ICONIX BRAND GROUP, INC.
Form 10-Q/A
June 10, 2016

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 2

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2015

OR

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

Commission file number 1-10593

ICONIX BRAND GROUP, INC.

(Exact name of registrant as specified in its charter)

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

(212) 730-0030

(Registrant’s telephone number, including area code)

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

Indicate by check mark 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 x 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.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| 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 x

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, $.001 Par Value-48,647,185 shares as of June 9, 2016.

Unless the context requires otherwise, references in this Form 10-Q/A to the "Company," "Iconix," "we," "us," "our," or simila pronouns refer to Iconix Brand Group, Inc. and its consolidated subsidiaries.

EXPLANATORY NOTE — RESTATEMENT OF FINANCIAL INFORMATION

Iconix Brand Group, Inc. (the "Company") is filing this Amendment No. 2 on Form 10-Q/ A (the "Amended Filing") to amend certain parts of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, originally filed with the U.S. Securities and Exchange Commission (the "SEC") on May 8, 2015 (the "Original Filing") and amended on November 27, 2015 (the "Initial Amendment").

Background and Effects of the Restatement

SEC Comment Letter Process.

As previously disclosed, the Company has been engaged in a comment letter process with the Staff of the SEC 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, and remains in a dialogue with the SEC Staff relating to those and certain other comments related to the Company's future disclosures. As a result of the comment letter process, the Company's management team, Audit Committee (the "Audit Committee") and the Board of Directors (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 applicable joint venture. For each period subsequent to the formation of the applicable joint venture, the Company will accrete the change in redemption value up to the date that the Company's 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, and (ii) record a liability 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.

Disclosure Controls and Procedures

Management has reassessed its evaluation of the effectiveness of its Disclosure Controls and Procedures as of March 31, 2015. As a result of that reassessment, management identified material weaknesses in internal controls over financial reporting, and accordingly, has concluded that the Company did not maintain effective Disclosure Controls and Procedures as of March 31, 2015. The material weaknesses relate to inadequate management review controls which caused the restatement adjustments noted above. Management has restated its report on Disclosure Controls and Procedures as of March 31, 2015. For a description of the material weaknesses in internal control over financial reporting and actions taken, and to be taken, to address the material weaknesses, see the Company's most recently filed Form 10-K.

Items Amended in This Filing

This Amended Filing amends and restates the following items of the Company's Initial Amendment as of, and for the period ended March 31, 2015.

Part I - Item 1. Financial Statements

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

Part I - Item 4. Controls and Procedures

Part II – Item 1A. Risk Factors

Part II - Item 6. Exhibits

In accordance with applicable SEC rules, this Amended Filing includes certifications as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") from the Company's Principal Executive Officer and Principal Financial Officer dated as of the date of this Amended Filing.

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

Part I. Financial Information

Item 1. Financial Statements

Iconix Brand Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except par value)

| | March 31, 2015 (restated) (unaudited) | December 31, 2014 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $86,801 | $128,039 |
| Restricted cash | 43,550 | 59,560 |
| Accounts receivable, net | 119,774 | 112,347 |
| Deferred income tax assets | 10,326 | 10,328 |
| Other assets – current | 40,519 | 44,088 |
| Total Current Assets | 300,970 | 354,362 |
| Property and equipment: | | |
| Furniture, fixtures and equipment | 23,658 | 22,704 |
| Less: Accumulated depreciation | (15,439) | (14,946) |
| | 8,219 | 7,758 |
| Other Assets: | | |
| Other assets | 50,450 | 51,865 |
| Trademarks and other intangibles, net | 2,099,020 | 1,996,334 |
| Deferred financing costs, net | 18,601 | 19,842 |
| Investments and joint ventures | 149,208 | 110,105 |
| Goodwill | 292,734 | 232,776 |
| | 2,610,013 | 2,410,922 |
| Total Assets | $2,919,202 | $2,773,042 |
| Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $43,421 | $38,655 |
| Deferred revenue | 23,195 | 25,868 |
| Current portion of long-term debt | 61,123 | 61,123 |
| Other liabilities – current | 6,214 | 6,403 |
| Total current liabilities | 133,953 | 132,049 |
| Deferred income tax liability | 312,605 | 299,982 |
| Long-term debt, less current maturities | 1,425,189 | 1,332,954 |
| Other liabilities | 15,980 | 16,924 |
| Total Liabilities | 1,887,727 | 1,781,909 |
| Redeemable Non-Controlling Interest | 39,804 | 39,696 |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |

| | | |
|---|---|---|
| Common stock, $.001 par value shares authorized 150,000; shares issued 80,257 and 79,263, respectively | 80 | 79 |
| Additional paid-in capital | 959,252 | 940,922 |
| Retained earnings | 777,928 | 713,819 |
| Accumulated other comprehensive loss | (61,912 ) | (24,186 ) |
| Less: Treasury stock – 31,796 and 31,310 shares at cost, respectively | (829,409 ) | (812,429 ) |
| Total Iconix Brand Group, Inc. Stockholders' Equity | 845,939 | 818,205 |
| Non-controlling interest | 145,732 | 133,232 |
| Total Stockholders' Equity | 991,671 | 951,437 |
| Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity | $2,919,202 | $2,773,042 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Unaudited Condensed Consolidated Income Statements

(in thousands, except earnings per share data)

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Income

(in thousands, except earnings per share data)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 (restated) | 2014 (restated) |
| Licensing revenue | $95,814 | $110,400 |
| Selling, general and administrative expenses | 41,027 | 47,672 |
| Equity earnings on joint ventures | (1,187) | (1,783) |
| Operating income | 55,974 | 64,511 |
| Other expenses (income): | | |
| Interest expense | 21,296 | 21,156 |
| Interest income | (967) | (923) |
| Other income | (49,990) | (28,897) |
| Foreign currency translation loss (gain) | (10,682) | 145 |
| Other expenses (income) – net | (40,343) | (8,519) |
| Income before income taxes | 96,317 | 73,030 |
| Provision for income taxes | 27,272 | 19,998 |
| Net income | 69,045 | 53,032 |
| Less: Net income attributable to non-controlling interest | 3,687 | 3,117 |
| Net income attributable to Iconix Brand Group, Inc. | $65,358 | $49,915 |
| Earnings per share: | | |
| Basic | $1.36 | $1.01 |
| Diluted | $1.26 | $0.86 |
| Weighted average number of common shares outstanding: | | |
| Basic | 48,158 | 49,522 |
| Diluted | 51,909 | 58,051 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Income

(in thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 (restated) | 2014 (restated) |
| Net income | $69,045 | $ 53,032 |
| Other comprehensive income: | | |
| Foreign currency translation loss | (37,726) | (1,398 ) |
| Total other comprehensive loss | (37,726) | (1,398 ) |
| Comprehensive income | $31,319 | $ 51,634 |
| Less: comprehensive income attributable to non-controlling interest | 3,687 | 3,117 |
| Comprehensive income attributable to Iconix Brand Group, Inc. | $27,632 | $ 48,517 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statement of Stockholders' Equity

Three Months Ended March 31, 2015

(in thousands)

