commenced on January 1, 2005 and ended on December 31, 2005, our prior reporting year, which was our transitional period, commenced on February 1, 2004 and ended on December 31, 2004 and was thus reported as an 11-month year.

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(In thousands, except per share data)	Fiscal year ended January 31, 2004	11 months ended December 31, 2004(1)	Fiscal year ended December 31, 2005(2)	Nine months ended September 30, 2005	Nine months ended September 30, 2006(3)
				(unaudited)	
Consolidated statements of operations data:					
Net sales	$ 123,160	$ 58,427	$	$	$
Licensing and commission revenue	8,217	10,553	30,156	17,792	53,791
Net revenues	131,377	68,980	30,156	17,792	53,791
Selling, general and administrative expenses(4)	30,682	10,154	13,880	9,385	17,572
Operating income (loss)(5)	(8,164)	2,736	14,810	7,411	34,319
Interest expense net of interest income(6)	3,118	2,495	3,977	2,134	7,991
Net income (loss)	(11,340)	241	15,943(7)	8,457(7)	23,648
Earnings (loss) per share:					
Basic	$ (0.45)	$ 0.01	$ 0.51	$ 0.28	$ 0.62
Diluted	$ (0.45)	$ 0.01	$ 0.46	$ 0.26	$ 0.54
Weighted average number of common shares outstanding:					
Basic	25,181	26,851	31,284	29,859	38,075
Diluted	25,181	28,706	34,773	33,071	43,469
Consolidated statements of cash flow data(8):					
Net cash provided by operating activities	$ 11,163	$ 4,809	$ 15,982	$ 5,627	$ 18,770
Cash flows used in investing activities:					
Purchase of property and equipment	$ (248)	$ (30)	$ (731)	$ (26)	$ (558)
Proceeds from sale of equity securities of other entities			110		
Purchases of equity securities of other entities			(663)		(78)
Acquisition of Badgley Mischka		(372)			
Acquisition of Joe Boxer			(40,755)	(40,100)	
Acquisition of Rampage			(26,159)	(25,850)	
Acquisition of Mudd					(45,000)
Purchase of London Fog trademarks					(31,522)
Purchase of other trademarks		(19)	(320)	(247)	(1,269)
Net cash used in investing activities	$ (248)	$ (421)	$ (68,518)	$ (66,223)	$ (78,427)
Net cash (used in) provided by financing activities	$ (10,543)	$ (6,391)	$ 59,861	$ 67,205	$ 57,264

(1) We acquired the Badgley Mischka brand in October 2004.

(2) We acquired the Joe Boxer and Rampage brands in July 2005 and September 2005, respectively.

(3) We acquired the Mudd brand in April 2006 and purchased the London Fog trademarks in August 2006.

(4) Net of reductions related to shortfall payments arising from the former management agreement between our wholly-owned subsidiary, Unzipped Apparel, LLC, referred to herein as Unzipped, and Sweet Sportswear LLC of $1.6 million in the year ended January 31, 2004, $7.6 million (net of $685,000 recorded as a reserve pending the outcome of our litigation relating to Unzipped) in the 11 months ended December 31, 2004 and $438,000 in the year ended December 31, 2005 and the nine months ended September 30, 2005. See Business Legal proceedings.

(5) Includes special charges of $4.6 million in the year ended January 31, 2004, $295,000 in the 11 months ended December 31, 2004, $1.5 million in the year ended December 31, 2005, $996,000 in the nine months ended September 30, 2005 and $1.9 million in the nine months ended September 30, 2006.

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(6) Net of interest income of $36,000 in the year ended January 31, 2004, $24,000 in the 11 months ended December 31, 2004, $295,000 in the year ended December 31, 2005, $89,000 in the nine months ended September 30, 2005 and $629,000 in the nine months ended September 30, 2006.

(7) During the year ended December 31, 2005 and the nine months ended September 30, 2005, we recognized a net non-cash tax benefit of $5.0 million and $3.2 million, respectively, by reducing the valuation allowance on the deferred tax asset related to our net operating loss carryforwards.

(8) The cash flow information provided in this table is incomplete in that it does not show the individual components of net cash provided by operating activities or net cash provided by financing activities and should be read in the context of the complete cash flow statements included in our financial statements, which appear elsewhere in this prospectus.

Consolidated balance sheet data (in thousands):

		As of September 30, 2006 (unaudited)			
	As of December 31, 2005	Actual	Pro forma	Pro forma as adjusted	Pro forma as further adjusted for this offering
Cash and cash equivalents(1)	$ 11,687	$ 21,255	$ 36,413	$ 26,080	$ 56,896
Working capital (deficit)	$ (4,388)	$ 2,124	$ 122	$ (55,011)	$ 30,305
Total assets	$ 217,244	$ 383,564	$ 605,196	$ 651,380	$ 682,196
Total current liabilities	$ 26,733	$ 39,728	$ 63,420	$ 108,220	$ 53,720
Long term debt, less current portion	$ 85,414	$ 144,882	$ 224,382	$ 224,382	$ 144,882
Other liabilities	$ 4,201	$ 7,939	$ 56,939	$ 56,939	$ 56,939
Stockholders equity	$ 100,896	$ 191,015	$ 260,455	$ 261,839	$ 426,655

(1) Including restricted cash of $4.1 million at December 31, 2005 and $16.1 million at September 30, 2006.

The pro forma information included in the above summary balance sheet data as of September 30, 2006 gives effect, at that date, to the October 2006 Mossimo merger, including our financing of the merger and of a related settlement/termination fee. See Unaudited pro forma condensed combined financial statements for additional pro forma information with respect to the Mossimo merger.

The pro forma as adjusted information included in the above summary balance sheet data as of September 30, 2006 gives effect, at that date, to the foregoing adjustments and to our November 2006 acquisition of the Ocean Pacific trademarks and related intellectual property assets. See Management s discussion and analysis of financial condition and results of operations recent acquisitions.

The pro forma as further adjusted for this offering information included in the above summary balance sheet data as of September 30, 2006 gives effect, at that date, to all of the foregoing adjustments and to the following events:

- our sale of 9,375,000 shares of common stock in this offering at an assumed public offering price of $18.75 per share; and

- our receipt of the estimated net proceeds therefrom, after deducting the underwriting discount and commissions and other expenses of this offering, giving effect to our repayment from such proceeds of the $90.0 million note issued by our subsidiary, Mossimo Holdings, in connection with the Mossimo merger and assuming our repayment from such proceeds of all $44.0 million of the indebtedness incurred by us in connection with the Ocean Pacific brand acquisition. See Use of Proceeds.

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RISK FACTORS

Any investment in shares of our common stock involves a high degree of risk. You should consider carefully the following information about these risks, together with all the other information contained in, or incorporated by reference into, this prospectus, including the historical consolidated financial statements and related notes and pro forma financial information, before you decide to purchase shares of our common stock. If any of the following risks actually occurs, our business, financial condition, operating results and future growth prospects could be materially and adversely affected. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our financial condition. Any adverse effect on our business, financial condition or operating results could result in a decline in the trading price of our common stock and your loss of all or part of your investment.

Risks related to our operations

Our current business model is new and our operating history as a brand management company is limited, which makes it difficult to evaluate our current business and future prospects.

We began our transition in 2003 from a procurer of manufacturing, seller and marketer of footwear and jeanswear products to a brand management company that owns, licenses and manages its own consumer brands. We only completed the elimination of our retail and manufacturing operations in mid-2004 and, therefore, have operated solely as a brand management company for only eight quarters, including only one full reporting fiscal year, which makes it difficult to evaluate our ability to successfully manage and grow our business long-term. Furthermore, our business model depends on a number of factors for its continued success, including the continued market acceptance of our brands, the production and sale of quality products by our licensees and the expansion of our brand portfolio through the acquisition of additional brands and the growth of our existing brands. While we believe our diversified brand portfolio protects us from the underperformance of any one brand and that we will be able to continue our growth through continued development of our existing brands, through the acquisition of additional brands and by expanding internationally, we cannot guarantee the continued success of our business.

The failure of our licensees to adequately produce, market and sell products bearing our brand names in their license categories could result in a decline in our results of operations.

We are no longer directly engaged in the sale of branded products and, consequently, our revenues are now almost entirely dependent on royalty payments made to us under our licensing agreements. Although the licensing agreements for our brands usually require the advance payment to us of a portion of the licensing fees and provide for guaranteed minimum royalty payments to us, the failure of our licensees to satisfy their obligations under these agreements or their inability to operate successfully or at all, could result in their breach, and/or the early termination, of such agreements, their non-renewal of such agreements or our decision to reduce their guaranteed minimums, thereby eliminating some or all of that stream of revenue. Moreover, during the terms of the license agreements, we are substantially dependent upon the abilities of our licensees to maintain the quality and marketability of the products bearing our trademarks, as their failure to do so could materially tarnish our brands, thereby harming our future growth and prospects. In addition, the failure of our licensees to meet their production, manufacturing and distribution requirements could cause a decline in their sales and potentially decrease the amount of royalty payments (over and above the guaranteed minimums) due to us. This, in turn, could decrease our revenues. Moreover, the concurrent failure by several of our material licensees to meet their financial obligations to us could jeopardize our ability to meet the debt service coverage ratio required in connection with the asset-backed notes issued by our subsidiary, IP Holdings, which would give the note holders the right to foreclose on the Candie s, Bongo, Joe Boxer, Rampage, Mudd and London Fog trademarks and other related intellectual property assets securing such debt.

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Our business is dependent on continued market acceptance of our trademarks and the products of our licensees bearing these brands.

Although our licensees guarantee minimum net sales and minimum royalties to us, a failure of our trademarks or of products utilizing our trademarks to achieve or maintain market acceptance could cause a reduction of our licensing revenues. Such failure could also cause the devaluation of our trademarks, which are our primary assets, making it more difficult for us to renew our current licenses upon their expiration or enter into new or additional licenses for our trademarks. In addition, if such devaluation of our trademarks were to occur, a material impairment in the carrying value of one or more of our trademarks could also occur and be charged as an expense to our operating results. Continued market acceptance of our trademarks and our licensees products, as well as market acceptance of any future products bearing our trademarks, is subject to a high degree of uncertainty, made more so by constantly changing consumer tastes and preferences. Maintaining market acceptance of our licensees products and creating market acceptance of new products and categories of products bearing our marks will require our continuing and substantial marketing and product development efforts, which may, from time to time, also include our expenditure of significant additional funds, to keep pace with changing consumer demands. Additional marketing efforts and expenditures may not, however, result in either increased market acceptance of, or additional licenses for, our trademarks or increased market acceptance, or sales, of our licensees products. Furthermore, while we believe that we currently maintain sufficient control over the products our licensees produce under our brand names through the provision of trend direction and our right to preview and approve a majority of such products, including their presentation and packaging, we do not actually design or manufacture our licensed products and therefore have more limited control over such products quality and design than a traditional product manufacturer might have.

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

As of September 30, 2006, we had total consolidated debt of approximately $170.4 million (approximately $304.4 million after giving pro forma effect to the note issued by our subsidiary, Mossimo Holdings, in connection with the Mossimo merger and the note issued by us in connection with the Ocean Pacific brand acquisition) and had working capital of $2.1 million. Of such debt, as of September 30, 2006, approximately $159.9 million represented the principal amount outstanding under the asset-backed notes issued by our subsidiary, IP Holdings. The payment of the principal and interest on these asset-backed notes is made from amounts received by IP Holdings under license agreements with the various licensees of its intellectual property assets, all of which assets also serve as security under the notes. In addition, the $90.0 million note issued by Mossimo Holdings in connection with the Mossimo merger is secured by the Mossimo trademarks, license agreements and other related intellectual property assets and the $44.0 million note issued by us in connection with the Ocean Pacific brand acquisition is secured by the Ocean Pacific trademarks, license agreements and other related intellectual property assets. We may also assume or incur additional debt, including secured debt, in the future in connection with, or to fund, future acquisitions. Our debt obligations:

- could impair our liquidity;
- could make it more difficult for us to satisfy our other obligations;
- require us to dedicate a substantial portion of our cash flow to payments on our debt obligations, which reduces the availability of our cash flow to fund working capital, capital expenditures and other corporate requirements;
- could impede us from obtaining additional financing in the future for working capital, capital expenditures, acquisitions and general corporate purposes;
- make us more vulnerable in the event of a downturn in our business prospects and could limit our flexibility to plan for, or react to, changes in our licensing markets; and
- place us at a competitive disadvantage when compared to our competitors who have less debt.

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While we believe that by virtue of the guaranteed minimum royalty payments due to us under our licenses we will generate sufficient revenues from our licensing operations to satisfy our obligations for the foreseeable future, in the event that we were to fail in the future to make any required payment under agreements governing our indebtedness or fail to comply with the financial and operating covenants contained in those agreements, we would be in default regarding that indebtedness. A debt default could significantly diminish the market value and marketability of our common stock and could result in the acceleration of the payment obligations under all or a portion of our consolidated indebtedness. In the case of IP Holdings asset-backed notes, it would also enable the holders of such notes to foreclose on the assets securing such notes, including the Candie s, Bongo, Joe Boxer, Rampage, Mudd and London Brand trademarks, and in the case of the note issued in connection with the Mossimo merger and the note issued in connection with the Ocean Pacific brand acquisition, it would enable the holders of such notes to foreclose on the assets securing such notes, including the Mossimo and Ocean Pacific trademarks, respectively.

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

As of September 30, 2006, goodwill represented approximately $42.5 million, or 11% of our total assets, and other intangible assets represented approximately $267.9 million, or 70% of our total assets. Under Statement of Financial Accounting Standard No. 142, or SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and indefinite lived intangible assets, including some of our trademarks, are no longer amortized, but instead are subject to impairment evaluation based on related estimated fair values, with such testing to be done at least annually. While, to date, no impairment write-downs have been necessary, any write-down of goodwill or intangible assets resulting from future periodic evaluations would, as applicable, either decrease our net income or increase our net loss and those decreases or increases could be material.

A substantial portion of our licensing revenue is concentrated with three retailers such that the loss of any of such licensees could decrease our revenue and impair our cash flows.

Our licenses with Kohl s and Kmart Corporation, a subsidiary of Sears Holdings Corp., were our two largest licenses during the nine months ended September 30, 2006, representing approximately 16% and 26%, respectively, of our total revenue for such period. In addition, in connection with the Mossimo merger in October 2006, we acquired a license agreement with Target Corporation. Assuming, on a pro forma basis, that the Mossimo merger had been completed as of January 1, 2006, revenue under the Kohl s, Kmart and Target licenses would have collectively represented approximately 50% of our total pro forma revenue for the nine months ended September 30, 2006. Our license agreement with Kohl s grants it the exclusive U.S. license with respect to the Candie s trademark for a wide variety of product categories for an initial term expiring in January 2011. Our license agreement with Kmart grants it the exclusive U.S. license with respect to the Joe Boxer trademark for a wide variety of product categories for an initial term expiring in December 2010. Finally, our license agreement with Target grants it the exclusive U.S. license with respect to the Mossimo trademark for substantially all Mossimo-branded products for a term currently expiring in January 2010. Because we are dependent on these licensees for a significant portion of our licensing revenue, if any of them were to have financial difficulties affecting its ability to make guaranteed payments, or if any of these licensees decides not to renew or extend its existing agreement with us, our revenue and cash flows could be reduced substantially. In addition, as of September 2006, Kmart had not approached the sales levels of Joe Boxer products needed to trigger royalty payments in excess of its guaranteed minimums since 2004, and, as a result, when we entered into the current license agreement with Kmart in September 2006 expanding its distribution to include Sears stores and extending its term from December 2007 to December 2010, we agreed to reduce its guaranteed annual royalty minimums by approximately half, as a result of which our revenues from this license, at least for the short term, will likely be substantially reduced.

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Our license agreement with Target could be terminated by Target in the event we were to lose the services of Mossimo Giannulli as our creative director with respect to Mossimo-branded products, thereby significantly decreasing our expected revenues and cash flows.

