TENNECO INC
Form 10-Q
May 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended March 31, 2010 OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-12387

TENNECO INC.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**76-0515284** *(I.R.S. Employer Identification No.)*
500 North Field Drive, Lake Forest, Illinois *(Address of principal executive offices)*	**60045** *(Zip Code)*

Registrant s telephone number, including area code: (847) 482-5000

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 þ No o

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Common Stock, par value $0.01 per share: 59,732,688 shares outstanding as of April 30, 2010.

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* No response to this item is included herein for the reason that it is inapplicable or the answer to such item is negative.

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CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, our prospects and business strategies. These forward-looking statements are included in various sections of this report, including the section entitled Outlook appearing in Item 2 of this report. The words may, will, believe, should, could, plan, expect, anticipate, estimate, and simila (and variations thereof), identify these forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, these expectations may not prove to be correct. Because these forward-looking statements are also subject to risks and uncertainties, actual results may differ materially from the expectations expressed in the forward-looking statements. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include:

general economic, business and market conditions, including without limitation the ongoing financial difficulties facing a number of companies in the automotive industry as a result of the difficult global economic environment, including the potential impact thereof on labor unrest, supply chain disruptions, weakness in demand and the collectability of any accounts receivable due to us from such companies;

changes in capital availability or costs, including increases in our cost of borrowing (i.e., interest rate increases), the amount of our debt, our ability to access capital markets at favorable rates, and the credit ratings of our debt;

the impact of the recent global economic crisis on the credit markets, which continue to be volatile and more restricted than they were previously;

our ability to source and procure needed materials, components and other products and services as the economy recovers from the recent global economic crisis;

changes in consumer demand, prices and our ability to have our products included on top selling vehicles, such as the recent shift in consumer preferences from light trucks, which tend to be higher margin products for our customers and us, to other vehicles, and other factors impacting the cyclicality of automotive production and sales of automobiles which include our products, and the potential negative impact on our revenues and margins from such products;

changes in automotive manufacturers production rates and their actual and forecasted requirements for our products, such as the significant production cuts during 2008 and 2009 by automotive manufacturers in response to difficult economic conditions;

the overall highly competitive nature of the automotive parts industry, and our resultant inability to realize the sales represented by our awarded book of business (which is based on anticipated pricing for the applicable program over its life, and is subject to increases or decreases due to changes in customer requirements, customer and consumer preferences, and the number of vehicles actually produced by customers);

the loss of any of our large original equipment manufacturer (OEM) customers (on whom we depend for a substantial portion of our revenues), or the loss of market shares by these customers if we are unable to achieve increased sales to other OEMs;

labor disruptions at our facilities or any labor or other economic disruptions at any of our significant customers or suppliers or any of our customers other suppliers (such as the 2008 strike at American Axle, which disrupted our supply of products for significant General Motors platforms);

increases in the costs of raw materials, including our ability to successfully reduce the impact of any such cost increases through materials substitutions, cost reduction initiatives, low cost country sourcing, and price recovery efforts with aftermarket and OE customers;

the cyclical nature of the global vehicle industry, including the performance of the global aftermarket sector and the longer product lives of automobile parts;

our continued success in cost reduction and cash management programs and our ability to execute restructuring and other cost reduction plans and to realize anticipated benefits from these plans;

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- costs related to product warranties;
- the impact of consolidation among automotive parts suppliers and customers on our ability to compete;
- operating hazards associated with our business;
- changes in distribution channels or competitive conditions in the markets and countries where we operate, including the impact of changes in distribution channels for aftermarket products on our ability to increase or maintain aftermarket sales;
- the negative impact of higher fuel prices and overall market weakness on discretionary purchases of aftermarket products by consumers;
- the cost and outcome of existing and any future legal proceedings;
- economic, exchange rate and political conditions in the foreign countries where we operate or sell our products;
- customer acceptance of new products;
- new technologies that reduce the demand for certain of our products or otherwise render them obsolete;
- our ability to realize our business strategy of improving operating performance;
- our ability to successfully integrate any acquisitions that we complete;
- changes by the Financial Accounting Standards Board or the Securities and Exchange Commission of authoritative generally accepted accounting principles or policies;
- changes in accounting estimates and assumptions, including changes based on additional information;
- potential legislation, regulatory changes and other governmental actions, including the ability to receive regulatory approvals and the timing of such approvals;
- the impact of changes in and compliance with laws and regulations, including environmental laws and regulations, environmental liabilities in excess of the amount reserved, the adoption of the current mandated timelines for worldwide emission regulation and any changes to the timing of the funding requirements for our pension and other postretirement benefit liabilities;
- decisions by federal, state and local governments to provide (or discontinue) incentive programs related to automobile purchases;
- the potential impairment in the carrying value of our long-lived assets and goodwill or our deferred tax assets;
- potential volatility in our effective tax rate;
- acts of war and/or terrorism, including, but not limited to, the current military action in Iraq and Afghanistan, the current situation in North Korea, and the continuing war on terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the

impact of these acts on economic, financial and social conditions in the countries where we operate; and

the timing and occurrence (or non-occurrence) of other transactions, events and circumstances which may be beyond our control.

The risks included here are not exhaustive. Refer to Part I, Item 1A Risk Factors in our annual report on Form 10-K for the year ended December 31, 2009, for further discussion regarding our exposure to risks. Additionally, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Tenneco Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries as of March 31, 2010, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss) for the three-month period ended March 31, 2010, and of changes in shareholders equity for the three-month period ended March 31, 2010. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Chicago, Illinois
May 7, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Tenneco Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Tenneco Inc. and consolidated subsidiaries (the Company) as of March 31, 2009, and the related condensed consolidated statements of income (loss), cash flows, comprehensive income (loss), and changes in shareholders equity for the three-month period ended March 31, 2009. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Tenneco Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income (loss), cash flows, changes in shareholders equity, and comprehensive income (loss) and financial statement schedule for the year then ended (not presented herein); and in our report dated February 26, 2010, we expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

Deloitte & Touche LLP

Chicago, Illinois
February 26, 2010

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31, 2010	2009
	(Millions Except Share and Per Share Amounts)	
Revenues		
Net sales and operating revenues	$ 1,316	$ 967
Costs and expenses		
Cost of sales (exclusive of depreciation and amortization shown below)	1,073	827
Engineering, research, and development	27	21
Selling, general, and administrative	100	78
Depreciation and amortization of other intangibles	55	52
	1,255	978
Other income (expense)		
Loss on sale of receivables	(1)	(2)
Other income (loss)	(1)	
	(2)	(2)
Income (loss) before interest expense, income taxes, and noncontrolling interests	59	(13)
Interest expense (net of interest capitalized of $1 million and $2 million for the three months ended March 31, 2010 and 2009, respectively)	32	31
Income tax expense	15	3
Net income (loss)	12	(47)
Less: Net income attributable to noncontrolling interests	5	2
Net income (loss) attributable to Tenneco Inc.	$ 7	$ (49)
Earnings (loss) per share		
Weighted average shares of common stock outstanding		
Basic	58,948,351	46,671,289
Diluted	60,811,047	46,671,289
Basic earnings (loss) per share of common stock	$ 0.11	$ (1.05)
Diluted earnings (loss) per share of common stock	$ 0.11	$ (1.05)

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated statements of income (loss).

TENNECO INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2010	December 31, 2009
	(Millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 193	$ 167
Receivables		
Customer notes and accounts, net	750	572
Other	29	24
Inventories		
Finished goods	188	175
Work in process	133	116
Raw materials	103	95
Materials and supplies	41	42
Deferred income taxes	35	35
Prepayments and other	171	167
Total current assets	1,643	1,393
Other assets:		
Long-term receivables, net	9	8
Goodwill	88	89
Intangibles, net	32	30
Deferred income taxes	96	100
Other	103	111
	328	338
Plant, property, and equipment, at cost	3,060	3,099
Less Accumulated depreciation and amortization	(1,997)	(1,989)
	1,063	1,110
	$ 3,034	$ 2,841
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt (including current maturities of long-term debt)	$ 202	$ 75
Trade payables	874	766
Accrued taxes	41	36
Accrued interest	31	22

Accrued liabilities	256	257
Other	36	45
Total current liabilities	1,440	1,201
Long-term debt	1,137	1,145
Deferred income taxes	60	66
Postretirement benefits	326	331
Deferred credits and other liabilities	85	80
Commitments and contingencies		
Total liabilities	3,048	2,823
Redeemable noncontrolling interests	9	7
Tenneco Inc. Shareholders equity:		
Common stock	1	1
Premium on common stock and other capital surplus	2,996	3,005
Accumulated other comprehensive loss	(243)	(212)
Retained earnings (accumulated deficit)	(2,568)	(2,575)
	186	219
Less Shares held as treasury stock, at cost	240	240
Total Tenneco Inc. shareholders equity	(54)	(21)
Noncontrolling interests	31	32
Total equity	(23)	11
Total liabilities, redeemable noncontrolling interests and equity	$ 3,034	$ 2,841

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated balance sheets.

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
	(Millions)	
Operating Activities		
Net income (loss)	$ 12	$ (47)
Adjustments to reconcile net income (loss) to cash used by operating activities		
Depreciation and amortization of other intangibles	55	52
Deferred income taxes	(3)	1
Stock-based compensation	3	2
Loss on sale of assets	2	2
Changes in components of working capital		
(Increase) decrease in receivables	(191)	(54)
(Increase) decrease in inventories	(44)	34
(Increase) decrease in prepayments and other current assets	(7)	(1)
Increase (decrease) in payables	120	(74)
Increase (decrease) in accrued taxes	7	(3)
Increase (decrease) in accrued interest	9	10
Increase (decrease) in other current liabilities	(6)	(3)
Change in long-term assets	(1)	2
Change in long-term liabilities	(11)	(5)
Other	(2)	3
Net cash used by operating activities	(57)	(81)
Investing Activities		
Proceeds from the sale of assets	1	2
Cash payments for plant, property, and equipment	(38)	(36)
Cash payments for software related intangible assets	(2)	(2)
Acquisition of business, net of cash acquired		1
Other	1	
Net cash used by investing activities	(38)	(35)
Financing Activities		
Issuance of long-term debt		2
Debt issuance cost of long-term debt		(8)
Retirement of long-term debt	(8)	(1)
Increase (decrease) in bank overdrafts	(1)	(13)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivable	2	137

Net increase (decrease) in short-term borrowings secured by accounts receivable	126	
Distributions to noncontrolling interest partners	(1)	
Net cash provided by financing activities	118	117
Effect of foreign exchange rate changes on cash and cash equivalents	3	(14)
Increase (decrease) in cash and cash equivalents	26	(13)
Cash and cash equivalents January 1	167	126
Cash and cash equivalents, March 31 (Note)	$ 193	$ 113
Supplemental Cash Flow Information		
Cash paid during the period for interest	$ 22	$ 22
Cash paid during the period for income taxes (net of refunds)	8	4
Non-cash Investing and Financing Activities		
Period ended balance of payable for plant, property, and equipment	$ 16	$ 17

Note: Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated statements of cash flows.

TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)

	Three Months Ended March 31,			
	2010		2009	
	Shares	Amount	Shares	Amount
	(Millions Except Share Amounts)			
Tenneco Inc. Shareholders:				
Common Stock				
Balance January 1	60,789,739	$ 1	48,314,490	$
Issued pursuant to benefit plans	149,417		294,487	
Stock options exercised	60,375			
Balance March 31	60,999,531	1	48,608,977	
Premium on Common Stock and Other Capital Surplus				
Balance January 1		3,005		2,809
Purchase of additional noncontrolling equity interest		(11)		
Premium on common stock issued pursuant to benefit plans		2		3
Balance March 31		2,996		2,812
Accumulated Other Comprehensive Loss				
Balance January 1		(212)		(318)
Other comprehensive income (loss)		(31)		(40)
Balance March 31		(243)		(358)
Retained Earnings (Accumulated Deficit)				
Balance January 1		(2,575)		(2,502)
Net income (loss) attributable to Tenneco Inc.		7		(49)
Other				
Balance March 31		(2,568)		(2,551)
Less Common Stock Held as Treasury Stock, at Cost				
Balance January 1 and March 31	1,294,692	240	1,294,692	240
Total Tenneco Inc. shareholders equity		$ (54)		$ (337)
Noncontrolling Interests:				
Balance January 1		32		24

Net income		3		1
Sale of twenty percent equity interest to Tenneco Inc.		(4)		
Balance March 31	$	31	$	25
Total equity	$	(23)	$	(312)

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated statements of changes in shareholders equity.

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TENNECO INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31, 2010					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income		$ 7		$ 5		$ 12
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ 37		$		$ 37	
Translation of foreign currency statements	(32)	(32)			(32)	(32)
Balance March 31	5				5	
Additional Liability for Pension Benefits						
Balance January 1	(249)				(249)	
Additional Liability for Pension and Postretirement Benefits, net of tax	1	1			1	1
Balance March 31	(248)				(248)	
Balance March 31	$ (243)		$		$ (243)	
Other Comprehensive Income (Loss)		(31)				(31)
Comprehensive Income (Loss)		$ (24)		$ 5		$ (19)

	Three Months Ended March 31, 2009					
	Tenneco Inc.		Noncontrolling Interests		Total	
	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	(Millions)					
Net Income (Loss)		$ (49)		$ 1		$ (48)
Accumulated Other Comprehensive Income (Loss)						
Cumulative Translation Adjustment						
Balance January 1	$ (42)		$		$ (42)	
Translation of foreign currency statements	(40)	(40)			(40)	(40)
Balance March 31	(82)				(82)	
Additional Liability for Pension Benefits						
Balance January 1 and March 31	(276)				(276)	
Balance March 31	$ (358)		$		$ (358)	
Other Comprehensive Income (Loss)		(40)				(40)
Comprehensive Income (Loss)		$ (89)		$ 1		$ (88)

The accompanying notes to financial statements are in an integral part of these statements of comprehensive income (loss).

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) As you read the accompanying financial statements you should also read our Annual Report on Form 10-K for the year ended December 31, 2009.

In our opinion, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly Tenneco Inc. s financial position, results of operations, cash flows, changes in shareholders equity, and comprehensive income (loss) for the periods indicated. We have prepared the unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for annual financial statements.

Our condensed consolidated financial statements include all majority-owned subsidiaries. We carry investments in 20 percent to 50 percent owned companies as equity method investments, at cost plus equity in undistributed earnings since the date of acquisition and cumulative translation adjustments. We have eliminated all intercompany transactions. We have evaluated all subsequent events through the date the financial statements were issued.

(2) The carrying and estimated fair values of our financial instruments by class at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Long-term debt (including current maturities)	$ 1,142	$ 1,171	$ 1,151	$ 1,168
Instruments with off-balance sheet risk:				
Foreign exchange forward contracts		1		2

Asset and Liability Instruments The fair value of cash and cash equivalents, short and long-term receivables, accounts payable, and short-term debt was considered to be the same as or was not determined to be materially different from the carrying amount.

Long-term Debt The fair value of our public fixed rate senior secured, senior and senior subordinated notes is based on quoted market prices. The fair value of our private borrowings under our senior credit facility and other long-term debt instruments is based on the market value of debt with similar maturities, interest rates and risk characteristics.

Foreign exchange forward contracts We use foreign exchange forward purchase and sales contracts with terms of less than one year to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans made between affiliates to minimize the need for borrowings from third parties. Additionally, we enter into foreign currency forward purchase and sale contracts to mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We do not enter into derivative financial instruments for speculative purposes. The fair value of our foreign exchange forward contracts is based on a model which incorporates observable inputs including quoted spot rates,

forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. We record the change in fair value of these foreign exchange forward contracts as part of currency gains (losses) within cost of sales in the condensed consolidated statements of income (loss). The fair value of foreign exchange forward contracts are recorded in prepayments and other current assets or other current liabilities in the condensed consolidated balance sheet. The fair value of our foreign exchange

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

forward contracts, presented on a gross basis by derivative contract at March 31, 2010 and December 31, 2009, respectively, was as follows:

	Fair Value of Derivative Instruments					
	March 31, 2010			December 31, 2009		
	Asset Derivatives	Liability Derivatives	Total	Asset Derivatives	Liability Derivatives	Total
Foreign exchange forward contracts	$ 2	$ 1	$ 1	$ 3	$ 1	$ 2

The fair value of our recurring financial assets and liabilities at March 31, 2010 and December 31, 2009, respectively, are as follows:

	March 31, 2010			December 31, 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(Millions)					
Financial Assets:						
Foreign exchange forward contracts	n/a	$ 1	n/a	n/a	$ 2	n/a

The fair value hierarchy definition prioritizes the inputs used in measuring fair value into the following levels:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3 Unobservable inputs based on our own assumptions.

The following table summarizes by major currency the notional amounts, weighted-average settlement rates, and fair value for foreign currency forward purchase and sale contracts as of March 31, 2010:

		Notional Amount in Foreign Currency	Weighted Average Settlement Rates	Fair Value in U.S. Dollars
		(Millions Except Settlement Rates)		
Australian dollars	Purchase	49	0.916	$ 46
	Sell	(8)	0.916	(8)
British pounds	Purchase	35	1.518	53
	Sell	(32)	1.518	(49)

European euro	Purchase			
	Sell	(23)	1.352	(32)
South African rand	Purchase	313	0.137	43
	Sell	(44)	0.137	(6)
U.S. dollars	Purchase	10	1.001	10
	Sell	(63)	1.000	(63)
Other	Purchase	693	0.011	8
	Sell	(1)	0.985	(1)
				$ 1

(3) Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries. As of March 31, 2010, the senior credit facility consisted of a five-year, $128 million term loan A maturing in March 2012, a five-year, $550 million revolving credit facility maturing in March 2012, and a seven-year $130 million tranche B-1 letter of credit/revolving loan facility maturing in

TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

March 2014. Our outstanding debt also includes $245 million of 101/4 percent senior secured notes due July 15, 2013, $250 million of 81/8 percent senior notes due November 15, 2015, and $500 million of 85/8 percent senior subordinated notes due November 15, 2014. At March 31, 2010, we had unused borrowing capacity of $629 million under our $680 million revolving credit facility with $51 million in letters of credit outstanding and no borrowings.

The term loan A facility of $128 million as of March 31, 2010, is payable in twelve consecutive quarterly installments, which commenced June 30, 2009, as follows: $6 million due each of June 30, September 30, December 31, 2009 and March 31, 2010, $15 million due each of June 30, September 30, December 31, 2010 and March 31, 2011, and $17 million due each of June 30, September 30, December 31, 2011 and March 16, 2012. Over the next twelve months we plan to repay $60 million of the senior term loan due 2012 by increasing our revolver borrowings which are classified as long-term debt. Accordingly, we have classified the $60 million repayment as long-term debt. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. Letters of credit may be issued under the revolving credit facility.

The tranche B-1 letter of credit/revolving loan facility requires repayment by March 2014. We can borrow revolving loans and issue letters of credit under the $130 million tranche B-1 letter of credit/revolving loan facility. The tranche B-1 letter of credit/revolving loan facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. There is no additional cost to us for issuing letters of credit under the tranche B-1 letter of credit/revolving loan facility. However, outstanding letters of credit reduce our availability to borrow revolving loans under this portion of the facility. We pay the tranche B-1 lenders interest at a rate equal to LIBOR plus a margin, which is offset by the return on the funds deposited with the administrative agent by the lenders which earn interest at an annual rate approximately equal to LIBOR less 20 basis points. Outstanding revolving loans reduce the funds on deposit with the administrative agent which in turn reduce the earnings of those deposits.

On February 23, 2009, in light of the challenging macroeconomic environment and auto production outlook, we amended our senior credit facility to increase the allowable consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) and reduced the allowable consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense as defined in the senior credit facility agreement). The financial ratios required under the senior credit facility for the remainder of 2010 and beyond are set forth below. As of March 31, 2010, we were in compliance with all the financial covenants and operational restrictions of the senior credit facility.

Period Ending	Leverage Ratio	Interest Coverage Ratio
June 30, 2010	5.00	2.25
September 30, 2010	4.75	2.30
December 31, 2010	4.50	2.35
March 31, 2011	4.00	2.55
June 30, 2011	3.75	2.55

September 30, 2011	3.50	2.55
December 31, 2011	3.50	2.55
Each quarter thereafter	3.50	2.75

Beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our term loan A and revolving credit facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis

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points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0, and will be further reduced by an additional 50 basis points following each fiscal quarter for which the consolidated net leverage ratio is less than 4.0.

Also beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our tranche B-1 facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0.

The February 23, 2009, amendment to our senior credit facility also placed further restrictions on our operations including limitations on: (i) debt incurrence, (ii) incremental loan extensions, (iii) liens, (iv) restricted payments, (v) optional prepayments of junior debt, (vi) investments, (vii) acquisitions, and (viii) mandatory prepayments. The definition of EBIDTA was amended to allow for $40 million of cash restructuring charges taken after the date of the amendment and $4 million annually in aftermarket changeover costs. We agreed to pay each consenting lender a fee. The lender fee plus amendment costs were approximately $8 million.

(4) We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The ability to realize deferred tax assets depends on our ability to generate sufficient taxable income within the carryforward periods provided for in the tax law for each tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

- Future reversals of existing taxable temporary differences;
- Taxable income or loss, based on recent results, exclusive of reversing temporary differences and carryforwards; and
- Tax-planning strategies.

In 2009, we recorded tax expense of $13 million. Computed using the U.S. Federal statutory income tax rate of 35 percent, income tax would be a benefit of $14 million. The difference is due primarily to valuation allowances against deferred tax assets generated by 2009 losses in the U.S. and in certain foreign countries which we cannot benefit, partially offset by adjustments to past valuation allowances for deferred tax assets including a reversal of $20 million of U.S. valuation allowance based on the change in the fair value of a tax planning strategy. We reported income tax expense of $15 million in the first quarter of 2010. The tax expense recorded differs from the expense that

would be recorded using a U.S. Federal statutory rate of 35 percent because of $5 million in tax charges primarily related to adjustments to prior year income tax estimates and the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions offset by a favorable mix of tax rates in the jurisdictions we pay taxes. During the first three months of 2010, we recorded an additional valuation allowance of less than $1 million primarily related to U.S. tax benefits recorded in the first three months of 2010 on U.S. losses. In evaluating the requirements to record a valuation allowance, accounting standards do not permit us to consider an economic recovery in the U.S. or new business we have won in the commercial vehicle segment. Consequently, beginning in 2008, given our historical losses, we concluded that our ability to fully utilize our NOLs was limited due to projecting the

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continuation of the negative economic environment and the impact of the negative operating environment on our tax planning strategies. As a result of the tax planning strategy which has not yet been implemented but which we plan to implement and which does not depend upon generating future taxable income, we carry deferred tax assets in the U.S. of $90 million relating to the expected utilization of those NOLs. The federal NOLs expire beginning in 2020 through 2029. The state NOLs expire in various years through 2029.

If our operating performance improves on a sustained basis, our conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the future. The charge to establish the U.S. valuation allowance also includes items related to the losses allocable to certain state jurisdictions where it was determined that tax attributes related to those jurisdictions were potentially not realizable.

We are required to record a valuation allowance against deferred tax assets generated by taxable losses in each period in the U.S. as well as in other foreign countries. Our future provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these jurisdictions until the respective valuation allowance is eliminated. This will cause variability in our effective tax rate.

(5) In addition to our senior credit facility, senior secured notes, senior notes and senior subordinated notes, we also securitize some of our accounts receivable on a limited recourse basis in North America and Europe. Tenneco, as servicer under these accounts receivable securitization programs, is responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In North America, we have an accounts receivable securitization program with three commercial banks. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. The amount of outstanding third party investments in our securitized accounts receivable under the bank program was $127 million and $62 million at March 31, 2010 and December 31, 2009, respectively. In February 2010, the North American program was amended and extended to February 18, 2011, at a maximum facility size of $100 million. As part of this renewal, the margin we pay to our banks decreased. In March 2010, the North American program was further amended to extend the revolving terms of the program to March 25, 2011, add an additional bank and increase the available financing under the facility by $10 million to a new maximum of $110 million. In addition, we added a second priority facility to the North American program, which provides up to an additional $40 million of financing against accounts receivable generated in the U.S. or Canada that would otherwise be ineligible under the existing securitization facility. This new second priority facility also expires on March 25, 2011, and is subordinated to the existing securitization facility.

Each facility contains customary covenants for financings of this type, including restrictions related to liens, payments, merger or consolidation and amendments to the agreements underlying the receivables pool. Further, each facility may be terminated upon the occurrence of customary events (with customary grace periods, if applicable), including breaches of covenants, failure to maintain certain financial ratios, inaccuracies of representations and warranties, bankruptcy and insolvency events, certain changes in the rate of default or delinquency of the receivables, a change of control and the entry or other enforcement of material judgments. In addition, each facility contains cross-default provisions, where the facility could be terminated in the event of non-payment of other material indebtedness when due and any other event which permits the acceleration of the maturity of material indebtedness.

We also securitize receivables in our European operations to regional banks in Europe. The amount of outstanding third party investments in our securitized accounts receivable in Europe was $96 million and $75 million at March 31,

2010 and December 31, 2009, respectively. The arrangements to securitize receivables in Europe are provided under seven separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year but some may be cancelled with notice 90 days prior to renewal. In some instances, the arrangement provides for cancellation by the applicable financial institution at any time upon 15 days, or less, notification.

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If we were not able to securitize receivables under either the North American or European securitization programs, our borrowings under our revolving credit agreements might increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit agreements.

We adopted the new accounting guidance for transfers of financial assets effective January 1, 2010. Prior to the adoption of this new guidance, we accounted for activities under our North American and European accounts receivable securitization programs as sales of financial assets to our banks. The new accounting guidance changed the accounting rules for the transfer of financial assets which companies need to meet to qualify for sales accounting treatment. Based on these new accounting rules, effective January 1, 2010, we account for our North American securitization program as a secured borrowing as we no longer meet the conditions required for sales accounting treatment. Our European securitization programs continue to qualify for sales accounting treatment under these new accounting rules. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized $1 million in interest expense for the three month period ended March 31, 2010 relating to our North American securitization program which effective January 1, 2010, is accounted for as a secured borrowing arrangement under the new accounting guidance for transfers of financial assets. In addition, we recognized a loss of $1 million and $2 million for the three month period ended March 31, 2010 and 2009, respectively, on the sale of trade accounts receivable in both the North American and European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately four percent during 2010.

