ICONIX BRAND GROUP, INC.
Form 10-K/A
September 28, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______

0-10593
(Commission File Number)
ICONIX BRAND GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**11-2481903**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification no.)*

1450 Broadway, New York, New York 10018
(Address of principal executive offices including zip code)

Registrant's telephone number, including area code: (212) 730-0030
Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.001 Par Value
Preferred Share Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of the close of business on June 30, 2005 was approximately $192 million. As of March 1, 2006, 35,648,616 shares of the registrant's Common Stock, par value $.001 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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EXPLANATORY NOTE

Iconix Brand Group, Inc. (“the Company”), with the concurrence of the Audit Committee of the Company’s Board of Directors, concluded that its previously issued financial statements for the year ended December 31, 2005, the eleven months ended December 31, 2004 and the year ended January 31, 2004 should be restated as a result of recent correspondence with the staff of the Securities and Exchange Commission (the "SEC") regarding a misclassification in the Company’s Consolidated Statement of Cash Flows. In addition, in connection with the above mentioned SEC correspondence the Company will reclassify one item within its Statements of Operations, as discussed in Note 19.

This Amendment No. 1 to the Company’s Annual Report on Form 10-K ("Form 10-K/A") for the fiscal year ended December 31, 2005, initially filed with the SEC on March 21, 2006 (the "Original Filing"), is being filed to restate the Company’s Consolidated Statement of Cash Flows for each of the year ended December 31, 2005, the eleven months ended December 31, 2004 and the year ended January 31, 2004. The restatement relates to the classification in the Consolidated Statements of Cash Flows for activities related to net factored accounts receivable and payable to factor from operating activities to financing activities. The Company has ceased all factoring arrangements and therefore will no longer have any cash flow activities relating to net factored accounts receivable and payable to factor in the future. For a more detailed description of this restatement, see Note 19, "Restatement and reclassifications" to the accompanying consolidated financial statements and the section entitled "Restatement and Reclassifications" in Management’s Discussion and Analysis of Results of Operations and Financial Condition in this Form 10-K/A. The Form 10-K/A did not affect the Consolidated Balance Sheets, Consolidated Statements of Changes in Stockholders’ Equity, the consolidated net income or the consolidated earnings per share for any of the affected periods. Further, the restatement will solely affect the classification of these activities and the subtotals of cash flows from operating and financing activities presented in the restated Consolidated Statements of Cash Flows, but they will have no impact on the net increase (decrease) in total cash set forth in the Consolidated Statements of Cash Flows for any of the previously reported periods.

For the convenience of the reader, this Form 10-K/A sets forth the Original Filing in its entirety, as amended by this Form 10-K/A. However, this Form 10-K/A amends and restates only Items 7, 8 and 9A of Part II, in each case, solely as a result of, and to reflect, the Restatement (as defined in Management’s Discussion and Analysis of Results of Operations and Financial Condition in this Form 10-K/A) and, except as noted above, no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, Item 15 of Part IV of this Form 10-K/A has been amended to include (1) the currently-dated certifications from the Company's Chief Executive Officer and its Chief Financial Officer and (2) the currently-dated consent of the Company’s independent registered public accounting firm to the use of their report on the financial statements of the Company in the specified registration statements of the Company. The updated certifications are attached to this Form 10-K/A as Exhibits 31.1, 31.2, 32.1 and 32.2, respectively, and the updated consent is attached to this Form 10-K/A as Exhibit 23.

Except for the foregoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, and the Company has not updated the disclosure made in this Form 10-K/A to reflect events occurring after the Original Filing. Disclosure reflecting events occurring after the Original Filing or modifying or updating information in this Form 10-K/A that is required to be made by the Company will be addressed, in our future Quarterly Report on Form 10-Q prospectively.

PART I

Item 1. Business

Introduction

Iconix Brand Group, Inc. (the "***Company***"), which was incorporated in Delaware in 1978 and operated under the name Candie's, Inc. until July 2005, is a brand management company focused on licensing and marketing a diversified portfolio of its own consumer brands. The Company currently owns five brands, Candie's®, Bongo®, Badgley Mischka®, Joe Boxer® and Rampage®, which it licenses directly to leading retailers, wholesalers and suppliers for use across a wide range of product categories, including apparel, accessories, footwear, beauty and fragrance, and home, and in a variety of distribution channels, from the mass tier to the luxury market. The Company supports its brands with innovative advertising and promotional campaigns designed to increase brand awareness, and provides its licensees with coordinated design and trend guidance to assist them in maintaining and building brand integrity and appeal. The Company also continues to arrange, as agent, through its wholly-owned subsidiary, Bright Star Footwear, Inc. ***("Bright Star***"), for the manufacture of footwear products for mass market and discount retailers under their private label brands. Bright Star has no inventory and earns commissions.

The Company's business strategy is to maximize the value of its brands by entering into strategic licenses with partners that have the responsibility for manufacturing and selling the licensed products. These licensees have been selected based upon the Company's belief that they will be able to produce and sell top quality products in the categories of their specific expertise and that they are capable of exceeding the minimum sales targets and guaranteed royalties that the Company generally requires from its licensees.

Until recently, the Company designed, procured the manufacture of, and sold footwear and jeanswear under its Candie's and Bongo trademarks. In 2003, however, the Company made a strategic decision to change its business model and become a licensing company in order to maximize its core competencies in marketing and maximizing brand management. By mid-2004, the Company had licensed out all of its footwear and jeanswear operations and eliminated its entire retail and manufacturing operations and embarked on its strategy of owning, licensing and managing a broad and diversified portfolio of consumer brands. Within the next year, the Company acquired three additional brands: Badgley Mischka in October 2004, Joe Boxer in July 2005 and Rampage in September 2005.

With its new licensing model, the Company has eliminated its inventory risk, substantially reduced its operating exposure, improved its cash flows and net income margins, and benefited from the model's scalability, which enables the Company to leverage new licenses with its existing infrastructure. The Company's objective is to capitalize on its brand management expertise and relationships and continue to build a diversified portfolio of consumer brands that generate increasing revenues. To achieve this, the Company intends to continue pursuing organic growth, add new brands to its trademark portfolio, and pursue additional international licensing arrangements. The Company believes that this strategy will permit rapid growth, while simultaneously reducing the risks otherwise associated with dependence upon any one licensee, brand, product category or market.

On December 7, 2004, the Company announced that beginning January 1, 2005, it had changed its fiscal year ending on January 31, to a calendar year beginning on January 1st and ending on December 31st. The change was designed to align the Company's financial reporting with that of its licensees. As a result, the Company's prior reporting year, while it commenced on February 1, 2004, ended on December 31, 2004 and was thus reported as an 11-month year (the " ***11-month Prior Year***"). The Company's current reporting period for its fiscal year ended December 31, 2005 is for the full 12-month period (the " ***Current Year***").

The Company's brands

Candie's

Candie's is known primarily as a young women's footwear, apparel and accessories brand and has achieved brand recognition for its sexy and fun image affiliations with celebrity spokespeople. Candie's is the Company's legacy trademark and the one upon which its former footwear operations were predominantly based. It was established in 1981 by one of the Company's predecessor companies, from whom it purchased the brand in 1993. The primary licensee of the Candie's brand is Kohl's Department Stores, Inc. (" ***Kohl's***"), which commenced the roll out of the brand in July 2005 in all of its stores with an 18-category Candie's line of junior items (the***"Kohl's License"***) All product categories will be exclusive to Kohl's by the beginning of 2007, except optical frames which are licensed to Viva International Group. Inc. (***"Viva"***). Products range across sportswear, denim, footwear, handbags, intimate apparel and home. Celebrity spokespeople for the Candie's brand have included Jenny McCarthy, Destiny's Child, Alyssa Milano, Kelly Clarkson, Ashlee Simpson, Hilary Duff and Ciara.

Bongo

Bongo is a well-known California junior brand sold throughout mid-tier department stores and specialty stores, including Sears, JC Penney and Kohl's. Founded in 1982 and acquired by the Company in 1998, Bongo has expanded from a denim driven brand into a lifestyle brand with a variety of product categories including footwear, tops, handbags, outerwear, swimwear, jewelry and children's apparel. Celebrity spokespeople for the Bongo brand have included Liv Tyler, Rachel Bilson, Nicole Richie and the stars of the television reality show, *Laguna Beach* .

Badgley Mischka

The Badgley Mischka brand is known worldwide as one of the premiere evening wear couture brands, and as a result of the Company's recent launch of bridge-priced evening wear, is being developed as a life style designer brand. Highly associated with "red carpet" events, Badgley Mischka designs have been worn by such celebrities as Angelina Jolie, Catherine Zeta Jones, Halle Berry and, during the inaugural balls, by President George W. Bush's daughters. The brand was established in 1988 and acquired by the Company in 2004. The Company has licensed the brand to nine U.S. licensees across the categories of couture eveningwear, bridge apparel, fur, bridal, fragrance, handbags, eyewear, footwear, and hats and cold weather items. Badgley Mischka products are sold in luxury and better department and specialty stores, including Bergdorf Goodman, Saks Fifth Avenue and Bloomingdale's. Mark Badgley and James Mischka, the founders of the brand, are employees of the Company and continue to provide design inspiration to the Company's licensee.