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Non-Controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2015 (restated) | 79,263 | $ 79 | $ 940,922 | $713,819 | $ (24,186 ) | $(812,429) | $ 133,232 | $951,437 |
| Issuance of common stock related to acquisition of interest in joint venture | 465 | 0 | 15,703 | — | — | — | — | 15,703 |
| Shares issued on vesting of restricted stock | 529 | 1 | — | — | — | — | — | 1 |
| Shares issued on exercise of stock options and warrants | — | — | — | — | — | — | — | — |
| Tax benefit of stock option exercises | — | — | 54 | — | — | — | — | 54 |
| Compensation expense in connection with restricted stock | — | — | 2,573 | — | — | — | — | 2,573 |
| Shares repurchased on the open market | — | — | — | — | — | (6,980 ) | — | (6,980 ) |
| Cost of shares repurchased on vesting of restricted stock | — | — | — | — | — | (10,000 ) | — | (10,000 ) |
| Payments from non-controlling | — | — | — | — | — | — | 82 | 82 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| interest holders, net of imputed interest | | | | | | | | |
| Change in redemption value of redeemable non-controlling interest | — | — | — | (1,249) | — | — | — | (1,249) |
| Net income | — | — | — | 65,358 | — | — | 3,687 | 69,045 |
| Foreign currency translation | — | — | — | — | (37,726) | — | — | (37,726) |
| Distributions to joint ventures | — | — | — | — | — | — | (3,602) | (3,602) |
| Non-controlling interest of acquired companies | — | — | — | — | — | — | 12,333 | 12,333 |
| Balance at March 31, 2015 (restated) | 80,257 | $ 80 | $ 959,252 | $ 777,928 | $ (61,912) | $ (829,409) | $ 145,732 | $ 991,671 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

| | Three Months Ended March 31, 2015 (restated) | 2014 (restated) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $69,045 | $53,032 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment | 436 | 699 |
| Amortization of trademarks and other intangibles | 901 | 1,495 |
| Amortization of deferred financing costs and debt discount | 1,241 | 1,402 |
| Amortization of convertible note discount | 7,516 | 7,078 |
| Stock-based compensation expense | 2,573 | 2,515 |
| Non-cash gain on re-measurement of equity investment | (49,990) | (28,897) |
| Provision for doubtful accounts | 1,263 | 1,000 |
| Earnings on equity investments in joint ventures | (1,187) | (1,783) |
| Distributions from equity investments | 545 | 2,338 |
| Deferred income tax provision | 21,403 | 18,377 |
| (Gain) loss on foreign currency translation | (10,682) | 145 |
| Changes in operating assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (10,808) | (14,092) |
| Other assets – current | 7,670 | (2,380) |
| Other assets | (387) | (13,759) |
| Deferred revenue | (2,118) | 10,631 |
| Accounts payable and accrued expenses | (7,286) | 13,330 |
| Net cash provided by operating activities | 30,135 | 51,131 |
| Cash flows used in investing activities: | | |
| Purchases of property and equipment | (976) | (314) |
| Acquisition of interest in Iconix China, net of cash acquired | (20,400) | — |
| Acquisition of interest in Pony | (37,000) | — |
| Acquisition of interest in Strawberry Shortcake | (95,000) | — |
| Acquisition of interest in Iconix Latin America | — | (42,000) |
| Issuance of note to American Greetings | (10,000) | — |
| Proceeds received from note due from Buffalo International | 3,101 | 3,073 |
| Proceeds from sale of fixed assets | 225 | — |
| Additions to trademarks | (47) | (244) |
| Net cash used in investing activities | (160,097) | (39,485) |
| Cash flows (used in) provided by financing activities: | | |
| Shares repurchased on the open market | (6,290) | (109,422) |
| Proceeds from Variable Funding Notes | 100,000 | — |
| Payment of long-term debt | (15,281) | (15,312) |
| Proceeds from sale of trademarks and related notes receivable from consolidated JVs | 995 | 195 |
| Distributions to non-controlling interests | (3,602) | (4,621) |
| Excess tax benefit from share-based payment arrangements | 54 | 898 |

| | | |
|---|---|---|
| Cost of shares repurchased on vesting of restricted stock and exercise of stock options | (3,156) | (13,571) |
| Proceeds from exercise of stock options and warrants | — | 1,861 |
| Restricted cash | 16,009 | 1,600 |
| Net cash provided by (used in) financing activities | 88,729 | (138,372) |
| Effect of exchange rate changes on cash | (5) | 37 |
| Net decrease in cash and cash equivalents | (41,238) | (126,689) |
| Cash and cash equivalents, beginning of period | 128,039 | 278,789 |
| Cash and cash equivalents, end of period | $86,801 | $152,100 |

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Supplemental disclosure of cash flow information:

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands) | 2015 | 2014 |
| Cash paid during the period: | | |
| Income taxes (net of refunds received) | $6,132 | $3,657 |
| Interest | $11,260 | $12,314 |
| Non-cash investing and financing activities: | | |
| Shares repurchased on the open market included in payables | $690 | $3,171 |
| Issuance of shares in connection with purchase of Iconix China | $15,703 | $— |
| Note receivable in connection with Strawberry Shortcake acquisition | $9,509 | $— |
| Shares repurchased on vesting of restricted stock included in accrued expenses | $10,000 | $— |

See Notes to Unaudited Condensed Consolidated Financial Statements.

Iconix Brand Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2015

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Iconix Brand Group, Inc. (the "Company", "we", "us", or "our"), all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2015 ("Current Quarter") are not necessarily indicative of the results that may be expected for a full fiscal year. The interim condensed consolidated financial statements should be read in conjunction with the most recently filed Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period's presentation and, restated amounts are provided for prior periods – see Note 17 for further information.

Summary of Significant Accounting Policies

Non-controlling Interests / Redeemable Non-controlling Interests

Certain of the Company's consolidated joint ventures have put options which, if exercised by the Company's joint venture partner, would require the Company to purchase all or a portion of the joint venture partner's equity interest in the joint venture. The Company has determined that these put options are not derivatives under the guidelines prescribed in Accounting Standards Codification ("ASC") 815. As such, and in accordance with ASC 480-10-S99, as the potential exercise of the put options is outside the control of the Company, the Company has recorded the portion of the non-controlling interest's equity that may be put to the Company in mezzanine equity in the Company's consolidated balance sheets as "redeemable non-controlling interest". The initial value of the redeemable non-controlling interest represents the fair value of the put option at inception. This amount recorded at inception is accreted, over a period determined by when the put option becomes exercisable, to what the Company would be obligated to pay to the non-controlling interest holder if the put option was exercised. This accretion is recorded as a credit to redeemable non-controlling interest and a debit to retained earnings resulting in an impact to the consolidated balance sheet only. For each reporting period, the Company revisits the estimates used to determine the redemption value of the put option when it becomes exercisable and may adjust the remaining put option value and associated accretion accordingly through redeemable non-controlling interest and retained earnings, as necessary. The terms of each of the outstanding put options are included in the individual discussions of each joint venture, as applicable. For the Company's consolidated joint ventures that do not have put options, the non-controlling interest is recorded within equity on the Company's consolidated balance sheet.

The Company may enter in to joint venture agreements with joint venture partners in which the Company allows the joint venture partner to pay a portion of the purchase price in cash at the time of the formation of the joint venture with the remaining cash consideration paid over a specified period of time following the closing of such transaction. The Company records the amounts due from such joint venture partners as (a) a reduction of non-controlling interests, net of installment payments, or (b) if installment payments result from the issuance of shares classified as mezzanine equity, as a reduction in Redeemable Non-controlling Interests, net of installment payments (i.e. mezzanine equity), as applicable, the Company's consolidated balance sheet in accordance with ASC 505-10-45, "Classification of a Receivable from a Shareholder". The Company accretes the present value discount on these installment payments through interest income on its consolidated statement of operations.

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 the questions the Staff raised, and remains in a dialogue with the SEC Staff relating to those and certain other comments related to the Company's future disclosures. 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. See Note 17 for further information related to resolution of these matters.

2. Goodwill and Trademarks and Other Intangibles, net

Goodwill

Goodwill by segment and in total, and changes in the carrying amounts, as of the dates indicated are as follows:

| | Women's | Men's | Home | Entertainment | Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Net goodwill at December 31, 2014 | $115,462 | $53,326 | $46,334 | $ 17,654 | $ — | $ 232,776 |
| Acquisitions[(1)] | 6,086 | 17,324 | 931 | 35,375 | — | 59,716 |
| Foreign currency adjustment | — | 242 | — | — | — | 242 |
| Net goodwill at March 31, 2015 (restated) | $121,548 | $70,892 | $47,265 | $ 53,029 | $ — | $ 292,734 |

[(1)] Amounts of goodwill generated from acquisitions have been updated from the previously-issued financial statements for the three months ended March 31, 2015 to reflect the fair values of the assets acquired and liabilities assumed within the final purchase price allocation which was completed in the fourth quarter of FY 2015.