While we believe that there has been significant consumer acceptance of products sold under our newly-acquired Mossimo brand as a stand-alone brand, the image and reputation of Mossimo Giannulli, the creator of the brand, remain important factors to Target, the brand s primary licensee. Target has the right under its license agreement with us to terminate the agreement if Mr. Giannulli s services as our creative director for Mossimo-branded products are no longer available to us, upon his death or permanent disability or in the event a morals clause in the agreement relating to his future actions and behavior is breached. Although we have entered into an agreement with Mr. Giannulli in which he has agreed to continue to provide us with his creative director services, including those required under the Target license, for an initial term expiring in January 31, 2010, there can be no assurance that he will continue to do so or that in the event we were to lose such services, Target would continue its license agreement with us. The loss of the Target license would significantly decrease our expected revenues and cash flows until we were able to enter into one or more replacement licenses.

If we are unable to identify and successfully acquire additional trademarks, our growth may be limited, and, even if additional trademarks are acquired, we may not realize any anticipated benefits.

A key component of our growth strategy is the acquisition of additional trademarks. If competitors pursue our brand management model, acquisitions could become more expensive and suitable acquisition candidates more difficult to find. In addition, even if we successfully acquire additional trademarks, we may not be able to achieve or maintain profitability levels that justify our investment in, or realize planned benefits with respect to, those additional brands. Although we seek to temper our acquisition risks by following acquisition guidelines relating to the existing strength of the brand, its diversification benefits to us, its potential licensing scale and the projected rate of return on our investment, acquisitions, whether they be of additional intellectual property assets or of the companies that own them, entail numerous risks, any of which could detrimentally affect our results of operations and/or the value of our equity. These risks include, among others:

- unanticipated costs;
- negative effects on reported results of operations from acquisition related charges and amortization of acquired intangibles;
- diversion of management s attention from other business concerns;
- the challenges of maintaining focus on, and continuing to execute, core strategies and business plans as our brand and license portfolio grows and becomes more diversified;
- adverse effects on existing licensing relationships; and
- risks of entering new domestic and international licensing markets (whether it be with respect to new licensed product categories or new licensed product distribution channels) or markets in which we have limited prior experience.

Acquiring additional trademarks could also have a significant effect on our financial position and could cause substantial fluctuations in our quarterly and yearly operating results. Acquisitions could result in the recording of significant goodwill and intangible assets on our financial statements, the amortization or impairment of which would reduce our reported earnings in subsequent years. Moreover, as discussed below, our ability to grow through the acquisition of additional trademarks will also depend on the availability of capital to complete the necessary acquisition arrangements. Any issuance by us of shares of our common stock as equity consideration in future acquisitions could dilute our common stock because it could reduce our earnings per share, and any such dilution could reduce the market price of our common stock unless and until we were able to achieve revenue growth or cost savings and other business economies sufficient to offset the effect of such an issuance. As a result, there is no guarantee that our stockholders will achieve greater returns as a result of any future acquisitions we complete.

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We may require additional capital to finance the acquisition of additional brands and our inability to raise such capital on beneficial terms or at all could restrict our growth.

We may in the future require additional capital to help fund all or part of potential trademark acquisitions. If, at the time required, we have not generated sufficient cash from operations to finance those additional capital needs, we will need to raise additional funds through equity and/or debt financing. We cannot assure you that, if and when needed, additional financing will be available to us on acceptable terms or at all. If additional capital is needed and is either unavailable or cost prohibitive, our growth may be limited as we may need to change our business strategy to slow the rate of, or eliminate, our expansion plans. In addition, any additional financing we undertake could impose covenants upon us that restrict our operating flexibility, and, if we issue equity securities to raise capital, our existing stockholders may experience dilution or the new securities may have rights senior to those of our common stock.

Our licensees are subject to risks and uncertainties of foreign manufacturing that could interrupt their operations or increase their operating costs thereby affecting their ability to deliver goods to the market, reduce or delay their sales and decrease our potential royalty revenues.

Substantially all of the products sold by our licensees are manufactured overseas. There are substantial risks associated with foreign manufacturing, including changes in laws relating to quotas, and the payment of tariffs and duties, fluctuations in foreign currency exchange rates, shipping delays and international political, regulatory and economic developments, any of which could increase our licensees operating costs. Our licensees also import finished products and assume all risk of loss and damage with respect to these goods once they are shipped by their suppliers. If these goods are destroyed or damaged during shipment, the revenues of our licensees, and thus our royalty revenues over and above the guaranteed minimums, could be reduced as a result of our licensees inability to deliver or their delay in delivering their products.

Because of the intense competition within our licensees markets and the strength of some of their competitors, we and our licensees may not be able to continue to compete successfully.

Currently, most of our trademark licenses are for products in the apparel, footwear and fashion industries, in which industries our licensees face intense and substantial competition, including from our other brands and licensees. In general, competitive factors include quality, price, style, name recognition and service. In addition, various fads and the limited availability of shelf space could affect competition for our licensees products. Many of our licensees competitors have greater financial, distribution, marketing and other resources than our licensees and have achieved significant name recognition for their brand names. Our licensees may be unable to successfully compete in the markets for their products, and we may not be able to continue to compete successfully with respect to our licensing arrangements.

If our competition for retail licenses and brand acquisitions increases, our growth plans could be slowed.

We may face increasing competition in the future for retail licenses as other companies owning established brands may decide to enter into licensing arrangements with retailers similar to the ones we currently have in place. Furthermore, our current or potential retailer licensees may decide to develop or purchase brands rather than maintain or enter into license agreements with us. We also compete with traditional apparel and consumer brand companies and with other brand management companies for brand acquisitions. If our competition for retail licenses and brand acquisitions increases, it may take us longer to procure additional retail licenses and/or acquire additional brands, which could slow down our growth rate.

Our failure to protect our proprietary rights could compromise our competitive position and decrease the value of our brands.

We own, through our wholly-owned subsidiaries, U.S. federal trademark registrations and foreign trademark registrations for our brands that are vital to the success and further growth of our business and which

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we believe have significant value. We monitor on an ongoing basis unauthorized filings of our trademarks and

imitations thereof, and rely primarily upon a combination of trademarks, copyrights and contractual restrictions to protect and enforce our intellectual property rights domestically and internationally. We believe that such measures afford only limited protection and, accordingly, there can be no assurance that the actions taken by us to establish, protect and enforce our trademarks and other proprietary rights will prevent infringement of our intellectual property rights by others, or prevent the loss of licensing revenue or other damages caused therefrom.

For instance, despite our efforts to protect and enforce our intellectual property rights, unauthorized parties may attempt to copy aspects of our intellectual property, which could harm the reputation of our brands, decrease their value and/or cause a decline in our licensees sales and thus our revenues. Further, we and our licensees may not be able to detect infringement of our intellectual property rights quickly or at all, and at times we or our licensees may not be successful combating counterfeit, infringing or knockoff products, thereby damaging our competitive position. In addition, we depend upon the laws of the countries where our licensees products are sold to protect our intellectual property. Intellectual property rights may be unavailable or limited in some countries because standards of registerability vary internationally. Consequently, in certain foreign jurisdictions, we have elected or may elect not to apply for trademark registrations. Further, trademark protection may not be available in every country where our licensees products are sold. While we generally apply for trademarks in most countries where we license or intend to license our trademarks, we may not accurately predict all of the countries where trademark protection will ultimately be desirable. If we fail to timely file a trademark application in any such country, we will likely be precluded from doing so at a later date. Failure to adequately pursue and enforce our trademark rights could damage our brands, enable others to compete with our brands and impair our ability to compete effectively.

In addition, in the future, we may be required to assert infringement claims against third parties, and there can be no assurance that one or more parties will not assert infringement claims against us. Any resulting litigation or proceeding could result in significant expense to us and divert the efforts of our management personnel, whether or not such litigation or proceeding is determined in our favor. In addition, to the extent that any of our trademarks were ever deemed to violate the proprietary rights of others in any litigation or proceeding or as a result of any claim, we may be prevented from using them, which could cause a termination of our licensing arrangements, and thus our revenue stream, with respect to those trademarks. Litigation could also result in a judgment or monetary damages being levied against us.

We are dependent upon our president and other key executives. If we lose the services of these individuals we may not be able to fully implement our business plan and future growth strategy, which would harm our business and prospects.

Our successful transition from a manufacturer and marketer of footwear and jeanswear to a licensor of intellectual property is largely due to the efforts of Neil Cole, our president, chief executive officer and chairman. Our continued success is largely dependent upon his continued efforts and those of the other key executives he has assembled. Although we have entered into an employment agreement with Mr. Cole, expiring on December 31, 2007, as well as employment agreements with other of our key executives, there is no guarantee that we will not lose their services. To the extent that any of their services become unavailable to us, we will be required to hire other qualified executives, and we may not be successful in finding or hiring adequate replacements. This could impede our ability to fully implement our business plan and future growth strategy, which would harm our business and prospects.

We are currently in litigation that could negatively impact our financial results.

We are currently a plaintiff and cross-defendant in a litigation pending in California state court involving our wholly-owned subsidiary, Unzipped, a defendant in a litigation pending in federal district court in New York involving a former supplier and a defendant in a litigation pending in New York state court involving one of our licensees. Even if we prevail on all counts in these actions, the costs of these litigation matters have been and are expected to continue to be high, not only in absolute terms but also because they divert available cash and personnel resources from our business affairs. Moreover, if we are ultimately required to pay the monetary damages sought from us in these actions, or if it is adjudicated that our contractual rights concerning Unzipped are invalid, our operating results and profitability would be reduced.

Until recently we incurred losses on a consistent basis and we may not be able to sustain our profitability in the future.

Although we have consistently recorded net income in connection with our new business model, we cannot guarantee you that we will continue to be profitable in the future. Prior to our transition to a brand management company in 2004, we consistently sustained net losses, including net losses of $11.3 million, $3.9 million and $2.3 million in the fiscal years ended January 31, 2004, 2003 and 2002, respectively.

Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results.

Our future effective tax rates could be adversely affected by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of recovering the amount of deferred tax assets recorded on the balance sheet and the likelihood of adverse outcomes resulting from examinations by various taxing authorities in order to determine the adequacy of our provision for income taxes. We cannot guarantee that the outcomes of these evaluations and continuous examinations will not harm our reported operating results and financial conditions.

Risks related to our securities

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.

The publicly traded shares of our common stock have experienced, and may continue to experience, significant price and volume fluctuations. This market volatility could reduce the market price of our common stock, regardless of our operating performance. In addition, the trading price of our common stock could change significantly over short periods of time in response to actual or anticipated variations in our quarterly operating results, announcements by us, our licensees or our respective competitors, factors affecting our licensees markets generally and/or changes in national or regional economic conditions, making it more difficult for shares of our common stock to be sold at a favorable price or at all. The market price of our common stock could also be reduced by general market price declines or market volatility in the future or future declines or volatility in the prices of stocks for companies in the trademark licensing business or companies in the industries in which our licensees compete.

Future sales of our common stock may cause the prevailing market price of our shares to decrease.

We have issued a substantial number of shares of common stock that are eligible for resale under Rule 144 of the Securities Act and that may become freely tradable. We have also already registered a substantial number of shares of common stock that are issuable upon the exercise of options and warrants and have registered for resale a substantial number of restricted shares of common stock issued in connection with our acquisitions. We also intend to register additional shares in the near-term. If the holders of our options and warrants choose to exercise their purchase rights and sell the underlying shares of common stock in the public market, or if holders of currently restricted shares of our common stock choose to sell such shares in the public market under Rule 144 or otherwise, the prevailing market price for our common stock may decline. The sale of shares issued upon the exercise of our derivative securities could also further dilute the holdings of our existing stockholders. In addition, future public sales of shares of our common stock could impair our ability to raise capital by offering equity securities.

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Provisions in our charter and in our share purchase rights plan and Delaware law could make it more difficult for a third party to acquire us, discourage a takeover and adversely affect existing stockholders.

Certain provisions of our certificate of incorporation and our share purchase rights plan, either alone or in combination with each other, could have the effect of making more difficult, delaying or deterring unsolicited attempts by others to obtain control of our company, even when these attempts may be in the best interests of our stockholders. Our certificate of incorporation authorizes 75,000,000 shares of common stock to be issued. Based on our outstanding capitalization at December 6, 2006, after giving effect to this offering and assuming the exercise of all outstanding options and warrants, there are still a total of approximately 13,485,789 shares of common stock available for issuance by our board of directors without stockholder approval. Our certificate of incorporation also authorizes our board of directors, without stockholder approval, to issue up to 5,000,000 shares of preferred stock, in one or more series, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of our common stock, none of which has been issued to date. Furthermore, under our share purchase rights plan, often referred to as a poison pill, if anyone acquires 15% or more of our outstanding shares, all of our stockholders (other than the acquirer) have the right to purchase additional shares of our common stock for a fixed price. We are also subject to the provisions of Section 203 of the Delaware General Corporation Law, which could prevent us from engaging in a business combination with a 15% or greater stockholder for a period of three years from the date it acquired that status unless appropriate board or stockholder approvals are obtained.

These provisions could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over the then current market price. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

We do not anticipate paying cash dividends on our common stock. Investors in this offering may never obtain a return on their investment.

You should not rely on an investment in our common stock to provide dividend income, as we have not paid any cash dividends on our common stock and do not plan to pay any in the foreseeable future. Instead, we plan to retain any earnings to maintain and expand our existing licensing operations, further develop our trademarks and finance the acquisition of additional trademarks. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any return on their investment.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements based on our current expectations, assumptions, estimates and projections about our business and our industry. These statements include those relating to future events, performance and/or achievements, and include those relating to, among other things:

- future revenues, expenses and profitability;
- the future development and expected growth of our business;
- projected capital expenditures;
- future outcomes of litigation and/or regulatory proceedings;
- competition;
- expectations regarding the retail sales environment;
- continued market acceptance of our current brands and our ability to market and license brands we acquire;
- our ability to continue identifying, pursuing and making acquisitions;
- the ability of our current licensees to continue executing their business plans with respect to their product lines; and
- our ability to continue sourcing licensees that can design, distribute, manufacture and sell their own product lines.

We have attempted to identify forward-looking statements by the use of words such as may, should, will, could, estimate, project, predi potential, continue, anticipate, believe, plan, seek, expect, future and intend or the negative of these terms or other comparable e which are intended to identify forward-looking statements. These statements are only predictions and are not guarantees of future performance. They are subject to known and unknown risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause our actual results to differ materially from those expressed or forecasted in, or implied by, the forward-looking statements. In evaluating these forward-looking statements, you should carefully consider the risks and uncertainties described in Risk factors above and elsewhere in this prospectus or in documents incorporated by reference herein. These forward-looking statements reflect our view only as of the date of this prospectus. We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in, or implied by, these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained in this prospectus or in documents incorporated by reference herein.

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USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the 9,375,000 shares we are offering in this offering will be approximately $164.8 million ($189.7 million in the event the underwriters overallotment option is exercised in full), based on an assumed offering price of $18.75 per share and after deducting underwriting discounts and commissions and approximately $858,710 of estimated offering expenses payable by us. We will not receive any of the proceeds from the sale of shares by the selling stockholders, which include members of our senior management. See Selling Stockholders.

We intend to use the net proceeds from this offering:

- to repay the $90.0 million principal amount of indebtedness outstanding under the secured note issued by our subsidiary, Mossimo Holdings, to Merrill Lynch Mortgage Capital Inc. on October 31, 2006 in connection with the Mossimo merger, which matures on December 18, 2008 and bears interest at a variable rate equal to the three-month LIBOR plus 5.125% per annum (see Underwriting Other relationships);

- to repay all or a portion of the $44.0 million principal amount of indebtedness outstanding under the secured note issued by us to the sellers as part of the purchase price for the Ocean Pacific brand acquisition, the terms of which are set forth below; and

- for general corporate purposes.