Joe Boxer

Joe Boxer is one of the most recognized brands of underwear, loungewear, sleepwear, activewear and home in the U.S. and is known for its irreverent and humorous image and provocative promotional events. The brand was established in 1985 and acquired by the Company in 2005. Since 2001, the Joe Boxer brand has been licensed in the U.S. to Kmart Corporation (" ***Kmart"***), a wholly-owned subsidiary of Sears Holding Corp., under which license (the " ***Kmart License***") the brand is currently sold exclusively in Kmart stores. Products covered by the license include apparel, apparel accessories and home goods for men, women and children. The Company also licenses the Joe Boxer brand internationally to wholesalers in Canada and Mexico and to a retail store licensee in Northern Europe that markets the brand to better specialty and department stores.

Rampage

Rampage is known as a contemporary/junior women's sportswear brand. It was established in 1982 and acquired by the Company in September 2005. The Company currently licenses the Rampage brand to 13 U.S. wholesalers in a variety of categories, including sportswear, footwear, outerwear, intimate apparel, fragrance, eyewear and handbags, which are sold through better department stores such as Macy's. There is also a retail license for use of the Rampage name on approximately 70 mall-based stores. Supermodel Petra Nemcova is currently starring in the Company's advertising campaign for this brand.

Former operations

In 1993, the Company purchased the Candie's trademark and certain related licenses from New Retail Concepts, Inc. (" ***NRC***"), a company it later acquired in 1998. Thereafter, the Company commenced designing, manufacturing, selling and marketing Candie's footwear and building the Candie's brand into one of the most well-recognized junior footwear brands in the U.S. . As part of its Candie's operations, the Company also operated Candie's concept and outlet stores designed to create a distinctive Candie's environment to showcase the brand and the increasingly broad variety of its products.

During 1995, the Company also commenced designing, procuring the manufacture of, selling and marketing footwear under the Bongo name, which it licensed from Michael Caruso & Co., Inc. (" ***Caruso & Co***"), a well-developed manufacturer and marketer of Bongo jeanswear. The Company acquired Caruso & Co. in 1998. The Company also operated Bright Star, which at that time was an indirect supplier of footwear products for mass market and discount retailers under the private label brands of those retailers or trademarks owned or licensed by the Company.

In 1998, the Company also began to implement a licensing program entering into agreements with third parties for use of the Candie's brand on fragrance, socks and eyewear, and by forming Unzipped Apparel, LLC (" ***Unzipped***"), with its then 50% joint venture partner, Sweet Sportswear LLC (" ***Sweet***"), for the purpose of marketing and distributing apparel and jeanswear under the Bongo brand. The Company licensed the Bongo trademark to Unzipped for use in the design, manufacture and sale of jeanswear and certain apparel products for a term ending in March 2003, and Sweet was responsible for operating Unzipped's Bongo jeanswear business.

Subsequently, in April 2002, the Company acquired Sweet's 50% interest in Unzipped, making it the Company's wholly- owned subsidiary, and entered into a variety of agreements with Sweet and its affiliates relating to the operations of Unzipped, including a management agreement (the " ***Sweet Management Agreement***"), a supply agreement and a distribution agreement (collectively, the " ***Sweet Agreements***"), for initial terms expiring in January 2005. In August 2004, however, the Company terminated all of its contractual relations with Sweet and its affiliated entities, commenced litigation against them and the individual that controlled them, and, as described below, licensed the Bongo jeanswear operations to a new licensee. See "Item 3. Legal Proceedings."

Commencing with the Company's 2002 acquisition of Sweet's 50% interest in Unzipped and until its termination of the Sweet Agreements in August 2004, the Company's operations were comprised of two reportable segments: its 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 its apparel segment, which was comprised of Unzipped's Bongo jeanswear operations. The activities associated with the apparel product sales segment were discontinued effective with the August 2004 termination of the Company's relationship with Sweet. See Note 16 of Notes to Consolidated Financial Statements for certain segment information regarding the Company.

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Transition to brand management company

In 2003, the Company began to implement the shift in its business model designed to transform it into a brand management company focused solely on the licensing and marketing of its brands and away from the direct design, manufacture, marketing and sale of branded merchandise. The Company's strategy behind its change in the business model was to maximize its core competencies in marketing and building brand equity, achieve higher returns with limited operating risks, and pursue an aggressive strategy focused on expanding, strengthening and diversifying its portfolio of consumer brands and licenses through organic growth, the acquisition of new brands, and international expansion.

Replacement of Candie's and Bongo footwear operations with licensing arrangements

The first step in the Company's transition was to license its footwear operations, which the Company accomplished in May 2003, with respect to both its Candie's and Bongo footwear operations. The first license was entered into with Kenneth Cole Productions, Inc. (" ***KCP***"), pursuant to which the Company granted KCP the exclusive right to design, manufacture, distribute and sell women's and kids' footwear bearing the Bongo trademark (the " ***Bongo/KCP Footwear License***"). The second license that the Company entered into was a license with Steven Madden Ltd (" ***Steve Madden***"), pursuant to which the Company granted Steve Madden the exclusive right to design, manufacture, distribute and sell women's and kids' footwear bearing the Candie's trademark (the " ***Candie's/Madden Footwear License***"). In connection with the Bongo/KCP Footwear License, the Company immediately ceased all manufacturing and shipping of Bongo footwear, thereby effectively eliminating its operations as they related to the production and distribution of Bongo. With respect to Candie's footwear products, the Company continued to purchase, ship, sell, warehouse and collect receivables for Candie's footwear through the end of its fiscal year ended January 31, 2004 (" ***Fiscal 2004***"). As described below, the Company recently amended the Candie's/Madden Footwear License in conjunction with a multi-category license of the Candie's brand, including footwear, granted to Kohl's. See "- Licensing relationships."

As a result of the granting of the Candie's and Bongo footwear licenses and the elimination of the Company's footwear operations, by the end of Fiscal 2004, the Company had closed all of its retail stores, substantially reduced its workforce and closed its office in Valhalla, New York to consolidate its office in New York City.

Replacement of Bongo jeanswear operations with a jeanswear license

The second significant step in the Company's transition was the licensing of its jeanswear operations, which occurred when the Company entered into a license agreement, effective August 1, 2004, granting the right to design, manufacture, distribute and sell Bongo jeanswear to TKO Apparel Licensing, Inc. (" ***TKO***") (the " ***Bongo Jeanswear License***"). The Company also engaged TKO to manage the transition of Unzipped's Bongo jeanswear business to a license. In November 2004, TKO assigned all of its rights in connection with the management agreement, as well as the Bongo Jeanswear License, to its affiliate, Bongo Apparel, Inc. ("BAI"). In connection with the Bongo Jeanswear License and this transition, the designees of TKO purchased one million shares of the common stock of the Company at a price of $2.20 per share. In a separate transaction, TKO agreed to lend Unzipped up to $2.5 million. As of December 31, 2004, the loan balance was $2.5 million, which the Company repaid in 2005.

Following the Company's August 2004 termination of the Sweet Agreements, BAI completed the transition of Unzipped by the end of 2004 and commenced shipping Bongo jeanswear under the Bongo Jeanswear License as of January 1, 2005. As a result, during 2005, Unzipped sold no Bongo products. During the 11-month Prior Year, Unzipped sold its jeanswear products to a variety of mid-tier department store accounts in the United States, including May Co., Sears, JC Penney, and Goody's. During that period, JC Penney accounted for more than 10% of the Company's consolidated net revenues relating to Bongo jeanswear.

Commencement of brand portfolio expansion

Following the Company's replacement of its footwear and jeanswear operations with licensing arrangements, the Company actively commenced the expansion portion of its new business model in furtherance of its goal of becoming a leading brand management company with a broad and diversified portfolio of quality consumer brands. Between October 2004 and September 2005, the Company acquired three additional brands as described below:

Badgley Mischka. In October 2004, the Company acquired the principal assets of B.E.M. Enterprise, Ltd., the holding company for the Badgley Mischka designer business, from its parent company, Escada U.S.A. The purchased assets included the Badgley Mischka trademark, two existing licenses and the rights to operate the existing Badgley Mischka retail store located on Rodeo Drive in Beverly Hills, California. The purchase price for the transaction was $950,000, which the Company paid with its issuance of 214,981 shares of the common stock of the Company. With the purchase of Badgley Mischka, the Company added the luxury channel to the channels in which products bearing its brands were distributed and the designers Mark Badgley and James Mischka as employees of the Company.

Joe Boxer. In July 2005, the Company acquired the principal assets of Joe Boxer Company, LLC and three of its affiliated companies. The purchased assets included the Joe Boxer trademark, the Kmart License, and a number of international license agreements. The acquisition of the Joe Boxer brand added the mass tier to the channels within which licensed products bearing the Company's brands are distributed, as well as men's and boys' items to the mix of products being offered. The aggregate purchase price paid was $88.9 million, including $40.8 million in cash, 4.35 million shares of the common stock of the Company, valued at $36.2 million, and an assumption of a debt payable to Kmart in the amount of approximately $10.8 million. As part of the acquisition, the Company also acquired the services of three employees: William Sweedler, who now serves as the Company's executive vice president, a member of its board of directors, and president of its Joe Boxer division, Andrew Tarshis, who joined as senior vice president and associate counsel of the Company, and the brand's creative director.