Trademarks and Other Intangibles, net

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

| | | March 31, 2015 (restated) | | December 31, 2014 | |
|---|---|---|---|---|---|
| | Estimated Lives in Years | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Indefinite-lived trademarks and copyrights | Indefinite | $2,087,276 | $ — | $1,986,350 | $ — |
| Definite-lived trademarks | 10-15 | 19,404 | 11,264 | 17,404 | 10,985 |
| Non-compete agreements | 2-15 | 940 | 509 | 940 | 450 |
| Licensing contracts | 1-9 | 12,437 | 9,264 | 11,803 | 8,728 |
| | | $2,120,057 | $ 21,037 | $2,016,497 | $ 20,163 |
| Trademarks and other intangibles, net | | | $ 2,099,020 | | $ 1,996,334 |

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

In March 2015, the Company acquired the Strawberry Shortcake brand. As a result of this transaction the Company's indefinite-lived trademarks increased by $55.8 million and licensing contracts increased by $0.5 million. See Note 3 for further details on this transaction.

In February 2015, the Company acquired through its wholly-owned subsidiary, US Pony Holdings, LLC, the rights to the Pony brand in respect of the United States, Canada and Mexico. Immediately following such acquisition, a third party contributed specified assets to US Pony Holdings, LLC in exchange for a 25% non-controlling interest in the entity. As a result of these transactions, US Pony Holdings, LLC is consolidated with the Company, which increased the Company's indefinite-lived trademarks and licensing contracts by $32.4 million and $0.3 million, respectively. See Note 3 for further details on this transaction.

In December 2014, the Company acquired a 51% controlling interest in Hydraulic IP Holdings, LLC.  As a result of this transaction, Hydraulic IP Holdings, LLC is consolidated with the Company, which increased the Company's indefinite-lived trademarks by $11.8 million.  See Note 3 for further details on this transaction.

In December 2014, the Company acquired a 51% controlling interest in NGX, LLC.  As a result of this transaction, NGX, LLC is consolidated with the Company, which increased the Company's indefinite-lived trademarks by $11.8 million.  See Note 3 for further details on this transaction.

In June 2014, the Company sold the exclusive right to use the "sharperimage.com" domain name and Sharper Image trademark in connection with the operation of a branded website and catalog distribution in specified jurisdictions, thereby decreasing indefinite-lived trademarks by approximately $3.6 million.

In February 2014, the Company acquired the 50% interest in Iconix Latin America held by its joint venture partner, thereby increasing its ownership in Iconix Latin America to 100%. As a result of this transaction, Iconix Latin America is now consolidated with the Company, which increased the Company's indefinite life trademarks by $82.4 million and licensing contracts increased by $0.7 million.

In January 2014, the Company acquired a 1% interest in Iconix Europe, thereby increasing its ownership in Iconix Europe to 51%, in addition, the Iconix Europe agreement was amended to provide for additional rights to the Company. As a result of this transaction, Iconix Europe is now consolidated with the Company, which increased the Company's indefinite life trademarks by $27.0 million. See Note 3 for further explanation of these transactions.

Amortization expense for intangible assets for the Current Quarter and for March 31, 2014 (the "Prior Year Quarter") was $0.9 million and $1.5 million, respectively.

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

3. Acquisitions, Joint Ventures and Investments

Consolidated Entities

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

Iconix China

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

In March 2015, the Company purchased from Novel Fashion Brands Limited its 50% interest in Iconix China for $56.1 million, of which $40.4 million was paid in cash and $15.7 million was paid in the Company's common stock (the "2015 Buy-out"), thereby taking 100% of the equity interests in Iconix China. The following is a reconciliation of consideration paid to Novel Fashion Brands Limited:

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

As a result of the 2015 Buy-out, Iconix China is subject to consolidation and is included in the Company's unaudited condensed consolidated financial statements at March 31, 2015.