The impact of the new accounting rules on our condensed consolidated financial statements is an increase of $126 million both in accounts receivables and short-term debt on the balance sheet as of March 31, 2010 as well as an increase of $1 million in interest expense and a corresponding decrease in loss on sale of receivables on our income statement for the three months ended March 31, 2010. In addition, the funding levels provided by our North American accounts receivable securitization program subsequent to January 1, 2010 are reflected as a $126 million change in net increase (decrease) in short-term borrowings secured by accounts receivables and included in net cash provided by financing activities in our cash flow statement for the three month period ending March 31, 2010. Funding levels provided by our European securitization programs continue to be reflected as a change in receivables and included in net cash provided (used) by operating activities as under the previous accounting rules. Had the new accounting rules been in effect in 2009, reported receivables and short-term debt would both have been $62 million higher as of December 31, 2009. The loss on sale of receivables would have been $1 million lower, offset by a corresponding $1 million increase to interest expense for the three month period ended March 31, 2009. Additionally, our cash provided (used) by operations would have decreased by $62 million with a corresponding increase in cash provided by financing activities for the same amount for the three month period ended March 31, 2009.

(6) Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. Our Board of Directors approved a restructuring project in 2001, known as Project Genesis, which was designed to lower our fixed costs, relocate capacity, reduce our work force, improve efficiency and utilization, and better optimize our global footprint. We have subsequently engaged in various other restructuring projects related to Project Genesis. In 2009, we incurred $21 million in restructuring and related costs, of which $16 million was recorded in cost of sales, $1 million was recorded in selling, general, administrative and engineering

expense and $4 million was recorded in depreciation and amortization expense. In the first quarter of 2010, we incurred $5 million in restructuring and related costs, of which $4 million was recorded in cost of sales and $1 million was recorded in depreciation and amortization expense.

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Amounts related to activities that are part of our restructuring plans are as follows:

(Millions)	December 31, 2009 Restructuring Reserve	2010 Cash Payments	Impact of Exchange Rates	Reserve Adjustments	March 31, 2010 Restructuring Reserve
Severence	15	(2)		(1)	12

Under the terms of our amended and restated senior credit agreement that took effect on February 23, 2009, we are allowed to exclude $40 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after February 23, 2009 from the calculation of the financial covenant ratios required under our senior credit facility. As of March 31, 2010, we have excluded $20 million in cumulative allowable charges relating to restructuring initiatives against the $40 million available under the terms of the February 2009 amended and restated senior credit facility.

On September 22, 2009, we announced that we will be closing our original equipment ride control plant in Cozad, Nebraska. We expect the elimination of 500 positions at the Cozad plant and expect to record up to $20 million in restructuring and related expenses, of which approximately $14 million represents cash expenditures. We expect that all expenses will be recorded by the end 2010. We plan to hire at other facilities as we move the production from Cozad to those facilities, resulting in a net decrease of approximately 60 positions. During 2009 we recorded $11 million of restructuring and related expenses related to this initiative. For the first quarter of 2010, we recorded $3 million of restructuring and related expenses related to this initiative.

(7) We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. We record liabilities when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. We consider all available evidence including prior experience in remediation of contaminated sites, other companies cleanup experiences and data released by the United States Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new information. Where future cash flows are fixed or reliably determinable, we have discounted the liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our condensed consolidated financial statements.

As of March 31, 2010, we have the obligation to remediate or contribute towards the remediation of certain sites, including two existing Superfund sites. At March 31, 2010, our estimated share of environmental remediation costs at

these sites was approximately $17 million on a discounted basis. The undiscounted value of the estimated remediation costs was $23 million. For those locations in which the liability was discounted, the weighted average discounted rate used was 3.6 percent. Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute towards the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination of our estimated liability.

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The $17 million noted above includes $5 million of estimated environmental remediation costs that result from the bankruptcy of Mark IV Industries in 2009. Prior to our 1996 acquisition of The Pullman Company, Pullman had sold certain assets to Mark IV. As partial consideration for the purchase of these assets, Mark IV agreed to assume Pullman s and its subsidiaries historical obligations to contribute to the environmental remediation of certain sites. Mark IV has filed a petition for insolvency under Chapter 11 of the United States Bankruptcy Code and notified Pullman that it no longer intends to continue to contribute toward the remediation of those sites. We are conducting a thorough analysis and review of these matters and it is possible that our estimate may change as additional information becomes available to us.

We do not believe that any potential costs associated with our current status as a potentially responsible party in the Superfund sites, or as a liable party at the other locations referenced herein, will be material to our condensed consolidated results of operations, financial position or cash flows.

We also from time to time are involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, we have become subject to an audit in 11 states of our practices with respect to the payment of unclaimed property to those states. We have practices in place designed to ensure that we pay unclaimed property as required. We are in the initial stages of this audit, which could cover over 20 years. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

In addition, we are subject to a number of lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000 s we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our subsidiaries. The balance of the claims is related to alleged exposure to asbestos in our automotive emission control products. Only a small percentage of these claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number of each in some cases exceeding 100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for

damages. As major asbestos manufacturers continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to cash costs or non-cash charges to earnings if any of these matters is resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolution. Accordingly, we presently believe

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that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

We provide warranties on some of our products. The warranty terms vary but range from one year up to limited lifetime warranties on some of our premium aftermarket products. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified on OE products. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. We actively study trends of our warranty claims and take action to improve product quality and minimize warranty claims. We believe that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. The reserve is included in both current and long-term liabilities on the balance sheet.

Below is a table that shows the activity in the warranty accrual accounts:

	Three Months Ended March 31,	
	2010	2009
	(Millions)	
Beginning Balance January 1,	$ 32	$ 27
Accruals related to product warranties	4	4
Reductions for payments made	(4)	(3)
Ending Balance March 31,	$ 32	$ 28

(8) Earnings (loss) per share of common stock outstanding were computed as follows:

	Three Months Ended March 31,	
	2010	2009
	(Millions Except Share and Per Share Amounts)	
Basic earnings (loss) per share		
Net income (loss) attributable to Tenneco Inc.	$ 7	$ (49)
Average shares of common stock outstanding	58,948,351	46,671,289
Earnings (loss) per average share of common stock	$ 0.11	$ (1.05)

Diluted earnings (loss) per share				
Net income (loss) attributable to Tenneco Inc.	$	7	$	(49)
Average shares of common stock outstanding		58,948,351		46,671,289
Effect of dilutive securities:				
Restricted stock		449,259		
Stock options		1,413,437		
Average shares of common stock outstanding including dilutive securities		60,811,047		46,671,289
Earnings (loss) per average share of common stock	$	0.11	$	(1.05)

The calculation of diluted earnings per share for the three months ended March 31, 2010 includes the dilutive effect of 1,413,437 stock options and 449,259 shares of restricted stock. The calculation of diluted loss per share for the same three month period in 2009 does not include the dilutive effect of 38,095 stock options or any shares of restricted stock. In addition, options to purchase 2,271,948 and 3,795,881 shares of common stock and 124,303 and

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665,238 shares of restricted stock were antidilutive at March 31, 2010 and 2009, respectively, and therefore, not included in the calculation of diluted earnings per share.

(9) *Equity Plans* Tenneco has granted a variety of awards, including common stock, restricted stock, restricted stock units, performance units, stock appreciation rights (SARs), and stock options to our directors, officers, and employees.

Accounting Methods The impact of recognizing compensation expense related to nonqualified stock options is contained in the table below.

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(Millions)	
Selling, general and administrative	$ 1	$ 1
Loss before interest expense, income taxes and noncontrolling interests	(1)	(1)
Income tax benefit		
Net loss	$ (1)	$ (1)
Decrease in basic earnings per share	$ (0.01)	$ (0.02)
Decrease in diluted earnings per share	$ (0.01)	$ (0.02)

We immediately expense stock options awarded to employees who are eligible to retire. When employees become eligible to retire during the vesting period, we recognize the remaining expense associated with their stock options.

As of March 31, 2010, there was approximately $5 million of unrecognized compensation costs related to these stock-based awards that we expect to recognize over a weighted average period of 1.1 years.

Compensation expense for restricted stock, restricted stock units, long-term performance units and SARs, was $4 million and $1 million for the three months ended March 31, 2010 and 2009, respectively, and was recorded in selling, general, and administrative expense on the statement of income (loss).

Cash received from stock option exercises during the three months ended March 31, 2010 was less than $1 million and stock options exercised during the first three months of 2010 would have generated an excess tax benefit of less than $1 million. No stock options were exercised during the three months ended March 31, 2009 and as a result there was no cash received from option exercises or any associated excess tax benefit for the period. We did not record the excess tax benefit as we have federal and state net operating losses which are not currently being utilized.

Assumptions We calculated the fair values of stock option awards using the Black-Scholes option pricing model with the weighted average assumptions listed below. The fair value of share-based awards is determined at the time the awards are granted which is generally in January of each year, and requires judgment in estimating employee and

market behavior. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

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	Three Months Ended March 31,	
	2010	**2009**
Stock Options Granted		
Weighted average grant date fair value, per share	$ 11.76	$ 1.26
Weighted average assumptions used:		
Expected volatility	75.37%	82.6%
Expected lives	4.6	4.5
Risk-free interest rates	2.2%	1.5%
Dividend yields	0.0%	0.0%

Expected lives of options are based upon the historical and expected time to post-vesting forfeiture and exercise. We believe this method is the best estimate of the future exercise patterns currently available.

The risk-free interest rates are based upon the Constant Maturity Rates provided by the U.S. Treasury. For our valuations, we used the continuous rate with a term equal to the expected life of the options.

Stock Options The following table reflects the status and activity for all options to purchase common stock for the period indicated:

	Three Months Ended March 31, 2010			
	Shares Under Option	**Weighted Avg. Exercise Prices**	**Weighted Avg. Remaining Life in Years**	**Aggregate Intrinsic Value**
				(Millions)
Outstanding Stock Options				
Outstanding, January 1, 2010	3,425,457	$ 13.21	4.6	$ 20
Granted	346,774	19.48		
Canceled	(15,000)	10.66		
Forfeited	(16,471)	19.72		
Exercised	(55,375)	6.06		1
Outstanding, March 31, 2010	3,685,385	$ 13.89	4.7	$ 30

Restricted Stock The following table reflects the status for all nonvested restricted shares for the period indicated:

	Three Months Ended March 31, 2010	
	Shares	Weighted Avg. Grant Date Fair Value
Nonvested Restricted Shares		
Nonvested balance at January 1, 2010	644,052	$ 9.85
Granted	240,555	19.48
Vested	(307,981)	13.82
Forfeited	(3,064)	4.10
Nonvested balance at March 31, 2010	573,562	$ 11.50

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The fair value of restricted stock grants is equal to the average of the high and low market price of our stock at the date of grant. As of March 31, 2010, approximately $5 million of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.5 years.

Long-Term Performance Units, Restricted Stock Units and SARs Long-term performance units, restricted stock units and SARs are paid in cash and recognized as a liability based upon their fair value. As of March 31, 2010, $13 million of unrecognized compensation costs is expected to be recognized over a weighted-average period of approximately 2.7 years.

(10) Net periodic pension costs (income) and postretirement benefit costs (income) consist of the following components:

	Three Months Ended March 31,					
	Pension				Postretirement	
	2010		2009		2010	2009
	US	Foreign	US	Foreign	US	US
	(Millions)					
Service cost benefits earned during the period	$	$ 1	$	$ 1	$	$
Interest cost	5	5	5	4	2	2
Expected return on plan assets	(5)	(5)	(5)	(4)		
Settlement loss			1			
Net amortization:						
Actuarial loss	1	1	1	1	1	1
Prior service cost					(1)	(1)
Net pension and postretirement costs	$ 1	$ 2	$ 2	$ 2	$ 2	$ 2

For the three months ended March 31, 2010, we made pension contributions of less than $1 million for our domestic pension plans and $3 million for our foreign pension plans. Based on current actuarial estimates, we believe we will be required to make approximately $50 million in contributions for the remainder of 2010.

We made postretirement contributions of approximately $2 million during the first three months of 2010. Based on current actuarial estimates, we believe we will be required to make approximately $8 million in contributions for the remainder of 2010.

The assets of some of our pension plans are invested in trusts that permit commingling of the assets of more than one employee benefit plan for investment and administrative purposes. Each of the plans participating in the trust has interests in the net assets of the underlying investment pools of the trusts. The investments for all our pension plans are recorded at estimated fair value, in compliance with the recent accounting guidance on fair value measurement.

(11) In January 2010, we purchased an additional 20 percent equity interest in our Dalian Walker Gillet Automobile Muffler Co. Ltd. joint venture investment in China for $15 million in cash. As a result of this purchase, our equity ownership percentage of this joint venture investment increased to 80 percent from 60 percent.

On September 1, 2008, we acquired the suspension business of Gruppo Marzocchi, an Italian based worldwide leader in supplying suspension technology in the two wheeler market. The consideration paid for the Marzocchi acquisition included cash of approximately $1 million, plus the assumption of Marzocchi s net debt (debt less cash acquired) of about $5 million. In February 2009, we recorded an opening balance sheet adjustment of $1 million to cash, as a result of an expected post-closing purchase price settlement with Marzocchi, which resulted in a corresponding decrease to goodwill. We finalized the purchase price allocation during the third quarter of 2009. Adjustments to the opening balance sheet decreased goodwill to zero and included the capitalization of intangible assets, including $4 million for trademarks and $2 million for patents, the capitalization of $2 million of fixed assets,

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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and the release of $1 million in a restructuring accrual. The calculated fair value of these intangible and tangible purchased assets included Level 2 observable inputs and Level 3 unobservable inputs that utilized our own assumptions. The fair value of fixed assets purchased was calculated based on a current cost to replace valuation methodology adjusted for various factors including physical deterioration and functional and economic obsolescence. The fair value of the intangible assets purchased was calculated using a market-based model to calculate the discounted after-tax royalty savings based on the Company s weighted average cost of capital. This market-based model utilized inputs such as similar market transactions in the marketplace and the Company s historic and projected revenue growth trends. The acquisition of the Gruppo Marzocchi suspension business includes a manufacturing facility in Bologna, Italy, associated engineering and intellectual property, the Marzocchi brand name, sales, marketing and customer service operations in the United States and Canada, and purchasing and sales operations in Taiwan.

On May 30, 2008, we acquired from Delphi Automotive Systems LLC certain ride control assets and inventory at Delphi s Kettering, Ohio facility for a cash payment of $19 million. We are utilizing a portion of the purchased assets in other locations to grow our OE ride control business globally. We finalized the purchase price allocation during the second quarter of 2009. Adjustments recorded to the opening balance sheet were not significant. The calculated fair value of the purchased assets included Level 2 observable inputs and Level 3 unobservable inputs that utilized our own assumptions. The fair value of the inventory items was calculated at current replacement cost while the fair value of the machinery and equipment purchased was based on values existing in the used-asset market. In conjunction with the purchase agreement, we entered into an agreement to lease a portion of the Kettering facility from Delphi and we have entered into a long-term supply agreement with General Motors Corporation to continue supplying passenger car shocks and struts to General Motors from the Kettering facility. The agreement has been assumed by the new General Motors Company.

(12) In June 2009, the FASB issued new accounting guidance which changes the accounting for transfers of financial assets, by eliminating the concept of a qualifying special purpose entity (QSPE), clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale, amending and clarifying the unit of account eligible for sale accounting and requiring that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of a financial asset or group of financial assets accounted for as a sale. Additionally, all existing QSPE s must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. The new accounting guidance requires additional disclosures about a transferor s continuing involvement with transfers of financial assets accounted for as a sale, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor s assets that continue to be reported in the statement of financial position. The new accounting guidance is effective for a reporting entity s first annual reporting period that begins after November 15, 2009, and for interim and annual reporting periods thereafter. We have adopted this new accounting guidance on January 1, 2010. Prior to the adoption of this new accounting guidance, our securitized accounts receivable programs qualified for sales accounting treatment. The discount fees charged by the factor banks were recorded as a loss on sale of receivables in our condensed consolidated statements of income (loss). Based on the new accounting rules, effective January 1, 2010, we account for our North American securitization programs as a secured borrowing as we no longer meet the conditions required for sales accounting treatment. Our European securitization programs continue to qualify for sales accounting treatment under these new accounting rules. We have disclosed the impact of this accounting rule change on our condensed consolidated financial statements and added additional disclosures as required under this new accounting guidance in footnote 5 of our notes to condensed consolidated financial statements.

In June 2009, the FASB issued new accounting guidance which changes the criterion relating to the consolidation of variable interest entities (VIE) and amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE by requiring a qualitative rather than quantitative analysis. The new accounting guidance also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE and enhanced disclosures about an entity s involvement with a VIE. The new accounting guidance is effective

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(Unaudited)

for a reporting entity s first annual reporting period that begins after November 15, 2009, and for interim and annual reporting periods thereafter. The adoption of this new accounting guidance on January 1, 2010 did not have any impact on our condensed consolidated financial statements as we did not hold an interest in a VIE for the three month period ended March 31, 2010.

(13) We have from time to time issued guarantees for the performance of obligations by some of our subsidiaries, and some of our subsidiaries have guaranteed our debt. All of our existing and future material domestic wholly-owned subsidiaries fully and unconditionally guarantee our senior credit facility, our senior secured notes, our senior notes and our senior subordinated notes on a joint and several basis. The arrangement for the senior credit facility is also secured by first-priority liens on substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries. The $245 million senior secured notes is also secured by second-priority liens on substantially all our domestic assets, excluding some of the stock of our domestic subsidiaries. No assets or capital stock of our direct or indirect foreign subsidiaries secure these notes. You should also read Note 15 of the condensed consolidated financial statements of Tenneco Inc., where we present the Supplemental Guarantor Condensed Consolidating Financial Statements.

We have issued guarantees through letters of credit in connection with some obligations of our affiliates. As of March 31, 2010, we have guaranteed $51 million in letters of credit to support some of our subsidiaries insurance arrangements, foreign employee benefit programs, environmental remediation activities and cash management and capital requirements.

Negotiable Financial Instruments One of our European subsidiaries receives payment from one of its OE customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets as they do not meet our definition of cash equivalents. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled $5 million at both March 31, 2010 and December 31, 2009, respectively. No negotiable financial instruments were held by our European subsidiary as of March 31, 2010 or December 31, 2009, respectively.

In certain instances several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled $17 million and $15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled $22 million and $15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as other current assets. Some of our Chinese subsidiaries that issue their own negotiable financial instruments to pay vendors are required to maintain a cash balance if they exceed certain credit limits with the financial institution that guarantees those financial instruments. A restricted cash balance was not required at those Chinese subsidiaries at March 31, 2010 and December 31, 2009, respectively.

The negotiable financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are checks drawn by our OE customers and guaranteed by their banks that are payable at a future date. The use of these instruments for payment follows local commercial practice. Because negotiable financial instruments are financial obligations of our customers and are guaranteed by our customers banks, we believe they represent a

lower financial risk than the outstanding accounts receivable that they satisfy which are not guaranteed by a bank.

(14) We are a global manufacturer with three geographic reportable segments: (1) North America, (2) Europe, South America and India (Europe), and (3) Asia Pacific. Each segment manufactures and distributes ride control and emission control products primarily for the automotive industry. We have not aggregated individual operating segments within these reportable segments. We evaluate segment performance based primarily on income before

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

interest expense, income taxes, and noncontrolling interests. Products are transferred between segments and geographic areas on a basis intended to reflect as nearly as possible the market value of the products.

The following table summarizes certain Tenneco Inc. segment information:

	Segment				
	North America	Europe	Asia Pacific	Reclass & Elims	Consolidated
	(Millions)				
At March 31, 2010 and for the Three Months Then Ended					
Revenues from external customers	$ 605	$ 561	$ 150	$	$ 1,316
Intersegment revenues	3	29	5	(37)	
Income before interest expense, income taxes, and noncontrolling interests	36	12	11		59
Total assets	1,242	1,365	415	12	3,034
At March 31, 2009 and for the Three Months Then Ended					
Revenues from external customers	$ 469	$ 406	$ 92	$	$ 967
Intersegment revenues	1	38	2	(41)	
Income before interest expense, income taxes, and noncontrolling interests	4	(17)			(13)
Total assets	890	1,512	318	22	2,742

(15) Supplemental guarantor condensed consolidating financial statements are presented below:

Basis of Presentation

Subject to limited exceptions, all of our existing and future material domestic 100% owned subsidiaries (which are referred to as the Guarantor Subsidiaries) fully and unconditionally guarantee our senior subordinated notes due in 2014, our senior notes due in 2015 and our senior secured notes due 2013 on a joint and several basis. The Guarantor Subsidiaries are combined in the presentation below.

These condensed consolidating financial statements are presented on the equity method. Under this method, our investments are recorded at cost and adjusted for our ownership share of a subsidiary s cumulative results of operations, capital contributions and distributions, and other equity changes. You should read the condensed consolidating financial information of the Guarantor Subsidiaries in connection with our condensed consolidated financial statements and related notes of which this note is an integral part.

Distributions

There are no significant restrictions on the ability of the Guarantor Subsidiaries to make distributions to us.

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

STATEMENT OF INCOME (LOSS)

	For the Three Months Ended March 31, 2010				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
			(Millions)		
Revenues					
Net sales and operating revenues					
External	$ 543	$ 773	$	$	$ 1,316
Affiliated companies	31	109		(140)	
	574	882		(140)	1,316
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	519	694		(140)	1,073
Engineering, research, and development	9	18			27
Selling, general, and administrative	37	63			100
Depreciation and amortization of other intangibles	22	33			55
	587	808		(140)	1,255
Other income (expense)					
Loss on sale of receivables		(1)			(1)
Other income (loss)		(1)			(1)
		(2)			(2)
Income (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	(13)	72			59
Interest expense					
External (net of interest capitalized)		1	31		32
Affiliated companies (net of interest income)	37	(5)	(32)		
Income tax expense (benefit)	1	14			15

Equity in net income (loss) from affiliated companies	55		6	(61)	
Net Income (loss)	4	62	7	(61)	12
Less: Net income (loss) attributable to noncontrolling interests		5			5
Net income (loss) attributable to Tenneco Inc.	$ 4	$ 57	$ 7	$ (61)	$ 7

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

STATEMENT OF INCOME (LOSS)

	For the Three Months Ended March 31, 2009				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
Revenues					
Net sales and operating revenues					
External	$ 423	$ 544	$	$	$ 967
Affiliated companies	22	88		(110)	
	445	632		(110)	967
Costs and expenses					
Cost of sales (exclusive of depreciation and amortization shown below)	361	576		(110)	827
Engineering, research, and development	6	15			21
Selling, general, and administrative	24	53	1		78
Depreciation and amortization of other intangibles	22	30			52
	413	674	1	(110)	978
Other income (expense)					
Loss on sale of receivables		(2)			(2)
Other income (loss)	(15)	15			
	(15)	13			(2)
Income (loss) before interest expense, income taxes, noncontrolling interests, and equity in net income from affiliated companies	17	(29)	(1)		(13)
Interest expense					
External (net of interest capitalized)			31		31
Affiliated companies (net of interest income)	32	(2)	(30)		
Income tax expense (benefit)	1	2			3

Equity in net income (loss) from affiliated companies	(32)		(47)	79	
Net Income (loss)	(48)	(29)	(49)	79	(47)
Less: Net income (loss) attributable to noncontrolling interests		2			2
Net income (loss) attributable to Tenneco Inc.	$ (48)	$ (31)	$ (49)	$ 79	$ (49)

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

BALANCE SHEET

	March 31, 2010				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
	(Millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 193	$	$	$ 193
Receivables, net	394	1,164	40	(819)	779
Inventories	185	280			465
Deferred income taxes	99			(64)	35
Prepayments and other	18	153	1	(1)	171
Total current assets	696	1,790	41	(884)	1,643
Other assets:					
Investment in affiliated companies	630		607	(1,237)	
Notes and advances receivable from affiliates	3,818	387	5,750	(9,955)	
Long-term receivables, net	3	6			9
Goodwill	22	66			88
Intangibles, net	15	17			32
Deferred income taxes	73	23	39	(39)	96
Other	27	53	23		103
	4,588	552	6,419	(11,231)	328
Plant, property, and equipment, at cost	1,009	2051			3,060
Less Accumulated depreciation and amortization	(709)	(1,288)			(1,997)
	300	763			1,063
Total assets	$ 5,584	$ 3,105	$ 6,460	$ (12,115)	$ 3,034

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

Short-term debt (including current maturities of long-term debt)										
Short-term debt non-affiliated	$		$	201	$	1	$		$	202
Short-term debt affiliated		350		327		10		(687)		
Trade payables		327		665		1		(119)		874
Accrued taxes		4		38				(1)		41
Other		152		183		65		(77)		323
Total current liabilities		833		1,414		77		(884)		1,440
Long-term debt non-affiliated				7		1,130				1,137
Long-term debt affiliated		4,434		214		5,307		(9,955)		
Deferred income taxes		38		61				(39)		60
Postretirement benefits and other liabilities		332		75				4		411
Commitments and contingencies										
Total liabilities		5,637		1,771		6,514		(10,874)		3,048
Redeemable noncontrolling interests				9						9
Tenneco Inc. Shareholders equity		(53)		1,294		(54)		(1,241)		(54)
Noncontrolling interests				31						31
Total equity		(53)		1,325		(54)		(1,241)		(23)
Total liabilities, redeemable noncontrolling interests and equity	$	5,584	$	3,105	$	6,460	$	(12,115)	$	3,034

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

BALANCE SHEET

	December 31, 2009				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
			(Millions)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 20	$ 147	$	$	$ 167
Receivables, net	289	936	39	(668)	596
Inventories	161	267			428
Deferred income taxes		69		(34)	35
Prepayments and other	43	124			167
Total current assets	513	1,543	39	(702)	1,393
Other assets:					
Investment in affiliated companies	591		632	(1,223)	
Notes and advances receivable from affiliates	3,872	308	5,818	(9,998)	
Long-term receivables, net	3	5			8
Goodwill	22	67			89
Intangibles, net	16	14			30
Deferred income taxes	75	25	15	(15)	100
Other	28	58	25		111
	4,607	477	6,490	(11,236)	338
Plant, property, and equipment, at cost	1,005	2,094			3,099
Less Accumulated depreciation and amortization	(696)	(1,293)			(1,989)
	309	801			1,110
Total assets	$ 5,429	$ 2,821	$ 6,529	$ (11,938)	$ 2,841
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					