Rampage. In September 2005, the Company acquired the principal assets of Rampage Licensing, LLC, including the Rampage trademark and 12 wholesale licenses for a variety of apparel, accessories, fragrance, swimwear, outerwear and handbags, including one with Charlotte Russe Holdings, Inc., which entity operates over 70 mall-based retail stores bearing the Rampage name. The aggregate purchase price for the acquisition was $47.4 million, including $26.2 million in cash and 2,171,336 shares of the common stock of the Company, which were valued at approximately $20.15 million. Pursuant to the transaction, the Company granted the license for the core sportswear category to one of the sellers (and founder of Rampage), who formed a new entity to become the core sportswear licensee.

Change in Bright Star's business practice

In addition to licensing and marketing its brands, the Company continues to operate Bright Star. In January 2005, Bright Star ceased acting as the indirect supplier or conduit of goods for its customers and began acting solely as agent on their behalf. Thus, while Bright Star continues to give design direction and arrange for the manufacture and distribution by third parties of men's footwear for its discount and specialty retailer customer base, it does so now only as agent, thereby eliminating the risks associated with ownership of the goods. As a consequence, the related revenues are now presented as net commission revenue as opposed to sales revenues for products with related cost of goods, as was presented prior to January 1, 2005.

Licensing relationships

The Company's business strategy is to maximize the value of its brands by entering into strategic licenses with partners who have the responsibility for manufacturing and selling the licensed products. The Company licenses its brands with respect to a broad range of product categories, including, apparel, footwear, accessories and other fashion products, home furnishings, beauty and fragrance. The Company seeks licensees with the ability to produce and sell quality products in their licensed categories and the demonstrated ability to meet and exceed minimum sales thresholds and royalty payments to the Company.

Typically, the Company's licenses require the licensee to pay the Company royalties based upon net sales and guaranteed minimum royalties in the event that net sales do not reach certain specified targets. The Company's licenses also typically require the licensee to pay to the Company certain minimum amounts for the advertising and marketing of the respective licensed brand. As of December 31, 2005, the Company had over 50 royalty-producing licenses with respect to its five brands.

The Company believes that the coordination of the brand is presentation across product categories is crucial to maintaining the strength and integrity of its brands. Accordingly, the Company typically maintains the right in its licenses to preview and approve all product, packaging and presentation of the licensed brand. Typically, prior to each season, representatives of the Company supply licensees with trend guidance as to the “look and feel” of the current trends for the season, including colors, fabrics, silhouettes and an overall style sensibility, and then work to

coordinate the licensed products across the categories to ensure cohesiveness of the brand's overall presentation in the market place. Thereafter, the Company obtains and approves (or objects and requires modification to) product and packaging provided by each licensee on an on-going basis. In addition, the Company communicates with its licensees throughout the year to obtain and review reporting of sales and the calculation and payment of royalties. The Company also obtains and reviews information as to the licensees' sales and forecasts, so as to permit the Company to determine at various times during each quarter whether its licensees' business and revenues are consistent with the Company projections for revenue and advertising expenditures for each brand.

The Company's licenses are either directly with a single exclusive retailer for a wide range of products or with several individual entities each for a specific category of products. The Company also has a limited number of, and expects as it grows internationally that it will have more, geographic or territorial licenses, which focus primarily on the permitted territory and cover both a wide retail distribution and multiple product categories.

In the Current Year, the Company's two largest revenue producing licenses are the Kohl's License and the Kmart License:

Kohl's License

In December 2004, the Company entered into the Kohl's License, which was subsequently amended in February 2005 (the " ***Kohl's License***"). Pursuant to the Kohl's License, the Company granted Kohl's the exclusive right to design, manufacture, sell and distribute a broad range of products under the Candie's trademark, including women's, juniors' and children's apparel, accessories (except prescription eyewear), beauty and personal care products, home accessories and electronics. Kohl's was also granted the non-exclusive right to sell footwear and handbags bearing the Candie's brand through December 31, 2006, which rights become exclusive to Kohl's on January 1, 2007. The initial term of the Kohl's License expires on January 29, 2011, subject to Kohl's option to renew it for up to three additional terms of five years, each contingent on Kohl's meeting specified performance and minimum sale standards. The agreement also contains certain minimum royalties that Kohl's is obligated to pay the Company. The revenue generated from this contract totaled 14.5% of the Company's total overall revenue in the Current Year. Kohl's is also obligated to pay the Company an advertising royalty equal to 1% of net sales each contract year.

In connection with the Kohl's License, the Company amended the Candie's/Madden Footwear License, which had an original termination date of December 31, 2009, and its existing handbag license agreement with LaRue Distributors, Inc. (" ***LaRue***"), which had an original termination date of December 31, 2007, to accelerate their termination dates to December 31, 2006 in order to provide Kohl's with the exclusive rights to footwear and handbags commencing as of January 1, 2007. In connection with these amendments, the Company has agreed to make certain payments to Steve Madden and LaRue in the event that Kohl's fails to use Steve Madden as a supplier of its Candie's shoes and/or purchases less than designated amounts of Candie's footwear from Steve Madden through January 2011 or fails to use LaRue as a supplier of its Candie's handbags and/or purchases less than designated amounts of Candie's handbags from LaRue through December 2010. Kohl's continues to use Steve Madden and La Rue as their suppliers in the respective categories of footwear and handbags and therefore there are no contingencies as of December 31, 2005.

The only product category with respect to which Kohl's will not have exclusive rights to the Candie's brand as of January 1, 2007 is prescription eyewear, which is sold predominantly in doctors' offices and has been licensed to Viva since 1998.

Kmart License

As part of the Joe Boxer brand acquisition, the Company acquired the Kmart License. Pursuant to this license, which commenced in August 2001, Kmart (now Sears Holding Corp.) was granted the exclusive right to manufacture, market and sell through Kmart stores located in the U.S., its territories and Puerto Rico a broad range of products under the Joe Boxer trademark, including men's, women's and children's underwear, apparel, apparel-related accessories, footwear and home products. The initial term of the Kmart license expires on December 31, 2007, subject to renewal. The Kmart License provides for guaranteed minimum royalty payments of $19 million each year for the calendar years 2006 and 2007. The revenue generated from this contract totaled 27.9% of the Company's overall revenue in the Current Year.

Marketing

The Company believes that advertising to promote and enhance its brands is a critical part of maximizing the brands' equity. A majority of the Company's license agreements require the Company to advertise its respective brands in exchange for the licensees' payment of an advertising royalty. In certain cases, the Company's licensees will decide to supplement the marketing of the Company's brands by performing additional advertising, either through trade or cooperative sources or, in the case of Kohl's, by supplementing the Company's media buy with additional rotations, which results in materially higher than contractually obligated marketing spending and product exposure.

The Company believes that its innovative advertising campaigns featuring celebrities and performers in the music and entertainment industry have resulted in increased consumer awareness of its brands and sales of products sold thereunder. Because of the Company's well-developed relationships with celebrities, performers, agents, magazine publishers and the media, the Company has been able to leverage advertising dollars into successful public relations campaigns that reach tens of millions of consumers. Over the past few years, the Company has had successful marketing partnerships for its various brands with celebrities in the entertainment and music industries such as Destiny's Child, the Olsen twins, Hilary Duff, Kelly Clarkson, Ashlee Simpson, Liv Tyler, Nicole Richie, Petra Nemcova and the stars of the popular reality television show *Laguna Beach.* In addition, the Company's luxury Badgley Mischka designs have been represented at glamorous Hollywood events by celebrities such as Angelina Jolie, Catherine Zeta Jones, Kate Winslet and Halle Berry. The Company believes that these spokespeople help represent the distinctive and powerful image of the brands to the consumer and drive higher sales and licensing revenue. Joe Boxer, on the other hand, is known not for its celebrity endorsements, but rather for its irreverent advertisements and provocative brand events and promotions that have featured the iconic smiley face and “dancing guy,” among other humorous themes. The Company supports this brand with targeted programs designed to capitalize on the brand's history while keeping it edgy.

The Company has organized its marketing team in a manner that it believes best promotes the ability to develop innovative and creative marketing and provide brand support, and which structure can be leveraged for future acquisitions. Typically, each brand is staffed with a brand manager and fashion and product development director, who work closely with the creative and graphic groups in the advertising department. Although each brand's creative direction and image is developed independently, the entire creative team meets together on a regular basis to share ideas that might work across brand lines. Licensees are then provided information both through group meetings and individual sessions, as well as through access to secure intranet sites, where creative ideas, brand marketing campaigns and graphics are accessible and easy to download and use in an authorized manner.

The Company's advertising expenditures for each of its brands are dedicated largely to creating and developing concepts, reaching appropriate arrangements with key celebrities, getting product placement in a maximum number of locations targeted to reach consumers, developing sweepstakes and media contests, running Internet advertisements and promoting public relations events, often featuring personal appearances and concerts, and other types of events. The Company's advertisements have appeared in fashion magazines such as Cosmopolitan, InStyle, Seventeen and Glamour, popular lifestyle and entertainment magazines such as Us, In Touch and Teen People, and in newspapers and on outdoor billboards. The Company also uses television commercials to promote its brands, partnering with its licensees to create and air commercials that will generate excitement for its brands with consumers.