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

| | |
|---|---|
| Fair value of 50% interest in Iconix China | $57,372 |
| Book value of Company equity investment prior to 2015 Buy-out | 7,382 |
| Gain on re-measurement of initial equity investment | 49,990 |
| | $114,744 |
| Trademarks | 40,501 |
| Investments in private companies | 38,870 |
| Cash | 20,184 |
| Other assets | 5,997 |
| Accrued expenses | (447 ) |
| Goodwill | 9,639 |
| | $114,744 |

Other assets consist primarily of securities of a company publicly traded on the Hong Kong Exchange. These assets are being accounted for as available-for-sale securities. As such, any increase or decrease in fair value is recorded with accumulated other comprehensive income and is not included in the Company's consolidated income statement.

The Iconix China trademarks have been determined by management to have an indefinite useful life and accordingly no amortization is being recorded in the Company's unaudited condensed consolidated income statements. The goodwill and trademarks are subject to a test for impairment on an annual basis. The $9.6 million of goodwill resulting from the 2015 Buy-out is deductible for income tax purposes.

For the Current Quarter, there was no impact of consolidating Iconix China on the Company's unaudited condensed consolidated income statement.

As part of this transaction, the Company also acquired, through its ownership of 100% of Iconix China, equity interests in the following private companies with an aggregate fair value of approximately $38.9 million: Candies Shanghai Fashion Co. Ltd. (which can be put by Iconix China to Shanghai La Chappelle Fashion Co., Ltd. for cash based on a pre-determined formula); Shanghai MuXiang Apparel & Accessory Co. Limited, Bai Shi Kou International (Qingdao) Home Products Co. Ltd., Ningbo Material Girl Fashion Co., Ltd., Tangli International Holdings Ltd., and Ai Xi Enterprise (Shanghai) Co. Limited. See section entitled "Investments in Iconix China" for further detail on such investments.

Strawberry Shortcake

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

In accordance with the terms of the asset purchase agreement, at the closing, the Company paid the Seller $105.0 million in cash at closing of which $95.0 million was treated as consideration for the acquisition and the remaining $10.0 million was the issuance of a note due from AG.

The cash paid to the Sellers and the estimated fair value of the assets acquired, is allocated as follows:

| | |
|---|---|
| Cash paid to sellers by the Company | $95,000 |
| Trademarks | $55,761 |
| License agreements | 467 |
| Accounts receivable | 3,397 |
| Goodwill | 35,375 |
| | $95,000 |

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

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For the Current Quarter, post-acquisition, the Company recognized approximately $1.4 million in revenue from such assets. The $35.4 million of goodwill resulting from the 2015 acquisition is deductible for income tax purposes.

PONY

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

The following table is a reconciliation of cash paid to Pony Sellers and the fair value of ALS's non-controlling interest:

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

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

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

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

For the Current Quarter, post-acquisition, the Company recognized approximately $0.4 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 March 31, 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 March 31, 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 March 31, 2015, the $1.4 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. 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 March 31, 2015, \$28.0 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 this transaction 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 March 31, 2015, $8.6 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 LF Asia Limited ("LF Asia"), an affiliate of Li & Fung Limited. In exchange for this consent, the Company received $1.5 million from LF Asia. In addition, the Company acquired an additional 1% equity interest in Iconix Europe from LF Asia, 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.

Pursuant to the IE Operating Agreement, for a period following the fifth anniversary of the closing of this transaction (i.e. January 2014) and again following the eighth anniversary of the closing of this transaction, the Company has a call option to purchase, and LF Asia has a put option to initiate the Company's purchase of LF Asia's 49% equity interests in Iconix Europe for a calculated amount as defined in the IE Operating Agreement. 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 March 31, 2015, $16.2 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 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 in the Current Quarter 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, 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:

$$\frac{A + (A \times (100\% + CAGR))}{2}$$

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 variable interest entity 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 March 31 2015 of the $2.6 million note receivable, approximately $0.9 million is included in other assets—current, the remaining $1.7 million of which is included in other assets on the unaudited condensed consolidated balance sheet.