Short-term debt (including current maturities of long-term debt)					
Short-term debt non-affiliated	$	$ 74	$ 1	$	$ 75
Short-term debt affiliated	302	229	10	(541)	
Trade payables	270	609		(113)	766
Accrued taxes	6	30			36
Other	167	166	39	(48)	324
Total current liabilities	745	1,108	50	(702)	1,201
Long-term debt non-affiliated		8	1,137		1,145
Long-term debt affiliated	4,374	261	5,363	(9,998)	
Deferred income taxes	15	66		(15)	66
Postretirement benefits and other liabilities	326	81		4	411
Commitments and contingencies					
Total liabilities	5,460	1,524	6,550	(10,711)	2,823
Redeemable noncontrolling interests		7			7
Tenneco Inc. Shareholders equity	(31)	1,258	(21)	(1,227)	(21)
Noncontrolling interests		32			32
Total equity	(31)	1,290	(21)	(1,227)	11
Total liabilities, redeemable noncontrolling interests and equity	$ 5,429	$ 2,821	$ 6,529	$ (11,938)	$ 2,841

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

STATEMENT OF CASH FLOWS

	Three Months Ended March 31, 2010				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
			(Millions)		
Operating Activities					
Net cash provided (used) by operating activities	$ 28	$ (36)	$ (49)	$	$ (57)
Investing Activities					
Proceeds from sale of assets		1			1
Cash payments for plant, property, and equipment	(15)	(23)			(38)
Acquisition of business (net of cash acquired)					
Cash payments for software related intangible assets	(1)	(1)			(2)
Investments and other		1			1
Net cash used by investing activities	(16)	(22)			(38)
Financing Activities					
Issuance of common shares					
Issuance of long-term debt					
Retirement of long-term debt		(1)	(7)		(8)
Debt issuance cost on long-term debt					
Increase (decrease) in bank overdrafts		(1)			(1)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt and short-term borrowings secured by accounts receivables		2			2
Net increase (decrease) in short-term borrowings secured by accounts receivables		126			126
Intercompany dividends and net increase (decrease) in intercompany obligations	(32)	(24)	56		
Distribution to noncontrolling interests partners		(1)			(1)
	(32)	101	49		118

Net cash provided (used) by financing activities					
Effect of foreign exchange rate changes on cash and cash equivalents		3			3
Increase (decrease) in cash and cash equivalents	(20)	46			26
Cash and cash equivalents, January 1	20	147			167
Cash and cash equivalents, March 31 (Note)	$	$ 193	$	$	$ 193

Note: Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

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TENNECO INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

STATEMENT OF CASH FLOW

	Three Months Ended March 31, 2009				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Tenneco Inc. (Parent Company)	Reclass & Elims	Consolidated
			(Millions)		
Operating Activities					
Net cash provided (used) by operating activities	$ (63)	$44	$ (62)	$	$(81)
Investing Activities					
Proceeds from the sale of assets		2			2
Cash payment for plant, property, and equipment	(16)	(20)			(36)
Cash payment for software related intangible assets	(1)	(1)			(2)
Acquisition of business (net of cash acquired)		1			1
Net cash used by investing activities	(17)	(18)			(35)
Financing Activities					
Issuance of long-term debt			2		2
Retirement of long-term debt		(1)			(1)
Increase (decrease) in bank overdrafts		(13)			(13)
Net increase (decrease) in revolver borrowings and short-term debt excluding current maturities of long-term debt		14	123		137
Intercompany dividends and net increase (decrease) in intercompany obligations	72	(17)	(55)		
Distribution to noncontrolling interest partners					
Debt issuance cost of long-term debt			(8)		(8)
Net cash provided (used) by financing activities	72	(17)	62		117
Effect of foreign exchange rate changes on cash and cash equivalents		(14)			(14)

Increase (decrease) in cash and cash equivalents	(8)	(5)			(13)
Cash and cash equivalents, January 1	16	110			126
Cash and cash equivalents, March 31 (Note)	$ 8	$105	$	$	$113

Note: Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As you read the following review of our financial condition and results of operations, you should also read our condensed consolidated financial statements and related notes beginning on page 4.

Executive Summary

We are one of the world s leading manufacturers of automotive emission control and ride control products and systems. We serve both original equipment (OE) vehicle designers and manufacturers and the repair and replacement markets, or aftermarket, globally through leading brands, including Monroe®, Rancho®, Clevite® Elastomers and Fric Rot™ ride control products and Walker®, Fonos™, and Gillet™ emission control products. Worldwide we serve more than 65 different original equipment manufacturers, and our products or systems are included on six of the top 10 passenger models produced in Europe and eight of the top 10 light truck models produced in North America for 2009. Our aftermarket customers are comprised of full-line and specialty warehouse distributors, retailers, jobbers, installer chains and car dealers. As of December 31, 2009, we operated 84 manufacturing facilities worldwide and employed approximately 21,000 people to service our customers demands.

Factors that continue to be critical to our success include winning new business awards, managing our overall global manufacturing footprint to ensure proper placement and workforce levels in line with business needs, maintaining competitive wages and benefits, maximizing efficiencies in manufacturing processes and reducing overall costs. In addition, our ability to adapt to key industry trends, such as a shift in consumer preferences to other vehicles in response to higher fuel costs and other economic and social factors, increasing technologically sophisticated content, changing aftermarket distribution channels, increasing environmental standards and extended product life of automotive parts, also play a critical role in our success. Other factors that are critical to our success include adjusting to economic challenges such as increases in the cost of raw materials and our ability to successfully reduce the impact of any such cost increases through material substitutions, cost reduction initiatives and other methods.

The deterioration in the global economy and global credit markets beginning in 2008 negatively impacted global business activity in general, and specifically the automotive industry in which we operate. The market turmoil and tightening of credit, as well as the dramatic decline in the housing market in the United States and Western Europe, led to a lack of consumer confidence evidenced by a rapid decline in light vehicle purchases in 2008 and the first six months of 2009. OE production started to stabilize and overall the production environment strengthened during the second half of 2009 compared to the first half of 2009 as production began to track more closely to vehicle sales after inventory corrections in the first half of 2009. Light vehicle production in the first quarter of 2010 has continued to strengthen. North American light vehicle production was up 67 percent year-over-year, while in Europe, light vehicle production in the first quarter 2010 was up 35 percent year-over-year. Current light vehicle production projections for the remainder of 2010 are that production levels will be up year-over-year when compared to 2009. Declines in production would have an adverse effect on the financial condition of our OE customers, and on our future results of operations.

We have a substantial amount of indebtedness. As such, our ability to generate cash both to fund operations and service our debt is also a significant area of focus for our company. See Liquidity and Capital Resources below for further discussion of cash flows and Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Total revenues for the first quarter of 2010 were $1,316 million, compared to $967 million in the first quarter of 2009. Excluding the impact of currency and substrate sales, revenue was up $234 million or 31 percent due to higher

year-over-year OE vehicle production levels in every geographic region with increased revenue in both of our product lines. New platform launches and increased aftermarket sales in North America and South America also drove the improvement.

Gross margin in the first quarter of 2010 was 18.5 percent, up from 14.5 percent in 2009. Stronger OE production volumes and the related manufacturing efficiency improvements drove the improvement. Gross margin also benefited from material cost management and an increase in higher-margin aftermarket sales, which increased

globally by 15 percent. Gross margin for the first quarter of 2010 included $4 million of restructuring and related expenses, compared to $2 million of restructuring and related expenses in the first quarter of 2009.

Selling, general and administrative expense was up $22 million in the first quarter of 2010, at $100 million, compared to $78 million in the first quarter of 2009. Restoration of the company s 401(k) match in North America as of January 1, 2010 along with the furloughing of salaried employees during the first quarter of 2009, which didn t occur in the first quarter of 2010, contributed to the increase in expense. In addition, higher year-over-year expense related to performance-based compensation plans for employees at all levels contributed to the increase. Engineering expense was $27 million and $21 million in the first quarter of 2010 and 2009, respectively. Engineering spending was $6 million higher than a year ago, reflecting timing on engineering cost recoveries as well as planned expenses for upcoming new business launches. Also driving the increase in engineering costs was the employee furloughs in the first quarter of 2009, which did not occur in the first quarter of 2010, and the timing of customer recoveries during the first quarter of 2009. Selling, general, administrative and engineering expenses decreased to 9.7 percent of revenues from 10.2 percent of revenues in 2009 due to higher year-over-year revenues.

Earnings before interest expense, taxes and noncontrolling interests (EBIT) was $59 million for the first quarter of 2010 compared to a loss of $13 million in the first quarter of 2009. Higher OE production volumes globally and the related manufacturing efficiencies, material cost management, and increased aftermarket sales drove the improvement to EBIT. In addition, currency benefited EBIT by $12 million year-over-year. Partially offsetting the increase was higher selling, general, administrative and engineering spending, and increased restructuring and related costs.

Results from Operations

Net Sales and Operating Revenues for the Three Months Ended March 31, 2010 and 2009

The following tables reflect our revenues for the first quarter of 2010 and 2009. We present these reconciliations of revenues in order to reflect the trend in our sales in various product lines and geographic regions separately from the effects of doing business in currencies other than the U.S. dollar. We have not reflected any currency impact in the 2009 table since this is the base period for measuring the effects of currency during 2010 on our operations. We believe investors find this information useful in understanding period-to-period comparisons in our revenues.

Additionally, we show the component of our revenue represented by substrate sales in the following table. While we generally have primary design, engineering and manufacturing responsibility for OE emission control systems, we do not manufacture substrates. Substrates are porous ceramic filters coated with a catalyst precious metals such as platinum, palladium and rhodium. These are supplied to us by Tier 2 suppliers and directed by our OE customers. We generally earn a small margin on these components of the system. As the need for more sophisticated emission control solutions increases to meet more stringent environmental regulations, and as we capture more diesel aftertreatment business, these substrate components have been increasing as a percentage of our revenue. While these substrates dilute our gross margin percentage, they are a necessary component of an emission control system. We view the growth of substrates as a key indicator that our value-add content in an emission control system is moving toward the higher technology hot-end gas and diesel business.

Our value-add content in an emission control system includes designing the system to meet environmental regulations through integration of the substrates into the system, maximizing use of thermal energy to heat up the catalyst quickly, efficiently managing airflow to reduce back pressure as the exhaust stream moves past the catalyst, managing the expansion and contraction of the emission control system components due to temperature extremes experienced by an emission control system, using advanced acoustic engineering tools to design the desired exhaust sound, minimizing the opportunity for the fragile components of the substrate to be damaged when we integrate it into the emission control system and reducing unwanted noise, vibration and harshness transmitted through the emission control system.

We present these substrate sales separately in the following table because we believe investors utilize this information to understand the impact of this portion of our revenues on our overall business and because it removes the impact of potentially volatile precious metals pricing from our revenues. While our original equipment

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customers generally assume the risk of precious metals pricing volatility, it impacts our reported revenues. Excluding substrate catalytic converter and diesel particulate filter sales removes this impact.

	Three Months Ended March 31, 2010				
	Revenues	Currency Impact	Revenues Excluding Currency	Substrate Sales Excluding Currency Impact	Revenues Excluding Currency and Substrate Sales
	(Millions)				
North America Original Equipment					
Ride Control	$ 128	$ 4	$ 124	$	$ 124
Emission Control	326	2	324	135	189
Total North America Original Equipment	454	6	448	135	313
North America Aftermarket					
Ride Control	113	2	111		111
Emission Control	38	1	37		37
Total North America Aftermarket	151	3	148		148
Total North America	605	9	596	135	461
Europe Original Equipment					
Ride Control	116	5	111		111
Emission Control	269	17	252	82	170
Total Europe Original Equipment	385	22	363	82	281
Europe Aftermarket					
Ride Control	39	3	36		36
Emission Control	27	2	25		25
Total Europe Aftermarket	66	5	61		61
South America & India	110	15	95	13	82
Total Europe, South America & India	561	42	519	95	424
Asia	111	1	110	25	85
Australia	39	9	30	1	29
Total Asia Pacific	150	10	140	26	114
Total Tenneco	$ 1,316	$ 61	$ 1,255	$ 256	$ 999

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	Three Months Ended March 31, 2009				
	Revenues	Currency Impact	Revenues Excluding Currency	Substrate Sales Excluding Currency Impact	Revenues Excluding Currency and Substrate Sales
			(Millions)		
North America Original Equipment					
Ride Control	$ 86	$	$ 86	$	$ 86
Emission Control	247		247	114	133
Total North America Original Equipment	333		333	114	219
North America Aftermarket					
Ride Control	99		99		99
Emission Control	37		37		37
Total North America Aftermarket	136		136		136
Total North America	469		469	114	355
Europe Original Equipment					
Ride Control	91		91		91
Emission Control	187		187	58	129
Total Europe Original Equipment	278		278	58	220
Europe Aftermarket					
Ride Control	31		31		31
Emission Control	29		29		29
Total Europe Aftermarket	60		60		60
South America & India	68		68	9	59
Total Europe, South America & India	406		406	67	339
Asia	67		67	19	48
Australia	25		25	2	23
Total Asia Pacific	92		92	21	71
Total Tenneco	$ 967	$	$ 967	$ 202	$ 765

Revenues from our North American operations increased $136 million in the first quarter of 2010 compared to the same period last year. The increase was due to higher sales from both North American OE product lines as well as aftermarket sales. North American OE emission control revenues were up $79 million in the first quarter of 2010; excluding favorable currency and substrate sales, revenues were up $56 million compared to last year. North American OE ride control revenues for the first quarter of 2010 were up $38 million from the prior year, excluding $4 million of favorable currency. The increase for emission control and ride control was driven by higher production volumes on OE platforms including the Ford Expedition/Navigator, the GMT 900 half-ton pick-up trucks and GM crossover vehicles, partially offset by some key light truck platforms in launch. Our total North American OE

revenues, excluding substrate sales and currency, increased 42 percent in the first quarter of 2010 compared to first quarter of 2009. North American light vehicle production increased 67 percent. Industry Class 8 commercial vehicle production was up 25 percent and industry Class 5-7 commercial vehicle production was up 15 percent in first quarter of 2010 as compared to the previous year comparable period. Aftermarket revenues for North America were $151 million in the first quarter of 2010, an increase of $15 million compared to the prior year. Excluding $3 million in favorable currency, aftermarket revenues were up $12 million driven by higher sales in the ride control product line due to strong demand. Net of favorable currency, aftermarket ride control revenues increased 13 percent in the first quarter of 2010 while aftermarket emission control revenues were about even with the first quarter of 2009.

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Our European, South American and Indian segment s revenues increased $155 million, or 38 percent, in the first quarter of 2010 compared to last year. The first quarter total European light vehicle industry production was up 35 percent when compared to the first quarter of 2009. Europe OE emission control revenues of $269 million in the first quarter of 2010 were up 44 percent as compared to the first quarter of last year. Excluding $17 million of favorable currency and an increase in substrate sales, Europe OE emission control revenues increased 32 percent from 2009. Europe OE ride control revenues of $116 million in the first quarter of 2010 were up 27 percent year-over-year. Excluding favorable currency, revenues increased by 21 percent in the 2010 first quarter. The increase for emission control and ride control was due to the higher production volumes on platforms including the Ford Focus, Opel Astra, VW Golf and BMW 1 and 3 Series. New ride control platform launches such as the Renault Scenic also contributed to the revenue gain. These revenue improvements were partially offset by the continuing decline in the two-wheeler market. European aftermarket revenues increased 10 percent or $6 million in the first quarter of 2010 compared to last year. When adjusted for currency, aftermarket revenues were up two percent. Excluding the positive $3 million impact of currency, ride control aftermarket revenues were up 17 percent while emission control aftermarket revenues were down 14 percent, excluding $2 million in favorable currency. South American and Indian revenues were $110 million during the first quarter of 2010, compared to $68 million in the prior year. When favorable currency and substrates were excluded, revenue was up $23 million in the first quarter of 2010 when compared to the first quarter of last year. The increase to revenue in our South American and Indian operations was primarily the result of higher OE and aftermarket sales in South America.

Revenues from our Asia Pacific segment, which includes Australia and Asia, increased $58 million to $150 million in the first quarter of 2010 compared to the same period last year. Excluding the impact of substrate sales and currency, revenues increased to $114 million from $71 million in the prior year. Asian revenues for the first quarter of 2010 were $111 million, up 65 percent from last year. This increase was largely driven by OE production increases in China on key Tenneco-supplied General Motors and Volkswagen platforms and new platform launches. Excluding higher substrate sales and $1 million of favorable currency, Asian revenue increased $37 million when compared with last year. First quarter revenues for Australia increased 59 percent to $39 million. Excluding lower substrate sales and $9 million of favorable currency, Australian revenue increased 26 percent due to industry light vehicle production increases.

EBIT for the three months ended March 31, 2010 and 2009

	Three Months Ended March 31,		
	2010	**2009**	**Change**
		(Millions)	
North America	$ 36	$ 4	$ 32
Europe, South America & India	12	(17)	29
Asia Pacific	11		11
	$ 59	$ (13)	$ 72

The EBIT results shown in the preceding table include the following items, discussed below under Restructuring and Other Charges, which have an effect on the comparability of EBIT results between periods:

	Three Months Ended March 31,	
	2010	2009
	(Millions)	
North America		
Restructuring and related expenses	$ 4	$ 2
Europe, South America & India		
Restructuring and related expenses	1	1

EBIT for North American operations was $36 million in the first quarter of 2010, compared to $4 million one year ago. The benefit to EBIT from the increase in higher-margin aftermarket sales and higher OE production

volumes and the related manufacturing efficiencies drove the improvement. Increased selling, general, administrative and engineering costs partially offset the EBIT improvement. Currency had a $12 million favorable impact on North American EBIT. Restructuring and related expenses of $4 million were included in first quarter of 2010 up from $2 million in the first quarter of 2009.

Our European, South American and Indian segment s EBIT was $12 million for the first quarter of 2010 compared to a loss of $17 million during the same period last year. European, South American and Indian segment s EBIT benefited from stronger OE production volumes in all regions and the related manufacturing efficiency improvements, favorable platform mix in Europe and material cost management actions. Currency had a $1 million favorable impact on European, South American and Indian segment s EBIT. Partially offsetting these improvements were higher selling, general, administrative and engineering costs. Included in first quarter 2010 and 2009 European, South American and Indian segment s EBIT was $1 million in restructuring and related expenses.

EBIT for our Asia Pacific segment in the first quarter of 2010 was $11 million compared to breakeven in the first quarter of 2009. Stronger production volumes, mainly in China, and the related manufacturing efficiencies were the primary drivers of the EBIT improvement year-over-year. EBIT was negatively impacted by $1 million of currency in the first quarter of 2010 when compared to last year which slightly offset the improvement.

Currency had a $12 million favorable impact on overall company EBIT for the three months ended March 31, 2010, as compared to the prior year.

EBIT as a Percentage of Revenue

	Three Months Ended March 31,	
	2010	**2009**
North America	6%	1%
Europe, South America & India	2%	(4)%
Asia Pacific	7%	%
Total Tenneco	4%	(1)%

In North America, EBIT as a percentage of revenue for the first quarter of 2010 increased five percentage points over last year. The increase in EBIT from higher OE production volumes and the related manufacturing efficiencies, favorable currency, and the increase in higher-margin aftermarket sales more than offset as a percentage of revenue the higher restructuring and related expenses and increased selling, general, administrative and engineering spending. In Europe, South America and India, EBIT margin for the first quarter of 2010 was six percentage points higher than prior year due to significantly higher OE production volumes and related manufacturing efficiency improvements, favorable platform mix, material cost management actions and currency gains, partially offset by increased selling, general, administrative and engineering spending. Restructuring and related expenses were even with prior year. EBIT as a percentage of revenue for our Asia Pacific segment increased seven percentage points in the first quarter of 2010 versus the prior year as stronger production volumes mainly in China and the related manufacturing efficiency improvements more than offset unfavorable currency.

Interest Expense, Net of Interest Capitalized

We reported interest expense in the first quarter of 2010 of $32 million net of interest capitalized of $1 million ($31 million in our U.S. operations and $1 million in our foreign operations), up from $31 million net of interest capitalized of $2 million ($30 million in our U.S. operations and $1 million in our foreign operations), from the first quarter of 2009. Interest expense increased slightly in the first quarter of 2010 compared to the prior year as a result of an increase to the average spread we pay over LIBOR on our senior credit facility which was partially offset by lower year-over-year average borrowings. Interest expense in the first quarter of 2010 included $1 million of interest expense related to the accounting change impacting our factored receivables. See Liquidity and Capital Resources below for further discussion of the accounting change.

On March 31, 2010, we had $1.009 billion in long-term debt obligations that have fixed interest rates. Of that amount, $245 million is fixed through July 2013, $500 million is fixed through November 2014, $250 million is

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fixed through November 2015, and the remainder is fixed from 2010 through 2025. We also have $133 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to Liquidity and Capital Resources Capitalization later in this Management s Discussion and Analysis.

Income Taxes

We reported income tax expense of $15 million in the first quarter of 2010. The tax expense recorded differs from the expense that would have been recorded using a statutory rate of 35 percent because of $5 million in non-cash tax charges related to adjustments to prior year income tax estimates and the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions offset by a favorable mix of tax rates in the jurisdictions we pay taxes. We reported income tax expense of $3 million in the first quarter of 2009 which included $18 million of non-cash tax charges primarily related to the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions.

Restructuring and Other Charges

Over the past several years, we have adopted plans to restructure portions of our operations. These plans were approved by our Board of Directors and were designed to reduce operational and administrative overhead costs throughout the business. Our Board of Directors approved a restructuring project in 2001, known as Project Genesis, which was designed to lower our fixed costs, relocate capacity, reduce our work force, improve efficiency and utilization, and better optimize our global footprint. We have subsequently engaged in various other restructuring projects related to Project Genesis. In 2009, we incurred $21 million in restructuring and related costs, of which $16 million was recorded in cost of sales, $1 million was recorded in selling, general, administrative and engineering expense and $4 million was recorded in depreciation and amortization expense. In the first quarter of 2010, we incurred $5 million in restructuring and related costs, of which $4 million was recorded in cost of sales and $1 million was recorded in depreciation and amortization expense.

Amounts related to activities that are part of our restructuring plans are as follows:

(Millions)	**December 31, 2009 Restructuring Reserve**	**2010 Cash Payments**	**Impact of Exchange Rates**	**Reserve Adjustments**	**March 31, 2010 Restructuring Reserve**
Severence	15	(2)		(1)	12

Under the terms of our amended and restated senior credit agreement that took effect on February 23, 2009, we are allowed to exclude $40 million of cash charges and expenses, before taxes, related to cost reduction initiatives incurred after February 23, 2009 from the calculation of the financial covenant ratios required under our senior credit facility. As of March 31, 2010, we have excluded $20 million in cumulative allowable charges relating to restructuring initiatives against the $40 million available under the terms of the February 2009 amended and restated senior credit facility.

On September 22, 2009, we announced that we will be closing our original equipment ride control plant in Cozad, Nebraska. We estimate this closing will generate $8 million in annualized cost savings once completed, incremental to the $58 million of savings related to our October 2008 restructuring announcement. We expect the elimination of 500

positions at the Cozad plant and expect to record up to $20 million in restructuring and related expenses, of which approximately $14 million represents cash expenditures. We expect that all expenses will be recorded by the end 2010. We plan to hire at other facilities as we move the production from Cozad to those facilities, resulting in a net decrease of approximately 60 positions. During 2009 we recorded $11 million of restructuring and related expenses related to this initiative. For the first quarter of 2010, we recorded $3 million of restructuring and related expenses related to this initiative.

Earnings (Loss) Per Share

We reported net income attributable to Tenneco Inc. of $7 million or $0.11 per diluted common share for the first quarter of 2010, as compared to net loss attributable to Tenneco Inc. of $49 million or $1.05 per diluted common share for the first quarter of 2009. Included in the results for the first quarter of 2010 were negative impacts

from expenses related to our restructuring activities and tax adjustments. The net impact of these items decreased earnings per diluted share by $0.14. Included in the results for the first quarter of 2009 were negative impacts from expenses related to our restructuring activities and tax adjustments. The net impact of these items decreased earnings per diluted share by $0.44. Please read the notes to the condensed consolidated financial statements for more detailed information on earnings per share.

Cash Flows for the Three Months Ended March 31, 2010 and 2009

	Three Months Ended March 31,	
	2010	**2009**
	(Millions)	
Cash provided (used) by:		
Operating activities	$ (57)	$ (81)
Investing activities	(38)	(35)
Financing activities	118	117

Operating Activities

For the three months ended March 31, 2010, operating activities used $57 million in cash compared to $81 million in cash used during the same period last year. Cash used for working capital was $112 million during the first quarter of 2010, a decrease in cash flow of $21 million when compared to the first quarter of 2009. Receivables were a use of cash of $191 million compared to a cash use of $54 million in the prior year. This increase in cash use was impacted by a change in accounting in the first quarter of 2010. This accounting change requires that North America accounts receivable securitization programs be accounted for as secured borrowings rather than as a sale of accounts receivables. As a result, funding from the North America accounts receivable securitization program is included in net cash provided by financing activities on the statement of cash flows and was previously reflected in net cash used by operating activities. See Liquidity and Capital Resources below for further discussion of the accounting change. Had the accounting change been in effect in 2009, our cash used by operations would have decreased by $62 million with a corresponding increase in cash provided by financing activities for the three month period ended March 31, 2009. Inventory represented a cash outflow of $44 million during the three months ended March 31, 2010, a decrease in cash flow of $78 million compared to prior year. This year-over-year change in cash from inventory was primarily a result of low inventory levels in the first quarter of 2009 due to lower production levels. Accounts payable provided cash of $120 million, an increase from last year s cash outflow of $74 million. This increase was primarily driven by the increase in global production levels. Cash taxes were $8 million for the three months ended March 31, 2010, compared to $4 million in the prior year.