Design direction

In addition to its advertising and marketing campaigns, the Company also supports its brands by providing its licensees with design direction and trend guidance and by coordinating the brand across licensees and/or product categories. The Company's design direction personnel have extensive experience in understanding, interpreting and determining the most current trends and then helping its licensees to translate these concepts into stylish products that appeal to their target markets and maximize sales. Typically, the Company's design direction team will supply the licensees with a trend guide, including colors, fabrics, silhouettes and an overall style sensibility, for each product season and then work individually with each licensee to ensure that products bearing the Company's brands are consistent with these overall themes and are being presented in a manner that is cohesive throughout and across each product category. It is with these trends and themes in mind that the Company then develops each season's advertising and marketing campaigns, using them to capture the essence of the specific brand so as to present the brand in a manner best suited to achieve its maximum positive exposure. The Company employs Mark Badgley and James Mischka, the designers who created the Badgley Mischka brand, who continue to design the couture creations for the brand in conjunction with the licensee for such products.

Website

The Company maintains a website at www.iconixbrand.com, which provides a wide variety of information on each of its brands, including brand books and current advertising campaigns. The Company also makes available free of charge on its website periodic reports filed with the Securities and Exchange Commission under applicable law as soon as reasonably practicable after it files such material. In addition, the Company has established an intranet with approved vendors and service providers who can access additional materials and down load them through a secure network. It also maintains, in some cases through its licensees, sites for each of the Company's brands, www.candies.com , www.bongo.com , www.badgleymischka.com , www.joeboxer.com and www.rampage.com . The information regarding the Company's website address and/or those established for its brands is provided for convenience, and the Company is not including the information contained on those websites as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

The Company's website also contains information about its history, investor relations, governance and links to access copies of its publicly filed documents.

Competition

The Company's brands are all subject to extensive competition by numerous domestic and foreign brands. Each of its brands has numerous competitors within each of its specific distribution channels that span the apparel industry. For example, while Candie's may compete with LEI in the mid-tier jeanswear business, Joe Boxer competes with Hanes, Calvin Klein and Jockey with respect to underwear in the mass tier, and Badgley Mischka competes with Vera Wang in the couture bridal category. These competitors have the ability to compete with the Company's licensees in terms of fashion, quality, price and/or advertising.

The Company's degree of success is dependent on the image of its brands to the consumer and its licensees' ability to design, manufacture and sell products bearing its brands. Companies such as Cherokee Inc., Mossimo and Martha Stewart Living Omnimedia Inc. have, and other companies owning established trademarks may also decide, to enter into similar licensing arrangements with retailers. Similarly, the retailers to which the Company may want to license these brands may decide themselves to purchase brands instead of entering into license agreements with the Company, especially agreements with guaranteed royalties.

Trademark registrations

IP Holdings, LLC ("***IP Holdings")***, one of the Company's wholly owned subsidiaries, owns the Candie's, Bongo, Joe Boxer and Rampage trademarks, and Badgley Mischka Licensing LLC (" ***Badgley Mischka Licensing***"), another of its wholly-owned subsidiaries, owns the Badgley Mischka brand, each in connection with numerous categories of goods. These trademarks are registered or pending registration with the United States Patent and Trademark Office in both block letter and logo formats, as well as a variety of ancillary marks for use with respect to, depending on the brand, a variety of product categories, including footwear, apparel, fragrance, handbags, watches and various other goods and services, including in some cases, home furnishings and electronics. The Company intends to renew these registrations as appropriate prior to expiration. In addition, from time to time, IP Holdings and Badgley Mischka Licensing register their trademarks in other countries and regions, including Canada, Europe, South and Central America and Asia.

The Company monitors on an ongoing basis unauthorized filings of its trademarks, and it relies primarily upon a combination of trademark, know-how, trade secrets and contractual restrictions to protect its intellectual property rights both domestically and internationally.

Employees

As of March 10, 2006, the Company had a total of 39 employees, 28 in the licensing and corporate area, six at Bright Star and five at the Badgley Mischka division. Of these 39 employees, seven are executives, two are designers and the remainder are middle management, marketing, brand, design and administrative personnel. None of the Company's employees is represented by a labor union. The Company considers its relations with its employees to be satisfactory.

Item 1.A. Risk Factors

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. The following highlights some of the factors that have affected, and in the future could affect, our operations:

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

Although in connection with our new business model we have recorded net income of $15.9 million for the Current Year (including a non-cash tax benefit of $5.0 million) and $241,000 for the 11-month Prior Year, prior to our transition to a licensing company, we consistently sustained net losses, including, in the fiscal years ended January 31, 2004, 2003 and 2002, net losses of $11.3 million, $3.9 million and $2.3 million, respectively. We cannot guarantee that we will continue to be profitable in the future.

Our current business model is new and our operating history as a licensing and 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 licensing company that owns, licenses and manages its own consumer brands, and only completed our elimination of our retail and manufacturing operations in mid-2004. We have, therefore, only operated solely as a licensing and brand management company for one year, making 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 of quality products by our licensees and the expansion of our brand portfolio through the growth of our existing brands and the acquisition of additional brands. While we have sought to diversify our brand portfolio and thereby protect our company from the failure of any one brand or market segment, and believe that we will be able to grow organically through the development of our existing brands, through the acquisition of new 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 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 by our licensees to satisfy their obligations under these agreements or their inability to operate successfully or at all, would result in the early termination of such agreements, thereby eliminating some or all 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 and thus also decrease our potential revenues. Moreover, the failure by licensees of several of our material agreements 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 and Rampage trademarks and other related intellectual property assets securing such debt.

Our business is dependent on continued market acceptance of our Candie's, Bongo, Badgley Mischka, Joe Boxer and Rampage trademarks and the products of our licensees bearing these brands.

We are dependent on licenses of our trademarks to third party manufacturers and marketers of products bearing those marks and on the ultimate sale of such products by our licensees for substantially all of our revenues. Although our licensees guarantee minimum net sales and minimum guaranteed royalties to us, a failure of our trademarks or of products utilizing our trademarks to achieve or maintain market acceptance could reduce our licensing revenues, thereby negatively impacting our cash flow. 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. 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 for our licensees' products and creating it for 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.

A substantial portion of our licensing revenues are concentrated with two retailers such that the loss of either such licensee could decrease our revenue and impair our cash flows.

Our two largest licenses, together representing 42.5% of our total revenue, are each a single retailer license. The Kohl's License currently gives Kohl's the exclusive U.S. license with respect to the Candie's trademark for a wide variety of categories of products, including women's junior and children's apparel, accessories (except shoes and handbags, which are currently licensed to it on a non-exclusive basis but which will become part of its exclusive license in January 2007, and prescription eyewear), beauty and personal care products, home accessories and electronics for an initial term expiring in January 2011. Our license agreement with Sears grants the exclusive U.S. license of the Joe Boxer trademark for men's, women's and children's apparel, apparel-related accessories, footwear and home products for an initial term expiring in December 2007. Because we are dependent on these two licensees for a significant portion of our licensing revenue, if either Kohl's or Kmart (which came out of bankruptcy in May 2003 and is currently owned by Sears Holding Corp.) were to have financial difficulties affecting its ability to make guaranteed payments or cease to operate before the expiration of its license agreement, or if the licensee decides not to renew the existing agreement with us, our revenue and cash flows could be reduced substantially. Moreover, since Kmart's bankruptcy in 2002, Kmart has not approached the sales levels of Joe Boxer products needed to trigger royalties payments in excess of its guaranteed minimums, and, if it does not renew its license at the end of 2007, we could suffer disruption in our revenue stream for the Joe Boxer brand until we enter into one or more replacement licenses.

If we are unable to identify and successfully acquire additional trademarks, our growth will be limited, and, even if they are acquired, we may not realize planned benefits due to integration or licensing difficulties.

A key component of our growth strategy is the acquisition of additional trademarks in product categories and/or channels that are complementary to, and provide us further diversification with respect to, those of our existing trademark portfolio. If competitors pursue our licensing model, acquisitions could become more expensive and suitable acquisition candidates more difficult to find. In addition, even if we are successful in acquiring 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, 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 have a detrimental effect on 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 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.

Our ability to grow through the acquisition of additional trademarks will also be dependent on the availability of capital to complete the necessary acquisition arrangements. We intend to finance our brand acquisitions through some combination of our available cash resources, bank financing, the issuance of equity, and/or additional debt securities. Acquiring additional trademarks could have a significant effect on our financial position, and could cause substantial fluctuations in our quarterly and yearly operating results. Also, acquisitions could result in the recording of significant goodwill and intangible assets on our Company's financial statements, the amortization or impairment of which would reduce our reported earnings in subsequent years.