The note issued by us to finance the Ocean Pacific brand acquisition bears interest at the rate of 7% per annum and matures, at our option, on either (a) December 31, 2006, in which case it is payable, in cash or through a combination of shares of our common stock and at least $17.0 million in cash, on or prior to such date, or (b) January 31, 2007, provided we repay at least $25.0 million in cash on or prior to December 31, 2006 and the remaining balance, in cash or through a combination of shares of our common stock and at least $5.5 million in cash, on or prior to such date.

If this offering is consummated on or prior to December 31, 2006, we intend to repay the indebtedness outstanding under the Ocean Pacific note in full. If this offering is not consummated by December 31, 2006 and we exercise our option to repay only $25.0 million of the note on December 31, 2006 and to satisfy the $19.0 million balance of the note on the earlier of the consummation of this offering and January 31, 2007, we may fund the December payment through the issuance by our subsidiary, OP Holdings, of a secured note to Merrill Lynch Mortgage Capital Inc. in the principal amount of $25.0 million. The terms of such secured note to Merrill Lynch Mortgage Capital would be similar to the Mossimo Holdings note described above. We have already received a commitment letter from Merrill Lynch Mortgage Capital for such funding, subject to our satisfaction of certain conditions and the negotiation of definitive loan documentation. In such event, upon the consummation of this offering, we would likely use proceeds from this offering to repay the $25.0 million note to Merrill Lynch Mortgage Capital as well as the cash portion (which would be at least $5.5 million) of our final $19.0 million payment under the Ocean Pacific note. If this offering is not consummated by December 31, 2006 and we elect to satisfy all of our obligations under the Ocean Pacific note on December 31, 2006, either with cash or with cash and shares of our common stock, we may still fund up to $25.0 million of the cash portion of the Ocean Pacific note through our commitment letter from Merrill Lynch Mortgage Capital and repay such funding upon the consummation, and from the proceeds of, this offering. See Underwriting Other relationships.

Pending the application of such proceeds, we expect to invest the proceeds in short-term, interest bearing, investment-grade marketable securities or money market obligations.

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PRICE RANGE OF OUR COMMON STOCK

Our common stock, $0.001 par value per share, our only class of common equity, has been quoted on the Nasdaq Global Market under the symbol ICON since we changed our name from Candies, Inc. to Iconix Brand Group, Inc. on July 1, 2005. Prior to that time, our common stock was quoted on the Nasdaq Global Market under the symbol CAND commencing as of January 22, 1990. The following table sets forth the high and low sales prices per share of our common stock for the periods indicated, as reported on the Nasdaq Global Market:

	High	Low
Year ending December 31, 2006		
Fourth Quarter (through December 6, 2006)	$ 19.18	$ 14.49
Third Quarter	17.00	12.64
Second Quarter	18.09	13.70
First Quarter	14.89	9.51
Year ended December 31, 2005		
Fourth Quarter	$ 10.64	$ 7.66
Third Quarter	10.21	6.30
Second Quarter	6.98	4.16
First Quarter	5.50	4.25
11 months ended December 31, 2004		
Fourth Quarter	$ 6.34	$ 4.20
Third Quarter	4.95	2.46
Second Quarter	3.04	2.15
First Quarter	2.88	2.00

As of December 6, 2006, the closing sale price of our common stock as reported on the Nasdaq Global Market was $18.75 per share. As of December 6, 2006, there were 2,386 holders of record of our common stock, not including beneficial owners of shares registered in nominee or street name on such date.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying any such cash dividends in the foreseeable future. Payment of cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Our ability to pay dividends on our common stock may also be prohibited by our current and future indebtedness.

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CAPITALIZATION

The following table presents our consolidated cash and cash equivalents, short-term debt and capitalization as of September 30, 2006, as follows:

- on an actual basis;
- on a pro forma basis giving effect at such date to the Mossimo merger, including our financing of the merger and of a related settlement/termination fee (see Unaudited pro forma condensed combined financial statements);
- on a pro forma as adjusted basis giving effect at such date to the foregoing and to our acquisition of the Ocean Pacific trademarks and related intellectual property (see Management s discussion and analysis of financial condition and results of operations recent acquisitions); and
- on a pro forma as further adjusted for this offering basis to reflect the foregoing as well as our receipt of the estimated net proceeds from the sale by us in this offering of 9,375,000 shares of our common stock, after (a) deducting the underwriting discount and commissions and the estimated offering expenses payable by us, (b) giving effect to our repayment from such proceeds of the $90.0 million of indebtedness incurred by us in connection with the Mossimo merger and (c) assuming our repayment from such proceeds of all $44.0 million of the indebtedness incurred by us in connection with the Ocean Pacific brand acquisition. See Use of proceeds.

You should read this table together with Management s discussion and analysis of financial condition and results of operations and our consolidated financial statements and related notes that are included in, or incorporated by reference into, this prospectus:

(In thousands, except par value)	**As of September 30, 2006**			
	Actual	**Pro forma**	**Pro forma as adjusted**	**Pro forma as further adjusted for this offering**
Cash and cash equivalents, including $16,100 of restricted cash	$ 21,255	$ 36,413	$ 26,080	$ 56,896
Short-term debt, excluding current maturities of long-term debt	$ 750	$ 750	$ 44,750	$ 750
Long-term debt, including current maturities:				
Asset-backed notes	$ 159,942	$ 159,942	$ 159,942	$ 159,942
Kmart note	7,377	7,377	7,377	7,377
Sweet note	3,112	3,112	3,112	3,112
Mossimo Holdings note		90,000	90,000	
Total	170,431	260,431	260,431	170,431
Stockholders equity:				
Preferred stock, $0.01 par value, 5,000 shares authorized and none issued and outstanding (actual, pro forma, pro forma as adjusted and pro forma as further adjusted)				
Common stock, $.001 par value, authorized 75,000 shares (actual, pro forma and as adjusted); 40,521 shares issued and outstanding (actual), 44,130 shares issued and outstanding (pro forma and pro forma as adjusted) and 53,506 shares issued and outstanding (pro forma as further adjusted)	41	45	45	54
Additional paid-in capital	203,153	272,744	274,128	438,935
Accumulated other comprehensive income	155			
Retained deficit	(11,667)	(11,667)	(11,667)	(11,667)

Treasury stock 198,000 shares at cost	(667)	(667)	(667)	(667)
Total stockholders equity	191,015	260,455	261,839	426,655
Total capitalization	$ 361,446	$ 520,886	$ 522,270	$ 597,086

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The following table sets forth selected consolidated historical financial data for the periods and as of the dates indicated. We have derived the selected historical consolidated financial data presented as of December 31, 2005 and 2004 and for the fiscal year ended December 31, 2005, the 11 months ended December 31, 2004 and the fiscal year ended January 31, 2004 from our audited consolidated financial statements, which are included elsewhere in this prospectus. The selected historical consolidated financial data as of January 31, 2004, 2003 and 2002 and for the fiscal years ended January 31, 2003 and 2002 have been derived from our audited financial statements for such periods, which are not included in, or incorporated into, this prospectus but can be found in our publicly available documents filed with the SEC. The selected historical consolidated financial data presented as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus, which in the opinion of our management included all adjustments, consisting of primarily normal recurring adjustments, that we considered necessary for a fair presentation of our financial position and results of operations as of such date and for such unaudited periods. The historical results are not necessarily indicative of results to be expected for future periods, and results for the nine months ended September 30, 2006 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2006.

You should read the information presented below in conjunction with the section in this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in, or incorporated by reference into, this prospectus. As discussed in further detail there, the comparability of the selected data for the periods presented in the tables below has been affected by several events:

- Commencing as of May 2, 2002, the operating results of Unzipped, which conducted our Bongo jeanswear business until our transition to a licensing model, were consolidated. As a result, our operating results commencing with our fiscal year ended January 31, 2003 are not comparable to prior years.

- In May 2003, we changed our business model from that of a jeanswear and footwear wholesaler to a licensing only model and as a result our fiscal year ended January 31, 2004, 11 months ended December 31, 2004 and fiscal year ended December 31, 2005 are not comparable with prior years.

- In December 2004, we determined to change our fiscal year end from January 31 to December 31, effective for the period ending December 31, 2004. As a result, while our most recently completed fiscal year commenced on January 1, 2005 and ended on December 31, 2005, our prior reporting year, which was our transitional period, commenced on February 1, 2004 and ended on December 31, 2004 and was thus reported as an 11-month year.

- We acquired the Badgley Mischka brand in October 2004, the Joe Boxer and Rampage brands in the third quarter of 2005 and the Mudd brand and the London Fog trademarks during the nine months ended September 30, 2006, which affects the comparability of the information reflected in the selected data presented for the 11 months ended December 31, 2004, the fiscal year ended December 31, 2005, and the nine months ended September 30, 2006, respectively.

Subsequent to September 30, 2006, we completed the Mossimo merger and the Ocean Pacific brand acquisition. As a result, the selected data presented for the year ended December 31, 2005 and the nine months ended September 30, 2006 is not expected to be comparable with that of future periods.

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(In thousands, except per share data)	Fiscal year ended January 31,			11 months ended December 31,	Fiscal year ended December 31,	Nine months ended September 30,	
	2002	2003	2004	2004	2005	2005	2006
						(unaudited)	
Consolidated statements of operations data:							
Net sales	$ 94,500	$ 149,543	$ 123,160	$ 58,427	$	$	$
Licensing and commission revenue	6,902	7,240	8,217	10,553	30,156	17,792	53,791
Net revenues	101,402	156,783	131,377	68,980	30,156	17,792	53,791
Cost of goods sold	70,468	116,306	104,230	55,795			
Gross profit	30,934	40,477	27,147	13,185	30,156	17,792	53,791
Selling, general and administrative expenses(1)	30,688	37,872	30,682	10,154	13,880	9,385	17,572
Special charges	1,791	3,566	4,629	295	1,466	996	1,900
Operating income (loss)	(1,545)	(961)	(8,164)	2,736	14,810	7,411	34,319
Other expenses:							
Interest expense(2)	1,175	3,373	3,118	2,495	3,977	2,134	7,991
Equity (income) in joint venture	(500)	(250)					
Gain on sale of securities					(75)		
Income (loss) before income taxes	2,220	(4,084)	(11,282)	241	10,908	5,277	26,328
Provision (benefit) for income taxes	62	(139)	58		(5,035)	(3,180)	2,680
Net income (loss)	$ (2,282)	$ (3,945)	$ (11,340)	$ 241	$ 15,943	$ 8,457	$ 23,648
Earnings (loss) per share:							
Basic	$ (0.12)	$ (0.17)	$ (0.45)	$ 0.01	$ 0.51	$ 0.28	$ 0.62
Diluted	$ (0.12)	$ (0.17)	$ (0.45)	$ 0.01	$ 0.46	$ 0.26	$ 0.54
Weighted average number of common shares outstanding:							
Basic	19,647	23,681	25,181	26,851	31,284	29,859	38,075
Diluted	19,647	23,681	25,181	28,706	34,773	33,071	43,469
Consolidated statements of cash flow data(3):							
Net cash provided by (used in) operating activities	$ 240	$ (9,867)	$ 11,163	$ 4,809	$ 15,982	$ 5,627	$ 18,770
Cash flows used in investing activities:							
Purchases of property and equipment	$ (2,554)	$ (1,729)	$ (248)	$ (30)	$ (731)	$ (26)	$ (558)
Proceeds from the sale of equity securities of other entities					110		
Proceeds from sale of retail store	500						
Purchases of equity securities of other entities					(663)		(78)
Acquisition of Badgley Mischka				(372)			
Acquisition of Joe Boxer					(40,755)	(40,100)	
Acquisition of Rampage					(26,159)	(25,850)	
Acquisition of Mudd							(45,000)
Purchase of London Fog trademarks							(31,522)
Purchase of other trademarks	(160)	(450)		(19)	(320)	(247)	(1,269)
Net cash used in investing activities	$ (2,214)	$ (2,179)	$ (248)	$ (421)	$ (68,518)	$ (66,223)	$ (78,427)
Net cash (used in) provided by financing activities	$ 2,244	$ 13,309	$ (10,543)	$ (6,391)	$ 59,861	$ 67,205	$ 57,264

(1) Net of reductions related to shortfall payments arising from the former management agreement between our subsidiary, Unzipped, and Sweet Sportswear of $1.6 million in the year ended January 31, 2004, $7.6 million (net of $685,000 recorded as a reserve pending the outcome of our litigation relating to Unzipped) in the 11 months ended December 31, 2004 and $438,000 in the year ended December 31, 2005 and the nine months ended September 30, 2005.

See Business Legal proceedings.

(2) Net of interest income of $36,000 in the year ended January 31, 2004, $24,000 in the 11 months ended December 31, 2004, $295,000 in the year ended December 31, 2005, $89,000 in the nine months ended September 30, 2005 and $629,000 in the nine months ended September 30, 2006.

(3) The cash flow information provided in this table is incomplete in that it does not show the individual components of net cash provided by operating activities or net cash provided by financing activities and should be read in the context of the complete cash flow statements included in our financial statements, which appear elsewhere in this prospectus.

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Consolidated balance sheets data (in thousands):

	As of December 31, 2005	As of September 30, 2006 (unaudited) Actual	Pro forma	Pro forma as adjusted	Pro forma as further adjusted for this offering
Cash and cash equivalents(1)	$ 11,687	$ 21,255	$ 36,413	$ 26,080	$ 56,896
Working capital (deficit)	$ (4,388)	$ 2,124	$ 122	$ (55,011)	$ 30,305
Total assets	$ 217,244	$ 383,564	$ 605,196	$ 651,380	$ 682,196
Total current liabilities	$ 26,733	$ 39,728	$ 63,420	$ 108,220	$ 53,720
Long term debt, less current portion	$ 85,414	$ 144,882	$ 224,382	$ 224,382	$ 144,882
Other liabilities	$ 4,201	$ 7,939	$ 56,939	$ 56,939	$ 56,939
Stockholders equity	$ 100,896	$ 191,015	$ 260,455	$ 261,839	$ 426,655

(1) Including restricted cash of $4.1 million at December 31, 2005 and $16.1 million at September 30, 2006.

The pro forma information included in the above summary balance sheet data as of September 30, 2006 gives effect, at that date, to the October 2006 Mossimo merger, including our financing of the merger and of a related settlement/termination fee. See Unaudited pro forma condensed combined financial statements for additional pro forma information with respect to the Mossimo merger.

The pro forma as adjusted information included in the above summary balance sheet data as of September 30, 2006 gives effect, at that date, to the foregoing adjustments and to our November 2006 acquisition of the Ocean Pacific trademarks and related intellectual property assets. See Management s discussion and analysis of financial condition and results of operations recent acquisitions.

The pro forma as further adjusted for this offering information included in the above summary balance sheet data as of September 30, 2006 gives effect, at that date, to all of the foregoing adjustments and to the following anticipated events:

our sale of the 9,375,000 shares of common stock in this offering at an assumed public offering price of $18.75 per share; and

our receipt of the estimated net proceeds therefrom, after deducting the underwriting discount and commissions and other expenses of this offering, giving effect to our repayment from such proceeds of the $90.0 million note issued by our subsidiary, Mossimo Holdings, in connection with the Mossimo merger and assuming our repayment from such proceeds of all $44.0 million of the indebtedness incurred by us in connection with the Ocean Pacific brand acquisition.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with Selected financial data and our consolidated financial statements and the related notes included elsewhere in, or incorporated by reference into, this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk factors and elsewhere in this prospectus or in documents incorporated by reference into this prospectus.