One of our European subsidiaries receives payment from one of its OE customers whereby the accounts receivable are satisfied through the delivery of negotiable financial instruments. We may collect these financial instruments before their maturity date by either selling them at a discount or using them to satisfy accounts receivable that have previously been sold to a European bank. Any of these financial instruments which are not sold are classified as other current assets as they do not meet our definition of cash equivalents. The amount of these financial instruments that was collected before their maturity date and sold at a discount totaled $5 million at both March 31, 2010 and December 31, 2009. No negotiable financial instruments were held by our European subsidiary as of March 31, 2010 or December 31, 2009.

In certain instances several of our Chinese subsidiaries receive payment from OE customers and satisfy vendor payments through the receipt and delivery of negotiable financial instruments. Financial instruments used to satisfy vendor payables and not redeemed totaled $17 million and $15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as notes payable. Financial instruments received from OE customers and not redeemed totaled $22 million and $15 million at March 31, 2010 and December 31, 2009, respectively, and were classified as other current assets. One of our Chinese subsidiaries that issues its own negotiable financial instruments to pay its vendors is required to maintain a cash balance if they exceed certain credit limits with

the financial institution that guarantees those financial instruments. A restricted cash balance was not required at that Chinese subsidiary at March 31, 2010 and December 31, 2009, respectively.

The negotiable financial instruments received by one of our European subsidiaries and some of our Chinese subsidiaries are checks drawn by our OE customers and guaranteed by their banks that are payable at a future date. The use of these instruments for payment follows local commercial practice. Because negotiable financial instruments are financial obligations of our customers and are guaranteed by our customers banks, we believe they represent a lower financial risk than the outstanding accounts receivable that they satisfy which are not guaranteed by a bank.

Investing Activities

Cash used for investing activities was $3 million higher in the first quarter of 2010 compared to the same period a year ago. Cash payments for plant, property and equipment were $38 million in the first quarter of 2010 versus payments of $36 million in the first quarter of 2009. Cash payments for software-related intangible assets were $2 million in the first three months of 2010 and 2009.

Financing Activities

Cash flow from financing activities was a $118 million inflow in the first quarter of 2010 compared to an inflow of $117 million in the same period of 2009. As mentioned above in the Operating Activities section of this cash flow discussion, cash flow from financing activities was impacted by the accounting change for the way we account for our North American accounts receivable securitization programs.

Outlook

According to Global Insight, global light vehicle production is expected to be up for the full year 2010 as compared to 2009, with most of the geographic regions throughout the world contributing to this increase. North America OE production levels are strengthening as Global Insight projects that 10.9 million units will now be produced in 2010, an increase of 28 percent from 2009. Projections from Global Insight remain stable for Europe with 17.6 million units produced for this year an increase of five percent over last year. Global Insight projects full year production to increase in South America and India by nine percent and 21 percent, respectively. China OE production will continue to grow with 15.6 million units being produced in 2010, an increase of 21 percent year-over-year, while Australia is projected to increase by six percent in 2010 as compared to 2009. In addition we expect our global aftermarket to be a stable contributor.

We will continue to focus on cash generation and operational excellence. We will maintain a high level of operational excellence as we execute major launches scheduled for this year, including 3/4 ton diesel launches in North America and commercial vehicle launches to meet the 2010 and 2011 diesel emissions regulations.

We will also continue to execute on our emission control growth opportunities globally. Projections for China are that its growth will continue to expand at a rapid rate in both the light and commercial vehicle markets. This year we have partnered with FAW-Sihuan to open our seventh Chinese joint venture in Changchun to manufacture emission control components and systems for both the commercial vehicle and light vehicle markets.

Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Preparing our condensed consolidated financial statements in accordance with generally accepted accounting principles requires us 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The following paragraphs include a discussion of some critical areas where estimates are required.

Revenue Recognition

We recognize revenue for sales to our original equipment and aftermarket customers when title and risk of loss passes to the customers under the terms of our arrangements with those customers, which is usually at the time of shipment from our plants or distribution centers. In connection with the sale of exhaust systems to certain original equipment manufacturers, we purchase catalytic converters and diesel particulate filters or components thereof including precious metals (substrates) on behalf of our customers which are used in the assembled system. These substrates are included in our inventory and passed through to the customer at our cost, plus a small margin, since we take title to the inventory and are responsible for both the delivery and quality of the finished product. Revenues recognized for substrate sales were $261 million, and $201 million for the first three months of 2010 and 2009, respectively. For our aftermarket customers, we provide for promotional incentives and returns at the time of sale. Estimates are based upon the terms of the incentives and historical experience with returns. Certain taxes assessed by governmental authorities on revenue producing transactions, such as value added taxes, are excluded from revenue and recorded on a net basis. Shipping and handling costs billed to customers are included in revenues and the related costs are included in cost of sales in our Statements of Income (Loss).

Warranty Reserves

Where we have offered product warranty, we also provide for warranty costs. Those estimates are based upon historical experience and upon specific warranty issues as they arise. While we have not experienced any material differences between these estimates and our actual costs, it is reasonably possible that future warranty issues could arise that could have a significant impact on our condensed consolidated financial statements.

Pre-production Design and Development and Tooling Assets

We expense pre-production design and development costs as incurred unless we have a contractual guarantee for reimbursement from the original equipment customer. Unbilled pre-production design and development costs recorded in prepayments and other and long-term receivables totaled $15 and $14 million at both March 31, 2010 and December 31, 2009, respectively. In addition, plant, property and equipment included $44 million and $49 million at March 31, 2010 and December 31, 2009, respectively, for original equipment tools and dies that we own, and prepayments and other included $52 million and $50 million at March 31, 2010 and December 31, 2009, respectively, for in-process tools and dies that we are building for our original equipment customers.

Income Taxes

We evaluate our deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The ability to realize deferred tax assets depends on our ability to generate sufficient taxable income within the carryforward periods provided for in the tax law for each tax jurisdiction. We have considered the following possible sources of taxable income when assessing the realization of our deferred tax assets:

- Future reversals of existing taxable temporary differences;

Taxable income or loss, based on recent results, exclusive of reversing temporary differences and carryforwards; and

Tax-planning strategies.

In 2009, we recorded tax expense of $13 million. Computed using the U.S. Federal statutory income tax rate of 35 percent, income tax would be a benefit of $14 million. The difference is due primarily to valuation allowances against deferred tax assets generated by 2009 losses in the U.S. and in certain foreign countries which we cannot

benefit, partially offset by adjustments to past valuation allowances for deferred tax assets including a reversal of $20 million of U.S. valuation allowance based on the change in the fair value of a tax planning strategy. We reported income tax expense of $15 million in the first quarter of 2010. The tax expense recorded differs from the expense that would be recorded using a U.S. Federal statutory rate of 35 percent because of $5 million in tax charges primarily related to adjustments to prior year income tax estimates and the impact of not benefiting tax losses in the U.S. and certain foreign jurisdictions offset by a favorable mix of tax rates in the jurisdictions we pay taxes. During the first three months of 2010, we recorded an additional valuation allowance of less than $1 million primarily related to U.S. tax benefits recorded in the first three months of 2010 on U.S. losses. In evaluating the requirements to record a valuation allowance, accounting standards do not permit us to consider an economic recovery in the U.S. or new business we have won in the commercial vehicle segment. Consequently, beginning in 2008, given our historical losses, we concluded that our ability to fully utilize our NOLs was limited due to projecting the continuation of the negative economic environment and the impact of the negative operating environment on our tax planning strategies. As a result of the tax planning strategy which has not yet been implemented but which we plan to implement and which does not depend upon generating future taxable income, we carry deferred tax assets in the U.S. of $90 million relating to the expected utilization of those NOLs. The federal NOLs expire beginning in 2020 through 2029. The state NOLs expire in various years through 2029.

If our operating performance improves on a sustained basis, our conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the future. The charge to establish the U.S. valuation allowance also includes items related to the losses allocable to certain state jurisdictions where it was determined that tax attributes related to those jurisdictions were potentially not realizable.

We are required to record a valuation allowance against deferred tax assets generated by taxable losses in each period in the U.S. as well as in other foreign countries. Our future provision for income taxes will include no tax benefit with respect to losses incurred and no tax expense with respect to income generated in these jurisdictions until the respective valuation allowance is eliminated. This will cause variability in our effective tax rate.

Goodwill

We evaluate goodwill for impairment in the fourth quarter of each year, or more frequently if events indicate it is warranted. We compare the estimated fair value of our reporting units with goodwill to the carrying value of the unit s assets and liabilities to determine if impairment exists within the recorded balance of goodwill. We estimate the fair value of each reporting unit using the income approach which is based on the present value of estimated future cash flows. The income approach is dependent on a number of factors, including estimates of market trends, forecasted revenues and expenses, capital expenditures, weighted average cost of capital and other variables. These estimates are based on assumptions that we believe to be reasonable, but which are inherently uncertain.

Pension and Other Postretirement Benefits

We have various defined benefit pension plans that cover some of our employees. We also have postretirement health care and life insurance plans that cover some of our domestic employees. Our pension and postretirement health care and life insurance expenses and valuations are dependent on assumptions used by our actuaries in calculating those amounts. These assumptions include discount rates, health care cost trend rates, long-term return on plan assets, retirement rates, mortality rates and other factors. Health care cost trend rate assumptions are developed based on historical cost data and an assessment of likely long-term trends. Retirement rates are based primarily on actual plan experience while mortality rates are based upon the general population experience which is not expected to differ materially from our experience.

Our approach to establishing the discount rate assumption for both our domestic and foreign plans starts with high-quality investment-grade bonds adjusted for an incremental yield based on actual historical performance. This incremental yield adjustment is the result of selecting securities whose yields are higher than the normal bonds that comprise the index. Based on this approach, for 2010 we lowered the weighted average discount rate for all our pension plans to 6.0 percent from 6.2 percent. The discount rate for postretirement benefits was also lowered from 6.2 percent to 6.1 percent for 2010.

Our approach to determining expected return on plan asset assumptions evaluates both historical returns as well as estimates of future returns, and is adjusted for any expected changes in the long-term outlook for the equity and fixed income markets. As a result, our estimate of the weighted average long-term rate of return on plan assets for all of our pension plans was lowered from 7.9 percent to 7.6 percent for 2010.

Except in the U.K., our pension plans generally do not require employee contributions. Our policy is to fund our pension plans in accordance with applicable U.S. and foreign government regulations and to make additional payments as funds are available to achieve full funding of the accumulated benefit obligation. At March 31, 2010, all legal funding requirements had been met. Other postretirement benefit obligations, such as retiree medical, and certain foreign pension plans are funded as the obligations become due.

Changes in Accounting Pronouncements

Footnote 12 in our Notes to Condensed Consolidated Financial Statements located in Part I Item 1 of this Form 10-Q is incorporated herein by reference.

Liquidity and Capital Resources

Capitalization

	March 31, 2010	December 31, 2009	% Change
		(Millions)	
Short-term debt and maturities classified as current	$ 202	$ 75	169%
Long-term debt	1,137	1,145	(1)
Total debt	1,339	1,220	10
Total redeemable noncontrolling interests	9	7	29
Total noncontrolling interests	31	32	(3)
Tenneco Inc. Shareholders equity	(54)	(21)	(157)
Total equity	(23)	11	n/m
Total capitalization	$ 1,325	$ 1,238	7

General. Short-term debt, which includes maturities classified as current and borrowings by foreign subsidiaries, was $202 million and $75 million as of March 31, 2010 and December 31, 2009, respectively. We adopted the new accounting guidance for transfers of financial assets on January 1, 2010, which resulted in an increase of $126 million in short-term debt as of March 31, 2010. We had no borrowings under our revolving credit facilities at either March 31, 2010 or December 31, 2009.

The 2010 year-to-date decrease in total equity primarily resulted from a $32 million decrease of translation of foreign balances into U.S. dollars, $11 million decrease in premium on common stock and other capital surplus relating to the

purchase of an additional 20 percent of equity interest from a Chinese noncontrolling joint venture partner, offset by net income attributable to Tenneco Inc. of $7 million. While our shareholders equity balance was negative at March 31, 2010, it had no effect on our business operations. We have no debt covenants that are based upon our book equity, and there are no other agreements that are adversely impacted by our negative book equity.

Overview. Our financing arrangements are primarily provided by a committed senior secured financing arrangement with a syndicate of banks and other financial institutions. The arrangement is secured by substantially all our domestic assets and pledges of up to 66 percent of the stock of certain first-tier foreign subsidiaries, as well as guarantees by our material domestic subsidiaries. As of March 31, 2010, the senior credit facility consisted of a five-year, $128 million term loan A maturing in March 2012, a five-year, $550 million revolving credit facility maturing in March 2012, and a seven-year $130 million tranche B-1 letter of credit/revolving loan facility maturing in March 2014. Our outstanding debt also includes $245 million of 101/4 percent senior secured notes due July 15, 2013, $250 million of 81/8 percent senior notes due November 15, 2015, and $500 million of 85/8 percent senior

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subordinated notes due November 15, 2014. At March 31, 2010, we had unused borrowing capacity of $629 million under our $680 million revolving credit facility with $51 million in letters of credit outstanding and no borrowings.

The term loan A facility of $128 million as of March 31, 2010, is payable in twelve consecutive quarterly installments, which commenced June 30, 2009 as follows: $6 million due each of June 30, September 30, December 31, 2009 and March 31, 2010, $15 million due each of June 30, September 30, December 31, 2010 and March 31, 2011, and $17 million due each of June 30, September 30, December 31, 2011 and March 16, 2012. Over the next twelve months we plan to repay $60 million of the senior term loan due 2012 by increasing our revolver borrowings which are classified as long-term debt. Accordingly, we have classified the $60 million repayment as long-term debt. The revolving credit facility requires that any amounts drawn be repaid by March 2012. Prior to that date, funds may be borrowed, repaid and re-borrowed under the revolving credit facility without premium or penalty. Letters of credit may be issued under the revolving credit facility.

The tranche B-1 letter of credit/revolving loan facility requires repayment by March 2014. We can borrow revolving loans and issue letters of credit under the $130 million tranche B-1 letter of credit/revolving loan facility. The tranche B-1 letter of credit/revolving loan facility is reflected as debt on our balance sheet only if we borrow money under this facility or if we use the facility to make payments for letters of credit. There is no additional cost to us for issuing letters of credit under the tranche B-1 letter of credit/revolving loan facility. However outstanding letters of credit reduce our availability to borrow revolving loans under this portion of the facility. We pay the tranche B-1 lenders interest equal to LIBOR plus a margin, which is offset by the return on the funds deposited with the administrative agent by the lenders which earn interest at an annual rate approximately equal to LIBOR less 20 basis points. Outstanding revolving loans reduce the funds on deposit with the administrative agent which in turn reduce the earnings of those deposits.

On February 23, 2009, in light of the challenging macroeconomic environment and auto production outlook, we amended our senior credit facility to increase the allowable consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA as defined in the senior credit facility agreement) and reduced the allowable consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense as defined in the senior credit facility agreement). These changes are detailed in Liquidity and Capital Resources Senior Credit Facility Other Terms and Conditions.

Beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our term loan A and revolving credit facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0, and will be further reduced by an additional 50 basis points following each fiscal quarter for which the consolidated net leverage ratio is less than 4.0.

Also beginning February 23, 2009, and following each fiscal quarter thereafter, the margin we pay on borrowings under our tranche B-1 facility incurred interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus a margin of 550 basis points, or (ii) a rate consisting of the greater of (a) the JPMorgan Chase prime rate plus a margin of 450 basis points, and (b) the Federal Funds rate plus 50 basis points plus a margin of 450 basis points. The margin we pay on these borrowings will be reduced by 50 basis points following each fiscal quarter for which our consolidated net leverage ratio is less than 5.0.

The February 23, 2009, amendment to our senior credit facility also placed further restrictions on our operations including limitations on: (i) debt incurrence, (ii) incremental loan extensions, (iii) liens, (iv) restricted payments, (v) optional prepayments of junior debt, (vi) investments, (vii) acquisitions, and (viii) mandatory prepayments. The

definition of EBIDTA was amended to allow for $40 million of cash restructuring charges taken after the date of the amendment and $4 million annually in aftermarket changeover costs. We agreed to pay each consenting lender a fee. The lender fee plus amendment costs were approximately $8 million.

Senior Credit Facility — Interest Rates and Fees. Borrowings and letters of credit issued under the senior credit facility bear interest at an annual rate equal to, at our option, either (i) the London Interbank Offered Rate plus

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a margin as set forth in the table below; or (ii) a rate consisting of the greater of the JPMorgan Chase prime rate or the Federal Funds rate, plus a margin as set forth in the table below:

	12/24/2008 thru 2/22/2009	2/23/2009 thru 3/1/2009	3/2/2009 thru 5/14/2009	5/15/2009 thru 8/13/2009	8/14/2009 thru 2/28/2010	Beginning 3/1/2010
Applicable Margin over LIBOR for Revolving Loans	3.00%	5.50%	4.50%	5.00%	5.50%	4.50%
Applicable Margin over LIBOR for Term Loan A Loans	3.00%	5.50%	4.50%	5.00%	5.50%	4.50%
Applicable Margin over LIBOR for Tranche B-1 Loans	3.00%	5.50%	5.00%	5.00%	5.50%	5.00%
Applicable Margin for Prime-based Loans	2.00%	4.50%	3.50%	4.00%	4.50%	3.50%
Applicable Margin for Federal Funds-based Loans	2.50%	5.00%	4.00%	4.50%	5.00%	4.00%
Commitment Fee	0.50%	0.75%	0.50%	0.50%	0.75%	0.50%

Senior Credit Facility Other Terms and Conditions. As described above, we are highly leveraged. Our senior credit facility requires that we maintain financial ratios equal to or better than the following consolidated net leverage ratio (consolidated indebtedness net of cash divided by consolidated EBITDA, as defined in the senior credit facility agreement), and consolidated interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined under the senior credit facility agreement) at the end of each period indicated. Failure to maintain these ratios will result in a default under our senior credit facility. The financial ratios required under the amended and restated senior credit facility and, the actual ratios we achieved for the first quarter of 2010, are as follows:

	Quarter Ended March 31, 2010	
	Req.	Act.
Leverage Ratio (maximum)	5.50	2.77
Interest Coverage Ratio (minimum)	2.00	3.04

The financial ratios required under the senior credit facility for the remainder of 2010 and beyond are set forth below:

Period Ending	Leverage Ratio	Interest Coverage Ratio
June 30, 2010	5.00	2.25
September 30, 2010	4.75	2.30
December 31, 2010	4.50	2.35
March 31, 2011	4.00	2.55
June 30, 2011	3.75	2.55
September 30, 2011	3.50	2.55

December 31, 2011	3.50	2.55
Each quarter thereafter	3.50	2.75

The senior credit facility agreement provides the ability to refinance our senior subordinated notes and/or our senior secured notes (i) in exchange for permitted financing indebtedness (as defined in the senior credit facility agreement); (ii) in exchange for shares of common stock; or (iii) in an amount equal to the sum of (A) the net cash proceeds of equity issued after March 16, 2007, plus (B) the portion of annual excess cash flow (as defined in the senior credit facility agreement) that is not required to be applied to the payment of the credit facilities and which is not used for other purposes, provided that the amount of the subordinated notes and the aggregate amount of the

senior secured notes and the subordinated notes that may be refinanced is capped based upon the pro forma consolidated leverage ratio after giving effect to such refinancing as shown in the following table:

Pro forma Consolidated Leverage Ratio (Millions)	Senior Subordinated Notes Aggregate Maximum Amount	Senior Subordinated Notes and Senior Secured Notes Aggregate Maximum Amount
Greater than or equal to 3.0x	$	$ 10
Greater than or equal to 2.5x	$ 100	$ 300
Less than 2.5x	$ 125	$ 375

In addition, the senior secured notes may be refinanced with (i) the net cash proceeds of incremental facilities and permitted refinancing indebtedness (as defined in the senior credit facility agreement), (ii) shares of common stock, (iii) the net cash proceeds of any new senior or subordinated unsecured indebtedness, (iv) proceeds of revolving credit loans (as defined in the senior credit facility agreement), (v) up to 200 million of unsecured indebtedness of the company s foreign subsidiaries and (vi) cash generated by the company s operations provided that the amount of the senior secured notes that may be refinanced is capped based upon the pro forma consolidated leverage ratio after giving effect to such refinancing as shown in the following table:

Pro forma Consolidated Leverage Ratio (Millions)	Aggregate Senior and Subordinate Note Maximum Amount
Greater than or equal to 3.0x	$ 10
Greater than or equal to 2.5x	$ 300
Less than 2.5x	$ 375

The senior credit facility agreement also contains restrictions on our operations that are customary for similar facilities, including limitations on: (i) incurring additional liens; (ii) sale and leaseback transactions (except for the permitted transactions as described in the amended and restated agreement); (iii) liquidations and dissolutions; (iv) incurring additional indebtedness or guarantees; (v) investments and acquisitions; (vi) dividends and share repurchases; (vii) mergers and consolidations; and (viii) refinancing of subordinated and 101/4 percent senior secured notes. Compliance with these requirements and restrictions is a condition for any incremental borrowings under the senior credit facility agreement and failure to meet these requirements enables the lenders to require repayment of any outstanding loans. As of March 31, 2010, we were in compliance with all the financial covenants and operational restrictions of the facility. Our senior credit facility does not contain any terms that could accelerate payment of the facility or affect pricing under the facility as a result of a credit rating agency downgrade.

Senior Secured, Senior and Subordinated Notes. As of March 31, 2010, our outstanding debt also includes $245 million of 101/4 percent senior secured notes due July 15, 2013, $250 million of 81/8 percent senior notes due November 15, 2015, and $500 million of 85/8 percent senior subordinated notes due November 15, 2014. We can

redeem some or all of the notes at any time after July 15, 2008 in the case of the senior secured notes, November 15, 2009 in the case of the senior subordinated notes and November 15, 2011 in the case of the senior notes. If we sell certain of our assets or experience specified kinds of changes in control, we must offer to repurchase the notes. We are permitted to redeem up to 35 percent of the senior notes with the proceeds of certain equity offerings completed before November 15, 2010.

Our senior secured, senior and senior subordinated notes require that, as a condition precedent to incurring certain types of indebtedness not otherwise permitted, our consolidated fixed charge coverage ratio, as calculated on a pro forma basis, be greater than 2.00. We have not incurred any of the types of indebtedness not otherwise permitted by the indentures. The indentures also contain restrictions on our operations, including limitations on: (i) incurring additional indebtedness or liens; (ii) dividends; (iii) distributions and stock repurchases; (iv) investments; (v) asset sales and (vi) mergers and consolidations. Subject to limited exceptions, all of our existing and future material domestic wholly owned subsidiaries fully and unconditionally guarantee these notes on a joint and several basis. In addition, the senior secured notes and related guarantees are secured by second priority liens, subject to specified exceptions, on all of our and our subsidiary guarantors assets that secure obligations under our

senior credit facility, except that only a portion of the capital stock of our subsidiary guarantors domestic subsidiaries is provided as collateral and no assets or capital stock of our direct or indirect foreign subsidiaries secure the notes or guarantees. There are no significant restrictions on the ability of the subsidiaries that have guaranteed these notes to make distributions to us. The senior subordinated notes rank junior in right of payment to our senior credit facility and any future senior debt incurred. As of March 31, 2010, we were in compliance with the covenants and restrictions of these indentures.

Accounts Receivable Securitization. In addition to our senior credit facility, senior secured notes, senior notes and senior subordinated notes, we also securitize some of our accounts receivable on a limited recourse basis in North America and Europe. Tenneco, as servicer under these accounts receivable securitization programs, is responsible for performing all accounts receivable administration functions for these securitized financial assets including collections and processing of customer invoice adjustments. In North America, we have an accounts receivable securitization program with three commercial banks. We securitize original equipment and aftermarket receivables on a daily basis under the bank program. The amount of outstanding third party investments in our securitized accounts receivable under the bank program was $127 million and $62 million at March 31, 2010 and December 31, 2009, respectively. In February 2010, the North American program was amended and extended to February 18, 2011, at a maximum facility size of $100 million. As part of this renewal, the margin we pay to our banks decreased. In March 2010, the North American program was further amended to extend the revolving terms of the program to March 25, 2011, add an additional bank and increase the available financing under the facility by $10 million to a new maximum of $110 million. In addition, we added a second priority facility to the North American program, which provides up to an additional $40 million of financing against accounts receivable generated in the U.S. or Canada that would otherwise be ineligible under the existing securitization facility. This new second priority facility also expires on March 25, 2011, and is subordinated to the existing securitization facility.

Each facility contains customary covenants for financings of this type, including restrictions related to liens, payments, merger or consolidation and amendments to the agreements underlying the receivables pool. Further, each facility may be terminated upon the occurrence of customary events (with customary grace periods, if applicable), including breaches of covenants, failure to maintain certain financial ratios, inaccuracies of representations and warranties, bankruptcy and insolvency events, certain changes in the rate of default or delinquency of the receivables, a change of control and the entry or other enforcement of material judgments. In addition, each facility contains cross-default provisions, where the facility could be terminated in the event of non-payment of other material indebtedness when due and any other event which permits the acceleration of the maturity of material indebtedness.

We also securitize receivables in our European operations to regional banks in Europe. The amount of outstanding third party investments in our securitized accounts receivable in Europe was $96 million and $75 million at March 31, 2010 and December 31, 2009, respectively. The arrangements to securitize receivables in Europe are provided under seven separate facilities provided by various financial institutions in each of the foreign jurisdictions. The commitments for these arrangements are generally for one year but some may be cancelled with notice 90 days prior to renewal. In some instances, the arrangement provides for cancellation by the applicable financial institution at any time upon 15 days, or less, notification.

If we were not able to securitize receivables under either the North American or European securitization programs, our borrowings under our revolving credit agreements might increase. These accounts receivable securitization programs provide us with access to cash at costs that are generally favorable to alternative sources of financing, and allow us to reduce borrowings under our revolving credit agreements.