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

As of December 31, 2005, we had total consolidated long-term debt of approximately $99.1 million and had a working capital deficit of $4.4 million. At December 31, 2005, we had approximately $88.8 million principal outstanding on seven-year asset backed notes issued by our subsidiary, IP Holdings. The payment of the principal and interest on the 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, in connection with our acquisition, in April 2002, of the other half of Unzipped , which made it one of our wholly owned subsidiaries, we issued to Sweet, an $11.0 million principal amount senior subordinated note (the " ***Sweet Note***"). The principal amount of the Sweet Note was reduced to approximately $2.9 million at December 31, 2005 as a result of certain shortfalls in the net income of Unzipped previously guaranteed by Sweet in the agreement under which, until August 2004, it served as Unzipped's manager. We are involved in litigation with Sweet and certain of its affiliates with respect to these shortfalls and other matters pertaining to Unzipped. We may also incur additional debt in the future to fund a portion of our capital requirements and to fund 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; and
- 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.
- place us at a comparative disadvantage as to our competitors who have less debt.

While we believe that by virtue of the 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 as regards to 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 and Rampage trademarks.

Our licensees are subject to risks and uncertainties of foreign manufacturing that could interrupt their operations or increase their operating costs, thereby impacting 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, making their licensing arrangements with us less attractive to them. 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, could be reduced as a result of the licensees' inability to deliver or their delay in delivering finished products to their customers.

Because of the intense competition within our licensees' markets and the strength of some of the 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. These industries are extremely competitive in the United States and our licensees face intense and substantial competition with respect to their product lines bearing our brands. In general, competitive factors include quality, price, style, name recognition and service. In addition, the presence in the marketplace of various fads and the limited availability of shelf space can affect competition for our licensees' products. Many of the competitors of our licensees 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.

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

We own federal trademark registrations for our brands that are vital to the success and further growth of our business and which we believe have significant value. We monitor on an ongoing basis unauthorized filings of our trademarks, and rely primarily upon a combination of trademark, know-how, trade secrets and contractual restrictions to protect our intellectual property rights. We believe that such measures afford only limited protection and, accordingly, there can be no assurance that the actions taken by us to establish and protect 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. Despite our efforts to protect 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 the sales of our licensees and thus our revenues. 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 could result in significant expense to us, and divert the efforts of our management personnel, whether or not such litigation 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, we would be prevented from using them, which could cause a termination of our licensing arrangements, and thus our revenue stream, with respect to those trademarks. It 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 individual, we may not be able to fully implement our business plan and future growth strategy, which would harm ours 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 in 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. As we grow, our success will also be dependent upon our ability to hire and retain additional qualified marketing and product development personnel to raise consumer awareness of the brand names we acquire and help our licensees maintain the freshness of their product lines and meet market trend expectations. We may not be able to hire or retain such necessary personnel.

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

We are currently a plaintiff and cross-defendant in a litigation pending in California state court involving our wholly-owned subsidiary, Unzipped, and a defendant in a litigation pending in federal district court in New York involving a former supplier. Even if we prevail on all counts in these actions, the costs of these litigations have been and are expected to continue to be high. They are not only expensive but time consuming to pursue and defend, thereby diverting our available cash and personnel resources from other business affairs. Moreover, if we are ultimately required to pay the monetary damages sought by the cross-complainants in the California action and the plaintiff in the New York action, or if it is adjudicated that our contractual rights concerning Unzipped are invalid, our operating results and profitability could be substantially reduced.

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

As of December 31, 2005, goodwill represented approximately $33 million, or 15% of our total assets, and other intangible assets represented approximately $139.3 million, or 64% of our total assets. Goodwill is the amount by which the costs of an acquisition accounted for using the purchase method exceed the fair value of the net assets acquired. We adopted Statement of Financial Accounting Standard No. 142, or SFAS No. 142, entitled “Goodwill and Other Intangible Assets” in its entirety, on February 1, 2002. Under SFAS No. 142, goodwill and indefinite lived intangible assets, including some of our trademarks, are no longer amortized, but instead are subject to impairment evaluation based on the 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 decrease our net income and those decreases could be material.

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 are likely to experience in the future, 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 the licensees' markets generally 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 shares of our common stock may cause the prevailing market price of our shares to decrease.

We 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. 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.

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 adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We cannot guarantee that the outcomes from these continuous examinations will not harm our operating results and financial conditions.

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 our 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 31, 2005, after assuming the exercise of all outstanding options and warrants, there are still a total of 31,069,000 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. And, 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 control or management of our company, 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.

Item 1B. Unresolved Staff Comments

None

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Item 2. Properties

The Company currently occupies approximately 14,359 square feet of office space on the 4th floor at 1450 Broadway, New York, New York, 10018, pursuant to a lease that expires on June 2, 2007. The current lease for this space has an annual rental of $373,332, or $31,111 per month.

During the Current Year, the Company also paid rent in the amount of $276,000 on the Badgley Mischka retail store in Beverly Hills, CA, which is operated for the Company under a license agreement. The Company's current lease for this store has a monthly rent of $23,000 and expires on November 6, 2006.

Bright Star currently occupies approximately 2,269 square feet of office space located at 111 Howard Boulevard, Suite 206, Mt. Arlington, NJ 07856, pursuant to a lease that expires on March 31, 2007. The current lease for this space has an annual rental of $38,573 or $3,214 per month.

Item 3. Legal Proceedings

Unzipped litigation

On August 5, 2004, the Company, along with its subsidiaries, Unzipped, Caruso & Co. and IP Holdings (collectively, "***Plaintiffs***"), commenced a lawsuit in the Superior Court of California, Los Angeles County, against Unzipped's former manager, former supplier and former distributor, Sweet, Azteca Production International, Inc, ("***Azteca***") and Apparel Distribution Services, LLC ("***ADS***"), respectively; and a principal of these entities and former member of the Company's Board of Directors, Hubert Guez (collectively, "***Defendants***"). Plaintiffs amended their complaint on November 22, 2004. In the amended complaint, Plaintiffs allege that Defendants fraudulently induced them to purchase Sweet's 50% interest in Unzipped for an inflated price, that Sweet and Azteca committed material breaches of the Sweet Agreements, and that Mr. Guez materially breached his fiduciary obligations to the Company while serving as a member of its Board of Directors. Also, Plaintiffs allege that Defendants have imported, distributed and sold goods bearing the Company's Bongo trademarks in violation of federal and California law. Plaintiffs seek damages in excess of $50 million. Defendants filed a motion to dismiss certain of the claims asserted by the Plaintiffs in the amended complaint, which was denied by the Court in its entirety on February 7, 2005.

On March 10, 2005, Sweet, Azteca and ADS (collectively, "***Cross-Complainants***"), filed an answer to Plaintiffs' amended complaint and a cross-complaint against Plaintiffs and the Company's chief executive officer, Neil Cole (collectively, "***Cross-Defendants***"), seeking compensatory, punitive and exemplary damages and litigation costs, as well as the establishment of a constructive trust for their benefit. The Cross-Complainants alleged that some or all of the Cross-Defendants breached the Sweet Agreements; that IP Holdings and Mr. Cole interfered with Sweet's performance under the Sweet Management Agreement with Unzipped, and that the Company, Caruso & Co., IP Holdings and Mr. Cole interfered with Cross-Complainants' relationships with Unzipped and caused Unzipped to breach its agreements with Azteca and ADS. Cross-Complainants also alleged that some or all of the Company, Caruso & Co. and Mr. Cole fraudulently induced Sweet to sell its 50% interest in Unzipped to the Company for a deflated price and accept the 8% the Sweet Note in the principal amount of $11 million that the Company issued to it in connection therewith the Sweet Note.

The Company had previously entered into a management agreement with Sweet wherein Sweet guaranteed that the net income of Unzipped, as defined, would be no less than $1.7 million for each year during the term (the "***Guarantee***"). In the event that the Guarantee was not met, Sweet was obligated to pay the difference between the actual net income, as defined, and the Guarantee, such difference referred to as the "***Shortfall Payment***". The cross-complaint alleged that the Company breached its obligations to Sweet arising under the Sweet Note by, among other things, understating Unzipped's earnings for Fiscal 2004 and the first three quarters of its fiscal year ended January 31, 2005 for the purpose of causing Unzipped to fall short of the Guarantee for these periods, and improperly offsetting the

Shortfall Payment against the Sweet Note. Lastly, the cross-complaint alleged that the understatements in Unzipped's earnings and offsets against the Sweet Note were incorporated into the Company's public filings for the periods identified above, causing it to overstate materially its earnings and understate its liabilities for such periods with the effect of improperly inflating the public trading price of the Company's common stock.

Cross-Defendants filed a motion to dismiss certain of the claims asserted in the cross-complaint, and, on June 28, 2005, the Court granted Cross-defendants' motion in part. On July 22, 2005, Cross-Complainants amended their cross-complaint, omitting their previously asserted claim that some or all of the Company, Caruso & Co. and Mr. Cole fraudulently induced Sweet to sell its 50% interest in Unzipped for a deflated price and accept the Sweet Note. Although the amended cross-complaint no longer seeks relief for this purported fraud, the substance of the allegations remained largely unchanged.

Cross-Defendants filed a motion to dismiss certain of the claims asserted in the amended cross-complaint, and, on October 25, 2005, the Court granted Cross-Defendants' motion in part, dismissing all claims asserted against Mr. Cole along with the Cross-Complainants' sole remaining fraud claim. The remaining Cross-Defendants deny Cross-Complainants' allegations and intend to vigorously defend against the amended cross-complaint.