Overview

We are a brand management company engaged in licensing, marketing and providing trend direction for our diversified and growing consumer brand portfolio. Our brands are sold across every major segment of retail distribution, from luxury to mass. As of September 30, 2006, we owned seven iconic consumer brands: Candie s, Bongo, Badgley Mischka, Joe Boxer, Rampage, Mudd and London Fog. Subsequent to the end of our third quarter, we acquired the Mossimo and Ocean Pacific brands, bringing the total number of highly recognizable brands in our portfolio to nine. We license our brands worldwide via over 115 retail and wholesale licenses worldwide for use in connection with a broad variety of product categories, including women s, men s and children s apparel, footwear and accessories, home furnishings and beauty and fragrance. Our business model allows us to focus on our core competencies of marketing and managing brands without some of the risks and investment requirements associated with a more traditional operating company. Our licensing agreements with leading retail and wholesale partners throughout the world provide us with a predictable stream of guaranteed minimum royalties.

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

Background

Transition to current business model

Commencing in May 2003, we began to implement a shift in our business model designed to transform us from a wholesaler and retailer of jeanswear and footwear products to a brand management company focused on licensing and marketing our portfolio of consumer brands. In May 2003, we licensed out both our Bongo footwear business and our Candie s footwear business to third party licensees, and, by the end of 2003, we had eliminated all of our Candie s retail concept stores. Thereafter, effective in August 2004, we also licensed out our Bongo jeanswear operations, which were previously conducted through our wholly-owned subsidiary, Unzipped, and, by the end of 2004, we had reduced our workforce from over 200 employees to under 40. Beginning January 2005, we also changed our business practices with respect to our Bright Star subsidiary, as a result of which Bright Star began acting solely as an agent for, as opposed to an indirect wholesaler to, its private label footwear clients. In July 2005, we entered into our first multi-category retail license, with Kohl s, and between October 2004 and September 2005, we acquired three new brands: Badgley Mischka, Joe Boxer and Rampage. As a result of these changes to our operations, we are now a brand management company that focuses exclusively on licensing, marketing and providing trend direction with respect to a diverse portfolio of owned consumer brands and that no longer has any wholesale or retail operations or product inventory.

Changes in our financial reporting

In December 2004, our board of directors approved a change in our fiscal year end from January 31 to December 31, effective for the period ending December 31, 2004, in order to align our financial reporting with

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that of the majority of our licensees. As a result, while our most recently completed fiscal year, sometimes referred to herein as fiscal 2005, commenced on January 1, 2005 and ended on December 31, 2005, our prior reporting year, which was our transitional period, commenced on February 1, 2004 and ended on December 31, 2004 and was thus reported as an 11-month year. That prior reporting year is sometimes referred to in this prospectus as 11-month 2004. The fiscal year preceding 11-month 2004, the 12 month period from February 1, 2003 to January 31, 2004, is sometimes referred to herein as fiscal 2003.

Commencing with fiscal 2005, revenues from Bright Star are recognized solely from its net agent commissions and no longer from gross product sales as they were prior to the change in our business practices with respect to Bright Star described above. In addition, for the fiscal years ending prior to fiscal 2005, our operations were comprised of two reportable segments: our licensing/ commission/footwear segment, which included Candie s footwear, Bongo footwear, private label footwear, Bright Star s operations, retail store operations and licensing operations, and our apparel segment, which was comprised of Unzipped s Bongo jeanswear operations. As a result of our shift in business model, including our licensing of the activities associated with our former Candie s and Bongo footwear and apparel operations, we now have only one revenue reporting segment, our licensing and commission segment, which includes the licensing revenues for all of our brands and Bright Star s net commission revenues.

As a result of our transition to a brand management business, and to a lesser extent, our change in fiscal year end, our operating results for the periods after fiscal 2003 are not, and are not expected to be, comparable to prior years. Further, as a result of our Joe Boxer and Rampage acquisitions and to a lesser extent the change in our Bright Star revenue recognition, our operating results for fiscal 2005 are not comparable to prior years, and as a result of our April 2006 Mudd acquisition and to a lesser extent our August 2006 London Fog trademark purchase, our operating results for the first nine months of 2006 are not comparable to comparable prior year periods.

Operating results

Nine months ended September 30, 2006 compared with nine months ended September 30, 2005

Revenue. Revenue for the nine months ended September 30, 2006 increased to $53.8 million, from $17.8 million for the nine months ended September 30, 2005. This revenue growth of $36.0 million was balanced between expansion of brands we owned in the prior nine-month period, notably our Candie s brand, and new revenue associated with our acquisitions of Joe Boxer and Rampage in the third quarter of 2005 and our acquisition of Mudd in April 2006.

Operating expenses. Selling, general and administrative expenses totaled $17.6 million in the nine months ended September 30, 2006 compared to $9.4 million in the nine months ended September 30, 2005, an increase of $8.2 million. The increase in selling, general and administrative expense was primarily related to increased advertising obligations connected to the growth in our licensing revenue and the additional operating expenses relating to new acquisitions not included in the earlier nine-month period. Included in the earlier nine month period s selling, general and administrative expense was $37,500 for Unzipped s net loss which was related to our transfer of the Bongo jeanswear business to a third-party licensee. For the nine months ended September 30, 2006 and 2005, our special charges included $1.9 million and $996,000, respectively, incurred by us with respect to litigation involving Unzipped.

Operating income. Operating income for the nine months ended September 30, 2006 increased to $34.3 million, or approximately 64% of total revenue, compared to $7.4 million, or 42% of total revenue, for the nine months ended September 30, 2005.

Net interest expense. Net interest expense increased by approximately $5.9 million in the nine months ended September 30, 2006, to $8.0 million, compared to approximately $2.1 million in the nine months ended September 30, 2005. This increase was due primarily to an increase in our debt as a result of financing arrangements in connection with the acquisitions of Joe Boxer and Rampage in the third quarter of 2005, the acquisition of Mudd in April 2006 and the purchase of the London Fog trademarks and certain related intellectual property assets in August 2006. Included in the interest expense in the latter nine month period was a $466,000 amortization expense of deferred financing cost, compared to $322,000 amortization expense reclassified from selling, general and administrative expense in the prior nine month period. A total of $629,000 in interest income for the nine months ended September 30, 2006 partially offset the increase in interest expense, compared to an $89,000 offset for the nine months ended September 30, 2005.

Provision (benefit) for income taxes. Provision for income taxes consisted of income tax expense of $2.7 million and income tax benefit of $3.2 million for the nine months ended September 30, 2006 and 2005, respectively. Based upon management s assessment of information that became available during the nine months ended September 30, 2006, management concluded that it is more likely than not that a portion of previously unrecognized deferred income tax benefits will be realized. Accordingly, we reduced the balance of the related valuation allowance, which resulted in the $2.7 million tax expense for the nine months ended September 30, 2006. During the three months ended June 30, 2006, we recorded approximately $2.4 million as a credit to additional paid in capital for realization of deferred taxes generated from the exercise of stock options in prior years. We anticipate providing for income taxes at an effective rate of 35% for the last quarter of this fiscal year (the three months ending December 31, 2006), which was the same rate reflected for the three months ended September 30, 2006.

Net income. As a result of the factors discussed above, we recorded net income of $23.7 million in the nine months ended September 30, 2006, compared to net income of $8.5 million in the nine months ended September 30, 2005.

Fiscal 2005 (12 months ended December 31, 2005) compared to 11-month 2004 (11 months ended December 31, 2004)

Revenues. Consolidated net revenue decreased by $38.8 million, to $30.2 million, in fiscal 2005 from $69.0 million in 11-month 2004, due to the change in our business model from one based on sales generated from footwear and jeanswear operations to one based upon royalties generated by licensing and brand management activity.

Our licensing revenue increased by $19.4 million, to $28.0 million, in fiscal 2005, up from $8.6 million in 11-month 2004. The increase in licensing income resulted from a combination of the acquisition of the Joe Boxer brand in 2005, which generated $9.0 million in revenue, the acquisition of Rampage in September 2005, which generated $2.7 million in revenue, and the launch of our Candie s brand in Kohl s, which generated $4.1 million in revenue.

Due to a change in revenue recognition resulting from our change of business practice beginning January 2005, Bright Star recorded only the net commission earned on sales in fiscal 2005 and will continue to do so in the future. As a result, there was $2.2 million in commission revenue and no sales recorded in fiscal 2005 for Bright Star, as compared to $2.0 million in commission revenue and $19.9 million in sales (excluding commission revenue) in 11-month 2004. Further, because we licensed our jeanswear business to a third party in August 2004, there were no reportable jeanswear sales in fiscal 2005 as compared to $38.5 million in 11-month 2004.

Gross profit. Consolidated gross profit was $30.2 million in fiscal 2005 as compared to $13.2 million in 11-month 2004, an increase of $17.0 million. In fiscal 2005, there was no reportable gross profit from Unzipped s jeanswear operations, as compared to $2.6 million of gross profit in 11-month 2004, which reflects the liquidation of the remaining Bongo inventory in connection with the transition of the Unzipped jeanswear business to a licensing arrangement. The overall increase in gross profit was primarily driven by the increase in licensing revenue which has no related cost of goods sold. Bright Star s gross profit increased to $2.2 million in fiscal 2005 from $2.0 million in 11-month 2004.

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Operating expenses. Consolidated selling, general and administrative expenses totaled $13.9 million in fiscal 2005 compared to $10.2 million in 11-month 2004, an increase of $3.7 million. Our selling, general and administrative expenses related to licensing increased by $4.0 million, to $12.4 million, in fiscal 2005 compared to $8.4 million in 11-month 2004. This increase resulted primarily from our recent acquisitions of the Joe Boxer, Rampage and Badgley Mischka brands. Selling, general and administrative expenses related to Bright Star were $965,000 in fiscal 2005 compared to $900,000 in 11-month 2004. Included in fiscal 2005 s selling, general and administrative expenses was a $454,000 amortization of deferred financing cost, compared to $205,000 in 11-month 2004. Also included in selling, general and administrative expenses for fiscal 2005 was $37,500 for Unzipped s net loss compared to $1.7 million of Unzipped s selling, general and administrative expense (related to our transition of the jeanswear business into a licensing business) that was included in 11-month 2004. Included in the selling, general and administrative expenses for Unzipped in 11-month 2004 was a $7.6 million reduction related to the $6.9 million shortfall payment arising from the former management agreement between Unzipped and Sweet Sportswear and $685,000 recorded as a reserve pending the outcome of our litigation with Sweet Sportswear. See Matters pertaining to Unzipped below.

For fiscal 2005 and 11-month 2004, our special charges included $1.5 million and $533,000, respectively, incurred by us in connection with our litigation involving Unzipped. The 11-month 2004 s special charges were reduced by special income resulting from our termination of certain long term debt payments totaling $238,000.

Operating income (loss). As a result of the foregoing, our net operating income was $14.8 million in fiscal 2005, or 49% of total revenue, as compared to $2.7 million in 11-month 2004, or 4% of total revenue.

Net interest expense. Net interest expense increased by approximately $1.5 million, to $4.0 million, in fiscal 2005 as compared to net interest expense of $2.5 million in 11-month 2004. This increase was due primarily to an increase in our debt as a result of additional financing arrangements entered into in connection with our acquisitions of Joe Boxer and Rampage. The interest expense related to our asset-backed notes was $4.1 million in fiscal 2005 compared to $1.4 million in 11-month 2004. In addition, the interest expense related to the Sweet note was $151,000 for fiscal 2005 as compared to $644,000 for 11-month 2004. This decrease was due to a lower average outstanding balance on the Sweet note, resulting from the offset of shortfall payments relating to the former management agreement between Unzipped and Sweet Sportswear. Also included in interest expense in 11-month 2004 was $434,000 from Unzipped s jeanswear operations, with no comparable amount in fiscal 2005. A total of $293,000 in interest income for fiscal 2005 partially offset the increase in interest expense, compared to $24,000 in interest income for 11-month 2004.

Gain on sales of securities. In fiscal 2005, the gross realized gain on sales of securities available for sale totaled $75,000. There was no such gain in 11-month 2004.

Provision (benefit) for income taxes. In fiscal 2005, a net non-cash tax benefit of $5.0 million was recognized by reducing the deferred tax assets valuation allowance based on our projection of future taxable income and the expectation that realizing this portion of the related deferred tax assets is more likely than not offset by a reduction in the deferred tax asset established in the purchase accounting for the Joe Boxer acquisition. Management prepared projections that indicated that a portion of our net operating loss carryforwards would be utilized prior to their expiration. However, we did not believe that the future realization of all of these future tax benefits indicated by our projections was sufficiently assured to allow their full recognition in our consolidated financial statements. In particular, projections of operating results over an extended period are inherently imprecise. There was no tax expense on income reported for 11-month 2004 due to a reduction in the deferred tax valuation allowance that offset the income tax provision. At December 31, 2005, we had a net deferred tax asset of approximately $11.5 million compared to $3.6 million at December 31, 2004, which management believes will be recoverable from anticipated future profits. These net deferred tax assets represented the amount that management concluded would more likely than not be recoverable, based on information then available.

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At December 31, 2005, we had available federal net operating loss carryforwards of approximately $66.5 million for income tax purposes, which expire in the years 2006 through 2025. Because of ownership changes (as defined in Section 382 of the Internal Revenue Code) occurring in previous fiscal years, the utilization of approximately $4.4 million of these net operating loss carryforwards is limited to $602,000 per year and expires in 2006 and 2007. The remaining $62.1 million is not subject to such limitation and expires in the years 2009 through 2025. As of December 31, 2005, we had available state and city net operating loss carryforwards totaling between $59.4 million and $99.4 million, substantially all of which expire in the years 2020 through 2025. Included in our net operating loss carryforwards as of December 31, 2005 is $7.0 million from the exercises of stock options. The benefit of the utilization of this portion of our net operating loss carryforwards will be recorded as a credit to additional paid in capital if, and when, the related deferred tax asset is recorded.

Net income (loss). As a result of the factors discussed above, we recorded net income of $15.9 million in fiscal 2005, compared to net income of $241,000 in 11-month 2004.

11-month 2004 (11 months ended December 31, 2004) compared to fiscal 2003 (12 months ended January 31, 2004)

Revenues. During 11-month 2004, consolidated net sales decreased by $64.7 million from those in fiscal 2003, to $58.4 million. There were no wholesale and retail women s footwear sales in 11-month 2004 because we licensed our footwear operations in May 2003, compared to $38.9 million in fiscal 2003. Unzipped s net sales decreased by $26.2 million, from $64.7 million in fiscal 2003 to $38.5 million in 11-month 2004. This decrease resulted primarily from the transitioning of our jeanswear business from an operating business to a licensing arrangement. We entered into the Bongo/BIA jeanswear license effective August 1, 2004. Bright Star s revenues increased $771,000, to $21.9 million, in 11-month 2004 as compared to $21.1 million in fiscal 2003.

Licensing income increased $2.0 million, to $8.6 million, for 11-month 2004 from $6.6 million in fiscal 2003. The increase was due primarily to revenue generated by new licenses as we transitioned from an operations business to a licensing business.

Gross profit. Consolidated gross profit decreased by $13.9 million, to $13.2 million, in 11-month 2004 from $27.1 million in fiscal 2003. There was no gross profit from wholesale and retail women s footwear in 11-month 2004 as compared to $8.4 million fiscal 2003. Unzipped s gross profit in 11-month 2004 was $2.6 million as compared to $9.7 million in fiscal 2003. The decrease in Unzipped s gross profit in 11-month 2004 reflects the liquidation of the remaining Bongo inventory in connection with the transition of the jeanswear business to a licensing arrangement. Gross profit from Bright Star s private label footwear sales decreased to $2.0 million in 11-month 2004 from $2.1 million in fiscal 2003. As a percent of net sales, Bright Star s gross profit decreased from 9.7% in fiscal 2003 to 9.1% in 11-month 2004, resulting from its continuing concentration of sales to Wal-Mart during such period, which were at comparatively lower margins. These decreases in gross profit were partially offset by an increase in gross profit of $2.3 million resulting from a corresponding increase in licensing revenue which has no related cost of goods sold.