We adopted the new accounting guidance for transfers of financial assets effective January 1, 2010. Prior to the adoption of this new guidance, we accounted for activities under our North American and European accounts receivable securitization programs as sales of financial assets to our banks. The new accounting guidance changed the

accounting rules for the transfer of financial assets which companies need to meet to qualify for sales accounting treatment. Based on these new accounting rules, effective January 1, 2010, we account for our North American securitization program as a secured borrowing as we no longer meet the conditions required for sales accounting treatment. Our European securitization programs continue to qualify for sales accounting treatment under these new

accounting rules. The fair value of assets received as proceeds in exchange for the transfer of accounts receivable under our European securitization programs approximates the fair value of such receivables. We recognized $1 million in interest expense for the three month period ended March 31, 2010 relating to our North American securitization program which effective January 1, 2010, is accounted for as a secured borrowing arrangement under the new accounting guidance for transfers of financial assets. In addition, we recognized a loss of $1 million and $2 million for the three month period ended March 31, 2010 and 2009, respectively, on the sale of trade accounts receivable in both the North American and European accounts receivable securitization programs, representing the discount from book values at which these receivables were sold to our banks. The discount rate varies based on funding costs incurred by our banks, which averaged approximately four percent during 2010.

The impact of the new accounting rules on our condensed consolidated financial statements is an increase of $126 million both in accounts receivables and short-term debt on the balance sheet as of March 31, 2010 as well as an increase of $1 million in interest expense and a corresponding decrease in loss on sale of receivables on our income statement for the three months ended March 31, 2010. In addition, the funding levels provided by our North American accounts receivable securitization program subsequent to January 1, 2010 are reflected as a $126 million change in net increase (decrease) in short-term borrowings secured by accounts receivables and included in net cash provided by financing activities in our cash flow statement for the three month period ending March 31, 2010. Funding levels provided by our European securitization programs continue to be reflected as a change in receivables and included in net cash provided (used) by operating activities as under the previous accounting rules. Had the new accounting rules been in effect in 2009, reported receivables and short-term debt would both have been $62 million higher as of December 31, 2009. The loss on sale of receivables would have been $1 million lower, offset by a corresponding $1 million increase to interest expense for the three month period ended March 31, 2009. Additionally, our cash provided (used) by operations would have decreased by $62 million with a corresponding increase in cash provided by financing activities for the same amount for the three month period ended March 31, 2009.

Capital Requirements. We believe that cash flows from operations, combined with available borrowing capacity described above, assuming that we maintain compliance with the financial covenants and other requirements of our loan agreement, will be sufficient to meet our future capital requirements, including debt amortization, capital expenditures, pension contributions, and other operational requirements, for the following year. Our ability to meet the financial covenants depends upon a number of operational and economic factors, many of which are beyond our control. Factors that could impact our ability to comply with the financial covenants include the rate at which consumers continue to buy new vehicles and the rate at which they continue to repair vehicles already in service, as well as our ability to successfully implement our restructuring plans and operate at historically low production rates. Further deterioration in North American vehicle production levels, weakening in the global aftermarket, or a further reduction in vehicle production levels in Europe, beyond our expectations, could impact our ability to meet our financial covenant ratios. In the event that we are unable to meet these financial covenants, we would consider several options to meet our cash flow needs. Such actions include additional restructuring initiatives and other cost reductions, sales of assets, reductions to working capital and capital spending, issuance of equity and other alternatives to enhance our financial and operating position. Should we be required to implement any of these actions to meet our cash flow needs, we believe we can do so in a reasonable time frame.

Derivative Financial Instruments

Foreign Currency Exchange Rate Risk

We use derivative financial instruments, principally foreign currency forward purchase and sale contracts with terms of less than one year, to hedge our exposure to changes in foreign currency exchange rates. Our primary exposure to changes in foreign currency rates results from intercompany loans made between affiliates to minimize the need for borrowings from third parties. Additionally, we enter into foreign currency forward purchase and sale contracts to

mitigate our exposure to changes in exchange rates on certain intercompany and third-party trade receivables and payables. We manage counter-party credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. We do not enter into derivative financial instruments for speculative purposes.

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In managing our foreign currency exposures, we identify and aggregate existing offsetting positions and then hedge residual exposures through third-party derivative contracts. The following table summarizes by major currency the notional amounts, weighted-average settlement rates, and fair value for foreign currency forward purchase and sale contracts as of March 31, 2010. The fair value of our foreign currency forward contracts is based on an internally developed model which incorporates observable inputs including quoted spot rates, forward exchange rates and discounted future expected cash flows utilizing market interest rates with similar quality and maturity characteristics. All contracts in the following table mature in 2010.

		March 31, 2010		
		Notional Amount in Foreign Currency	Weighted Average Settlement Rates	Fair Value in U.S. Dollars
		(Millions Except Settlement Rates)		
Australian dollars	Purchase	49	0.916	46
	Sell	(8)	0.916	(8)
British pounds	Purchase	35	1.518	53
	Sell	(32)	1.518	(49)
European euro	Purchase			
	Sell	(23)	1.352	(32)
South African rand	Purchase	313	0.137	43
	Sell	(44)	0.137	(6)
U.S. dollars	Purchase	10	1.001	10
	Sell	(63)	1.000	(63)
Other	Purchase	693	0.011	8
	Sell	(1)	0.985	(1)
				$ 1

Interest Rate Risk

Our financial instruments that are sensitive to market risk for changes in interest rates are primarily our debt securities. We use our revolving credit facilities to finance our short-term and long-term capital requirements. We pay a current market rate of interest on these borrowings. Our long-term capital requirements have been financed with long-term debt with original maturity dates ranging from five to ten years. On March 31, 2010, we had $1.009 billion in long-term debt obligations that have fixed interest rates. Of that amount, $245 million is fixed through July 2013, $500 million is fixed through November 2014, $250 million is fixed through November 2015, and the remainder is fixed from 2010 through 2025. We also have $133 million in long-term debt obligations that are subject to variable interest rates. For more detailed explanations on our debt structure and senior credit facility refer to Liquidity and Capital Resources Capitalization earlier in this Management s Discussion and Analysis.

We estimate that the fair value of our long-term debt at March 31, 2010 was about 102 percent of its book value. A one percentage point increase or decrease in interest rates would increase or decrease the annual interest expense we recognize in the income statement and the cash we pay for interest expense by about $3 million.

Environmental and Other Matters

We are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to current operations. We expense costs related to an existing condition caused by past operations that do not contribute to current or future revenue generation. We record liabilities when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. We consider all available evidence including prior experience in remediation of contaminated sites, other companies cleanup experiences and data released by the United States Environmental Protection Agency or other organizations. These

estimated liabilities are subject to revision in future periods based on actual costs or new information. Where future cash flows are fixed or reliably determinable, we have discounted the liabilities. All other environmental liabilities are recorded at their undiscounted amounts. We evaluate recoveries separately from the liability and, when they are assured, recoveries are recorded and reported separately from the associated liability in our condensed consolidated financial statements.

As of March 31, 2010, we have the obligation to remediate or contribute towards the remediation of certain sites, including two existing Superfund sites. At March 31, 2010, our estimated share of environmental remediation costs at these sites was approximately $17 million on a discounted basis. The undiscounted value of the estimated remediation costs was $23 million. For those locations in which the liability was discounted, the weighted average discounted rate used was 3.6 percent. Based on information known to us, we have established reserves that we believe are adequate for these costs. Although we believe these estimates of remediation costs are reasonable and are based on the latest available information, the costs are estimates and are subject to revision as more information becomes available about the extent of remediation required. At some sites, we expect that other parties will contribute towards the remediation costs. In addition, certain environmental statutes provide that our liability could be joint and several, meaning that we could be required to pay in excess of our share of remediation costs. Our understanding of the financial strength of other potentially responsible parties at these sites has been considered, where appropriate, in our determination of our estimated liability.

The $17 million noted above includes $5 million of estimated environmental remediation costs that result from the bankruptcy of Mark IV Industries in 2009. Prior to our 1996 acquisition of The Pullman Company, Pullman had sold certain assets to Mark IV. As partial consideration for the purchase of these assets, Mark IV agreed to assume Pullman s and its subsidiaries historical obligations to contribute to the environmental remediation of certain sites. Mark IV has filed a petition for insolvency under Chapter 11 of the United States Bankruptcy Code and notified Pullman that it no longer intends to continue to contribute toward the remediation of those sites. We are conducting a thorough analysis and review of these matters and it is possible that our estimate may change as additional information becomes available to us.

We do not believe that any potential costs associated with our current status as a potentially responsible party in the Superfund sites, or as a liable party at the other locations referenced herein, will be material to our condensed consolidated results of operations, financial position or cash flows.

We also from time to time are involved in legal proceedings, claims or investigations that are incidental to the conduct of our business. Some of these proceedings allege damages against us relating to environmental liabilities (including toxic tort, property damage and remediation), intellectual property matters (including patent, trademark and copyright infringement, and licensing disputes), personal injury claims (including injuries due to product failure, design or warning issues, and other product liability related matters), taxes, employment matters, and commercial or contractual disputes, sometimes related to acquisitions or divestitures. For example, one of our Argentine subsidiaries is currently defending against a criminal complaint alleging the failure to comply with laws requiring the proceeds of export transactions to be collected, reported and/or converted to local currency within specified time periods. As another example, we have become subject to an audit in 11 states of our practices with respect to the payment of unclaimed property to those states. We have practices in place designed to ensure that we pay unclaimed property as required. We are in the initial stages of this audit, which could cover over 20 years. We vigorously defend ourselves against all of these claims. In future periods, we could be subjected to cash costs or non-cash charges to earnings if any of these matters is resolved on unfavorable terms. However, although the ultimate outcome of any legal matter cannot be predicted with certainty, based on current information, including our assessment of the merits of the particular claim, we do not expect that these legal proceedings or claims will have any material adverse impact on our future consolidated financial position, results of operations or cash flows.

In addition, we are subject to a number of lawsuits initiated by a significant number of claimants alleging health problems as a result of exposure to asbestos. In the early 2000 s we were named in nearly 20,000 complaints, most of which were filed in Mississippi state court and the vast majority of which made no allegations of exposure to asbestos from our product categories. Most of these claims have been dismissed and our current docket of active and inactive cases is less than 500 cases nationwide. A small number of claims have been asserted by railroad workers alleging exposure to asbestos products in railroad cars manufactured by The Pullman Company, one of our

subsidiaries. The balance of the claims is related to alleged exposure to asbestos in our automotive emission control products. Only a small percentage of these claimants allege that they were automobile mechanics and a significant number appear to involve workers in other industries or otherwise do not include sufficient information to determine whether there is any basis for a claim against us. We believe, based on scientific and other evidence, it is unlikely that mechanics were exposed to asbestos by our former muffler products and that, in any event, they would not be at increased risk of asbestos-related disease based on their work with these products. Further, many of these cases involve numerous defendants, with the number of each in some cases exceeding 100 defendants from a variety of industries. Additionally, the plaintiffs either do not specify any, or specify the jurisdictional minimum, dollar amount for damages. As major asbestos manufacturers continue to go out of business or file for bankruptcy, we may experience an increased number of these claims. We vigorously defend ourselves against these claims as part of our ordinary course of business. In future periods, we could be subject to cash costs or non-cash charges to earnings if any of these matters is resolved unfavorably to us. To date, with respect to claims that have proceeded sufficiently through the judicial process, we have regularly achieved favorable resolution. Accordingly, we presently believe that these asbestos-related claims will not have a material adverse impact on our future consolidated financial condition, results of operations or cash flows.

Employee Stock Ownership Plans

We have established Employee Stock Ownership Plans for the benefit of our domestic employees. Under the plans, subject to limitations in the Internal Revenue Code, participants may elect to defer up to 75 percent of their salary through contributions to the plan, which are invested in selected mutual funds or used to buy our common stock. We match in cash 50 percent of each employee s contribution up to eight percent of the employee s salary. In 2009, we temporarily discontinued these matching contributions as a result of the recent global economic downturn. We restored the matching contributions to salaried and non-union hourly U.S. employees beginning on January 1, 2010. In connection with freezing the defined benefit pension plans for nearly all U.S. based salaried and non-union hourly employees effective December 31, 2006, and the related replacement of those defined benefit plans with defined contribution plans, we are making additional contributions to the Employee Stock Ownership Plans. We recorded expense for these contributions of approximately $3 million and $2 million for the three months ended March 31, 2010 and 2009, respectively. Matching contributions vest immediately. Defined benefit replacement contributions fully vest on the employee s third anniversary of employment.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to interest rate risk and foreign currency exchange rate risk, see the caption entitled Derivative Financial Instruments in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated herein by reference.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the quarter covered by this report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the company s disclosure controls and procedures are effective to ensure that information required to be disclosed by our company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1A. RISK FACTORS

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. There have been no material changes to the Risk Factors described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

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

(a) None.

(b) Not applicable.

(c) Purchase of equity securities by the issuer and affiliated purchasers. The following table provides information relating to our purchase of shares of our common stock in the first quarter of 2010. All of these purchases reflect shares withheld upon vesting of restricted stock, to satisfy statutory minimum tax withholding obligations.

Period	Total Number of Shares Purchased	Average Price Paid
January 2010	87,233	$ 18.98
February 2010		
March 2010	6,864	$ 23.21
Total	94,097	$ 19.29

We presently have no publicly announced repurchase plan or program, but intend to continue to satisfy statutory minimum tax withholding obligations in connection with the vesting of outstanding restricted stock through the withholding of shares.

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SIGNATURE

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

TENNECO INC.

By: /s/ Kenneth R. Trammell
Kenneth R. Trammell
Executive Vice President and Chief Financial Officer

Dated: May 7, 2010

**INDEX TO EXHIBITS
TO
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED MARCH 31, 2010**

Exhibit Number	Description
10.1	Third Amended and Restated Receivables Purchase Agreement, dated as of March 26, 2010, among Tenneco Automotive RSA Company, as Seller, Tenneco Automotive Operating Company Inc., as Servicer, Falcon Asset Securitization Company LLC and Liberty Street Funding LLC, as Conduits, the Committed Purchasers from time to time party thereto, JPMorgan Chase Bank, N.A., The Bank of Nova Scotia and Wells Fargo Bank, N.A., as Co-Agents and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference from Exhibit 10.1 of the registrant s Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.2	Intercreditor Agreement, dated as of March 26, 2010, among Tenneco Automotive RSA Company, Tenneco Automotive Operating Company Inc., JPMorgan Chase Bank, N.A. and Wells Fargo Bank, N.A. (incorporated herein by reference from Exhibit 10.2 of the registrant s Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.3	Omnibus Amendment No. 4, dated as of March 26, 2010, to Receivables Sale Agreements, as amended (incorporated herein by reference from Exhibit 10.3 of the registrant s Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.4	SLOT Receivables Purchase Agreement, dated as of March 26, 2010, among Tenneco Automotive RSA Company, as Seller, Tenneco Automotive Operating Company Inc., as Servicer, and Wells Fargo Bank, N.A., individually and as SLOT Agent (incorporated herein by reference from Exhibit 10.4 of the registrant s Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.5	Fourth Amended and Restated Performance Undertaking, dated as of March 26, 2010, by the registrant in favor of Tenneco Automotive RSA Company (incorporated herein by reference from Exhibit 10.5 of the registrant s Current Report on Form 8-K dated as of March 26, 2010, File No. 1-12387).
10.6	Form of Tenneco Inc. Three Year Long-Term Performance Unit Award Agreement (incorporated herein by reference from Exhibit 10.1 of the registrant s Current Report on Form 8-K dated as of March 15, 2010, File No. 1-12387).
*12	Computation of Ratio of Earnings to Fixed Charges.
*15.1	Letter of PricewaterhouseCoopers regarding interim financial information.
*15.2	Letter of Deloitte and Touche LLP regarding interim financial information.
*31.1	Certification of Gregg M. Sherrill under Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Kenneth R. Trammell under Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Gregg M. Sherrill and Kenneth R. Trammell under Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

weight:normal;font-style:normal;text-transform:none;font-variant: normal;">12,333

Fair value of PONY

$

49,333

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

Trademarks	$32,381
License agreements	250
Accounts Receivable	2,000
Goodwill	14,702
Fair value of PONY	$49,333

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

For the Current Quarter and Current Six Months, post-acquisition, the Company recognized approximately $0.7 million and $1.1 million in revenue from Pony Holdings. The $14.7 million of goodwill resulting from the 2015 acquisition is deductible for income tax purposes.

Iconix Middle East Joint Venture

In December 2014, the Company formed Iconix MENA ("Iconix Middle East") a wholly owned subsidiary of the Company and contributed to it substantially all rights to its wholly-owned and controlled brands in the United Arab Emirates, Qatar, Kuwait, Bahrain, Saudi Arabia, Oman, Jordan, Egypt, Pakistan, Uganda, Yemen, Iraq, Azerbaijan, Kyrgyzstan, Uzbekistan, Lebanon, Tunisia, Libya, Algeria, Morocco, Cameroon, Gabon, Mauritania, Ivory Coast, Nigeria and Senegal (the "Middle East Territory"). Shortly thereafter, Global Brands Group Asia Limited ("GBG"), purchased a 50% interest in Iconix Middle East for approximately $18.8 million. GBG paid $6.3 million in cash upon the closing of the transaction and committed to pay an additional $12.5 million over the 24-month period following closing. As a result of this transaction, the Company incurred $3.1 million of expenses related to GBG's diligence and market analysis in the Iconix Middle East Territory. As of June 30, 2015, $12.2 million, net of discount for present value, remaining due to the Company from GBG, is netted against the redeemable non-controlling interest on the condensed consolidated balance sheet.

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

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

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

Agreed Value—Five-Year Put/Call: (i) Percentage of Iconix Middle East owned by GBG, multiplied by (ii) 5.5, multiplied by (iii) aggregate royalty generated by Iconix Middle East for the year ending December 31, 2019; provided, however, that such Agreed Value cannot be less than $12.0 million

Agreed Value—Eight-Year Put/Call: (i) Percentage of Iconix Middle East owned by GBG, multiplied by (b) 5.5, multiplied by (iii) aggregate royalty generated by Iconix Middle East for the year ending December 31, 2022; provided, however, that the Agreed Value cannot be less than $12.0 million.

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

The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and GBG, that Iconix Middle East is a variable interest entity (VIE) and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

LC Partners U.S.

In March 2014, the Company formed LC Partners US, LLC ("LCP"), a wholly-owned subsidiary of the Company, and contributed to it substantially all its rights to the Lee Cooper brand in the US through an agreement with LCP. Shortly thereafter, Rise Partners, LLC ("Rise Partners"), purchased a 50% interest in LCP for $4.0 million, of which $0.8 million in cash was received during FY 2014, with the remaining $3.2 million to be paid in four equal annual

installments on the first through the fourth anniversaries of the closing date. As of June 30, 2015, the $2.4 million remaining due to the Company is netted against the redeemable non-controlling interest on the condensed consolidated balance sheet.

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

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

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

The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Rise Partners, that LCP is a VIE and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

Iconix Israel Joint Venture

In November 2013, the Company formed Iconix Israel. LLC ("Iconix Israel"), a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in the State of Israel and the geographical regions of the West Bank and the Gaza Strip (together, the "Israel Territory") through an agreement with Iconix Israel. Shortly thereafter, M.G.S. Sports Trading Limited ("MGS") purchased a 50% interest in Iconix Israel for approximately $3.3 million. MGS paid $1.0 million in cash upon the closing of the transaction and committed to pay an additional $2.3 million over the 36-month period following closing. As of June 30, 2015, the $1.2 million remaining due to the Company from MGS is netted against the non-controlling interest on the condensed consolidated balance sheet.

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

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

The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and MGS, that Iconix Israel is a VIE and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

Iconix Southeast Asia Joint Venture

In October 2013, the Company formed Iconix SE Asia Limited ("Iconix SE Asia"), a wholly owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in Indonesia, Thailand, Malaysia, Philippines, Singapore, Vietnam, Cambodia, Laos, Brunei, Myanmar, and East Timor (the "South East Asia Territory"). Shortly thereafter, GBG (f/k/a Li + Fung Asia Limited) purchased a 50% interest in Iconix SE Asia for

approximately $12.0 million. GBG paid $7.5 million in cash upon the closing of the transaction and committed to pay an additional $4.5 million over the 24-month period following closing. As a result of this transaction, the Company incurred $2.0 million of consulting costs which were provided to GBG and were accounted for as a reduction to the cash received.

In June 2014, the Company contributed substantially all rights to its wholly-owned and controlled brands in the Republic of Korea, and its Ecko, Zoo York, Ed Hardy and Sharper Image Brands in the European Union, and Turkey, in each case, to Iconix SE Asia. In return, GBG agreed to pay the Company $15.9 million, of which $4.0 million was paid in cash at closing. The Company guaranteed minimum distributions of $2.5 million in the aggregate through FY 2015 to GBG from the exploitation in the European Union and Turkey of the brands contributed to Iconix SE Asia as part of this transaction. As a result of this transaction, the Company incurred $5.4 million of marketing costs which were provided to GBG and were accounted for as a reduction to the cash received from GBG in respect of its payment of the purchase price in such transaction. In September 2014, the Company's subsidiaries contributed substantially all rights to their Lee Cooper and Umbro brands in the People's Republic of China, Hong Kong, Macau and Taiwan (together, the "Greater China Territory"), to Iconix SE Asia. In return, GBG agreed to pay the Company $21.5 million, of which $4.3 million was paid at closing. The Company guaranteed minimum distributions of $5.1 million in the aggregate through FY 2017 to GBG from the exploitation in the Greater China Territory of the brands contributed to Iconix SE Asia as part of this transaction.

As of June 30, 2015, $21.9 million, net of discount for present value, remaining due to the Company from GBG for the above transactions is netted against the redeemable non-controlling interest on the condensed consolidated balance sheet.

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

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

Five-Year and Eight-Year Put/Call Options on South East Asia Territory Rights, Europe/Turkey Rights and Korea Rights: At any time during the six month period commencing October 1, 2018, and again at any time during the six month period commencing October 1, 2021, GBG may deliver a put notice to the Company, and the Company may deliver a call notice to GBG, in each case, for the Company's purchase of the Europe/Turkey Rights, South East Asia Territory Rights and/or Korea Rights. In the event of the exercise of such put or call rights, the purchase price for such rights is an amount equal to (x) the Agreed Value (in event of a GBG put) or (y) 120% of Agreed Value (in event of a Company call). The purchase price is payable in cash.

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

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

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

Agreed Value – Five-Year Put/Call: (i) Percentage of Iconix SE Asia owned by GBG, multiplied by (ii) 5.5, multiplied by (iii) the greater of the aggregate royalty generated by Iconix SE Asia in respect of the Greater China Territory Rights for the year ending December 31, 2015 and the year ending December 31, 2019; provided, that the Agreed Value attributable to the Greater China Territory Rights shall not be less than $15.5 million, plus (iv) in the case of a Full Exercise, the lesser of the (x) the amount of cash in Iconix SE Asia after payment of the Greater China Territory Rights Put/Call Distribution (as described below) and (y) the maximum amount of distributions allowed by applicable law.

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

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

The Company serves as Iconix SE Asia's administrative manager, responsible for arranging for or providing back-office services including legal maintenance of trademarks (e.g. renewal of trademark registrations) for the brands in respect of the territories included in Iconix SE Asia. Further, Iconix SE Asia has access to general brand marketing materials, prepared and owned by the Company, to refit for use by the joint venture in territories included in Iconix SE Asia. GBG serves as Iconix SE Asia's local manager, responsible for providing market experience in respect of the applicable territory, managing the joint venture on a day-to-day basis (other than back-office services), identifying potential licensees and assisting the Company in enforcement of license agreements in respect of the applicable territory. The Company receives a monthly fee in connection with the performance of its services as administrative manager in an amount equal to 5% of Iconix SE Asia's gross revenue collected in prior month. GBG receives a monthly fee in connection with the performance of its services as local manager in an amount equal to 15% of Iconix SE Asia's gross revenue collected in prior month. In October 2013, and in respect of services that commenced in August 2013 and expired on December 31, 2013, the Company executed a Consultancy Agreement with LF Centennial Limited, an affiliate of Li and Fung Asia Limited, for the provision of brand strategy services in Asia to assist the Company in developing its brands. Pursuant to the Consultancy Agreement, the Company paid LF Centennial Limited four installments of $0.5 million for the provision of such services. The aggregate $2.0 million of consulting costs paid to GBG were accounted for as a reduction to the cash received by the Company in relation to GBG's purchase of a 50% interest in Iconix SE Asia for the year ended December 31, 2013.

The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and GBG, that Iconix SE Asia is a VIE and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception as well as at the closing of each of the June 2014 and September 2014 transactions. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

Iconix Canada Joint Venture

In June 2013, the Company formed Iconix Canada L.P. ("Ico Canada") and Ico Brands L.P. ("Ico Brands" and, together with Ico Canada, collectively, "Iconix Canada"), as wholly-owned indirect subsidiaries of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in Canada (the "Canada Territory") through agreements with the Iconix Canada partnerships. Shortly thereafter through their acquisitions of limited partnership and general partnership interests, Buffalo International ULC and BIU Sub Inc. purchased 50% interests in the Iconix Canada partnerships for $17.8 million in the aggregate, of which approximately $8.9 million in the aggregate, was paid in cash upon closing of these transactions in June 2013, and the remaining $8.9 million of which are notes payable to the Company to be paid, as amended, over the five year period following the date of closing, with final payment in June 2018.

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

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

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

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

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

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

As of June 30, 2015, $5.7 million, net of discount for present value, remaining due to the Company from Buffalo International for the above transactions is netted against the non-controlling interest on the condensed consolidated balance sheet.

The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Buffalo International and BIU Sub, that Ico Canada and Ico Brands are VIEs and, as the Company has been determined to be the primary beneficiary, are subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIEs are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

Iconix Latin America

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

During FY 2011, the Company contributed to Iconix Latin America its share of the rights to revenues from IPH Unltd (see below) for the exploitation of the Ecko brands in the Latin America Territory. Also in FY 2011, the Company contributed to Iconix Latin America its rights to the Ed Hardy brands for the Latin America Territory. During FY 2012, the Company contributed to Iconix Latin America the rights to the Zoo York and Sharper Image brands for the Latin America Territory.