At inception, the Company determined, in accordance with ASC 810, based on the corporate structure, voting rights and contributions of the Company and Reliance, that Iconix India is not a variable interest entity and not subject to consolidation. The Company has recorded its investment under the equity method of accounting 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 March 31, 2015, $19.0 million was paid to Purim with the remaining $4.0 million owed to Purim included in other liabilities-current on the Company's unaudited condensed consolidated balance sheet.

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

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

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 March 31, 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. 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 March 31, 2015, the Company had no hedge instruments other than the 2.50% Convertible Note Hedges and 1.50% Convertible Note Hedges (see Note 5).

Financial Instruments

As of March 31, 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 March 31, 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:

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt, including current portion | $1,486,312 | $1,608,613 | $1,394,077 | $1,601,418 |

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

Non-Financial Assets and Liabilities

The Company accounts for non-recurring adjustments to the fair values of its non-financial assets and liabilities under ASC 820 using a market participant approach. The Company uses a discounted cash flow model with Level 3 inputs to measure the fair value of its non-financial assets and liabilities. The Company also adopted the provisions of ASC 820 as it relates to purchase accounting for its acquisitions. The Company has goodwill, which is tested for impairment at least annually, as required by ASC 350- "Intangibles- Goodwill and Other", ("ASC 350"). Further, in accordance with ASC 350, the Company's indefinite-lived trademarks are tested for impairment at least annually, on an individual basis as separate single units of accounting. Similarly, consistent with ASC 360- “Property, Plant and Equipment” (“ASC 360”), as it relates to accounting for the impairment or disposal of long-lived assets, the Company assesses whether or not there is impairment of the Company’s definite-lived trademarks. There was no impairment, and therefore no write-down, of any of the Company’s long-lived assets during the Current Quarter or FY 2014.

5. Debt Arrangements

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Senior Secured Notes | $758,750 | $774,030 |
| 1.50% Convertible Notes | 344,113 | 339,943 |
| 2.50% Convertible Notes | 283,449 | 280,104 |
| Variable Funding Note | 100,000 | — |
| Total | $1,486,312 | $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 .2mm; "> )

**Working Capital Advances to Services (E)**

**$**

**33**

**$**

**33**

**Long-Term Accrued Taxes Payable (C)**

**$**

**(85**

**)**

**$**

**(82**

)

(A) PSE&G has entered into a requirements contract with Power under which Power provides the gas supply services needed to meet PSE&G s BGSS and other contractual requirements through March 31, 2012 and year-to-year thereafter. Power has also entered into contracts to supply energy, capacity and ancillary services to PSE&G through the BGS auction process.

(B) Services provides and bills administrative services to

Power and PSE&G. In addition, Power and PSE&G have other payables to Services, including amounts related to certain common costs, such as pension and OPEB costs, which Services pays on behalf of each of the operating companies. Power and PSE&G believe that the costs of services provided by Services approximate market value for such services.

(C) PSEG and its subsidiaries adopted FIN 48 effective January 1, 2007, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return.

(D) Short-term loans are for short-term needs. Interest Income and Interest Expense relating to these short term funding activities were immaterial.

(E) Power and PSE&G have advanced working capital to Services. The amounts are included in Other Noncurrent Assets on Power s and PSE&G s Consolidated Balance Sheets.