Operating expenses. During 11-month 2004, consolidated selling, general and administrative expenses decreased by $20.5 million, to $10.2 million, down from $30.7 million in fiscal 2003. That portion of our selling, general and administrative expenses related to activities other than Unzipped decreased by $14.7 million, to $8.4 million, in 11-month 2004 as compared to $23.1 million in fiscal 2003. The decrease resulted from the closing of our wholesale and retail women s footwear operations and transition to a licensing business beginning in the third quarter of fiscal 2003. Selling, general and administrative expenses for Bright Star were $900,000 in 11-month 2004, a $100,000 decrease from $1.0 million in fiscal 2003. Unzipped s selling, general and administrative expenses decreased by $5.9 million in 11-month 2004, to $1.7 million, as compared to $7.6 million in fiscal 2003. Unzipped s selling, general and administrative expenses in 11-month 2004 included a $7.6 million reduction related to the shortfall payment of $6.9 million arising from the former management agreement

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between Unzipped and Sweet Sportswear and $685,000 recorded as a reserve pending the outcome of our Unzipped litigation. Unzipped s selling, general and administrative expenses in fiscal 2003 included a $1.6 million reduction for the shortfall payment arising from such former management agreement.

For 11-month 2004, our special charges included $434,000 of legal fees incurred by us relating to litigation involving Unzipped and $99,000 of legal professional fees related to the transfer of our Unzipped wholesale business to a licensing arrangement in the fiscal quarter ended April 30, 2004, partially offset by $238,000 of special income resulting from our termination of certain long term debt payments.

For fiscal 2003, our special charges included $3.1 million for disposal of certain assets and retail store lease termination costs, $743,000 related to severance pay for certain terminated employees, and $165,000 to terminate our factoring contract, all resulting from the closing of our wholesale women s footwear operations and retail stores. Additionally, there were $583,000 of legal costs related to legal matters in fiscal 2003 and $82,500 paid to Sweet Sportswear related to certain contractual obligations resulting from our purchase of its 50% interest in Unzipped.

Operating income (loss). As a result of the foregoing, our net operating income was $2.7 million in 11-month 2004 as compared to a net operating loss of $8.2 million for fiscal 2003.

Net interest expense. Net interest expense decreased by approximately $600,000 in 11-month 2004, to $2.5 million, compared to $3.1 million in fiscal 2003. Included in interest expense in 11-month 2004 was $434,000 from Unzipped s revolving credit facilities, as compared to $651,000 in fiscal 2003, a decrease of $217,000. The Unzipped interest expense decrease resulted from lower average outstanding borrowings, as the Unzipped jeanswear operations were transferred to a licensee, and, to a lesser extent, from lower average interest rates then were available in fiscal 2003. There was no interest expense under the revolving credit facility in 11-month 2004 because there were no operations relating to footwear, compared to $239,000 in fiscal 2003. Also included in interest expense in 11-month 2004 was $644,000 relating to the Sweet note issued in connection with our purchase of Sweet Sportswear s 50% interest in Unzipped, as compared to $761,000 in fiscal 2003. Interest expense associated with the asset-backed notes issued by IP Holdings was $1.4 million in 11-month 2004 as compared to $1.5 million in fiscal 2003.

Income tax expense. In 11-month 2004, no tax expense was recorded. In fiscal 2003, we recorded $58,000 of income tax provision, consisting of statutory minimum taxes. At December 31, 2004, we had a net deferred tax asset of approximately $3.6 million that management believed would be recoverable from profits anticipated to be generated over the next few years. The valuation allowance of $25.1 million represented amounts that could not, at the time, be assured of recoverability.

Net income (loss). As a result of the foregoing, we recorded net income of $241,000 in 11-month 2004 compared to a net loss of $11.3 million for fiscal 2003.

Liquidity and capital resources

Our primary liquidity and capital needs are the financing of our working capital needs, including operating expenses, interest payments and minimal capital expenditures, and our brand acquisitions. Our primary sources of such liquidity and working capital support are cash flows from operations and, in the case of our acquisitions, the issuance of debt and equity securities. As of September 30, 2006 and December 31, 2005, our cash and cash equivalents totaled $21.3 million and $11.7 million, respectively, including restricted cash of $16.1 million and $4.1 million, respectively. The increase resulted from the timing of our receipt of certain royalty payments at the end of the nine months ended September 30, 2006 as well as two additional quarterly payments, together totaling $7.5 million, deposited in the renewal reserve account that were classified as short-term restricted cash (and which were subsequently released back to us from such renewal reserve account in October 2006).

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We believe that cash from future operations as well as currently available cash will be sufficient to satisfy our anticipated working capital requirements for the foreseeable future. We intend to continue financing our brand acquisitions through some combination of cash from operations, bank financing and the issuance of additional equity and/or debt securities. We have limited ability, however, to secure additional indebtedness with our existing assets due to certain provisions of IP Holdings existing asset-backed notes.

Working capital

At September 30, 2006 and December 31, 2005, our working capital ratio (current assets to current liabilities) was 1.1 to 1 and 0.84 to 1, respectively. The improved ratio resulted from the increase in our cash and cash equivalents from $11.7 million at December 31, 2005 to $21.3 million at September 30, 2006, which was a result of revenues attributable to both increases in our existing business and new acquisitions, as well as the increase in our accounts receivable from $3.5 million at December 31, 2005 to $11.8 million at September 30, 2006, which was also a direct result of our new acquisitions. This was offset by the increase in the current portion of our long-term debt from $13.7 million at December 31, 2005 to $25.5 million at September 30, 2006, which was a result of the additional financing necessary to complete the new acquisitions.

Cash flows

Operating activities. Net cash provided by operating activities totaled $18.8 million in the nine months ended September 30, 2006, as compared to net cash provided by operating activities of $5.6 million in the nine months ended September 30, 2005. The increase in cash provided by operating activities during the nine months ended September 30, 2006 was primarily due to net income of $23.6 million, offset by an increase of $9.2 million in accounts receivable and a decrease of $1.6 million in deferred revenues.

Net cash provided from our operating activities totaled $16.0 million in fiscal 2005, compared to $4.8 million in 11-month 2004 and $11.2 million in fiscal 2003. Cash generated from our licensing operations was primarily from licenses acquired by us in connection with our acquisitions of Joe Boxer and Rampage, as well as from our Kohl s license.

Investing activities. Net cash used for investing activities in the nine months ended September 30, 2006 totaled $78.4 million, as compared to $66.2 million used in the nine months ended September 30, 2005. The increase resulted primarily from our payment of $45.0 million in cash for the acquisition of certain assets relating to the Mudd brand in April 2006 and our payment of $30.5 million in cash for the purchase of the London Fog trademarks in August 2006. We also paid approximately $1.1 million in additional costs related to these acquisitions. In addition, capital expenditures in the first nine months of 2006 were $558,000 as compared to expenditures of $26,000 in the first nine months of 2005. Capital expenditures in the first nine months of 2006 were primarily for the acquisition of office equipment and leasehold improvements relating to the relocation of our headquarters and our construction of new showrooms in New York City. In June 2006, we also acquired the right of the assignees of UCC Funding Corporation to receive a cash payment upon our sale of all or substantially all of the Badgley Mischka assets for approximately $600,000 in cash and a promissory note in the principal amount of $750,000. During the nine months ended September 30, 2006, we also spent a total of $1.3 million in connection with the acquisition of the Badgley Mischka right and the registration and maintenance of our trademarks.

Cash used by us in investing activities totaled $68.5 million in fiscal 2005 compared to $421,000 in 11-month 2004 and $248,000 in fiscal 2003. Our capital expenditures were $731,000 for fiscal 2005 compared to $30,000 for 11-month 2004 and $248,000 for fiscal 2003. The capital expenditures for fiscal 2005 were primarily for the acquisition of office equipment and the performance of leasehold improvements relating to the relocation of our headquarters and our construction of new showrooms in New York City. In the third quarter of fiscal 2005, we used $40.8 million and $26.2 million of cash provided from IP Holdings issuance of additional asset-backed notes in connection with our acquisitions of Joe Boxer and Rampage, respectively. In 11-month 2004, we used cash of $372,000 in connection with the acquisition of Badgley Mischka.

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Financing activities. Net cash provided from financing activities was $57.3 million in the nine months ended September 30, 2006, compared with $67.2 million of net cash provided from financing activities during the nine months ended September 30, 2005. Of the $57.3 million in net cash provided by financing activities, $78.0 million was provided from the net proceeds received by IP Holdings from the issuance of additional asset-backed notes and $4.2 million was provided from the proceeds of stock option exercises, which amounts were offset by $6.9 million in cash used to make principal payments on IP Holdings asset-backed notes, $12.0 million in cash placed in a current reserve account (including two additional quarterly deposits of $3.75 million placed in a renewal reserve account, which were released back to us on October 24, 2006) and $5.6 million in cash placed in a non-current reserve account, both of which reserve accounts are required by the holder of the asset-backed notes, and $550,000 used to pay costs associated with the issuance of the additional asset-backed notes. See Obligations and commitments Long-term debt Asset-backed notes. In the nine months ended September 30, 2005, approximately $1.4 million was used for principal payments on the asset-backed notes and $2.5 million was used to pay down a loan from TKO Apparel.

Cash provided to us by financing activities in fiscal 2005 totaled $59.9 million compared to cash used by us in financing activities of $6.4 million during 11-month 2004 and $10.5 million during fiscal 2003. Contributing to cash provided by financing activities during fiscal 2005 was approximately $85.5 million of net proceeds from IP Holdings issuance of additional long-term asset-backed notes and approximately $1.6 million in proceeds from the exercise of stock options, which contributions were offset by $17.1 million used for principal payments related to the asset-backed notes, approximately $2.5 million used to repay a loan due to TKO Apparel, $2.1 million placed in a non-current reserve account and $3.6 million placed in a current reserve account (each of which reserve accounts is required by the holder of the asset-backed notes), and $2.0 million used to pay the costs associated with the issuance of the asset-backed notes.

Obligations and commitments

Long-term debt as of September 30, 2006

The following table sets forth the components of our long-term debt, including current maturities, as of September 30, 2006, each of which is described further below:

(In thousands)

Long-term debt, including current portion	**September 30, 2006**
Asset-backed notes	$ 159,942
Kmart note	7,377
Sweet note	3,112
Total long-term debt	$ 170,431

Asset-backed notes. In August 2002, IP Holdings issued, in a private placement, $20.0 million principal amount of asset-backed notes secured by its intellectual property assets (all of the Candie s and Bongo trade names, trademarks, license agreements and payments and proceeds with respect thereto). These notes had a fixed interest rate of 7.93% per year and were self amortizing over their seven-year term, with quarterly principal and interest payments. After funding a liquidity reserve account in the amount of $2.9 million, the net proceeds of $16.2 million were used by us to reduce amounts owed by us under our then-existing revolving credit facilities. In April 2004, IP Holdings issued an additional $3.6 million in subordinated asset-backed notes secured by its intellectual property assets. The additional borrowing was self amortizing, had a maturity date of August 2009 and a floating interest rate of LIBOR plus 4.45%, with quarterly principal and interest payments and $500,000 of interest prepaid at closing. The net proceeds of $2.9 million were used by us for general working capital purposes. As of July 22, 2005, the total principal amount outstanding on these notes was approximately $17.5 million, which was refinanced with new asset-backed notes issued by IP Holdings in connection with our acquisition of the Joe Boxer brand as described below.

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In July 2005, we acquired the Joe Boxer brand from Joe Boxer Company, LLC and its affiliates, and in September 2005, we acquired the Rampage brand from Rampage Licensing, LLC. The financing for these acquisitions was accomplished through two private placements by IP Holdings of its asset-backed notes in the combined principal amount of $103.0 million, secured by IP Holdings intellectual property assets (including the acquired Joe Boxer and Rampage assets). Of these notes, $85.5 million principal amount represented new financing for IP Holdings (before giving effect to the payment of expenses related to their issuance and required deposits to reserve funds) and $17.5 million principal amount was exchanged for all of the then outstanding asset-backed notes previously issued by IP Holdings. The $85.5 million in proceeds from the new financing portion of these private placements was used as follows: $40.0 million was used to fund the cash portion of the Joe Boxer purchase price, approximately $25.8 million was used to fund the cash portion of the Rampage purchase price, $1.7 million was deposited in a liquidity reserve account as required by the holder of the notes, approximately $1.8 million was used to pay costs associated with the issuance of the notes, approximately $200,000 was paid to legal professionals associated with the acquisitions, approximately $4.0 million was available to us for working capital purposes, and $12.0 million was deposited in an escrow account for the benefit of the holder of the notes and was to be used by IP Holdings solely for the purchase of certain intellectual property assets. IP Holdings subsequently used the escrowed funds to redeem $12.0 million principal amount of the asset-backed notes in November 2005, without penalty. Costs associated with the issuance of these notes, totaling approximately $1.8 million, have been deferred and are being amortized using the interest method over the seven-year life of the notes.

Of the $103.0 million principal amount of asset-backed notes outstanding immediately following our Joe Boxer and Rampage acquisitions, the $12 million portion that was subsequently redeemed in November 2005 had a floating interest rate of LIBOR plus 0.7%, $63.0 million principal amount had a fixed interest rate of 8.45% and $28.0 million principal amount had a fixed interest rate of 8.10%. All of the unredeemed notes were to mature in the third quarter of 2012, were self amortizing over their seven-year term and had quarterly principal and interest payments. As of April 11, 2006, the total principal amount outstanding on these notes was approximately $87.0 million, which was refinanced, on its existing terms, with new asset-backed notes issued by IP Holdings in connection with our acquisition of the Mudd brand as described below.

In April 2006, we acquired certain assets of Mudd (USA) relating to the Mudd brand. The financing for the acquisition was accomplished through the private placement by IP Holdings of approximately $136.0 million principal amount of its asset-backed notes, secured by IP Holdings intellectual property assets (including the acquired Mudd assets). Of these notes, $49.0 million principal amount represented new financing for IP Holdings (before giving effect to the payment of expenses related to their issuance and required deposits to reserve funds) and $87.0 million principal amount was exchanged for all of the then outstanding asset-backed notes previously issued by IP Holdings. The $49.0 million in proceeds from the new financing portion of the private placement was used as follows: $45.0 million was paid to the sellers of the Mudd brand, approximately $490,000 was used to pay costs associated with the issuance of the notes related to the new financing portion, approximately $2.45 million was deposited in a liquidity reserve account as required by the holder of the notes, approximately $785,000 was used to pay professional fees associated with the Mudd acquisition and approximately $275,000 was available to us for working capital purposes. The costs related to the $49.0 million in new financing, totaling $490,000, have been deferred and are being amortized over the five-year life of the related notes.

Of the $136.0 million principal amount of asset-backed notes outstanding immediately following our Mudd acquisition, the $87.0 million principal amount of notes issued in April 2006 in exchange for all of the then existing notes had the same terms as the notes they refinanced (i.e., they were to mature in 2012, were self-amortizing and had fixed interest rates of 8.45% and 8.10%). The $49.0 million principal portion of the asset-backed notes that represented new financing had a term of five years, a variable interest rate of LIBOR plus 4% for the term s first year and a fixed interest rate equal to the applicable treasury rate (the rate charged for a U.S. treasury security maturing on the date closest to the expected average life of such principal portion of the notes) plus 4.5% for the remaining four years of the term, and no principal payments until April 2007, after which it

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was to be self amortizing over the balance of its term, with principal payable quarterly. As of August 28, 2006, the total principal amount outstanding on these notes was approximately $130.9 million, all of which was refinanced by us with new asset-backed notes issued by IP Holdings in connection with the London Fog trademark purchase as described below.