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

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

Fair value of 50% interest in Iconix Latin America	$42,698
Less: note receivable owed to the Company	(1,695)
Add: accrued distributions due to New Brands	997
Cash paid to New Brands	$42,000

As a result of the 2014 Buy-out and in accordance with ASC Topic 805, the Company recorded a non-cash pre-tax re-measurement gain of approximately $34.7 million, representing the increase in fair value of its original 50%

investment in Iconix Latin America. This re-measurement gain is included in other income on the Company's consolidated statement of operations in FY 2014. Further, as a result of the 2014 Buy-out, the balance owed to the Company from New Brands was settled. As a result of the 2014 Buy-out, Iconix Latin America is subject to consolidation and is included in the Company's condensed consolidated financial statements since the time of the buy-out.

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

Fair value of 50% interest in Iconix Latin America	$42,698
Value of initial equity investment prior to 2014 Buy-out	7,950
Gain on re-measurement of initial equity investment	34,748
	$85,396
Trademarks	82,400
License agreements	700
Cash	1,842
Working capital deficit	(676)
Goodwill	1,130
	$85,396

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

Iconix Europe

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

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

In January 2014, the Company consented to the purchase of BIV's 50% ownership interest in Iconix Europe by GBG (f/k/a LF Asia Limited, an affiliate of Li & Fung Limited). In exchange for this consent, the Company received $1.5 million from GBG. In addition, the Company acquired an additional 1% equity interest in Iconix Europe from GBG, and amended the operating agreement (herein referred to as the "IE Operating Agreement") thereby increasing its ownership in Iconix Europe to a controlling 51% interest and reducing its preferred profit distribution from Iconix Europe to $3.0 million after which all profits and losses are recognized 51/49 in accordance with each principal's membership interest percentage.

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

Fair value of 50% interest in Iconix Europe	$13,800

Value of initial equity investment prior to 2014 Buy-out	19,651
Loss on re-measurement of initial equity investment	(5,851)
	$27,600
Trademarks	27,000
Cash	677
Working capital deficit, excluding cash	(77)
	$27,600

ASC Topic 810 affirms that consolidation is appropriate when one entity has a controlling financial interest in another entity. As a result of this transaction, the Company owns a 51% membership interest in Iconix Europe compared to the minority owner's 49% membership interest. Further, the Company believes that the voting and veto rights of the minority shareholder are merely protective in nature and do not provide the minority shareholder with substantive participating rights in Iconix Europe. As such, Iconix Europe is subject to consolidation with the Company, which is reflected in the consolidated financial statements as of December 31, 2014.

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Pursuant to the IE Operating Agreement, each of GBG and the Company holds specified put and call rights, respectively, relating to GBG's ownership interest in the joint venture.

Five-Year and Eight-Year Put/Call Options: At any time during the six month period commencing January 13, 2019, and again at any time during the six month period commencing January 13, 2022, GBG may deliver a put notice to the Company, and the Company may deliver a call notice to GBG, in each case, for the Company's purchase of all equity in the joint venture held by GBG. In the event of the exercise of such put or call rights, the purchase price for GBG's equity in Iconix Europe is an amount equal to (x) the Agreed Value (in the event of GBG's put) or (y) 120% of Agreed Value (in the event of an Iconix call). The purchase price is payable in cash.

Agreed Value-Five-Year Put/Call: (i) (x) percentage of Iconix Europe owned by GBG, multiplied by (y) 5.5, multiplied by (z) the greater of aggregate royalty generated by Iconix Europe for the year ended December 31, 2013 and the year ended December 31, 2018; plus (ii) percentage of Iconix Europe owned by GBG multiplied by the aggregate amount of cash in Iconix Europe which is available for distribution to the members.

Agreed Value-Eight-Year Put/Call: (i) (x) percentage of Iconix Europe owned by GBG, multiplied by (y) 5.5, multiplied by (z) the greater of aggregate royalty generated by Iconix Europe for the year ended December 31, 2013 and the year ended December 31, 2021; plus (ii) percentage of Iconix Europe owned by GBG multiplied by the aggregate amount of cash in Iconix Europe which is available for distribution to the members.

As a result of the January 2014 transaction, the Company records this redeemable non-controlling interest as mezzanine equity on the Company's consolidated balance sheet.

Hydraulic IP Holdings, LLC

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

The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Top On, Hydraulic IPH is a VIE and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

NGX, LLC

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

NGL as licensee in certain categories and geographies. Additionally, the Company and NGO entered into a limited liability company operating agreement with respect to their ownership of NGX.

The Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and NGO, NGX is a VIE and, as the Company has been determined to be the primary beneficiary, is subject to consolidation. The Company has consolidated this joint venture within its consolidated financial statements since inception. The liabilities of the VIE are not material and none of the VIE assets are encumbered by any obligation of the VIE or other entity.

Buffalo Brand Joint Venture

In February 2013, Iconix CA Holdings, LLC ("ICA Holdings"), a Delaware limited liability company and a wholly-owned subsidiary of the Company, formed a joint venture with Buffalo International ULC ("BII"). The name of the joint venture is 1724982 Alberta ULC ("Alberta ULC"), an Alberta, Canada unlimited liability company. The Company, through ICA Holdings, paid $76.5 million, which was funded entirely from cash on hand, in exchange for a 51% controlling ownership of Alberta ULC which consists of

a combination of equity and a promissory note. BII owns the remaining 49% interest in Alberta ULC. Alberta ULC owns the IP rights, licenses and other assets relating principally to the Buffalo David Bitton brand (the “Buffalo brand”). Concurrently, Alberta ULC and BII entered into a license agreement pursuant to which Alberta ULC licensed the Buffalo brand to BII as licensee in certain categories and geographies. Additionally, ICA Holdings and BII entered into a shareholder agreement with respect to their ownership of Alberta ULC.

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

Cash paid to sellers, less amount classified as a note receivable	$39,614
Fair value of 49% non-controlling interest to sellers	59,489
	$99,103

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

Trademarks	102,643
License agreements	2,400
Non-compete agreement	940
Goodwill	7,131
Deferred tax liability	(14,011)
	$99,103

The Buffalo brand trademarks have been determined by management to have an indefinite useful life and accordingly, consistent with ASC Topic 350, no amortization is being recorded in the Company’s condensed consolidated statement of operations. The goodwill and trademarks are subject to a test for impairment on an annual basis. Of the total consideration paid, $36.9 million (which is net of a discount) has been classified as a note receivable as the fair value of the transaction and the related guaranteed minimum royalties, which the Company will receive through FY 2016 under the BII license agreement could not be established at the acquisition date. As of June 30, 2015, $15.0 million, net of discount for present value, remaining due to the Company from BII for the above transactions is recorded in other assets on the condensed consolidated balance sheet. The $7.1 million of goodwill resulting from this acquisition is deductible for income tax purposes.

The Company has consolidated this joint venture within its consolidated financial statements since inception.

Icon Modern Amusement

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

Peanuts Holdings

On June 3, 2010 (the “Peanuts Closing Date”), the Company consummated an interest purchase agreement with United Feature Syndicate, Inc. (“UFS”) and The E.W. Scripps Company (the “Parent”) (Parent and UFS, collectively, the “Sellers”), pursuant to which it purchased all of the issued and outstanding interests (“Interests”) of Peanuts Worldwide, a then newly formed Delaware limited liability company, to which, prior to the closing of this acquisition, copyrights and

trademarks associated with the Peanuts characters and certain other assets were contributed by UFS. On the Peanuts Closing Date, the Company assigned its right to buy all of the Interests to Peanuts Holdings, a newly formed Delaware limited liability company and joint venture owned 80% by Icon Entertainment LLC ("IE"), a wholly-owned subsidiary of the Company, and 20% by Beagle Scouts LLC, a Delaware limited liability company ("Beagle") owned by certain Schulz family trusts.

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

In connection with the Peanuts Operating Agreement, the Company through IE, loaned $17.5 million to Beagle (the "Beagle Note"), the proceeds of which were used to fund Beagle's capital contribution to Peanuts Holdings in connection with the acquisition

of Peanuts Worldwide. The Beagle Note bore interest at 6% per annum, with minimum principal payable in equal annual installments of approximately $2.2 million on each anniversary of June 3, 2010, with any remaining unpaid principal balance and accrued interest to be due on June 3, 2015, the Beagle Note maturity date. Principal was prepayable at any time. The Beagle Note was secured by the membership interest in Peanuts Holdings owned by Beagle. In February 2015, the remaining amount due on the Beagle Note was paid in full.

Hardy Way

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

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

Scion

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

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

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

In April 2015, the Company entered into a binding term sheet to purchase the remaining 50% interest in Scion, which the Company has consolidated Scion since inception, from Shawn "Jay-Z" Carter for $6.0 million increasing the Company's ownership to 100%, also effectively increasing its interest in BBC Ice Cream LLC to 50%.

Unaudited Pro Forma Information

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

Joint Ventures/Equity Method Investees

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

Iconix Australia Joint Venture

In September 2013, the Company formed Iconix Australia, LLC (“Iconix Australia”), a Delaware limited liability company and a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in Australia and New Zealand (the “Australia territory”) through an agreement with Iconix Australia. Shortly thereafter Pac Brands USA,

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Inc. (“Pac Brands”) purchased a 50% interest in Iconix Australia for $7.2 million in cash, all of which was received upon closing of this transaction in September 2013. As a result of this transaction, the Company recorded a gain of $4.1 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture.

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

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

A + (A x (100% + GR))

2

A = trailing 12 months royalty revenue

GR = Year on year growth rate

Four-Year Put/Call Option: At any time following September 17, 2017, Pac Brands may deliver a put notice to the Company, and the Company may deliver a call notice to Pac Brands, in each case, for the Company’s purchase of all units in the joint venture held by Pac Brands. Upon the exercise of such put/call, the purchase price for Pac Brands’ units in the joint venture will be an amount equal to (i) the percentage interest represented by Pac Brands’ units, multiplied by (ii) 5, multiplied by (iii) RR, where RR is equal to:

A + (A x (100% + CAGR))

2

A = trailing 12 months royalty revenue

CAGR = 36 month compound annual growth rate

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

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

Iconix India Joint Venture

In June 2013, the Company formed Imaginative Brand Developers Private Limited ("Iconix India), a wholly-owned subsidiary of the Company, and contributed substantially all rights to its wholly-owned and controlled brands in India through an agreement with Iconix India. Shortly thereafter Reliance Brands Limited ("Reliance'), an affiliate of the Reliance Group, purchased a 50% interest in Iconix India for $6.0 million of which approximately $2.0 million was paid in cash upon closing of this transaction and the remaining $4.0 million of which is a note, payable to the Company to be paid over a 48- month period following closing. As a result of this transaction, the Company recognized a gain of approximately $2.3 million in FY 2013 for the difference between the consideration (cash and notes receivable) received by the Company and the book value of the brands contributed to the joint venture. Additionally, pursuant to the terms of the transaction, the Company and Reliance each agreed to contribute 100 million Indian rupees (approximately $2.0 million) to Iconix India only upon the future mutual agreement of the parties, of which 25 million Indian rupees (approximately $0.5 million) was contributed at closing.

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

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

MG Icon

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

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Purim, MG Icon is a VIE and not subject to consolidation, as the Company is not the primary beneficiary of MG Icon. The Company has recorded its investment under the equity method of accounting.

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

Investments in Iconix China

Through our ownership of Iconix China (see above), we have equity interests in the following private companies:

Brands Placed	Partner	Ownership by Iconix China		Value of Investment As of June 30, 2015
Candie’s	Candies Shanghai Fashion Co., Ltd.	20	%	$ 9,494
Marc Ecko	Shanghai MuXiang Apparel & Accessory Co. Limited	15	%	2,293
Royal Velvet	Bai Shi Kou International (Qingdao) Home Products Co. Ltd.	20	%	56
Material Girl	Ningbo Material Girl Fashion Co., Ltd.	20	%	5,439
Ed Hardy	Tangli International Holdings, Ltd.	20	%	10,486
Ecko Unltd	Ai Xi Enterprise (Shanghai) Co. Limited	20	%	11,102
				$ 38,870

Cost Method Investments

The following investments are carried at cost:

Marcy Media Holdings, LLC

In July 2013, the Company purchased a minority interest in Marcy Media Holdings, LLC ("MM Holdings"), resulting in the Company's indirect ownership of 5% interest in Roc Nation, LLC for $32 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Marcy Media is not a VIE and not subject to consolidation. As the Company does not have significant influence over Marcy Media, its investment has been recorded under the cost method of accounting.

Complex Media Inc.

In September 2013, the Company purchased convertible preferred shares, on an as-converted basis as of December 31, 2014, equaling an approximate 14.4% minority interest in Complex Media Inc. (“Complex Media”), a multi-media lifestyle company which, among other things, owns Complex magazine and its online counterpart, Complex.com, for $25 million. At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company that Complex Media is not a VIE and not subject to consolidation. As the Company does not have significant influence over Complex Media, its investment has been recorded under the cost method of accounting.

4. Gains on Sale of Trademarks

The following table details transactions comprising gains on sale of trademarks in the condensed consolidated income statements:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014 (restated)	2015	2014 (restated)
Sharper Image- eCommerce/Domain Name	$—	$ (6,399)	$—	$ (6,399)
Total gains on sale of trademarks	$—	$ (6,399)	$—	$ (6,399)

5. Fair Value Measurements

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

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

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

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

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

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

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

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

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

Hedge Instruments

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

Financial Instruments

As of June 30, 2015 and December 31, 2014, the fair values of cash, receivables and accounts payable approximated their carrying values due to the short-term nature of these instruments. The fair value of notes receivable and notes payable from and to our joint venture partners approximate their carrying values. The fair value of our cost method investments is not readily determinable and it is not practical to obtain the information needed to determine the value. However, there has been no indication of an impairment of these cost method investments as of June 30, 2015 and December 31, 2014. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on Level One inputs including broker quotes or quoted market prices or rates for the same or similar instruments and the related carrying amounts are as follows:

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

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

Non-Financial Assets and Liabilities

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

6. Debt Arrangements

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

	June 30, 2015	December 31,

		2014
Senior Secured Notes	$743,469	$774,030
1.50% Convertible Notes	348,321	339,943
2.50% Convertible Notes	286,795	280,104
Variable Funding Note	100,000	—
Total	$1,478,585	$1,394,077

Senior Secured Notes and Variable Funding Note

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

Simultaneously with the issuance of the 2012 Senior Secured Notes, the Co-Issuers also entered into a revolving financing facility of Series 2012-1 Variable Funding Senior Notes, Class A-1 (the "Variable Funding Notes"), which allows for the funding of up to $100 million of Variable Funding Notes and certain other credit instruments, including letters of credit. The Variable Funding Notes were issued under the Indenture and allow for drawings on a revolving basis. Drawings and certain additional terms related to the Variable Funding Notes are governed by the Class A-1 Note Purchase Agreement dated November 29, 2012 (the "Variable Funding Note Purchase Agreement"), among the Co-Issuers, Iconix, as manager, certain conduit investors, financial institutions and funding agents, and Barclays Bank PLC, as provider of letters of credit, as swing line lender and as administrative agent. The Variable Funding Notes will be governed, in part, by the Variable Funding Note Purchase Agreement and by certain generally applicable terms contained in the Indenture. Interest on the Variable Funding Notes will be payable at per annum rates equal to the CP Rate, Base Rate or Eurodollar Rate, as defined in the Variable Funding Note Purchase Agreement.

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

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

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

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

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

The legal final maturity date of the Senior Secured Notes is in January of 2043, but it is anticipated that, unless earlier prepaid to the extent permitted under the Indenture, the Senior Secured Notes will be repaid in January of 2020. If the Co-Issuers have not repaid or refinanced the Senior Secured Notes prior to the anticipated repayment date, additional interest will accrue on the Senior Secured Notes equal to the greater of (A) 5% per annum and (B) a per annum interest rate equal to the excess, if any, by which the sum of (i) the yield to maturity (adjusted to a quarterly bond-equivalent basis), on the anticipated repayment date of the United States treasury security having a term closest to 10 years plus (ii) 5% plus (iii) with respect to the 2012 Senior Secured Notes, 3.4%, or with respect to the 2013

Senior Secured Notes, 3.14%, exceeds the original interest rate. The Senior Secured Notes rank pari passu with the Variable Funding Notes.

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

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

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

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

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

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

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

As of June 30, 2015 and December 31, 2014, the total principal balance of the Notes was $843.5 million and $774.0 million, respectively, of which $61.1 million is included in the current portion of long-term debt on the Company’s unaudited condensed consolidated balance sheet. As of June 30, 2015 and December 31, 2014, $64.9 million and $59.6 million, respectively, is included in restricted cash on the unaudited condensed consolidated balance sheet and represents short-term restricted cash consisting of collections on behalf of the Securitized Assets, restricted to the payment of principal, interest and other fees on a quarterly basis under the Senior Secured Notes.

For each of the Current Quarter and Prior Year Quarter, cash interest expense related to the Notes was approximately $8.9 million.

For the Current Six Months and the Prior Year Six Months, cash interest expense related to the Notes was approximately $17.2 million and $18.0 million, respectively.

1.50% Convertible Notes

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

The 1.50% Convertible Notes bear interest at an annual rate of 1.50%, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2013. However, the Company recognizes an effective interest rate of 6.50% on the carrying amount of the 1.50% Convertible Notes. The effective rate is based on the rate for a similar instrument that does not have a conversion feature. The 1.50% Convertible Notes will be convertible into cash and, if applicable, shares of the Company's common stock based on a conversion rate of 32.4052 shares of the Company's common stock, subject to customary adjustments, per $1,000 principal amount of the 1.50% Convertible Notes (which is equal to an initial conversion price of approximately $30.86 per share) only under the following circumstances: (1) during any fiscal quarter beginning after December 15, 2017 (and only during such fiscal quarter), if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on and including the last trading day of the immediately preceding fiscal quarter is more than 130% of the conversion price per share, which is $1,000 divided by the then applicable conversion rate; (2) during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per $1,000 principal amount of the 1.50% Convertible Notes for each day of that period was less than 98% of the product of (a) the closing price of the Company's common stock for each day in that period and (b) the conversion rate per $1,000 principal amount of the 1.50% Convertible Notes; (3) if specified distributions to holders of the Company's common stock are made, as set forth in the indenture governing the 1.50% Convertible Notes ("1.50% Indenture"); (4) if a "change of control" or other "fundamental change," each as defined in the 1.50% Indenture, occurs; and (5) during the 90 day period prior to maturity of the 1.50% Convertible Notes. If the holders of the 1.50% Convertible Notes exercise the conversion provisions under the circumstances set forth, the Company will need to remit the lower of the principal balance of the 1.50% Convertible Notes or their conversion value to the holders in cash. As such, the Company would be required to classify the entire amount outstanding of the 1.50% Convertible Notes as a current liability in the following quarter. The evaluation of the classification of amounts outstanding associated with the 1.50% Convertible Notes will occur every quarter.

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

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

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

	June 30, 2015	December 31, 2014

Equity component carrying amount	$49,931	$49,931
Unamortized discount	51,679	60,057
Net debt carrying amount	348,321	339,943

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

For the Current Six Months and Prior Year Six Months, the Company recorded additional non-cash interest expense of approximately $7.7 million and $7.5 million, respectively, representing the difference between the stated interest rate on the 1.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

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

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

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

On March 18, 2013, the Company used a portion of the proceeds from the 1.50% Convertible Notes to repurchase 2,964,000 shares of its common stock in a private transaction with a third party for $69.0 million. See note 7 for further information on our stock repurchase program.

In connection with the sale of the 1.50% Convertible Notes, the Company entered into hedges for the 1.50% Convertible Notes ("1.50% Convertible Note Hedges") with respect to its common stock with one entity (the "1.50% Counterparty"). Pursuant to the agreements governing these 1.50% Convertible Note Hedges, the Company purchased call options (the "1.50% Purchased Call Options") from the 1.50% Counterparty covering up to approximately 13.0 million shares of the Company's common stock. These 1.50% Convertible Note Hedges are designed to offset the Company's exposure to potential dilution upon conversion of the 1.50% Convertible Notes in the event that the market value per share of the Company's common stock at the time of exercise is greater than the strike price of the 1.50% Purchased Call Options (which strike price corresponds to the initial conversion price of the 1.50% Convertible Notes and is simultaneously subject to certain customary adjustments). On March 13, 2013, the Company paid an aggregate amount of approximately $84.1 million of the proceeds from the sale of the 1.50% Convertible Notes for the 1.50% Purchased Call Options, of which $29.4 million was included in the balance of deferred income tax assets at March 13, 2013 and is being recognized over the term of the 1.50% Convertible Notes. As of June 30, 2015 and December 31, 2014, the balance of deferred income tax assets related to this transaction was approximately $15.9 million and $18.9 million, respectively.

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

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

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

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

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

stock over the strike price of the 1.50% Sold Warrants.

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

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

2.50% Convertible Notes

On May 23, 2011, the Company completed the issuance of $300.0 million principal amount of the Company's 2.50% convertible senior subordinated notes due June 2016 ("2.50% Convertible Notes") in a private offering to certain institutional

investors. The net proceeds received by the Company from the offering, excluding the net cost of hedges and sale of warrants (described below) and including transaction fees, were approximately $291.6 million. The Company's current intention is to refinance the 2.50% Convertible Notes.

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

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

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

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

	June 30,	December 31,

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

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

For the Current Six Months and Prior Year Six Months, the Company recorded additional non-cash interest expense of approximately $6.1 million and $5.7 million, respectively, representing the difference between the stated interest rate on the 2.50% Convertible Notes and the rate for a similar instrument that does not have a conversion feature.

For each of the Current Quarter and Prior Year Quarter, the cash interest expense relating to the 2.50% Convertible Notes was approximately $1.9 million. For each of the Current Six Months and Prior Year Six Months, the cash interest expense relating to the 2.50% Convertible Notes was approximately $3.8 million.

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

In connection with the sale of the 2.50% Convertible Notes, the Company entered into hedges for the 2.50% Convertible Notes ("2.50% Convertible Note Hedges") with respect to its common stock with two entities (the "2.50% Counterparties"). Pursuant to the agreements governing these 2.50% Convertible Note Hedges, the Company purchased call options (the "2.50% Purchased Call Options") from the 2.50% Counterparties covering up to approximately 9.8 million shares of the Company's common stock. These 2.50% Convertible Note Hedges are designed to offset the Company's exposure to potential dilution upon conversion of the 2.50% Convertible Notes in the event that the market value per share of the Company's common stock at the time of exercise is greater than the strike price of the 2.50% Purchased Call Options (which strike price corresponds to the initial conversion price of the 2.50% Convertible Notes and is simultaneously subject to certain customary adjustments). On May 23, 2011, the Company paid an aggregate amount of approximately $58.7 million of the proceeds from the sale of the 2.50% Convertible Notes for the 2.50% Purchased Call Options, of which $20.6 million was included in the balance of deferred income tax assets at May 23, 2011 and is being recognized over the term of the 2.50% Convertible Notes. As of June 30, 2015 and December 31, 2014, the balance of deferred income tax assets related to this transaction was approximately $3.8 million and $5.9 million, respectively.

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

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

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

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

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

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

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

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

Debt Maturities

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

	Total	July 1 through December 31, 2015	2016	2017	2018	2019	Thereafter
Senior Secured Notes	$743,469	$ 30,562	$61,123	$61,123	$61,123	$61,123	$468,415
1.50% Convertible Notes [1]	$348,321	—	—	—	348,321	—	—
2.50% Convertible Notes [2]	$286,795	—	286,795	—	—	—	—
Variable Funding Notes	$100,000	—	—	—	100,000	—	—
Total	$1,478,585	$ 30,562	$347,918	$61,123	$509,444	$61,123	$468,415

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

7. Stockholders’ Equity

Stock Repurchase Program

In October 2011, the Company’s Board of Directors authorized a program to repurchase up to $200 million of the Company’s common stock over a period of approximately three years (the “2011 Program”). In February 2013, the Company’s Board of Directors authorized another program to repurchase up to $300 million of the Company’s common stock over a three year period (the “February 2013 Program”). This program was in addition to the 2011 Program, which was fully expended as of February 27, 2013. In July 2013, the Company’s Board of Directors authorized a program to repurchase up to $300 million of the Company’s common stock over a period of approximately three years (“July 2013 Program”). The July 2013 Program was in addition to the February 2013 Program, which was fully expended on August 15, 2013. In February 2014, the Company’s Board of Directors authorized another program to repurchase up to $500 million of the Company’s common stock over a three year period (the “February 2014 Program” and together with the 2011 Program and the February 2013 Program, the “Repurchase Programs”). The February 2014 Program is in addition to the July 2013 Program.

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

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

As of June 30, 2015, $13.3 million and $500.0 million remained available for repurchase under the July 2013 Program and February 2014 Program, respectively.

2009 Equity Incentive Plan

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

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

Shares Reserved for Issuance

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

Stock Options and Warrants

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

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

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

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

Warrants	Warrants	Weighted Average

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

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

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

Restricted stock

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

The following tables summarize information about unvested restricted stock transactions:

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

The Company has awarded time-based restricted shares of common stock to certain employees. The awards have restriction periods tied to employment and vest over a maximum period of 5 years. The cost of the time-based restricted stock awards, which is the fair market value on the date of grant net of estimated forfeitures, is expensed ratably over the vesting period. The Company has awarded performance-based restricted shares of common stock to certain employees. The awards have restriction periods tied to certain performance measures. The cost of the performance-based restricted stock awards, which is the fair market value on the date of grant net of estimated forfeitures, is expensed when the likelihood of those shares being earned is deemed probable.

Compensation expense related to restricted stock grants for the Current Quarter and Prior Year Quarter was approximately $3.3 million and $5.7 million, respectively. Compensation expense related to restricted stock grants for the Current Six Months and Prior Year Six Months was approximately $5.9 million and $8.2 million, respectively. An additional amount of $4.4 million of expense related to time-based restricted shares is expected to be expensed evenly over a period of approximately three years. During the Current Quarter and Prior Year Quarter, the Company repurchased shares valued at $1.4 million and $0.4 million, respectively, of its common stock in connection with net share settlement of restricted stock grants and option exercises. During the Current Six Months and Prior Year Six Months, the Company repurchased shares valued at $11.4 million and $14.0 million, respectively, of its common stock in connection with net share settlement of restricted stock grants and option exercises.