In a related litigation, on November 5, 2004, Unzipped commenced a lawsuit in the Supreme Court of New York, New York County, against Unzipped's former president of sales, Gary Bader, alleging that Mr. Bader breached certain fiduciary duties owed to Unzipped as its president of sales, unfairly competed with Unzipped and tortuously interfered with Unzipped's contractual relationships with its employees. On October 5, 2005, Unzipped amended its complaint to assert identical claims against Bader's company, Sportswear Mercenaries, Ltd. (“ ***SMI***”). On October 14, 2005, Bader and SMI filed an answer containing counterclaims to Unzipped's amended complaint, and a third-party complaint against the Company and Mr. Cole, seeking unspecified damages in excess of $4 million. On December 2, 2005, the Company, together with Unzipped and Mr. Cole, filed motions seeking the dismissal of all claims asserted against them by Bader and SMI, and these motions are currently pending. In these motions, the Company, Mr. Cole and Unzipped have denied the claims asserted against them, and intend to vigorously defend against all such claims.

Redwood litigation

In January 2002, Redwood Shoe Corporation, one of the Company's former footwear buying agents, filed a complaint in the United States District Court for the Southern District of New York, alleging that the Company breached various contractual obligations to Redwood and seeking to recover damages in excess of $20 million plus its litigation costs. The Company filed a motion to dismiss certain counts of the complaint based upon Redwood's failure to state a claim, in response to which Redwood has filed an amended complaint. The Company also moved to dismiss certain parts of the amended complaint. The magistrate assigned to the matter granted, in part, the Company's motion to dismiss. By Order dated November 28, 2005, the District Court adopted the Magistrate's ruling in its entirety, thereby accepting the Company's position that it never agreed to purchase a minimum quantity of footwear from Redwood and dismissing approximately $20 million of Redwood's asserted claims. On December 14, 2005, the Company filed an answer to Redwood's four remaining claims and asserted 13 counterclaims against Redwood and Redwood's affiliate, Mark Tucker, Inc. (“ ***MTI***”). On the same date, it filed a motion to have MTI joined with Redwood as a defendant in the action, which motion MTI has advised the District Court that it will not oppose. The Company intends to vigorously defend the lawsuit, and to vigorously prosecute the claims it has asserted against Redwood and MTI. At December 31, 2005, the payable to Redwood totaled approximately $1.8 million, which is subject to any claims, offsets or other deductions the Company may assert against Redwood, and was reflected in the Company's consolidated financial statements under “Accounts payable, subject to litigation.”

Normal-course litigation

From time to time, the Company is also made a party to litigation incurred in the normal course of business. While any litigation has an element of uncertainty, the Company believes that the final outcome of any of these routine matters will not have a material effect on its financial position or future liquidity. Except as set forth herein, the Company knows of no material legal proceedings, pending or threatened, or judgments entered, against any director or officer of the Company in his capacity as such.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issue Purchases of Equity Securities

The Company's common stock, $0.001 par value per share, its only class of common equity, has been quoted on the Nasdaq National Market under the symbol “ICON” since it changed its name from Candies, Inc. to Iconix Brand Group, Inc. on July 1, 2005. Prior to that time it was quoted on the Nasdaq National 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 the Company's common stock for the periods indicated, as reported on the Nasdaq National Market:

		High		Low
Twelve Months 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
Eleven 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 March 1, 2006 there were approximately 2,475 holders of record of the Company's Common Stock.

The Company has never declared or paid any cash dividends on its common stock since its inception. It anticipates that for the foreseeable future, earnings, if any, will be retained for use in its business or for other corporate purposes and that no cash dividends will be paid in the foreseeable future. Payment of cash dividends, if any, will be at the discretion of the Company's Board of Directors and will depend upon the Company's financial condition, operating results, capital requirements, contractual restrictions, restrictions imposed by applicable law and other factors its Board of Directors deems relevant. The Company's ability to pay dividends on its common stock may also be prohibited by its future indebtedness.

On September 15, 1998, the Company's Board of Directors authorized the repurchase of up to two million shares of the Company's common stock, which was replaced with a new agreement on December 21, 2000, authorizing the repurchase of up to three million shares of the Company's Common Stock. In the Current Year and the 11-month Prior Year, no shares were repurchased in the open market.

See”Item 12” - “Securities Ownership of Certain Beneficial Owners and Management-Equity Compensation Plans” for certain information concerning securities issued under the Company's equity compensation plans.

Item 6. Selected Financial Data
Selected Historical Financial Data
(in thousands, except earnings per share amounts)

The following table presents selected historical financial data of the Company for the periods indicated. The selected historical financial information is derived from the audited consolidated financial statements of the Company referred to under item 8 of this Annual Report on Form 10-K, and previously published historical financial statements not included in this Annual Report on Form 10-K. The following selected financial data should be read in conjunction with Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's consolidated financial statements, including the notes thereto, included elsewhere herein.

	Fiscal Year Ended December 31, 2005	11-Months Ended December 31, 2004	Fiscal Year Ended January 31, 2004	2003	2002
Net Sales	$ -	$ 58,427	$ 123,160	$ 149,543	$ 94,500
Licensing and commission revenue	30,156	10,553	8,217	7,240	6,902
Net Revenues	30,156	68,980	131,377	156,783	101,402
Operating income (loss)	14,810(1)	2,736(1)	(8,164)(1)	(961)(1)	(1,545)(1)
Interest expense - net	3,977	2,495	3,118	3,373	1,175
Net income (loss)	15,943	241	(11,340)	(3,945)	(2,282)
Earnings (loss) per share:					
Basic	$ 0.51	$ 0.01	$ (0.45)	$ (0.17)	$ (0.12)
Diluted	$ 0.46	0.01	(0.45)	(0.17)	(0.12)
Weighted average number of common shares outstanding:					
Basic	31,284	26,851	25,181	23,681	19,647
Diluted	34,773	28,706	25,181	23,681	19,647

Balance Sheet Data *:	At December 31, 2005	2004	At January 31, 2004	2003	2002
Current assets	$ 22,345	$ 9,627	$ 25,655	$ 51,816	$ 22,730
Working capital (deficit)	(4,388)	(5,984)	(5,302)	5,895	(3,783)
Total assets	217,244	60,160	74,845	103,437	50,670
Long-term debt, long-term portion	85,414	19,925	25,020	28,505	638
Total stockholders' equity	100,896	24,258	18,868	29,011	23,519

* As of May 1, 2002, the operating results of Unzipped, the Company's Bongo jeanswear business, have been consolidated. Thus, operating results commencing with Fiscal 2003 are not comparable to prior years. Additionally, beginning in May 2003, the Company changed its business model to a licensing model. See “Item 1 - Transition to brand management company". As a result, its Current Year, the 11-month Prior Year and Fiscal 2004 results are not comparable with prior years.

(1) Includes special charges of $1,466 in the Current Year, $295 in the 11-month Prior Year, $4,629 in Fiscal 2004, $3,566 in Fiscal 2003, and $1,791 in Fiscal 2002. See Notes 7 and 11 of the Notes to Consolidated Financial

Statements.

(2) In the third quarter ended September 30, 2005, the Company made two acquisitions. See Notes 4 and 5 of Notes to Consolidated Financial Statements.

(3) In the Current Year, the Company recognized a net non-cash tax benefit of $5.0 million by reducing the valuation allowance on the deferred tax asset related to the Company's Net Operating Loss carryforwards (**NOL**).

(4) Including in the operating income in the 11-month Prior Year was a $7.6 million adjustment for the Shortfall Payment of $6.9 million with $685,000 recorded as a reserve pending the outcome of its litigation with the Company relating to Unzipped. See Notes 2 and 8 of Notes to Consolidated Financial Statements. For Fiscal 2004 the adjustment for the Shortfall Payment was $1.6 million.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995. This Annual Report on Form 10-K, including this Item 7, includes “forward-looking statements” based on the Company's current expectations, assumptions, estimates and projections about its business and its industry. These statements include those relating to future events, performance and/or achievements, and include those relating to, among other things, the Company's future revenues, expenses and profitability, the future development and expected growth of the Company's business, its projected capital expenditures, future outcomes of litigation and/or regulatory proceedings, competition, expectations regarding the retail sales environment, continued market acceptance of the Company's current trademarks and its ability to market and license trademarks it acquires, the Company's ability to continue identifying, pursuing and making acquisitions, the ability of the Company's current licensees to continue executing their business plans with respect to their product lines, and the Company's ability to continue sourcing licensees that can design, distribute, manufacture and sell their own product lines.

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 the Company's control and difficult to predict and could cause its actual results to differ materially from those expressed or forecasted in, or implied by, the forward-looking statements. In evaluating these forward-looking statements, the risks and uncertainties described in “Item 1. Risk Factors” above and elsewhere in this report and in the Company's other SEC filings should be carefully considered.

Words such as “may,” “should,” “will,” “could,” “estimate,” “predict,” “potential,” “continue,” “anticipate,” “believe,” “plan and “intend” or the negative of these terms or other comparable expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made.