In August 2006, we purchased the London Fog trademarks and certain related intellectual property assets from London Fog Group, Inc. The financing for the purchase was accomplished through the private placement by IP Holdings of approximately $159.9 million principal amount of its asset-backed notes, secured by IP Holdings intellectual property assets (including the acquired London Fog assets), together with approximately $3.1 million of our existing funds. Of these notes, $29.0 million principal amount represented new financing for IP Holdings (before giving effect to the payment of expenses related to their issuance and required deposits to reserve funds) and $130.9 million principal amount was exchanged for all of the then outstanding asset-backed notes previously issued by IP Holdings. The $29.0 million in proceeds from the new financing portion of the private placement were used as follows: $27.5 million was paid to the seller, $112,500 was used to pay costs associated with the issuance of the related notes and approximately $1.35 million was deposited in a liquidity reserve account as required by the holder of the notes. The costs relating to the $29.0 million in new financing of approximately $60,000 have been deferred and are being amortized over the six and a half year life of the financed debt.

Of the $159.9 million principal amount of asset-backed notes outstanding immediately following the London Fog trademark purchase, $56.7 million principal amount has a term of six years and an interest rate of 8.45% per annum, $25.2 million principal amount has a term of six years and an interest rate of 8.12% per annum and $78.0 million principal amount has a term of six and a half years and an interest rate of 8.99% per annum. There are no principal payments required in the first year with respect to $49.0 million principal amount of such notes.

Cash on hand in IP Holdings bank account is restricted at any point in time up to the amount of the next payment of principal and interest due by it under the asset-backed notes. Accordingly, as of September 30, 2006 and December 31, 2005, $16.1 million and $4.1 million, respectively, have been disclosed as restricted cash within our current assets. Further, a liquidity reserve account required by the holder of the asset-backed notes has been established and the funds on deposit in such account will be applied to the last principal payment due with respect to the asset-backed notes. Accordingly, the $10.6 million and $5.0 million in such reserve account as of September 30, 2006 and December 31, 2005, respectively, have been disclosed as restricted cash within our other assets.

Since IP Holdings had not entered into or renewed certain license agreement(s) with respect to the Joe Boxer brand that guaranteed certain royalty thresholds by April 1, 2006, IP Holdings was required by the terms of the asset-backed notes to deposit to a renewal reserve account, from revenues generated from the Joe Boxer brand, $3.75 million for each quarter beginning in April 2006. IP Holdings made a deposit of $3.75 million in each of April 2006 and July 2006; however, on September 28, 2006, IP Holdings entered into a new license agreement with Kmart that replaced its existing license and extended IP Holdings relationship with Kmart. The new license agreement satisfied the criteria specified in the terms of the asset-backed notes. As a result, we are not required to make any additional deposits to the renewal reserve account and, on October 24, 2006, the $7.5 million in our renewal reserve account, which was included in our $16.1 million of current restricted cash at September 30, 2006, was returned to us and is no longer restricted.

All of the asset-backed notes issued by IP Holdings are secured by its intellectual property assets. The payment of the principal of and interest on these notes will be made from amounts received by IP Holdings under its license agreements with the various licensees of its intellectual property assets.

Neither we nor any of our subsidiaries other than IP Holdings is obligated to make any payment with respect to the asset-backed notes, and neither our assets nor those of any of our subsidiaries other than IP Holdings are available to IP Holdings creditors. In addition, the assets of IP Holdings are not available to our creditors or to the creditors of any of our subsidiaries other than IP Holdings.

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Kmart note. In connection with the acquisition of Joe Boxer in July 2005, we assumed a promissory note, dated August 13, 2001, in the principal amount of $10.8 million that originated with the execution of the Kmart license by the former owners of Joe Boxer. The note provides for interest at 5.12% and is payable in three equal annual installments, on a self-liquidating basis, on the last day of each year commencing on December 31, 2005 and continuing through December 31, 2007. Payments due under the note may be off-set against any royalties owed under the Kmart license. The note may be pre-paid at any time without penalty.

Sweet note. On April 23, 2002, we acquired the remaining 50% interest in Unzipped from Sweet Sportswear for a purchase price comprised of 3,000,000 shares of our common stock and $11.0 million in debt, which was evidenced by our issuance of the Sweet note. Prior to August 5, 2004, Unzipped was managed by Sweet Sportswear pursuant to a management agreement, which obligated Sweet Sportswear to manage the operations of Unzipped in return for, commencing in fiscal 2003, an annual management fee based upon certain specified percentages of net income achieved by Unzipped during the three-year term of the agreement. In addition, Sweet Sportswear guaranteed that the net income, as defined in the agreement, of Unzipped would be no less than $1.7 million for each year during the term, commencing with fiscal 2003. In the event that the guarantee was not met for a particular year, Sweet Sportswear was obligated under the management agreement to pay us the difference between the actual net income of Unzipped, as defined, for such year and the guaranteed $1.7 million. That payment, referred to as the shortfall payment, could be offset against the amounts due under the Sweet note at the option of either us or Sweet Sportswear. As a result of such offsets, the balance of the Sweet note was reduced by us to $2.9 million as of December 31, 2005 and $3.0 million as of December 31, 2004 and is reflected in long-term debt. This note bears interest at the rate of 8% per year and matures in April 2012. See Matters pertaining to Unzipped below.

Other outstanding indebtedness

Mossimo Holdings note. Subsequent to September 30, 2006, our wholly-owned subsidiary, Mossimo Holdings, issued a note in the principal amount of $90.0 million to Merrill Lynch Mortgage Capital Inc. on October 31, 2006 in connection with the closing of the Mossimo merger. This note bears interest at a variable rate equal to the three-month LIBOR plus 5.125% per annum and matures on December 18, 2008, with principal payable in quarterly payments totaling $10.5 million in the first year and $10.8 million in the second year, with the balance due upon the note s maturity. The note is secured by the intellectual property owned by Mossimo Holdings (consisting of the Mossimo trademarks, licenses and other related intellectual property assets). We intend to use proceeds from this offering to repay this note in full upon the consummation of the offering. See Underwriting other relationships.

Ocean Pacific note. Subsequent to September 30, 2006, we issued a note in the principal amount of $44.0 million to the sellers as part of the purchase price for the Ocean Pacific brand acquisition. This note bears interest at the rate of 7% per annum and matures, at our option, on either (a) December 31, 2006, in which case it is payable, in cash or through a combination of shares of our common stock and at least $17.0 million in cash, on or prior to December 31, 2006, or (b) January 31, 2007, provided we repay at least $25.0 million in cash on or prior to December 31, 2006 and the remaining balance, in cash or through a combination of shares of our common stock and at least $5.5 million in cash, on or prior to January 31, 2007. The note is secured by the intellectual property owned by our subsidiary, OP Holdings (consisting of the Ocean Pacific trademarks, licenses and other related intellectual property assets). We intend to use proceeds from this offering to repay all or a portion of this note upon the consummation of the offering.

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Contractual cash obligations

The following table sets forth our contractual cash obligations as of September 30, 2006 for the following fiscal years:

Contractual obligations as of September 30, 2006(1)	**2006**	**2007-2008**	**2009-2010**	**After 2010**	**Total**
			(in thousands)		
Asset-backed notes	$ 30,835	$ 63,347	$ 63,347	$ 39,322	$ 196,851
Kmart note	4,000	4,000			8,000
Sweet note	3,361				3,361
Operating leases	390				390
Employment contracts	2,926	2,849			2,926
Total contractual cash obligations	$ 41,512	$ 70,196	$ 63,347	$ 39,322	$ 211,528

(1) Does not include (a) the issuance by Mossimo Holdings of a note in the principal amount of $90.0 million in connection with the Mossimo merger in October 2006, (b) our issuance of a note in the principal amount of $44.0 million in connection with the Ocean Pacific acquisition in November 2006, or (c) our anticipated repayment of each of the foregoing notes from the proceeds of, and upon the consummation of, this offering.

Based on our current internal estimates, we believe that our existing cash and cash provided from our future operations will be adequate to meet our contractual and operating cash requirements over the next twelve months. However, if our plans change or our assumptions prove to be incorrect, we could be required to obtain additional capital, which may not be available to us on acceptable terms, if at all.

In addition, as part of our business growth strategy, we intend to grow not only through the organic development of our brands and international expansion but also through acquisitions of additional brands. We anticipate that we will fund any such acquisitions through a combination of our existing cash, cash from operations, bank financing and/or the issuance of additional equity or debt securities.

Matters pertaining to Unzipped

For the nine months ended September 30, 2006, Unzipped had no operations. For the nine months ended September 30, 2005 and fiscal 2005, it had a net loss (as defined, for the purpose of determining if Sweet Sportswear s $1.7 million guarantee had been met) of $296,000, as compared to $6.4 million in 11-month 2004. Consequently, for the nine months ended September 30, 2006 there was no shortfall payment due, as compared to a shortfall payment of $438,000 for each of the nine months ended September 30, 2005 and fiscal 2005, and an adjusted shortfall payment of $7.6 million, net of a $685,000 reserve, in 11-month 2004. The adjusted shortfall payments have been recorded in our consolidated income statements as a reduction of Unzipped s selling, general and administrative expenses and on the balance sheet as a reduction of the Sweet note based upon our right under the former management agreement between Unzipped and Sweet Sportswear to offset any shortfall payment against such note. After adjusting for the shortfall payments, Unzipped reported a net loss of $37,500 for each of the nine months ended September 30, 2005 and fiscal 2005 and net income of $461,000 in 11-month 2004. Due to the immaterial nature of the related amounts, the net loss of $37,500 from Unzipped has been included in the selling, general and administrative expense in our consolidated statements of operations for fiscal 2005.

Recent acquisitions

Joe Boxer (July 2005)

In July 2005, we acquired the principal assets of Joe Boxer Company, LLC and three of its affiliated companies. The purchased assets included the Joe Boxer and associated trademarks, copyright registrations and the seller s existing licenses with respect thereto, including a multi-category license with Kmart pursuant to which the brand is licensed to Kmart exclusively in the United States, and various international licenses to manufacturers in Canada, Mexico and Scandinavia. The aggregate purchase price paid by us included $40.0 million in cash paid to the sellers, which was funded by us from the proceeds of asset-backed notes issued by IP Holdings, 4,350,000 restricted shares of our common stock issued to the sellers, valued at $36.2 million, our assumption of a note payable to Kmart in the principal amount of approximately $10.8 million, accrued interest of $309,000 with respect to such note, the value of warrants issued by us to our financial advisor as a cost of the acquisition in the amount of $788,000, and other acquisition costs of approximately $755,000.

Rampage (September 2005)

In September 2005, we acquired the principal assets of Rampage Licensing, LLC, including the Rampage and associated trademarks and 12 existing licenses. The aggregate purchase price paid by us included $26.2 million in cash paid to the sellers, $25.8 million of which was funded by us from the proceeds of asset-backed notes issued by IP Holdings, 2,171,336 restricted shares of our common stock issued to the seller, valued at $20.2 million, the value of warrants issued by us to our financial advisor as a cost of the acquisition in the amount of $1.7 million and other acquisition costs of $150,000.

Mudd (April 2006)

In April 2006, we acquired certain of the assets of Mudd (USA) LLC related to the Mudd brand, trademarks, intellectual property and related names worldwide, excluding China, Hong Kong, Macau and Taiwan. The aggregate purchase price paid by us included $45.0 million in cash paid to the seller, which was funded by us from the proceeds of asset-backed notes issued by IP Holdings, 3,269,231 restricted shares of our common stock issued to the seller, valued at $47.9 million, the value of warrants issued by us to our financial advisor as a cost of the acquisition in the amount of $4.6 million and other estimated acquisition costs of $1.8 million. In connection with this acquisition, we also entered into a license agreement with the seller giving it the exclusive right to use the Mudd trademark in connection with the design, manufacture, sale and distribution of women s and children s jeanswear and related products in the United States. Mudd (USA) LLC has guaranteed for two years certain minimum licensing revenues to us with respect to the royalties due under its license agreement and from all of the license agreements assumed by us in connection with the Mudd acquisition. This guarantee, as well as certain other of the seller s obligations to us, is secured by its pledge of a portion of the cash and shares issued by us as consideration in the acquisition.

London Fog (August 2006)

In August 2006, we purchased the London Fog trademarks and certain related intellectual property assets from London Fog Group Inc. The aggregate purchase price paid by us included $30.5 million in cash paid to the seller, which was funded by us from the proceeds of asset-backed notes issued by IP Holdings, together with $3.1 million of our existing funds, 482,423 restricted shares of our common stock, valued at $7.1 million, that were issued to designees of the seller s assignee, and approximately $480,000 of estimated acquisition costs.

Mossimo (October 2006)

On October 31, 2006, we acquired all of the capital stock of Mossimo, Inc., which was a public company engaged in the business of licensing the Mossimo brand, in consideration for which we paid the stockholders of Mossimo, Inc. a total of $67.5 million in cash and 3,608,810 shares of our common stock, valued at $66.8 million based on the average closing sale price value of our common stock for the three days prior to the closing of the merger in October 2006 and the merger agreement was signed in March 2006. In addition, if our common stock does not close at or above $18.71 for at least 20 consecutive trading days during the 12 months following the merger, the recipients of the initial merger consideration will be entitled to receive up to a maximum of 40,965 additional shares of our common stock. In accordance with purchase price accounting, the purchase price will be reflected in our financials assuming the issuance of such additional shares. In connection with the Mossimo merger, we also paid Cherokee Inc. a fee of $33.0 million in cash in return for its withdrawal of the proposal that it had previously submitted to acquire the capital stock of Mossimo, Inc. and the termination of its finder s agreement with Mossimo, Inc. relating to its royalties from Target Stores, and we bought out Mossimo employee stock option agreements for approximately $950,000, issued warrants as a cost of the acquisition valued at approximately $2.1 million and had other estimated acquisition costs of approximately $5.2 million. See Unaudited pro forma condensed combined financial statements.

Ocean Pacific (November 2006)

On November 6, 2006, we acquired certain of the assets of Ocean Pacific Apparel Corp., a subsidiary of Warnaco Group, Inc., related to the Ocean Pacific brand, associated trademarks, intellectual property and related names worldwide. In consideration for such assets we paid the seller $10.0 million in cash and issued the seller a 7% note in the principal amount of $44.0 million. In connection with this acquisition, we also entered into a license agreement with the seller giving it the exclusive right to use the Ocean Pacific trademark in connection with the design, manufacture and sale of women s and juniors swimwear in the United States for a period of three years and the seller has guaranteed certain minimum annual royalties to us with respect thereto. In connection with the Ocean Pacific brand acquisition, we issued warrants to a financial advisor valued at $1.4 million and, based on preliminary estimates, had other acquisition costs of approximately $2.5 million, including approximately $800,000 to be paid in the future.

Seasonal and quarterly fluctuations

The majority of the products manufactured and sold under our brands and licenses are for apparel, accessories and footwear, and sales of such products can be adversely affected as a result of holidays, weather and the timing of product shipments. Accordingly, a portion of our licensing revenue is subject to seasonal fluctuations. In addition, our licensees sales and business generally can be adversely affected by market acceptance of the applicable branded product, the mix, pricing and presentation of the product and general economic conditions beyond our control. Accordingly, the results of operations in any quarter will not necessarily be indicative of the results that may be achieved for a full fiscal year or any future quarter.

Other factors

We continue to seek to expand and diversify the types of licensed products being produced under our various brands, as well as diversify the distribution channels within which licensed products are sold, in an effort to reduce dependence on any particular retailer, consumer or market sector. The success of our company, however, will still remain largely dependent on our ability to build and maintain brand awareness and contract with and retain key licensees and on our licensees ability to accurately predict upcoming fashion trends within their respective customer bases and fulfill the product requirements of their particular retail channels within the global marketplace. Unanticipated changes in consumer fashion preferences, slowdowns in the U.S. economy, changes in the prices of supplies, consolidation of retail establishments, and other factors noted in Risk factors, could adversely affect our licensees ability to meet and/or exceed their contractual commitments to us and thereby adversely affect our future operating results.

Effects of inflation

We do not believe that the relatively moderate rates of inflation experienced over the past few years in the United States, where we primarily compete, have had a significant effect on our revenues or profitability.