8. Earnings Per Share

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

As of June 30, 2015, of the total potentially dilutive shares related to restricted stock-based awards, stock options and warrants, less than 0.2 million were anti-dilutive. As of June 30, 2014, of the total potentially dilutive shares related to restricted stock-based awards, stock options and warrants, none were anti-dilutive.

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

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

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

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

For each of the Current Quarter, Prior Year Quarter, Current Six Months and Prior Year Six Months, the Company's redeemable non-controlling interest had no impact on the Company's earnings per share calculation.

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

9. Commitments and Contingencies

Legal Proceedings

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

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

10. Related Party Transactions

The Candie’s Foundation

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

Travel

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

Other

The Company incurs advertising expenses with Complex Media to promote certain of the Company’s men’s brands. The Company owns a minority interest in Complex Media as discussed in Note 3. There were no advertising expenses with Complex

Media for the Current Quarter and Prior Year Quarter, and no related accounts payable as of June 30, 2015 as compared to less than $0.1 million of related accounts payable as of December 31, 2014. Management believes that all transactions were made on terms and conditions no less favorable than those available in the marketplace from unrelated parties.

For each of the Current Quarter, Prior Year Quarter, Current Six Months, and Prior Year Six Months, the Company incurred less than $0.1 million in consulting fees in connection with a consulting arrangement entered into with Mark Friedman, a member of the Company's Board of Directors, relating to the provision by Mr. Friedman of investor relations services.

The Company has entered into certain license agreements in which the core licensee is also one of our joint venture partners. For the Current Quarter, the Prior Year Quarter, Current Six Months and Prior Year Six Months, the Company recognized the following royalty revenue amounts:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Joint Venture Partner				
Global Brands Group Asia Limited [1]	$1,241	$1,527	$2,623	$3,347
Buffalo International ULC	2,007	2,227	4,823	4,841
Rise Partners, LLC / Top On International Group Limited	2,021	692	4,443	863
M.G.S. Sports Trading Limited	154	141	276	269
Pac Brands USA, Inc.	95	330	311	573
NGO, LLC	202	—	404	—
Albion Equity Partners LLC / GL Damek	656	241	1,327	454
Anthony L&S	545	—	909	—
Roc Nation	100	100	200	200
	$7,021	$5,258	$15,316	$10,547

[1] Global Brands Group Asia Limited also serves as agent to Peanuts Worldwide for the Greater China Territory for Peanuts brands. For the Current Quarter and Prior Year Quarter, Global Brands Group Asia Limited earned fees of approximately $0.8 million and $0.7 million, respectively, in its capacity as agent to Peanuts Worldwide. For the Current Six Months and Prior Year Six Months, Global Brands Group Asia Limited earned fees of approximately $1.6 million and $1.3 million, respectively, in its capacity as agent to Peanuts Worldwide.

11. Segment and Geographic Data

The Company identifies its operating segments according to how business activities are managed and evaluated: men's, women's, home, entertainment and corporate. Since the Company does not track, manage and analyze its assets by segments, no disclosure of segmented assets is reported.

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

principally do business.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (restated)	2014 (restated)	2015 (restated)	2014 (restated)
Licensing revenue:				
Men's	$26,183	$ 27,277	$49,981	$ 51,896
Women's	37,751	37,706	76,131	76,756
Home	9,593	11,031	20,065	21,919
Entertainment	23,871	19,102	47,035	54,945
Corporate	—	—	—	—
	$97,398	$ 95,116	$193,212	$ 205,516
Operating income (loss):				
Men's	$18,815	$ 16,942	$34,121	$ 33,710
Women's	32,008	35,983	65,123	70,679
Home	8,028	9,375	16,696	19,165
Entertainment	7,512	3,502	15,555	15,696
Corporate	(14,539)	(3,942)	(23,695)	(12,879)
	$51,824	$ 61,860	$107,800	$ 126,371
Licensing revenue by category:				
Direct-to-retail license	$44,472	$ 46,745	$87,543	$ 90,085
Wholesale licenses	41,086	40,603	82,912	83,515
Other licenses	11,840	7,768	22,757	31,916
Other revenue	—	—	—	—
	$97,398	$ 95,116	$193,212	$ 205,516
Licensing revenue by geographic region:				
United States	$64,212	$ 63,129	$129,655	$ 142,518
Japan	7,951	7,630	16,010	16,518
Other (1)	25,235	24,357	47,547	46,480
	$97,398	$ 95,116	$193,212	$ 205,516

(1) No single country represented 10% of the Company’s revenues in the periods presented.

12. Income Taxes

The Company computes its expected annual effective income tax rates in accordance with ASC 740 and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual pre-tax income; changes to actual or forecasted permanent book to tax differences; impacts from future tax audits with state, federal or foreign tax authorities; impacts from tax law changes; or change in judgment as to the realizability of deferred tax assets. The Company identifies items which are not normal and are non-recurring in nature and treats these as discrete events. The tax effect of discrete items is recorded in the quarter in which the discrete events occur. Due to the volatility of these factors, the Company's consolidated effective income tax rate can change significantly on a quarterly basis.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries files income tax returns in the U.S., various state and local, and foreign jurisdictions. The Company, joined by its domestic subsidiaries, files a consolidated income tax return for Federal income tax purposes. In the normal course of business, the Company is subject to examination in such domestic and foreign jurisdictions. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. There was no interest expense related to uncertain tax positions recognized during the Current Six Months or the Prior Year Six Months.

The Company’s consolidated effective tax rate was 37.8% and 34.5% for the Current Quarter and Prior Year Quarter, respectively. The Company’s consolidated effective tax rate was 30.6% and 30.0% for the Current Six Months and Prior Year Six Months, respectively.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations; however, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

13. Other Assets- Current and Long-Term

Other Assets – Current

	June 30, 2015 (restated)	December 31, 2014
Other assets- current consisted of the following:		
Notes receivables on sale of trademarks[2]	$ 3,337	$ 2,981
Note receivable in connection with Strawberry Shortcake acquisition [1]	5,767	—
Due from AG (see Note 3)	3,397	—
Prepaid advertising	2,947	4,763
Prepaid expenses	1,427	853
Short-term receivable- Beagle note receivable (see Note 3)	—	2,085
Deferred charges	2,561	1,271
Prepaid taxes	6,444	26,468
Prepaid insurance	370	439
Due from related parties	3,333	3,450
Other current assets	11,919	1,778
	$ 41,502	$ 44,088

[1] The Note receivable in connection with Strawberry Shortcake acquisition represents amounts due from AG in respect of non-compete payments pursuant to a License Agreement entered into with AG simultaneously with the closing of the transaction.

[2] Certain amounts due from our joint venture partners are presented net of redeemable non-controlling interest and non-controlling interest in the condensed consolidated balance sheet. Refer to Note 3 for further details.

Other Assets – Long-Term

	June 30, 2015 (restated)	December 31, 2014

Other noncurrent assets consisted of the following:		
Due from ABC	$ 12,914	$ 14,644
Notes receivable on sale of trademarks[2]	3,897	8,531
Note receivable in connection with Strawberry Shortcake acquisition[1]	2,603	—
Prepaid Interest	8,876	9,265
Deposits	621	633
Other noncurrent assets	5,544	18,792
	34,455	51,865

[1] The Note receivable in connection with Strawberry Shortcake acquisition represents amounts due from AG in respect of non-compete payments pursuant to a License Agreement entered into with AG simultaneously with the closing of the transaction.

[2] Certain amounts due from our joint venture partners are presented net of redeemable non-controlling interest and non-controlling interest in the condensed consolidated balance sheet. Refer to Note 3 for further details.

14. Other Liabilities – Current

As of June 30, 2015 and December 31, 2014, other current liabilities include amounts due to related parties of $1.5 million and $2.4 million, respectively, and amounts due to Purim related to the MG Icon acquisition of $2.0 million and $4.0 million, respectively. See Note 3 for further details of this transaction.

15. Foreign Currency Translation

The functional currency of Iconix Luxembourg and Red Diamond Holdings which are wholly owned subsidiaries of the Company, located in Luxembourg, is the Euro. However the companies have certain dollar denominated assets, in particular cash and notes receivable, that are maintained in U.S. Dollars, which are required to be revalued each quarter. Due to fluctuations in currency in the Current Quarter and Current Six Months, the Company recorded a $1.9 million currency translation loss and an $8.8 million currency translation gain, respectively, as compared to the Prior Year Quarter and Prior Year Six Months, the Company recorded a $0.2 million currency translation loss and a $0.4 million currency translation loss, respectively, of which all are included in the unaudited condensed consolidated statement of income.

Comprehensive income includes certain gains and losses that, under U.S. GAAP, are excluded from net income as such amounts are recorded directly as an adjustment to stockholders' equity. Our comprehensive income is primarily comprised of net income and foreign currency translation gain or loss. During the Current Quarter and Current Six Months, we recognized as a component of our comprehensive income, a foreign currency translation gain of $7.1 million and foreign currency translation loss of $30.6 million, respectively, due to changes in foreign exchange rates during the Current Quarter and Current Six Months. During the Prior Year Quarter and Prior Year Six Months, we recognized as a component of our comprehensive income, a foreign currency translation loss of $2.0 million and $3.4 million, respectively, due to changes in foreign exchange rates during the Prior Year Quarter and Prior Year Six Months.

16. Accounting Pronouncements

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The standards core principle is debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note and that amortization of debt issuance costs also shall be reported as interest expense This ASU is effective for annual and interim periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). The Company will adopt the new standard effective January 1, 2016.

In April 2015, the FASB issued ASU No. 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"). ASU 2015-05 will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. ASU 2015-05 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. We are currently evaluating the impact of adopting this guidance.

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for annual and interim periods beginning on or after

December 15, 2017, and early adoption will be permitted as of the original effective date of December 15, 2016 in ASU 2014-09. Companies will have the option of using either a full retrospective approach or a modified approach to adopt the guidance in the ASU. We are currently evaluating the impact of adopting this guidance.

In April 2014, the FASB issued ASU No. 2014-08 ("ASU 2014-08") "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This ASU was effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. The Company adopted ASU 2014-08 on January 1, 2015, and it had no impact on the condensed consolidated financial statements.

17. Other Matters

The Company is currently in a comment letter process with the Staff of the Securities and Exchange Commission relating to an ongoing periodic review of the Company's Form 10-K for the year ended December 31, 2014. The current correspondence relates to the accounting treatment for the formation of the Company's international joint ventures under U.S. Generally Accepted Accounting

Principles and whether such joint ventures should potentially have been consolidated in the Company's historical results. The Company's Board of Directors also formed a Special Committee consisting of independent directors to review the accounting treatment related to certain of the Company's international joint venture transactions. The Special Committee has completed its review. Refer to Note 19 for further detail related to the Company’s restatement and related conclusions.

18. Subsequent Event

On August 5, 2015, Mr. Cole resigned as the Company’s Chairman of the Board, President, Chief Executive Officer and as a director of the Company effective immediately. Upon Mr. Cole’s resignation, Mr. F. Peter Cuneo, a member of the Company’s Board of Directors, was appointed the Company’s Chairman of the Board and Interim Chief Executive Officer. Under the terms of the Separation Agreement with Mr. Cole, the Company will recognize a one-time pre-tax charge of approximately $5.0 million in the third quarter of 2015. Under the terms of Mr. Cuneo’s agreement as Interim Chief Executive Officer, the Company will recognize a one-time pre-tax charge of approximately $1.2 million in the third quarter of 2015.

19. Restatement

SEC Comment Letter Process.

As previously disclosed, the Company has been engaged in a comment letter process with the Staff of the U.S. Securities and Exchange Commission relating to an ongoing review of the Company’s Form 10-K for the year ended December 31, 2014. The Company has responded to the Staff with a Confirming Letter on all of the questions the Staff has raised. As a result of the comment letter process, the Company’s management team, Audit Committee and the Board have reviewed the Company’s financial statements and assessed the accounting treatment applied by the Company to its joint ventures and other sales of intellectual property.

Based on this review and assessment, the Board, the Audit Committee and the Company’s management team, on February 11, 2016, concluded that the Company would restate its historical financial statements (the “Restatement”) to address the following accounting matters: (i) consolidate the financial statements of the Iconix Canada, Iconix Israel, Iconix Southeast Asia, Iconix MENA and LC Partners US joint ventures with the Company’s financial statements, and eliminate the previously reported gains on sale which were recorded at the time these transactions were consummated (including subsequent June 2014 and September 2014 transactions with respect to Iconix Southeast Asia), (ii) record the recalculated cost basis of the trademarks contributed to certain joint ventures which are recorded under the equity method of accounting at the time of consummation of the transactions (which also affected years prior to FY 2013 and is effectuated in the consolidated balance sheets contained herein), (iii) record the recalculated cost basis of the Umbro brand in the territory of Korea (which closed in December 2013) and the e-commerce and U.S. catalog rights in respect of the Sharper Image brand (which closed in June 2014) to determine the amount of the gain that should have been recorded at the time of the sale, (iv) reclassify the presentation of its statement of operations to reflect gains on sales of trademarks (to joint ventures or third parties) as a separate line item above the Operating Income line, and not as revenue as historically reflected, and (v) reclassify the Equity Earnings on Joint Ventures line to above the Operating Income line, from its previous location within the Other Expenses section.

In conjunction with the Company's consolidation of the joint ventures noted above, the Company also adjusted its historical financial statements to properly reflect the consideration from joint venture partners ("the redemption value") as redeemable non-controlling interest for the Iconix Southeast Asia, Iconix MENA and LC Partners US joint ventures as of the date of the formation of the joint venture. For each reporting period subsequent to the formation of the joint venture, the Company will accrete the change in redemption value up to the date that the joint venture partner has the right to redeem its respective put option. Additionally, in accordance with the applicable accounting guidance, the notes receivable, net of discount, received from our joint venture partners as part of the consideration related to the formation of consolidated joint ventures will be netted against non-controlling interest or redeemable non-controlling interest, as applicable.

Other.

In addition, through the Company's review of various historical transactions, management determined that it would record adjustments to reflect the following: (i) the reduction of revenue and remeasurement gains associated with certain transactions whereby the Company was not able to establish the fair value of the purchase transaction and subsequent guaranteed minimum royalties. Such adjustments reduced revenue by approximately $10 million, $14 million, $12 million and $6 million in 2015, 2014, 2013 and 2011, respectively, and reduced 2011 remeasurement gains by approximately $4 million, (ii) record a liability of $5.3 million for a royalty credit earned by a specific licensee in fiscal years 2006 through 2008 that will be utilized in fiscal years 2016 through 2020.

The impact of all of the changes described above on the Company's previously reported consolidated financial statements for the years ended December 31, 2013 and December 31, 2014 were reflected in the financial statements included in the Company's most recently filed Form 10-K. The impact of these changes on the Company's previously reported financial statements for the three months and six months ended June 30, 2015 are identified in the table below:

	As of June 30, 2015		
	As Previously Reported	Adjustments	As Restated
Assets			
Current Assets:			
Cash and cash equivalents	$117,874	$ 69	$117,943
Restricted cash	64,923	—	64,923
Accounts receivable, net	126,257	(4,766)	121,491
Deferred income tax assets	21,436	—	21,436
Other assets – current[1]	49,780	(8,278)	41,502
Total Current Assets	380,270	(12,975)	367,295
Property and equipment:			
Furniture, fixtures and equipment	23,435	—	23,435
Less: Accumulated depreciation	(15,839)	—	(15,839)
	7,596	—	7,596
Other Assets:			
Other assets	52,341	(17,886)	34,455
Trademarks and other intangibles, net[1]	2,183,447	(80,283)	2,103,164
Deferred financing costs, net	17,383	—	17,383
Investments and joint ventures[1]	182,760	(34,307)	148,453
Goodwill[1]	238,187	53,526	291,713
	2,674,118	(78,950)	2,595,168
Total Assets	$3,061,984	$(91,925)	$2,970,059
Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued expenses	$45,173	$(388)	$44,785
Deferred revenue	29,439	693	30,132
Current portion of long-term debt	347,918	—	347,918
Other liabilities – current	15,447	(11,947)	3,500
Total current liabilities	437,977	(11,642)	426,335
Deferred income tax liability	359,721	(20,601)	339,120
Long-term debt, less current maturities	1,130,667	—	1,130,667
Other liabilities	10,570	5,265	15,835
Total Liabilities	$1,938,935	$(26,978)	$1,911,957
Redeemable Non-Controlling Interests, net of installment payments due from non-controlling interest holders	14,582	32,572	47,154
Commitments and contingencies			
Stockholders' Equity:			
Common stock	80	—	80
Additional paid-in capital	970,245	(7,433)	962,812

Retained earnings	883,997	(93,579)	790,418
Accumulated other comprehensive loss	(55,003)	506	(54,497)
Less: Treasury stock	(836,501)	—	(836,501)
Total Iconix Brand Group, Inc. Stockholders' Equity	962,818	(100,506)	862,312
Non-controlling interests, net of installment payments due from non-controlling interest holders	145,649	2,987	148,636
Total Stockholders' Equity	$1,108,467	$ (97,519)	$1,010,948
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	$3,061,984	$ (91,925)	$2,970,059

(1) Included in the adjustment amounts for goodwill, trademarks and other intangibles, net, investments and joint ventures, and other assets – current are adjustments of $52.5 million, $(52.1) million, $(3.8) million and $3.4 million, respectively, which were not part of the restatement but are to reflect the final purchase price allocation (which was completed in the fourth quarter of 2015) for the buy-out of the remaining 50% interest in Iconix China as well as the acquisitions of Strawberry Shortcake and PONY. Refer to Note 2 and 3 for further details.

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Licensing revenue	$96,221	$ 1,177	$97,398	$190,018	$ 3,194	$193,212
Total revenue	96,221	1,177	97,398	190,018	3,194	193,212
Selling, general and administrative expenses	46,656	381	47,037	87,864	198	88,062
Equity on earnings on joint ventures[2]	—	(1,463)	(1,463)	—	(2,650)	(2,650)
Operating income	49,565	2,259	51,824	102,154	5,646	107,800
Other expenses (income) - net[2]	17,983	3,352	21,335	(22,545)	3,538	(19,007)
Income before taxes	31,582	(1,093)	30,489	124,699	2,108	126,807
Provision for income taxes	12,193	(657)	11,536	38,558	249	38,807
Net income	$19,389	$ (436)	$18,953	$86,141	$ 1,859	$88,000
Less: Net income attributable to non-controlling interest	$4,603	$ 612	$5,215	$7,670	$ 1,232	$8,902
Net income attributable to Iconix Brand Group, Inc.	$14,786	$ (1,048)	$13,738	$78,471	$ 627	$79,098
Earnings per share:						
Basic	$0.31	$ (0.02)	$0.28	$1.63	$ 0.01	$1.64
Diluted	$0.30	$ (0.02)	$0.28	$1.55	$ 0.01	$1.56
Comprehensive income	$26,811	$ (443)	$26,368	$55,324	$ 2,365	$57,689
Comprehensive income attributable to Iconix Brand Group, Inc.	$22,208	$ (1,055)	$21,153	$47,654	$ 1,133	$48,787

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Licensing revenue	$96,071	$ (955)	$95,116	$207,723	$ (2,207)	$205,516
Other revenue[1]	16,038	(16,038)	—	20,009	(20,009)	—
Total revenue	112,109	(16,993)	95,116	227,732	(22,216)	205,516
Selling, general and administrative expenses	43,855	61	43,916	91,619	(32)	91,587
Gains on sale of trademarks[1]	—	(6,399)	(6,399)	—	(6,399)	(6,399)
Equity on earnings on joint ventures[2]	—	(4,261)	(4,261)	—	(6,043)	(6,043)
Operating income	68,254	(6,394)	61,860	136,113	(9,742)	126,371
Other expenses (income) - net[2]	15,090	5,608	20,698	(5,370)	17,550	12,180
Income before taxes	53,164	(12,002)	41,162	141,483	(27,292)	114,191
Provision for income taxes	18,539	(4,326)	14,213	44,066	(9,856)	34,210
Net income	$34,625	$ (7,676)	$26,949	$97,417	$ (17,436)	$79,981
Less: Net income attributable to non-controlling interest	$3,463	$ 59	$3,522	$6,537	$ 102	$6,639
	$31,162	$ (7,735)	$23,427	$90,880	$ (17,538)	$73,342

Net income attributable to Iconix Brand Group, Inc.						
Earnings per share:						
Basic	$0.64	$(0.16)	$0.48	$1.85	$(0.36)	$1.50
Diluted	$0.53	$(0.13)	$0.40	$1.56	$(0.30)	$1.26
Comprehensive income	$32,293	$(7,389)	$24,904	$94,797	$(18,259)	$76,538
Comprehensive income attributable to Iconix Brand Group, Inc.	$28,830	$(7,448)	$21,382	$88,260	$(18,361)	$69,899

(1) Gains on sale of trademarks was previously reported as other revenue. Many of the gains recorded upon formation of certain joint ventures were reversed as a result of consolidation. The gains that were not impacted by consolidation, and therefore not reversed, have been reclassified and are being presented as a separate line item above operating income.

(2) Equity earnings on joint ventures was previously reported within other expenses (income) – net and has been reclassified and is being presented as a component of operating income.

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

Executive Summary. Iconix Brand Group is a brand management company and owner of a diversified portfolio of over 35 global consumer brands across women’s, men’s, entertainment and home brands. The Company’s business strategy is to maximize the value of its brands primarily through strategic licenses and joint venture partnerships around the world, as well as to grow the portfolio of brands through strategic acquisitions.

As of June 30, 2015, the Company’s brand portfolio includes Candie’s®, Bongo ®, Badgley Mischka ®, Joe Boxer ®, Rampage ®, Mudd ®, London Fog ®, Mossimo ®, Ocean Pacific/OP ®, Danskin /Danskin Now ®, Rocawear ® /Roc Nation ®, Artful Dodger ®, Cannon ®, Royal Velvet ®, Fieldcrest ®, Charisma ®, Starter ®, Waverly ®, Ecko Unltd ® /Mark Ecko Cut & Sew ®, Zoo York ®, Sharper Image ®, Umbro ® ,Lee Cooper ® and Strawberry Shortcake ®; and an equity interest in Material Girl ®, Peanuts ®, Ed Hardy ®, Truth or Dare ®, Billionaire Boys Club ®, Ice Cream ®, Modern Amusement ®, Buffalo ®, Nick Graham ®, Hydraulic ® and Pony ®.

The Company looks to monetize the intellectual property (herein referred to as “IP”) related to its brands throughout the world and in all relevant categories by licensing directly with leading retailers (herein referred to as “direct to retail”), through consortia of wholesale licensees, through joint ventures in specific territories and through other activity such as corporate sponsorships and content as well as the sale of IP for specific categories or territories. Products bearing the Company’s brands are sold across a variety of distribution channels from the mass tier to the luxury market and, in the case of the Peanuts and Strawberry Shortcake brands, through various media outlets, including television, movies, digital and mobile content. The licensees are responsible for designing, manufacturing and distributing the licensed products. The Company supports its brands with advertising and promotional campaigns designed to increase brand awareness. Additionally the Company provides its licensees with coordinated trend direction to enhance product appeal and help build and maintain brand integrity.

Licensees are selected based upon the Company’s belief that such licensees will be able to produce and sell quality products in the categories of their specific expertise and that they are capable of exceeding minimum sales targets and royalties that the Company generally requires for each brand. This licensing strategy is designed to permit the Company to operate its licensing business, leverage its core competencies of marketing and brand management with minimal working capital, and without inventory, production or distribution costs or risks and maintain high margins. The vast majority of the Company’s licensing agreements include minimum guaranteed royalty revenue which provides the Company with greater visibility into future cash flows.

A key initiative in the Company’s global brand expansion plans has been the formation of international joint ventures. The strategy in forming international joint ventures is to partner with best-in-class, local partners to bring the Company’s brands to market more quickly and efficiently, generating greater short- and long-term value from its IP, than the Company believes is possible if it were to build-out wholly-owned operations itself across a multitude of regional or local offices. Since September 2008, the Company has established the following international joint ventures: Iconix China, Iconix Latin America, Iconix Europe, Iconix India, Iconix Canada, Iconix Australia, Iconix Southeast Asia, Iconix Israel and Iconix Middle East.

The Company also plans to continue to build and maintain its brand portfolio by acquiring additional brands directly or through joint ventures. In assessing potential acquisitions or investments, the Company primarily evaluates the strength of the target brand as well as the expected viability and sustainability of future royalty streams. The Company believes that this focused approach allows it to effectively screen a wide pool of consumer brand candidates and other asset light businesses, strategically evaluate acquisition targets and complete due diligence for potential acquisitions efficiently.

The Company identifies its operating segments according to how business activities are managed and evaluated. Prior to the Current Quarter, the Company had disclosed one reportable segment: licensing and other revenue. Subsequently, the Company has reviewed its business activities, how they are managed and evaluated, and determined that it would, going forward, reflect five distinct reportable operating segments: men's, women's, home, entertainment and corporate. Therefore, the Company has disclosed these reportable segments for the periods shown below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (restated)	2014 (restated)	2015 (restated)	2014 (restated)
Licensing revenue:				
Men's	$26,183	$ 27,277	$49,981	$ 51,896
Women's	37,751	37,706	76,131	76,756
Home	9,593	11,031	20,065	21,919
Entertainment	23,871	19,102	47,035	54,945
Corporate	—	—	—	—
	$97,398	$ 95,116	$193,212	$ 205,516
Operating income (loss):				
Men's	$18,815	$ 16,942	$34,121	$ 33,710
Women's	32,008	35,983	65,123	70,679
Home	8,028	9,375	16,696	19,165
Entertainment	7,512	3,502	15,555	15,696
Corporate	(14,539)	(3,942)	(23,695)	(12,879)
	$51,824	$ 61,860	$107,800	$ 126,371

Highlights of Current Quarter

- Q2 Licensing revenue up 2% as compared to the Prior Year Quarter
- Excluding the effect of foreign exchange rates, licensing revenue increased 6%

Results of Operations

Current Quarter compared to Prior Year Quarter

Licensing Revenue. Total licensing revenue for the Current Quarter was $97.4 million, a 2% increase as compared to $95.1 million for the Prior Year Quarter. Total licensing revenue was negatively impacted by approximately $3.3 million due to foreign exchange rates. The entertainment segment increased 25% from $19.1 million in the Prior Year Quarter to $23.9 million in the Current Quarter mainly due to strong overall business from our Peanuts brand and additional revenue from our recently completed purchase of the Strawberry Shortcake brand. The women's segment was relatively flat, from $37.7 million in the Prior Year Quarter to $37.8 million in the Current Quarter. The men's segment decreased 4% from $27.3 million in the Prior Year Quarter to $26.2 million in the Current Quarter mainly due to weakness in our Ecko brand. The home segment decreased 13% from $11.0 million in the Prior Year Quarter to $9.6 million in the Current Quarter mainly due to a decrease in our Sharper Image brand partially related to the sale of the "sharperimage.com" domain name and certain categories under the Sharper Image trademark in June 2014.