General Introduction

In December 2004, the Board of Directors of the Company approved a change in the Company's fiscal year end from January 31 to December 31, effective for the period ending December 31, 2004. As a result, the Company's prior reporting year, while it commenced on February 1, 2004, ended on December 31, 2004 and was thus reported as an 11-month year (the ***“11-month Prior Year”***). The 12-month period preceding the 11-month Prior Year was the Company's fiscal 2004 (***“Fiscal 2004”***). The 12-month period following the 11-month Prior Year is the Company's fiscal year ended December 31, 2005 (the***“Current Year”***).

In 2003, the Company began to implement a shift in its business model designed to transform it from a manufacturer and marketer of footwear and jeanswear products to a brand management company focused on licensing and marketing its portfolio of consumer brands, by licensing its footwear operations pursuant to two licenses: the Bongo/KCP Footwear License and the Candie's/Steve Madden Footwear License. Thereafter, in June 2004, the Company also licensed its Bongo jeanswear operations previously conducted through its wholly-owned subsidiary, Unzipped, pursuant to the Bongo Jeanswear License, effective August 1, 2004. As a result, by the end of 2004, the Company had licensed out the footwear and the Bongo jeanswear operations. It had also eliminated its legacy retail and manufacturing operations and as a result of the foregoing, by the end of Fiscal 2004, the Company had reduced its workforce from over 200 to under 40. In addition, between October 2004 and July 2005, the Company acquired three new brands: Badgley Mischka, Joe Boxer and Rampage. As a result of these changes to the operations of the Company, the Company is now a brand management company that focuses on licensing and marketing a diverse portfolio of owned consumer brands and no longer has any inventory.

Beginning January 2005, the Company also changed its business practices with respect to Bright Star, a subsidiary of the Company, which resulted in a change in revenue recognition for Fiscal 2005. Bright Star now acts solely as an

agent, so that only net commission revenue is recognized commencing January 1, 2005. Commencing with the Company's 2002 acquisition of the remaining interest in Unzipped and until August 2004 when the Unzipped jeans wear business was transitioned to a license, the Company's operations were comprised of two reportable segments: its 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 its apparel segment, which was comprised of Unzipped's Bongo jeanswear operations. The activities associated with the Company's former footwear business were licensed in May 2003, and the Company's activities associated with Unzipped's apparel segment were licensed effective August 2004, leaving a single reporting segment for licensing and commission revenue.

As a result of the Company's transition to a licensing business, and to a lesser extent, its change in fiscal year end during the 11-month Prior Year, the Company's operating results for the periods after Fiscal 2004 are not and are not expected to be comparable to prior years. Further, as a result of the Company's recent acquisitions and to a lesser extent the change in its Bright Star revenue, the Company's operating results for the Current Year are not comparable to prior years.

Restatement and Reclassifications

The Company concluded that its previously issued financial statements for the year ended December 31, 2005, the eleven months ended December 31, 2004 and the year ended January 31, 2004 should be restated as a result of recent correspondence with the staff of the SEC regarding a misclassification in the Company’s Consolidated Statement of Cash Flows. As a result, the Company has restated its consolidated Statement of Cash Flows as described below. In addition, the connection with the above mentioned SEC correspondence the Company reclassified one item within its Statements of Operations pertaining to general and administrative expenses for the 11 months ended December 31, 2004 and the year ended January 31, 2004.

The restatements result solely from the misclassification of cash flows related to net factored accounts receivable and payable to factor. The cash flows from this item had been classified as financing activities. However this item should have been classified as operating activities. Accordingly, the restatements will solely affect the classification of these activities and the subtotals of cash flows from operating and financing activities presented in the restated Consolidated Statements of Cash Flows, but they will have no impact on the net increase (decrease) in total cash set forth in the Consolidated Statements of Cash Flows for any of the previously reported periods.

Critical Accounting Policies:

During the Current Year, the Company adopted certain new accounting standards issued by the Financial Accounting Standards Board (***"FASB"***), as described below and summarized in Note 1 of the Notes to Consolidated Financial Statements. The adoption of these new accounting standards did not have a significant impact on the Company's financial position or results of operations in the Current Year.

Several of the Company's accounting policies involve management judgments and estimates that could be significant. The policies with the greatest potential effect on the Company's consolidated results of operations and financial position include the estimate of reserves to provide for the collectibility of accounts receivable. The Company estimates 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 it's licensees' customers. With its new licensing model, the Company has eliminated its inventory risk and substantially reduced its operating risks, and can now forecast revenues and plan expenditures based upon guaranteed royalty minimums.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any adjustments when necessary.

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

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which changed the accounting for goodwill from an amortization method to an impairment-only approach. Upon the Company's adoption of SFAS No. 142 on February 1, 2002, the Company ceased amortizing goodwill. As prescribed under SFAS No. 142, the Company had goodwill tested for impairment during the Current Year, the 11-month Prior Year, and Fiscal 2004, and no impairments were necessary.

The Candie's and Bongo trademarks had previously been amortized on a straight-line basis over their estimated useful lives of approximately 20 years. Effective July 1, 2005, the Company changed for accounting purposes, the estimated useful lives of the Candie's and Bongo trademarks to be an indefinite life. Accordingly, the recorded value of these trademarks will no longer be amortized, but instead will be tested for impairment on an annual basis. In arriving at the conclusion to use an indefinite life management considered among other things, the Company's new licensing business model which has expanded the extent of potential use of these brand names in future years. In connection with the Candies license signed with Kohl's in late 2004 the Candie's name, which has been in the US market since the 1970's, has been expanded to over 18 product categories in almost 700 Kohl's retail locations. Similarly, the Bongo brand has expanded from a predominantly jeanswear brand to a broad variety of product groups and multiple licenses in the U.S. and internationally. Brand recognition for both of these brands is very high, has been generally stable for an extended period of time, and the Company expects 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 for the Current Year was a reduction in amortization expense relating to the Candie's and Bongo trademarks totaling $595,000 or $0.02 per fully diluted earning per share. As of December 31, 2005, the net book value of the Candie's and Bongo trademarks totaled $14.2 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. Effective July 1, 2005, the Company had a change in estimate of the useful lives of both the Candie's and Bongo trademarks to indefinite life.

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, ("SFAS 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 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 the Company's business. Based upon management's assessment of all available evidence, including the Company's completed transition into a licensing business, estimates of future profitability based on projected royalty revenues from its licensees, and the overall prospects of the Company's business, management concluded in the Current Year that it is more likely than not that the net deferred income tax asset recorded as of December 31, 2005 will be realized.

Other significant accounting policies are summarized in Note 1 of the Notes to Consolidated Financial Statements.

Summary of Operating Results:

The Company had net income of $15.9 million for the Current Year as compared to a net income of $241,000 for the 11-month Prior Year. In the Current Year, there were $1.5 million of special charges and $4.0 million of net interest expense, as compared to $295,000 of special charges and $2.5 million of net interest expense in the 11-month Prior Year

The Company's operating income was $14.8 million in the Current Year, compared to an operating income of $2.7 million in the 11-month Prior Year.

Current Year compared to 11-month Prior Year

Revenues. Consolidated net revenue decreased in the Current Year by $38.8 million to $30.2 million, from $69.0 million in the 11-Month Prior Year due to the Company's change in its business model from one based upon sales generated from its former footwear and jeanswear operations to one based upon royalties generated by licensing and brand management activity.

The licensing business drove an increase of $19.4 million in licensing revenue to $28.0 million for the Current Year, up from $8.6 million in the 11-month Prior Year. 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 the Company's Candie's brand in Kohl's, which generated $4.1 million in revenue.

Due to a change in revenue recognition resulting from its change of business practice beginning January 2005, Bright Star recorded only the net commission earned on sales in the Current Year 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 the Current Year for Bright Star, as compared to $2.0 million in commission revenue and $19.9 million in sales (excluding commission revenue) in the 11-month Prior Year. Further, as a result of the Company licensing its jeans wear business in August 2004, there were no reportable jeanswear sales in the Current Year as compared to $38.5 million in the 11-month Prior Year.

Gross Profit. Consolidated gross profit was $30.2 million in the Current Year as compared to $13.2 million in the 11-month Prior Year, an increase of $17.0 million. In the Current Year, there was no reportable gross profit from Unzipped's jeans wear operations, as compared to $2.6 million of gross profit in the 11-month Prior Year which reflects the liquidation of the remaining Bongo inventory in connection with the transition of the 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 good sold. Bright Star's gross profit increased to $2.2 million in the Current Year from $2.0 million in the 11-month Prior Year.

Operating Expenses. Consolidated selling, general and administrative (***"SG&A"***) expenses totaled $13.9 million in the Current Year compared to $10.2 million in the 11-month Prior Year, an increase of $3.7 million. The Company's SG&A expenses related to licensing increased by $4.0 million to $12.4 million in the Current Year compared to $8.4 million in the 11-month Prior Year. This increase resulted primarily from the Company's recent acquisitions of the Joe Boxer, Rampage and Badgley Mischka brands. SG&A expenses related to Bright Star were $965,000 in the Current Year compared to $900,000 in the 11-month Prior Year. Included in the Current Year's SG&A was $454,000 amortization of deferred financing cost, compared to $205,000 in the 11-month Prior Year. Also included in the Current Year's SG&A expense was $37,500 for Unzipped's net loss compared to $1.7 million in SG&A expense in the 11-month Prior Year, which were related to the Company's transition of the jeanswear business into a licensing business. Included in SG&A for Unzipped in the 11-month Prior Year was a $7.6 million reduction related to the

Shortfall Payment of $6.9 million and $685,000 recorded as a reserve pending the outcome of the Company's litigation with the former manager, supplier and distributor of Unzipped. See Notes 2 and 11 of Notes to Consolidated Financial Statements.