Critical accounting policies

Our discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The application of these policies requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial

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statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. However, actual results may differ from these estimates under different assumptions or conditions. We review all significant estimates affecting the financial statements on a recurring basis and record the effect of any adjustments when necessary.

We consider the following accounting policies to be among the most important in understanding our operating results and financial condition.

Principles of consolidation/business combinations

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany transactions and items have been eliminated in consolidation. We acquired the Joe Boxer brand on July 22, 2005, the Rampage brand on September 16, 2005, the Mudd brand on April 11, 2006, the Mossimo brand on October 31, 2006 and the Ocean Pacific brand on November 6, 2006. All acquisitions have been or will be accounted for using purchase price accounting. The purchase method of accounting requires that the total purchase price of an acquisition be allocated to the assets acquired and liabilities assumed based on their fair values on the date of the business acquisition. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Accounts receivable

The policies with the greatest potential effect on our consolidated results of operations and financial position include the estimate of reserves to provide for the collectibility of accounts receivable. We estimate the net collectibility considering historical, current and anticipated trends related to deductions taken by customers and markdowns provided to retail customers to effectively flow goods through the retail channels, and the possibility of non-collection due to the financial position of our licensees customers. With our new licensing model, we have eliminated our inventory risk and substantially reduced our operating risks, and can now forecast revenues and plan expenditures based upon guaranteed royalty minimums.

Revenue recognition

In connection with our new licensing model, we have entered into various trademark license agreements that provide revenues based on minimum royalties and additional revenues based on a percentage of defined sales. In each license agreement, minimum royalty revenue is recognized on a straight-line basis over each period, as defined. Royalties exceeding the defined minimum amounts are recognized as income during the period corresponding to the licensee s sales.

As noted earlier, beginning January 2005, we changed our business practices with respect to Bright Star, which resulted in a change in revenue recognition commencing with fiscal 2005, from gross product sales to net commissions.

Revenue is recognized upon shipment with related risk and title passing to the customers. Allowances for chargebacks, returns and other charges are recorded at the sales date based on customer specific projections as well as historical rates of such allowances.

Goodwill and other intangible assets

In June 2001, the financial accounting standards board, referred to as FASB, issued statement of financial accounting standards, or SFAS, No. 142, Goodwill and other intangible assets, which changed the accounting for goodwill and other intangible assets without determinable lives from an amortization method to an impairment-only approach. Upon our adoption of SFAS No. 142 on February 1, 2002, we ceased amortizing goodwill. As prescribed under SFAS No. 142, we had goodwill tested for impairment during each of fiscal 2005, 11-month 2004 and fiscal 2003, and no impairments were necessary.

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Previously, the Candie s and Bongo trademarks were amortized on a straight-line basis over their estimated useful lives of approximately 20 years. Effective July 1, 2005, we changed, for accounting purposes, the estimated useful life of each of the Candie s and Bongo trademarks to an indefinite life. Accordingly, the recorded value of these trademarks is no longer being amortized, but instead is being tested for impairment on an annual basis. In arriving at the conclusion to use an indefinite life, our management considered, among other things, our new licensing business model which has expanded the extent of the potential use of these brand names in future years. For instance, our Kohl s license relating to our Candie s brand has, since June 2005, very rapidly expanded the brand to over 30 product categories in almost 750 Kohl s retail locations. Further, the Candie s brand has been present in the U.S. market since the 1970s. Similarly, the Bongo brand has expanded from a predominantly jeanswear brand to encompass a broad variety of product groups and multiple licenses in the United States and internationally. Brand recognition for both of these brands is very high and has been generally stable for an extended period of time, and we expect this consumer recognition and acceptance to remain stable or grow in the future based on anticipated broader distribution and product line expansion. The impact of this change in estimate was a reduction in amortization expense relating to the Candie s and Bongo trademarks totaling $595,000, or $0.02 per fully diluted earnings per share. As of September 30, 2006, the net book value of the Candie s and Bongo trademarks totaled $14.4 million.

Impairment losses are recognized for long-lived assets, including certain intangibles, used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are not sufficient to recover the assets carrying amount. Impairment losses are measured by comparing the fair value of the assets to their carrying amount.

Stock-based awards

Effective January 1, 2006, we adopted SFAS No. 123(R), Accounting for share-based payment, which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Under SFAS 123(R), using the modified prospective method, compensation expense is recognized for all share-based payments granted prior to, but not yet vested as of, January 1, 2006. In December 2005, our board of directors approved the accelerated vesting of all employee service-based stock options previously granted under our various non-qualified stock option plans, which would have been unvested as of December 31, 2005. As a result, all options granted as of December 31, 2005, except certain options based on performance, became exercisable immediately. The number of shares, exercise prices and other terms of the options subject to the acceleration remain unchanged. The acceleration of such option vesting resulted in an additional $446,000 of compensation expense reflected in pro forma net income for the year ended December 31, 2005, an amount that would have otherwise been recorded as compensation expense in the years ending December 31, 2006 and 2007, but had no impact on compensation recognition in 2005 as the options would have otherwise vested. Prior to the adoption of SFAS 123(R), we accounted for our stock-based compensation plans under the recognition and measurement principles of accounting principles board, or APB, Opinion No. 25, Accounting for stock issued to employees, and related interpretations. Accordingly, the compensation cost for stock options had been measured as the excess, if any, of the quoted market price of our common stock at the date of the grant over the amount the employee must pay to acquire the stock. In accordance with the modified prospective transition method, our consolidated financial statements have not been restated to reflect the impact of SFAS 123(R). The impact on our financial condition and results of operations from the adoption of SFAS No. 123(R) will depend on the number and terms of stock options granted in future years under the modified prospective method, the amount of which we cannot currently estimate.

Deferred income tax assets

We account for income taxes in accordance with SFAS No. 109, Accounting for income taxes. Under SFAS No. 109, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to

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reduce deferred tax assets to the amount expected to be realized. In determining the need for a valuation allowance, management reviews both positive and negative evidence pursuant to the requirements of SFAS No. 109, including current and historical results of operations, the annual limitation on utilization of net operating loss carry forwards pursuant to internal revenue code section 382, future income projections and the overall prospects of our business. Based upon management s assessment of all available evidence, including our completed transition into a licensing business, estimates of future profitability based on projected royalty revenues from our licensees, and the overall prospects of our business, we concluded in fiscal 2005 that it is more likely than not that the net deferred income tax asset recorded as of December 31, 2005 will be realized. Based on management s assessment of information that became available during the nine-month period ended September 30, 2006, we concluded during such period that it is more likely than not that a portion of previously unrecognized deferred income tax benefits will be realized. Accordingly, we reduced the balance of the related valuation allowance, which resulted in a $2.7 million tax expense for the nine months ended September 30, 2006.

New accounting standards

During fiscal 2005 and the nine months ended September 30, 2006, the FASB issued certain new accounting standards, as described below and summarized in Note 1 of the notes to our consolidated financial statements included elsewhere in, or incorporated by reference into, this prospectus, which we have adopted or will adopt as of January 1, 2007. Adoption of these new accounting standards did not have a significant impact on our financial position or results of operations in fiscal 2005 or the first nine months of 2006 and is not expected to have any such effect on our consolidated financial statements going forward:

In September 2006, the FASB issued SFAS No. 157, Fair value measurements, which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

In September 2006, the FASB issued SFAS No. 158, Employers accounting for defined benefit pension and other postretirement plans an amendment of FASB Statements No. 87, 88, 106, and 132(R), which requires a business entity to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires a business entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006.

In June 2006, the FASB issued FASB Interpretation No., or FIN, 48, Accounting for uncertainty in income taxes an interpretation of SFAS No. 109, which 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. We will adopt FIN 48 as of January 1, 2007 as required by its terms.

In March 2006, FASB issued SFAS No. 156, Accounting for servicing of financial assets, which amends SFAS No. 140, Accounting for transfers and servicing of financial assets and extinguishments of liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and establishes, among other things, the accounting for them by requiring that they be initially measured at fair value, if practicable. We will adopt SFAS No. 156 as of January 1, 2007 as required by its terms.

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In February 2006, FASB issued SFAS No. 155, Accounting for certain hybrid financial instruments an amendment of FASB statements No. 133 and 140. SFAS No. 155 amends SFAS No. 133, Accounting for derivatives and hedging activities, and SFAS No. 140, Accounting for transfers and servicing of financial assets and extinguishments of liabilities, and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. We will adopt SFAS No. 155 in January 1, 2007 as required by its terms.

In May 2005, the FASB issued SFAS No. 154, Accounting changes and error corrections, a replacement of accounting principles board opinion No. 20 and FASB statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. Accounting principles board, or APB, Opinion No. 20, Accounting changes, previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 became effective for us on January 1, 2006.

In December 2004, the FASB issued SFAS No. 153, Exchanges of monetary assets, which addresses the measurement of exchanges of nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier application permitted. We adopted SFAS No. 153 on January 1, 2006.

Quantitative and qualitative disclosure about market risk

As a result of our financing activities, we have been, and may in the future be exposed to the risk of rising interest rates. As of December 31, 2005 and September 30, 2006, however, we had no debts with variable rates.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Introduction

On October 31, 2006, we acquired all of the outstanding capital stock of Mossimo, Inc. through its merger with, and into, Moss Acquisition Corp., a wholly-owned subsidiary formed by us for such purpose, with Moss Acquisition Corp. continuing as the surviving corporation and our wholly-owned subsidiary. As consideration for the merger, we paid the stockholders of Mossimo, Inc. a total of $67.5 million in cash and 3,608,810 restricted shares of our common stock, referred to as the initial merger consideration. In addition, the recipients of the initial merger consideration have the right to receive additional shares of our common stock, referred to as the additional merger consideration, if our common stock does not close at or above $18.71 for at least 20 consecutive trading days during the 12 months ending October 31, 2007, referred to as the measurement period, which rights are evidenced by the non-transferable contingent share rights that we granted to them upon the consummation of the merger.

If the additional merger consideration becomes payable, each former holder of Mossimo common stock entitled to such consideration may exercise its non-transferable contingent share rights to receive such number of additional shares of our common stock as is determined by dividing (1) the product of (a) the number of shares of our common stock issued to such holder as initial merger consideration, multiplied by (b) the difference between (i) $18.71 and (ii) the greater of (x) $18.50 (the average closing sale price of our common stock for the three days prior to the closing of the merger) and (y) the highest 20-consecutive trading day average closing sale price of our common stock during the measurement period (the higher stock price in this clause (ii) is referred to as the actual price), by (2) the actual price. The aggregate number of shares of our common stock issuable as additional merger consideration is subject to limitation as set forth in the merger agreement governing the Mossimo merger.

In connection with the Mossimo merger, each unexpired and unexercised option to purchase Mossimo common stock, whether vested or unvested and without regard to whether such option was then exercisable, was cancelled. As consideration for such cancellations, we paid the former holders of such cancelled Mossimo options, a total of $950,000 in cash. In addition, if the additional merger consideration becomes payable as described above, each of such former option holders will also receive a cash payment equal to the per-share cash value of the additional merger consideration he or she would have received if he or she had exercised the option prior to the merger (and had thus been a stockholder of Mossimo, Inc. at the time of the merger), less any applicable tax withholding.

Prior to the Mossimo merger, in April 2006, Mossimo, Inc. received an unsolicited proposal from Cherokee Inc. to acquire all of its outstanding capital stock. We subsequently entered into a termination and settlement agreement with Cherokee pursuant to which it agreed to withdraw such proposal (and not to reinstate or make any new offer) and, effective upon the closing of the merger, to terminate its finder s fee agreement with Mossimo, Inc. in respect of its royalties from Target. In exchange for such withdrawal and termination, we paid Cherokee $33.0 million upon the closing of the merger.

In connection with the Mossimo merger, our wholly owned subsidiary, Mossimo Holdings, which we formed for such purpose and whose activities are limited to acquiring intellectual property assets, exploiting and maintaining such assets and borrowing funds in connection with those activities, obtained a loan from Merrill Lynch Mortgage Capital Inc. in the amount of $90.0 million, secured by the Mossimo trademarks, license agreements, including the proceeds therefrom, and related intellectual property assets, which we simultaneously sold to Mossimo Holdings upon the closing of the merger. The note evidencing this loan bears interest at a variable rate equal to the three-month LIBOR plus 5.125% per annum and matures on December 18, 2008, with principal payable in quarterly payments totaling $10.5 million in the first year and $10.8 million in the second year, with the balance due upon maturity. The $90.0 million in proceeds from this secured loan, together with $17.5 million of the cash acquired by us in the merger, will be used by us as follows: $67.5 million was used to pay the cash portion of the initial merger consideration; $33.0 million was paid to Cherokee Inc., as described

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above; approximately $950,000 was use to buy out the cancelled Mossimo stock options as described above; approximately $5.2 million was or will be used to pay costs associated with the merger and $900,000 was used to pay costs associated with the loan financing. The costs of $900,000 relating to the $90.0 million loan have been deferred and will be amortized over the life of the loan, using the effective interest method.

On April 11, 2006, we completed our acquisition of certain assets of Mudd (USA) LLC related to its business of marketing, licensing and managing its Mudd brands, trademarks, intellectual property and related names worldwide, excluding China, Hong Kong, Macau and Taiwan. We paid the following consideration for such assets: (a) $45.0 million in cash, which was funded from a portion of the proceeds of the notes issued by IP Holdings, which is a special purpose entity in which we own, directly, a 53.5% limited liability company interest and, indirectly through other of our subsidiaries, the remaining limited liability company interests, and (b) our issuance to the seller of 3,269,231 restricted shares of our common stock. In connection with the transaction, we simultaneously sold the assets to IP Holdings. On the closing date, IP Holdings also entered into a license agreement with Mudd (USA) LLC, in which IP Holdings granted Mudd (USA) LLC the exclusive right to use the Mudd trademark in connection with the design, manufacture, sale and distribution of women s and children s woven bottoms and related products in the United States. Mudd (USA) LLC has guaranteed for two years certain minimum licensing revenues to us from the purchased assets and royalties under the license agreement. The guarantee and certain other of the seller s obligations to us under the purchase agreement are secured by its pledge of a portion of the cash and shares issued by us as consideration in the acquisition.

The financing for IP Holding s purchase of the purchased assets from us was accomplished through its private placement of asset-backed notes. The issuance of the notes raised $49.0 million in new financing for IP Holdings (before giving effect to the payment of expenses in connection with the issuance of the notes and required deposits to reserve funds) and refinanced the approximately $87.0 million principal amount then outstanding under the notes previously issued by IP Holdings. The notes are secured by the purchased assets, as well as by other intellectual property assets owned by IP Holdings. The payment of the principal amount of, and interest on, the notes will be made from amounts received by IP Holdings under license agreements with various licensees of the purchased assets and IP Holdings other intellectual property assets. We are not obligated, and our assets are not available, to pay any amounts with respect to the notes if amounts received by IP Holdings under such license agreements are insufficient to make the required payments. In addition, the assets of IP Holdings are not available to pay any of our obligations.

The following unaudited pro forma condensed combined financial statements give effect to (a) the Mossimo merger and (b) three acquisitions recently completed by us, including: (i) our purchase of certain Mudd assets in April 2006, (ii) the Rampage brand acquisition in September 2005 and (iii) the Joe Boxer brand acquisition in July 2005, under the purchase method of accounting. They do not give effect to our November 2006 acquisition of the Ocean Pacific brand or our August 2006 purchase of the London Fog trademarks, as such pro forma disclosure is not required with respect to such transactions under the rules and regulations of the Securities and Exchange Commission, referred to as the SEC. These unaudited pro forma condensed combined statements are presented for illustrative purposes only. The pro forma adjustments are based upon available information and certain assumptions that our management believes are reasonable. The unaudited pro forma condensed combined financial statements do not purport to represent what our results of operations would actually have been if the merger and acquisitions had actually occurred at the beginning of the periods presented, nor do they purport to project our results of operations for any future period.