Operating Expenses. Total operating expenses ("SG&A") was $47.0 million for the Current Quarter as compared to $43.9 million for the Prior Year Quarter, an increase of $3.1 million. SG&A in the entertainment segment increased 5% from $15.6 million in the Prior Year Quarter to $16.4 million in the Current Quarter which was mainly due to increased agent expenses as a result of higher international revenues in the Peanuts brand. SG&A from the women's segment increased 19% from $5.4 million in the Prior Year Quarter to $6.4 million in the Current Quarter mainly due

to advertising for the Mudd brand. SG&A from the men's segment decreased 26% from $10.9 million in the Prior Year Quarter to $8.1 million in the Current Quarter mainly due to $3 million decrease in compensation costs. SG&A from the home segment decreased 7% from $1.7 million in the Prior Year Quarter to $1.6 million in the Current Quarter mainly due to decreased compensation costs. Corporate SG&A increased 41% from $10.3 million to $14.6 million mainly due to an increase in professional fees of $2.6 million, mostly as a result of the continuing correspondence with the Staff and the Special Committee's review.

Gain on sale of trademarks. There were no gains on sales of trademarks for the Current Quarter as compared to a $6.4 million gain for the Prior Year Quarter as a result of the sale of the "sharperimage.com" domain name and certain categories under the Sharper Image trademark.

Equity Earnings on Joint Ventures. Equity Earnings on Joint Ventures was $1.5 million in income in the Current Quarter, as compared to $4.3 million in income from the Prior Year Quarter. The decrease was due to a decrease of $3.0 million in income from our MG Icon joint venture slightly offset by an increase of $0.2 million in our Iconix India joint venture.

Operating Income. Total operating income for the Current Quarter decreased to $51.8 million, or approximately 53% of total revenue, compared to approximately $61.9 million or approximately 65% of total revenue in the Prior Year Quarter. Operating income from the entertainment segment was $7.5 million in the Current Quarter compared to $3.5 million in the Prior Year Quarter. Operating income from the women's segment was $32.0 million in the Current Quarter compared to $36.0 million in the Prior Year Quarter. Operating income from the men's operating segment was $18.8 million in the Current Quarter compared to $16.9 million in the Prior Year Quarter. Operating income from the home segment was $8.0 million in the Current Quarter compared to $9.4 million in the Prior Year Quarter. Corporate operating loss was $14.5 million in the Current Quarter compared to $3.9 million in the Prior Year Quarter.

Other Expenses (Income) - Net. Other expenses (income) - net were approximately $21.3 million for the Current Quarter as compared to $20.7 million for the Prior Year Quarter, an increase of $0.6 million. The increase in other expenses-net was primarily related to a $1.9 million foreign currency translation loss in the Current Quarter as compared to a loss of $0.2 million in the Prior Year Quarter. The foreign currency loss was slightly offset by $2.0 million in interest and other income in the Current Quarter as compared to $0.8 million in the Prior Year Quarter.

Provision for Income Taxes. The effective income tax rate for the Current Quarter is approximately 37.8% resulting in a $11.5 million income tax expense, as compared to an effective income tax rate of 34.5% in the Prior Year Quarter which resulted in the $14.2 million income tax expense. The increase in our effective tax rate primarily relates to a smaller portion of our income being generated and permanently reinvested in countries outside the U.S. that have lower statutory rates than the U.S.

Net Income. Our net income was approximately $19.0 million in the Current Quarter, compared to net income of approximately $26.9 million in the Prior Year Quarter, as a result of the factors discussed above.

Current Six Months compared to Prior Year Six Months

Licensing Revenue. Total licensing revenue for the Current Six Months totaled $193.2 million, a 6% decrease as compared to $205.5 million for the Prior Year Six Months. Total licensing revenue was negatively impacted by approximately $6.0 million due to foreign exchange rates. In addition, total licensing revenue in the 2014 period included $17.1 million of revenue related to the 5-year renewal of the Peanuts specials with ABC for which there is no comparable revenue in the Current Six Months. After excluding the effect of foreign exchange rates and revenue related to the ABC renewal in the Prior Year Six Months, licensing revenue increased approximately 6%. Licensing revenue from the entertainment segment decreased 14% from $54.9 million in the Prior Year Six Months to $47.0 million in the Current Six Months mainly due to a decrease in our Peanuts revenue related to the renewal of Peanuts specials with ABC, which was $17.1 million in the Prior Year Six Months for which there was no comparable revenue in the Current Six Months, partially offset by additional revenue in the Current Six Months from our recently completed purchase of the Strawberry Shortcake brand. Licensing revenue from the women's segment decreased 1% from $76.8 million in the Prior Year Six Months to $76.1 million in the Current Six Months mainly due to general weakness in revenue from our Rampage and Bongo brands offset by strength in our Danskin brand. Licensing revenue from the men's segment decreased 4% from $51.9 million in the Prior Year Six Months to $50.0 million in the Current Six Months mainly due to general weakness in revenue from our Ecko brand. Licensing revenue from the home segment decreased 8% from $21.9 million in the Prior Year Six Months to $20.1 million in the Current Six Months mainly due to a decrease in our Sharper Image brand partially related to the sale of the "sharperimage.com" domain name and certain categories under the Sharper Image trademark in June 2014.

Operating Expenses. Total SG&A totaled $88.1 million for the Current Six Months compared to $91.6 million for the Prior Year Six Months, a decrease of $3.5 million. SG&A in the entertainment segment decreased 20% from $39.3 million in the Prior Year Six Months to $31.5 million in the Current Six Months which was mainly due to talent expenses related to the Peanuts specials with ABC in the Prior Year Six Months. SG&A in the women's segment increased 10% from $11.3 million in the Prior Six Months to $12.5 million in the Current Six Months mainly due to advertising for the Mudd brand. SG&A in the men's segment decreased 11% from $19.2 million in the Prior Six Months to $17.1 million in the Current Six Months mainly due to $3.6 million in decreased compensation costs offset by an increase of $1.7 million in advertising costs. SG&A in the home segment increased 14% from $3.0 million in the Prior Year Six Months to $3.5 million in the Current Six Months mainly due to increased advertising for the Royal Velvet brand. Corporate expenses increased 25% from $18.8 million in the Prior Year Six Months to $23.5 million in the Current Six Months mainly due to increased professional fees of $2.4 million as a result of the continuing correspondence with the Staff and the Special Committee's review

Gain on sale of trademarks. There were no gains on sales of trademarks for the Current Six Months as compared to a $6.4 million gain for the Prior Year Six Months, as a result of the sale of the "sharperimage.com" domain name and certain categories under the Sharper Image trademark.

Equity Earnings on Joint Ventures. Equity Earnings on Joint Ventures was $2.7 million in income in the Current Six Months, as compared to $6.0 million in income from the Prior Year Six Months. The decrease was due to a decrease of $3.5 million in income from our MG Icon joint venture.

Operating Income. Total operating income for the Current Six Months decreased to $107.8 million, or approximately 56% of total revenue, compared to $126.4 million or approximately 61% of total revenue in the Prior Year Six Months. Operating income from the entertainment segment was $15.6 million in the Current Six Months compared to $15.7 million in the Prior Year Six Months. Operating income from the women's segment was $65.1 in the Current Six Months compared to $70.7 million in the Prior Year Six Months. Operating income from the men's operating segment was $34.1 million in the Current Six Months compared to $33.7 million in the Prior Year Six Months. Operating income from the home segment was $16.7 million in the Current Six Months compared to $19.2 million in the Prior Year Six Months. Corporate operating loss was $23.7 million in the Current Six Months compared to $12.9 million in the Prior Year Six Months.

Other Expenses (Income) - Net. Other Expenses (Income) - Net was approximately $19.0 million in income in the Current Six Months as compared to an expense of $12.2 million in the Prior Year Six Months. This increase of $31.2 million was mainly related to (i) approximately $50.0 million in Other Income in the Current Six Months related to the non-cash gain on the fair value re-measurement of our original 50% interest in Iconix China compared to a $28.9 million non-cash gain in the Prior Year Six Months primarily related to the fair value re-measurement of our original 50% interest in Iconix Latin America, and (ii) a $8.8 million foreign currency translation gain in the Current Six Months as compared to a $0.4 million foreign currency loss in the Prior Year Six Months.

Provision for Income Taxes. The effective income tax rate for the Current Six Months is approximately 30.6% resulting in a $38.8 million income tax expense, as compared to an effective income tax rate of 30.0% in the Prior Year Six Months which resulted in the $34.2 million income tax expense. The increase in our effective tax rate primarily relates a smaller portion of our income in the Current Six Months as compared to the Prior Year Six Months being generated and permanently reinvested in countries outside the U.S. that have lower statutory rates than the U.S.

Net Income. Our net income was approximately $88.0 million in the Current Six Months, compared to net income of approximately $80.0 million in the Prior Year Six Months, as a result of the factors discussed above.

Liquidity and Capital Resources

Liquidity

Our principal capital requirements have been to fund acquisitions, working capital needs, share repurchases and, to a lesser extent, capital expenditures. We have historically relied on internally generated funds to finance our operations and our primary source of capital needs for acquisition has been the issuance of debt and equity securities. At June 30, 2015 and December 31, 2014, our cash totaled $117.9 million and $128.0 million, respectively, not including short-term restricted cash of $64.9 million and $59.6 million, respectively, which primarily consists of cash and cash equivalent deposits, held in accounts primarily for debt service.

We believe that cash from future operations, our currently available cash and capacity for additional financings under our Senior Secured Notes facility, as well as our intended refinancing of the 2.50% convertible notes will be sufficient to satisfy our anticipated working capital requirements for the foreseeable future, including early redemptions by our convertible notes' holders in the event circumstances allow for early redemptions. We intend to continue financing future brand acquisitions through a combination of cash from operations, bank financing and the issuance of additional equity and/or debt securities. See Note 6 of Notes to the Unaudited Condensed Consolidated Financial Statements for a description of certain prior financings consummated by us.

Changes in Working Capital

At June 30, 2015 and December 31, 2014 the working capital ratio (current assets to current liabilities) was 0.86 to 1 and 2.68 to 1, respectively.

Operating Activities

Net cash provided by operating activities increased approximately $15.1 million, from $80.1 million in the Prior Year Six Months to $95.3 million in the Current Six Months. The increase is primarily due to an increase in net income of $8.0 million period over period adjusted for non-cash items of $(8.8) million for the Current Six Months as compared to $20.5 million for the Prior Year Six Months. The change in the non-cash adjustments are primarily as a result of the non-cash gain of $50.0 million related to the fair value re-measurement of our original 50% interest in Iconix China in the Current Six Months as compared to the non-cash gain of $28.9 million primarily related to the fair value re-measurement of our original 50% interest in Iconix Latin America in the Prior Year Six Months.

These non-cash adjustments are offset by cash provided by working capital items of $16.1 million in the Current Six Months as compared to cash used in working capital items of $20.4 million in the Prior Year Six Months.

Investing Activities

Net cash used in investing activities increased approximately $117.9 million, from $35.9 million in the Prior Year Six Months to $153.8 million in the Current Six Months. This increase period over period is primarily due to (i) cash used in the acquisition of Iconix China of approximately $20.4 million, (ii) cash used in the acquisition of the Company's interest in Pony of $37.0 million, and (iii) $95.0 million of cash used in the acquisition of the Strawberry Shortcake brand along with the $10.0 million issuance of a note to American Greetings associated with the acquisition versus the Prior Year Six Months cash primarily used for our acquisition of interest in Iconix Latin America of $42.0 million.

Financing Activities

Net cash provided by financing activities increased approximately $238.8 million, from cash used in financing activities of $190.9 million in the Prior Year Six Months to cash provided by financing activities of $47.9 million in the Current Six Months. The increase in cash provided in financing activities period over period is due to the proceeds of $100.0 million from our Variable Funding Notes received in the Current Six Months, for which there was no comparable financing arrangement in the Prior Year Six Months as well as the cash used of $144.3 million in the Prior Year Six Months as compared to cash used of $12.4 million in the Current Six Months for shares repurchased on the open market.

Other Matters

Critical Accounting Policies

The Company's consolidated financial statements are based on the accounting policies used. Certain accounting policies require that estimates and assumptions be made by management for use in the preparation of the financial statements. Critical accounting policies are those that are central to the presentation of the Company's financial conditions and results and that require subjective or complex estimates by management. There have been no material changes with respect to the Company's critical accounting policies from those discussed in the Company's most recently filed Form 10-K.

Recent Accounting Pronouncements

See Note 16 of the notes to unaudited condensed consolidated financial statement for recent accounting pronouncements.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Moreover, in connection with the warrant transactions with the counterparties related to our 2.50% Convertible Notes and our 1.50% Convertible Notes, to the extent that the price of our common stock exceeds the strike price of the warrants, the warrant transactions could have a dilutive effect on our earnings per share. The effect, if any, of these transactions and activities on the trading price of our common stock will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the Company’s Original Filing (filed on August 12, 2015) as well as the Prior Amendments of its quarterly report on Form 10-Q for the quarter ended June 30, 2015 filed on August 26, 2015 and November 27, 2015, the Company’s then principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were not effective as of the end of the period covered by the Original Filing (the “Evaluation Date”) due to material weaknesses identified in internal controls over financial reporting which related to inadequate management review controls. Subsequent to the filing of the Prior Amendments, the Company’s management identified additional material weaknesses which are summarized below. As a result of its identification of the weaknesses, management, under the supervision and with the participation of our current principal executive officer and principal financial and accounting officer, reevaluated the effectiveness of the Company's disclosure controls and procedures as of the Evaluation Date. Based on that reevaluation, our current principal executive officer and principal financial and accounting officer concluded that the Company's disclosure controls and procedures were not effective as of the Evaluation Date as described below.

As disclosed in the Original Filing, there were no changes in the Company’s internal control over financial reporting, as defined in Rules 13a 15(f) and 15d 15(f) under the Exchange Act, during the fiscal quarter ended June 30, 2015, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, as a result of management's identification of the material weaknesses described below, subsequent to June 30, 2015, the Company has instituted a number of actions and is in the process of designing and implementing changes in its internal control over financial reporting. These actions and changes in internal control over financial reporting are described in detail in the Company’s most recently filed Form 10-K.

With respect to this Amended Filing and in connection with management’s review, under the supervision of the Company’s principal executive officer and principal financial officer, as of June 30, 2015, weaknesses were identified in certain of the Company’s disclosure controls and procedures and internal controls over financial reporting which are as follows:

- The Company did not maintain internal controls over financial reporting that were operating effectively to support the accurate reporting of revenue and deferred revenue, which led to errors being identified in revenue and deferred revenue.
- The Company did not implement effective internal controls to formally identify related parties and ensure that proper measures were taken to analyze transactions with these parties before they were entered into and that they were properly disclosed in the financial statements. However, no adjustments were made as a result of this material weakness.
- The Company did not maintain internal controls over financial reporting that were appropriately documented to evidence that journal entries were sufficiently reviewed. However, no adjustments were made as a result of this material weakness.
    - The Company did not maintain internal controls over financial reporting that were operating effectively with regard to certain revenue recognition, the classification of contractually obligated expenses as selling expenses as opposed to netting such expenses with revenue and the inadequate estimation of accruals related to retail support for certain license agreements.
- The Company did not maintain internal controls over financial reporting that appropriately documented review of supporting schedules within Forms 10-K and 10-Q.
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The Company did not maintain internal controls over financial reporting that were appropriately designed, adequately documented and operating effectively related to complex accounting transactions. As a result, the Company recorded adjustments to (i) reduce licensing revenue and remeasurement gains associated with the review of various historical accounting transactions, (ii) record a liability for a royalty credit earned by a specific licensee in accordance with its license agreement.

Notwithstanding the material weaknesses and the adjustments discussed above, our current principal executive officer and principal financial and accounting officer have concluded that the financial statements included in this Quarterly Report on Form 10-Q/A present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Addressing the Material Weaknesses

We are in the process of supplementing our controls to remediate the material weaknesses that existed as of June 30, 2015. In 2016, the current senior management team is dedicated to continuing its initiative to implement and document policies, procedures, and internal controls, for the purpose of strengthening the internal control environment. This is also being performed with Audit Committee oversight. The remediation actions are described in the Company's most recently filed Form 10-K.

We will test the ongoing operating effectiveness of the new and existing controls in future periods. The material weaknesses cannot be considered completely addressed until the applicable additional controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

The foregoing has been approved by our management, including our current principal executive officer and principal financial and accounting officer, who have been involved with the reassessment and analysis of our internal control over financial reporting.

The Audit Committee, which consists of independent, non-executive directors, will continue to meet regularly with management, the Director of Internal Audit, and the independent accountants to review accounting, reporting, auditing and internal control matters. The Audit Committee has direct and private access to the Director of Internal Audit and the external auditors, and will meet with each, separately, in executive sessions. The Company reviewed the results of management's assessment of its internal control over financial reporting with the Audit Committee of the Board of Directors and they agreed with the conclusions.

PART II. Other Information

Item 1. Legal Proceedings.

See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

In addition to the risk factors disclosed in our most recently filed Form 10-K, set forth below are certain factors that have affected, and in the future could affect, our operations or financial condition. We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could impact our operations. The risks described below and in our most recently filed Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our financial condition and/or operating results.

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

As of June 30, 2015, our consolidated balance sheet reflects debt of approximately $1,478.6 million, including secured debt of $843.5 million under our Senior Secured Notes and Variable Funding Note. In accordance with ASC 470, our 1.50% Convertible Notes and our 2.50% Convertible Notes are included in our $1,478.6 million of consolidated debt at a net debt carrying value of $348.3 million and $286.8 million, respectively; however, the principal amount owed to the holders of our 1.50% Convertible Notes and 2.50% Convertible Notes is $400.0 million (due March 2018) and $300.0 million (due June 2016), respectively. We may also assume or incur additional debt, including secured debt, in the future in connection with, or to fund, future acquisitions or refinance our existing debt obligations. Our debt obligations:

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

In addition, as of June 30, 2015, approximately $69.4 million, or 37.9%, of our total cash (including restricted cash) was held in foreign subsidiaries. Our investments in these foreign subsidiaries are considered indefinitely reinvested and unavailable for the payment of any U.S. based expenditures, including debt obligations. Any repatriation of cash from these foreign subsidiaries may require the accrual and payment of U.S. federal and certain state taxes, which could negatively impact our results of operations and/or the amount of available funds. While we currently have no intention to repatriate cash from these subsidiaries, should the need arise domestically, there is no guarantee that we could do so without adverse consequences.

While we believe that by virtue of the cash on our balance sheet as of June 30, 2015, our ability to add additional capacity under the securitization facility underlying our Senior Secured Notes, the intended refinance of the 2.50% convertible notes, and the guaranteed minimum and percentage royalty payments due to us under our licenses, we will generate sufficient revenue from our licensing operations to satisfy our obligations for the foreseeable future. In the event that we were to fail in the future to make any required payment under agreements governing our indebtedness or

fail to comply with the financial and operating covenants contained in those agreements, we would be in default regarding that indebtedness. A debt default could significantly diminish the market value and marketability of our common stock and could result in the acceleration of the payment obligations under all or a portion of our consolidated indebtedness.

A substantial portion of our licensing revenue is concentrated with a limited number of licensees, such that the loss of any of such licensees or their renewal on terms less favorable than today, could slow our growth plans, decrease our revenue and impair our cash flows.

Our licenses with Wal-Mart, Target, Kohl's and Kmart/Sears represent, each in the aggregate, our four largest direct-to-retail licensees during the Current Six Months, representing approximately 17%, 9%, 6% and 5%, respectively, of our total revenue for the Current Six Months. Because we are dependent on these licensees for a significant portion of our licensing revenue, if any of them were to have financial difficulties affecting their ability to make payments, cease operations, or if any of these licensees decides not to renew or extend any existing agreement with us, or to significantly reduce its sales of licensed products under any of the agreement(s), our revenue and cash flows could be reduced substantially.

Alternatively, we may face increasing competition in the future for direct-to-retail licenses as other companies owning established brands may decide to enter into licensing arrangements with retailers similar to the ones we currently have in place. Furthermore, our current or potential direct-to-retail licensees may decide to more prominently promote and market competing brands, or develop or purchase other brands, rather than continue their licensing arrangements with us. In addition, this increased competition could result in lower sales of products offered by our direct-to-retail licensees under our brands. If our competition for retail licenses increases, it may take us longer to procure additional retail licenses, which could slow our growth rate.

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

As of June 30, 2015, goodwill represented approximately $291.7 million, or approximately 9.8% of our total consolidated assets, and trademarks and other intangible assets represented approximately $2,103.2 million, or approximately 70.8% of our total consolidated assets. Under current U.S. GAAP accounting standards, goodwill and indefinite life intangible assets, including some of our trademarks, are no longer amortized, but instead are subject to impairment evaluation based on related estimated fair values, with such testing to be done at least annually. While, to date, no impairment write-downs have been necessary, any write-down of goodwill or intangible assets resulting from future periodic evaluations would, as applicable, either decrease our net income or increase our net loss and those decreases or increases could be material.

We have had turnover in senior management, which may cause instability at the Company.

Neil Cole, our former president, chief executive officer and chairman, resigned from the Company in August 2015. F. Peter Cuneo, one of our current Board members, has stepped in to serve as our interim chief executive officer. We are currently working with an executive search firm to locate a successor chief executive officer, although we may not be successful in finding or hiring a suitable replacement. Similarly, we cannot guarantee that Mr. Cuneo will remain in the position of interim chief executive officer until we hire a suitable replacement. Additional turnover at the senior management level may create instability within the Company and our employees may decide to terminate their employment, which could further impede the Company's maintenance of its day to day operations. Such instability could impede our ability to implement fully our business plan and growth strategy, which would harm our business and prospects.

The Company is currently engaged in a comment letter process with the SEC Staff regarding the accounting treatment related to the formation of its joint ventures under United States Generally Accepted Accounting Principles and whether such joint ventures should have been consolidated in the Company's historical results. The results of this process could result in a requirement to file future supplements to or restatements of the Company's financial disclosure.

The Company has received comment letters from the staff (the "Staff") of the SEC relating to the Annual Report on Form 10-K for the year ended December 31, 2014. The Staff's comments relate to the accounting treatment for the formation of the Company's international joint ventures under United States Generally Accepted Accounting Principles and whether such joint ventures should have been consolidated in the Company's historical results. As of June 30, 2015, the Staff's comments remain unresolved, and until these comments are resolved, the Company cannot predict whether the Staff will require the Company to supplement its disclosures or restate or make other changes to its historical consolidated financial statements, including with respect to the financial information contained in the Company's previously filed annual and quarterly reports. If the Company is required to supplement its disclosures or restate its previously reported financial statements, it could have a material adverse effect on the Company's results of operations and on the value or trading price of its Common Stock. Moreover, any such restatement could result in a class action lawsuit being filed against the Company and its officer and directors.

We have been named in securities litigations, which could be expensive and could divert our management's attention. There may be additional class action claims.

We have been named as defendants in two class actions filed in the Southern District of New York as described in note 9 to our financial statements contained in this Report on Form 10-Q. While we plan to vigorously defend these claims, we may be unable to defend or settle these claims on favorable terms, and there can be no assurance that additional claims will not be made by other stockholders. The pending and any future class action claims could be costly to defend and/or resolve and could harm our reputation and business. An adverse determination could materially and negatively affect the Company. Our insurance coverage may not be adequate or available for us to avoid or limit our exposure in the pending action or in future claims and adequate insurance coverage may not be available in sufficient amounts or at a reasonable cost in the future. Additionally, securities class action claims may divert our management's attention from other business concerns, which could seriously harm our business. Finally, the market price of our common stock may be volatile, and in the past companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation.

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

In March 2015, the Company issued 465,272 shares of common stock to Novel Fashion Brands ("Novel") as a portion of the purchase price for the Company's purchase of Novel's 50% interest in Iconix China. Such shares were valued at approximately $15.7 million. These shares were issued pursuant to an exemption from registration provided under Section 4(a)(2) of the Securities Act of 1933.

The following table presents information with respect to purchases of common stock made by the Company during the Current Quarter:

Month of purchase	Total number of shares purchased*	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs [1][2]	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
April 1 – April 30	28,714	$ 29.45	160,000	$ 513,277,115
May 1 – May 31	11,961	$ 27.46	—	$ 513,277,115
June 1 – June 30	—	$ —	—	$ 513,277,115
Total	40,675	$ 28.87	160,000	$ 513,277,115

[1] On July 22, 2013, the Board of Directors authorized the repurchase of up to $300 million of the Company's common stock over a period ending July 22, 2016, herein referred to as the July 2013 Program. The July 2013 Program is in addition to the February 2013 Program and the 2011 Program. The July 2013 Program does not obligate the Company to repurchase any specific number of shares and may be suspended at any time at management's discretion.

[2] On February 18, 2014, the Board of Directors authorized the repurchase of up to $500 million of the Company's common stock over a period ending February 18, 2017, herein referred to as the 2014 Program. The 2014 Program

is in addition to prior programs. The 2014 Program does not obligate the Company to repurchase any specific number of shares and may be suspended at any time at management's discretion.

* Amounts not purchased under the repurchase plan represent shares surrendered to the Company to pay withholding taxes due upon the vesting of restricted stock and exercise of stock options.

Item 6. Exhibits

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

*Filed herewith.

Signatures

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

	Iconix Brand Group, Inc. (Registrant)
Date: June 21, 2016	/s/ John N. Haugh John N. Haugh President and Chief Executive Officer (Principal Executive Officer)
Date: June 21, 2016	/s/ David K. Jones David K. Jones Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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