For the Current Year and the 11-month Prior Year, the Company's special charges included $1.5 million and $533,000, respectively, incurred by the Company relating to litigation involving Unzipped. The 11-month Prior Year's special charges were reduced by special income resulting from the Company's termination of certain long term debt payments totaling $238,000.

Operating Income (Loss). As a result of the foregoing, the Company's net operating income was $14.8 million in the Current Year, or 49% of total revenue, as compared to $2.7 million in the 11-month Prior Year, or 4% of total revenue.

Net Interest Expense. Net Interest expense increased by approximately $1.5 million in the Current Year to $4.0 million, compared to $2.5 million in the 11-month Prior Year. This increase was due primarily to an increase in the Company's debt through financing arrangements in connection with the acquisitions of Joe Boxer and Rampage. See Notes 4 and 5 of Consolidated Financial Statements. The interest expense related to the asset backed notes issued by IP Holdings, was $4.1 million in the Current Year compared to $1.4 million in the 11-month Prior Year. In addition, $151,000 in interest expense was included in the Current Year from the Sweet Note as compared to $644,000 in the 11-month Prior Year. This decrease was due to a lower average outstanding balance on the Sweet Note, resulting from the offset of Shortfall Payments. See Notes 2 and 11 of Notes to the Consolidated Financial Statements. Also included in interest expense in the 11-month Prior Year was $434,000 from Unzipped's jeanswear operations, with no comparable amount in the Current Year. A total of $293,000 in interest income for the Current Year partially offset the increase in interest expense, compared to $24,000 in the 11-month Prior Year.

Gain on Sales of Securities. In the Current Year, the gross realized gain on sales of securities available for sale totaled $75,000. There was no such gain in the 11-month Prior Year.

Provision (Benefit) for Income Taxes. In the Current Year, a net non-cash tax benefit of $5.0 million was recognized by reducing the deferred tax assets valuation allowance based on the Company's 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 indicate that a portion of the Company's net operating loss carryforwards (***"NOL's"***) would be utilized prior to their expiration. However, the Company does not believe that the future realization of all of these future tax benefits indicated by its projections is sufficiently assured to allow their full recognition in the 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 the 11-month Prior Year due to a reduction in the deferred tax valuation allowance that offset the income tax provision. At December 31, 2005, the Company 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. At December 31, 2005, the net deferred tax asset, totaling $11.5 million, represents the amount that more likely than not of recoverability based on information currently available. See Note 15 of Notes to Consolidated Financial Statements.

At December 31, 2005 the Company had available Federal NOL's 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 the NOL's is limited to $602,000 per year and expires in 2006 through 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 the Company had available state and city NOL's totaling between $59.4 million and $99.4 million, substantially all of which expire in the years 2020 through 2025. Included in the Company's NOL's is $7.0 million as of December 31, 2005 from the exercises of stock options. The benefit of the utilization of this NOL will be recorded as a credit to additional paid in capital if and when the related deferred tax asset is recorded.

Net income (loss). The Company recorded net income of $15.9 million in the Current Year, compared to net income of $241,000 in the 11-month Prior Year, as a result of the factors discussed above.

11-month Prior Year compared to Fiscal 2004

Revenues. During the 11-month Prior Year, consolidated net sales decreased from Fiscal 2004 by $64.7 million to $58.4 million. There were no wholesale and retail women's footwear sales in the 11-month Prior Year because the Company licensed its footwear operations in May 2003, compared to $38.9 million in Fiscal 2004. Unzipped's net sales decreased by $26.2 million from $64.7 million in Fiscal 2004 to $38.5 million in the 11-month Prior Year. This decrease resulted primarily from transitioning of the jeans wear business from an operating business to a licensing

arrangement The Company entered into the Bongo Jeanswear License effective August 1, 2004, which TKO subsequently assigned to its affiliate, BAI. Bright Star's revenues increased $771,000 to $21.9 million in the 11-month Prior Year as compared to $21.1 million in Fiscal 2004.

Licensing income increased $2.0 million to $8.6 million for the 11-month Prior Year from $6.6 million in Fiscal 2004. The increase was due primarily to revenue generated by new licenses as the Company transitioned from an operations business to a licensing business.

Gross Profit. Consolidated gross profit decreased by $13.9 million, from $27.1 million in Fiscal 2004, to $13.2 million in the 11-month Prior Year. There was no gross profit from wholesale and retail women's footwear in the 11-month Prior Year as compared to $8.4 million Fiscal 2004. Unzipped's gross profit in the 11-month Prior Year was $2.6 million as compared to $9.7 million in Fiscal 2004. The decrease in Unzipped's gross profit in the 11-month Prior Year reflect the liquidation of the remaining Bongo inventory in connection with the transition of the jeans wear business to a licensing arrangement. Gross profit from Bright Star men's private label footwear sales decreased to $2.0 million in the 11-month Prior Year from $2.1 million in Fiscal 2004. As a percent of net sales, Bright Star's gross profit decreased from 9.7% in Fiscal 2004 to 9.1% in the 11-month Prior Year, resulting from its continuing concentration of sales to Wal-Mart, which are 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 good sold.

Operating Expenses. During the 11-month Prior Year, consolidated selling, general and administrative expenses decreased by $20.5 million to $10.2 million, down from $30.7 million in Fiscal 2004. The Company's selling, general and administrative expense related to activities other than Unzipped decreased by $14.7 million to $8.4 million in the 11-month Prior Year as compared to $23.1 million in Fiscal 2004. The decrease resulted from the Company's closing its wholesale and retail women's footwear operations and transitioning to a licensing business beginning in the third quarter of Fiscal 2004. Selling, general and administrative expenses for Bright Star were $900,000 in the 11-month Prior Year, a $100,000 decrease from $1.0 million in Fiscal 2004. Unzipped's selling, general and administrative expenses decreased by $5.9 million in the 11-month Prior Year to $1.7 million as compared to $7.6 million in Fiscal 2004. Unzipped's SG&A for the 11-month Prior Year included a $7.6 million reduction related to the Shortfall Payment of $6.9 million and $685,000 recorded as a reserve pending the outcome of its litigation with the Company and for the Fiscal 2004's the SG&A included a reduction related to the Shortfall Payment of $1.6 million. See Notes 2 and 8 of Notes to Consolidated Financial Statements.

For the 11-month Prior Year, the Company's special charges included $434,000 of legal fees incurred by the Company relating to litigation involving Unzipped and $99,000 of legal professional fees related to transferring Unzipped wholesales business into a licensing business in the fiscal quarter ended April 30, 2004, partially offset by $238,000 of special income resulting from the Company's termination of certain long term debt payments.

For Fiscal 2004, the Company's 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 the Company's factoring contract, all resulting from the closing of its wholesale women's footwear operations and retail stores. Additionally, there were $583,000 of legal costs related to legal matters in Fiscal 2004 and $82,500 paid to Sweet related to certain contractual obligations resulting from the Unzipped purchase.

Operating Income (Loss). The Company's net operating income was $2.7 million in the 11-month Prior Year as compared to a net operating loss of $8.2 million for Fiscal 2004, as a result of the foregoing.

Net Interest Expense. Net Interest expense decreased by approximately $600,000 in the 11-month Prior Year to $2.5 million, compared to $3.1 million in Fiscal 2004. Included in interest expense in the 11-month Prior Year was $434,000 from Unzipped's revolving credit facilities, as compared to $651,000 in Fiscal 2004, a decrease of $217,000. The Unzipped interest expense decrease resulted from lower average outstanding borrowing as Unzipped transitioned out of the operating jeanswear business to a license and, to a lesser extent, from lower average interest rates then were available in Fiscal 2004. There was no interest expense under the revolving credit facility in the 11-month Prior Year because there were no operations relating to footwear, compared to $239,000 in Fiscal 2004. Also included in interest expense in the 11-month Prior Year was $644,000 relating to the Sweet Note issued in connection with the Unzipped acquisition, as compared to $761,000 in Fiscal 2004. Interest expense in the 11-month Prior Year associated with the asset backed notes issued by IP Holdings, a subsidiary of the Company, was $1.4 million as compared to $1.5 million in Fiscal 2004.

Income Tax Expense. In the 11-month Prior Year no tax expense was recorded. In Fiscal 2004, the Company recorded $58,000 of income tax provision, consisting of statutory minimum taxes. At December 31, 2004, the Company has a net deferred tax asset of approximately $3.6 million that management believes will be recoverable from profits anticipated to be generated over the next few years. The valuation allowance of $25.1 million represents amounts that cannot be assured of recoverability. See Note 15 of Notes to Consolidated Financial Statements.

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