Under the purchase method of accounting, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their estimated fair values. The estimated fair values, useful lives and amortization of certain assets acquired are based on a preliminary valuation and are subject to final valuation adjustments. The Mossimo, Mudd, Joe Boxer and Rampage trademarks have been determined to have an indefinite useful life and, therefore, consistent with SFAS No. 142, no amortization will be recorded in our consolidated statements of operations. Instead, the related intangible asset will be tested for impairment at least annually, with any related impairment charge recorded to the statement of operations at the time of determining such impairment.

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The unaudited pro forma condensed combined balance sheet as of September 30, 2006 assumes that the Mossimo merger had occurred on that date. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2005 were prepared by combining our historical statement of operations for the year ended December 31, 2005 with the Mossimo, Inc. statements of operations for the year ended December 31, 2005, the Mudd statements of revenues and direct operating expenses of the assets sold for its fiscal year ended March 31, 2006 and the Joe Boxer and Rampage results of operations prior to the dates of the related acquisitions, giving effect to the merger and each of the acquisitions as though they had occurred at the beginning of the year (January 1, 2005). The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2006 were prepared by combining our historical statement of operations for the nine months ended September 30, 2006 with Mossimo Inc. s historical statements of operations for the nine months ended September 30, 2006 and financial information from the Mudd statements of revenues and direct operating expenses of the assets sold for the three months ended March 31, 2006 (prior to the date of the related acquisition) giving effect to the merger and the Mudd acquisition as though they had occurred at the beginning of the period (January 1, 2006).

The consolidated historical financial information for Iconix is derived from our audited consolidated financial statements for the year ended December 31, 2005 and our unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2006, which are included elsewhere in this prospectus. The historical financial information of Mossimo, Inc. is derived from its audited financial statements for the year ended December 31, 2005 and its unaudited condensed financial statements as of and for the nine months ended September 30, 2006, which are included elsewhere in this prospectus. The historical financial information of Mudd for the year ended March 31, 2006 is derived from its audited statements of assets sold and statement of revenues and direct operating expenses of assets sold previously filed by us with the SEC in our current report on Form 8-K/A on June 27, 2006, which is incorporated herein by reference. The historical financial information of Joe Boxer is derived from its historical financial statements previously filed by us with the SEC in our current report on Form 8-K/A on October 14, 2005, which is incorporated herein by reference. The historical financial information of Rampage is derived from its historical financial statements previously filed by us with the SEC in our current report on Form 8-K/A on December 2, 2005, which is incorporated herein by reference. In addition, the pro forma statements of operation include 21 days of historical operations from July 1, 2005 to July 21, 2005 for Joe Boxer and two and a half months of historical operations from July 1, 2005 to September 15, 2005 for Rampage.

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Unaudited pro forma condensed combined balance sheet

As of September 30, 2006

(000 s omitted, except per share information)

	Iconix as of 9/30/06 (historical)	Mossimo as of 9/30/06 (historical)	Pro forma adjustments Note (a)	Notes (b)/(c)	Note (d)	Pro forma condensed combined
Assets						
Current assets:						
Cash (including restricted cash)	$ 21,255	$ 25,205	$ (1,767)	$ 15,158	$ (23,438)	$ 36,413
Marketable securities						
Accounts receivable, net	11,808	5,911	(1,648)	4,263	(4,263)	16,071
Due from affiliate	244			1,000		1,244
Inventories		431	(431)			
Deferred income taxes	6,691	3,223			(3,223)	6,691
Prepaid advertising and other	1,854	1,461	(192)	1,269	(1,269)	3,123
Total current assets	41,852	36,231	(4,038)	21,690	(32,193)	63,542
Property and equipment at cost:						
Furniture, fixtures and equipment	2,585	2,459	(1,001)	1,458	(1,458)	4,043
Less: accumulated depreciation and amortization	(1,332)	(1,647)	472	(1,175)	1,175	(2,507)
	1,253	812	(529)	283	(283)	1,536
Other assets:						
Restricted cash	10,575					10,575
Goodwill	42,528			48,491		91,019
Intangibles, net	267,938	81	(81)	145,640		413,578
Deferred financing costs, net	3,547			900		4,447
Deferred income taxes	12,597	1,609		4,832	(1,609)	17,429
Other	3,274	52	(11)	(204)	(41)	3,070
	340,459	1,742	(92)	199,659	(1,650)	540,118
Total assets	$ 383,564	$ 38,785	$ (4,659)	$ 221,632	$ (34,126)	$ 605,196
Liabilities and stockholders equity						
Current liabilities:						
Accounts payable and accrued expenses	$ 5,391	$ 8,306	$ (612)	$ 13,192	$ (7,694)	$ 18,583
Promissory note payable	750					750
Accounts payable, subject to litigation	4,886					4,886
Current portion of deferred revenue	3,152					3,152
Current portion of long term debt	25,549			10,500		36,049
Total current liabilities	39,728	8,306	(612)	23,692	(7,694)	63,420
Deferred rent		110	(90)		(20)	
Deferred income taxes	7,939			49,000		56,939
Long term debt	144,882			79,500		224,382
Total liabilities	192,549	8,416	(702)	152,192	(7,714)	344,741

Contingencies and commitments						
Stockholders equity:						
Common stock, $.001 par value shares authorized 75,000	41	15		4	(15)	45
Additional paid-in capital	203,153	41,364	(375)	69,591	(40,989)	272,744
Accumulated other comprehensive income	155			(155)		
Accumulated earnings (deficit)	(11,667)	(11,010)	(3,582)		14,592	(11,667)
Treasury stock 198 shares at cost	(667)					(667)
Total stockholders equity	191,015	30,369	(3,957)	69,440	(26,412)	260,455
Total liabilities and stockholders equity	$ 383,564	$ 38,785	$ (4,659)	$ 221,632	$ (34,126)	$ 605,196

See accompanying introduction and notes to unaudited pro forma condensed combined financial statements.

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Unaudited pro forma condensed combined statement of operations

For the year ended December 31, 2005

(000's omitted, except per share information)

	Year ended 12/31/2005 Iconix (historical)	2005 closed acquisitions (historical) Note (e)	2005 closed acquisitions (pro forma adjustments) Note (f)	Year ended 3/31/2006 Mudd (historical)	Mudd pro forma adjustment	Notes	Pro forma Iconix	Year ended 12/31/2005 Mossimo (historical)	Pro forma adjustment note (l)	Pro forma adjustment	Notes	Total pro forma condensed combined	Notes
Net sales	$	$	$	$	$		$	$ 6,730	$ (6,730)	$		$	
Licensing income	30,156	14,890		10,994	8,000	(g)	64,040	24,298				88,338	
Net revenue	30,156	14,890		10,994	8,000		64,040	31,028				88,338	
Cost of goods sold								3,993	(3,993)				
Gross profit	30,156	14,890		10,994	8,000		64,040	27,035	(2,737)			88,338	
Selling, general and administrative expenses	13,880	4,588	835	6,061	868	(h)	26,232	20,294	(4,191)	1,725	(m)	44,060	
Special charges	1,466						1,466	212				1,678	
Operating income (loss)	14,810	10,302	(835)	4,933	7,132		36,342	6,529	1,454	(1,725)		42,600	
Net interest expense (income)	3,902	1,243	2,518		4,503	(i)	12,166	(420)		9,415	(n)	21,161	
Income (loss) before income taxes	10,908	9,059	(3,353)	4,933	2,629		24,176	6,949	1,454	(11,140)		21,439	
Provision (benefit) for income taxes	(5,035)		1,000		2,571	(j)	(1,464)	2,248		(3,179)	(o)	(2,395)	
Net income (loss)	$ 15,943	$ 9,059	$ (4,353)	$ 4,933	$ 58		$ 25,640	$ 4,701	$ 1,454	$ (7,961)		$ 23,834	
Earnings per share:													
Basic	$ 0.51						$ 0.67					$ 0.57	(q)
Diluted	$ 0.46						$ 0.61					$ 0.52	(q)
Weighted number of common shares outstanding:													
Basic	31,284		6,521		3,269	(k)	38,512			3,608	(p)	42,120	

Diluted	34,773	6,521	3,327	(k)	42,059	3,649	(p)	45,708

See accompanying introduction and notes to unaudited pro forma condensed combined financial statements.

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Unaudited pro forma condensed combined statement of operations

For the nine months ended September 30, 2006

(000 s omitted, except per share information)

	Nine months ended 9/30/2006 Iconix (historical)	Three months ended 3/31/2006 Mudd (historical)	Pro forma adjustment	Notes	Pro forma Iconix	Nine months ended 9/30/2006 Mossimo (historical)	Pro forma adjustment note (l)	Pro forma adjustment	Notes	Total pro forma condensed combined	Notes
Net sales	$	$	$		$	$ 5,537	$ (5,537)	$		$	
Licensing income	53,791	2,607	2,000	(g)	58,398	17,023				75,421	
Net revenue	53,791	2,607	2,000		58,398	22,560				75,421	
Cost of goods sold						2,875	(2,875)				
Gross profit	53,791	2,607	2,000		58,398	19,685	(2,662)			75,421	
Selling, general and administrative expenses	17,572	3,107	217	(h)	20,896	16,397	(2,946)	1,294	(m)	35,641	
Special charges	1,900				1,900					1,900	
Operating income (loss)	34,319	(500)	1,783		35,602	3,288	284	(1,294)		37,880	
Net interest expense (income)	7,991		1,126	(i)	9,117	(672)	8	7,189	(n)	15,642	
Income (loss) before income taxes	26,328	(500)	657		26,485	3,960	276	(8,483)		22,238	
Provision (benefit) for income taxes	2,680		53	(j)	2,733	1,606		(3,050)	(o)	1,289	
Net income (loss)	$ 23,648	$ (500)	$ 604		$ 23,752	$ 2,354	$ 276	$ (5,433)		$ 20,949	
Earnings per share:											
Basic	$ 0.62				$ 0.60					$ 0.49	(q)
Diluted	$ 0.54				$ 0.53					$ 0.43	(q)
Weighted number of common shares outstanding:											
Basic	38,075		1,223	(k)	39,298			3,608	(p)	42,906	
Diluted	43,469		1,300	(k)	44,769			3,650	(p)	48,419	

See accompanying introduction and notes to unaudited pro forma condensed combined financial statements.

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Unaudited pro forma condensed combined financial statements

The financial information presented in the unaudited pro forma condensed combined financial statements is based on amounts and adjustments that our management believes to be factually supportable. We have made no attempt to include forward looking assumptions in such information.

Notes to unaudited pro forma condensed combined balance sheets:

(a) Represents the elimination of Modern Amusement s assets and liabilities resulting from the sale by Mossimo, Inc. of this subsidiary prior to the completion of the merger.

(b) Reflects the preliminary allocation of cost associated with the Mossimo merger under the purchase method of accounting as though the merger occurred on September 30, 2006, and the impact of the financing associated with the merger.

Total purchase price was determined as follows:

(000 s omitted except share information)		
Cash paid at closing to Mossimo stockholders	$ 67,532	
Cash paid at closing to Cherokee	33,000	
Total cash paid at closing		$ 100,532
Fair value of 3,608,810 shares of our common stock, $.001 par value, at $18.50 fair market value per share(1)	66,763	
Value of the contingent share right relating to fair market value thresholds guaranteed in the merger consideration (1)	769	
Value of 250,000 warrants ($15.93 exercise price) issued as a cost of the merger	2,063	
Total equity consideration		69,595
Shares of Mossimo stock previously acquired by Iconix		745
Buyout of Mossimo employee stock option agreements		950
Estimated liability related to possible additional payment for buyout of Mossimo employee stock option agreements		12
Other estimated costs of the merger, including $4.5 million to be paid after the closing of the merger		5,232
Total		$ 177,066

(1) The target value of the shares of our common stock issued at closing totals $67.5 million and represents the lowest total value at which additional shares, referred to as the contingent shares, would not be required to be issued. This amount is calculated by multiplying 3,608,810, the number of shares issued by us as initial merger consideration, by $18.71. In the event that our common stock does not trade at or above $18.71 for 20 consecutive business days during the 12 months ending October 31, 2007, contingent shares will be required to be issued and, as discussed in note (p) below, have been illustrated as part of these pro forma financial statements.

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The preliminary purchase price allocation to the fair value of the assets acquired and liabilities assumed, is as follows:

(000 s omitted)	
Trademarks	$ 140,000
License agreements	3,140
Non-compete agreements	2,500
Assumed obligation under Cherokee contract	(8,100)
Allocation of Cherokee contract buyout	8,100
Cash acquired (including cash received from the sale of Modern Amusement of $2,236)	27,441
Note receivable, related to sale of Modern Amusement	1,500
Accounts receivable and other current assets	5,573
Fixed assets	283
Deferred tax asset	4,832
Accounts payable and accruals	(7,694)
Deferred tax liability	(49,000)
Goodwill	48,491
Total	$ 177,066

(c) Represents the recording of the cash paid, debt acquired, equity issued and the elimination of our investment in Mossimo, in association with the merger with Mossimo.

In connection with the Mossimo merger, our wholly owned subsidiary, Mossimo Holdings, which we formed for the purpose of the merger and whose activities are limited to acquiring intellectual property assets, exploiting and maintaining such assets and borrowing funds in connection with those activities, obtained a loan from Merrill Lynch Mortgage Capital Inc. in the amount of $90.0 million. The loan is secured by the Mossimo trademarks, license agreements, including the proceeds therefrom, and related intellectual property assets, which we simultaneously sold to Mossimo Holdings upon the closing of the merger. The note evidencing the loan bears interest at a variable rate equal to the three-month LIBOR plus 5.125% per annum, matures on December 18, 2008, with principal payable in quarterly payments totaling $10.5 million in the first year and $10.8 million in the second year, with the balance due upon maturity. The $90.0 million in proceeds from this secured loan, together with $17.5 million of the cash that was acquired in connection with the merger, is being used by us as follows: $67.5 million was used to pay the cash portion of the initial merger consideration; $33.0 million was paid to Cherokee Inc., as described above; approximately $950,000 was used to buy out the cancelled Mossimo stock options as described above; approximately $5.2 million was or will be used to pay costs associated with the merger; and $900,000 was used to pay costs associated with the loan financing. The costs of $900,000 relating to the $90.0 million loan have been deferred and are being amortized over the life of the loan, using the effective interest method.

(d) Represents the elimination of the historical values of Mossimo s assets and liabilities.

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(e) Represents historical information for the 2005 closed acquisitions for the Joe Boxer acquisition for the period from January 1, 2005 to July 21, 2005 and for the Rampage acquisition for the period from January 1, 2005 to September 15, 2005 derived from the following amounts:

(000 s omitted)	**Joe Boxer 1/1/05 6/30/05**	**Joe Boxer 7/1/05 7/21/05**	**Rampage 1/1/05 6/30/05**	**Rampage 7/1/05 9/15/05**	**2005 closed acquisitions (historical)**
Licensing income	$ 7,978	$ 1,161	$ 3,899	$ 1,852	$ 14,890
SG&A	2,015	246	1,542	785	4,588
Operating income	5,963	915	2,357	1,067	10,302
Interest expense net	290	35	684	234	1,243
Income before income taxes	5,673	880	1,673	833	9,059
Provision (benefit) for income taxes					
Net income (loss)	$ 5,673	$ 880	$ 1,673	$ 833	$ 9,059

(f) Represents pro forma adjustments for the 2005 closed acquisitions for the Joe Boxer acquisition for the period from January 1, 2005 to July 21, 2005 and for the Rampage acquisition for the period from January 1, 2005 to September 15, 2005 and is comprised of:

(000 s omitted)	**Joe Boxer 1/1/05 6/30/05**	**Joe Boxer 7/1/05 7/21/05**	**Rampage 1/1/05 6/30/05**	**Rampage 7/1/05 9/15/05**	**2005 closed acquisitions (pro forma adjustments)**
Licensing income	$	$	$	$	$
SG&A	340	42	320	133	835(1)