**NOTES TO CONDENSED CONSOLIDATED STATEMENTS**
**(UNAUDITED)**

**Note 15. Guarantees of Debt**

Each series of Power s Senior Notes, Pollution Control Notes and revolving Letters of Credit are fully and unconditionally and jointly and severally guaranteed by PSEG Fossil LLC (Fossil), PSEG Nuclear LLC (Nuclear), and PSEG Energy Resources & Trade LLC (ER&T). The following table presents condensed financial information for the guarantor subsidiaries, as well as Power s non-guarantor subsidiaries.

| | Power | Guarantor Subsidiaries | Other Subsidiaries | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|---|
| | | | (Millions) | | |
| **Quarter Ended March 31, 2009** | | | | | |
| Operating Revenues | $ | $ 2,660 | $ 30 | $ (316 ) | $ 2,374 |
| Operating Expenses | 3 | 2,050 | 30 | (316 ) | 1,767 |
| Operating Income | (3 ) | 610 | | | 607 |
| Equity Earnings (Losses) of Subsidiaries | 332 | (6 ) | | (326 ) | |
| Other Income | 23 | 82 | | (35 ) | 70 |
| Other Deductions | | (110 ) | | | (110 ) |
| Interest Expense | (53 ) | (17 ) | (8 ) | 35 | (43 ) |
| Income Tax Benefit (Expense) | 19 | (227 ) | 2 | | (206 ) |
| **Net Income (Loss)** | **$ 318** | **$ 332** | **$ (6 )** | **$ (326 )** | **$ 318** |
| **Quarter Ended March 31, 2009** | | | | | |
| Net Cash Provided By (Used In) Operating Activities | $ 415 | $ 1,267 | $ (6 ) | $ (413 ) | $ 1,263 |
| Net Cash Provided By (Used In) Investing Activities | $ (91 ) | $ (1,175 ) | $ | $ 117 | $ (1,149 ) |
| Net Cash Provided By (Used In) Financing Activities | $ (325 ) | $ (97 ) | $ 6 | $ 297 | $ (119 ) |
| **Quarter Ended March 31, 2008** | | | | | |
| Operating Revenues | $ | $ 2,627 | $ 27 | $ (279 ) | $ 2,375 |

| | | | | | |
|---|---|---|---|---|---|
| Operating Expenses | 2 | 2,117 | 27 | (280 ) | 1,866 |
| Operating Income (Loss) | (2 ) | 510 | | 1 | 509 |
| Equity Earnings (Losses) of Subsidiaries | 281 | (10 ) | | (271 ) | |
| Other Income | 39 | 101 | | (54 ) | 86 |
| Other Deductions | | (91 ) | | | (91 ) |
| Interest Expense | (53 ) | (28 ) | (15 ) | 54 | (42 ) |
| Income Tax Benefit (Expense) | 10 | (201 ) | 5 | (1 ) | (187 ) |
| **Net Income (Loss)** | **$ 275** | **$ 281** | **$ (10 )** | **$ (271 )** | **$ 275** |
| **Quarter Ended March 31, 2008** | | | | | |
| Net Cash Provided By (Used In) Operating Activities | $ (848 ) | $ 856 | $ (26 ) | $ 956 | $ 938 |
| Net Cash Provided By (Used In) Investing Activities | $ 973 | $ (806 ) | $ (2 ) | $ (742 ) | $ (577 ) |
| Net Cash Provided By (Used In) Financing Activities | $ (125 ) | $ (52 ) | $ 28 | $ (214 ) | $ (363 ) |

**NOTES TO CONDENSED CONSOLIDATED STATEMENTS (UNAUDITED)**

| | Power | Guarantor Subsidiaries | Other Subsidiaries | Consolidating Adjustments | Consolidated Total |
|---|---|---|---|---|---|
| | | | (Millions) | | |
| **March 31, 2009:** | | | | | |
| Current Assets | $ 2,470 | $ 6,004 | $ 442 | $ (6,098 ) | $ 2,818 |
| Property, Plant and Equipment, net | 50 | 4,599 | 916 | (1 ) | 5,564 |
| Investment in Subsidiaries | 4,966 | 378 | | (5,344 ) | |
| Noncurrent Assets | 243 | 1,175 | 53 | (187 ) | 1,284 |
| **Total Assets** | **$ 7,729** | **$ 12,156** | **$ 1,411** | **$ (11,630 )** | **$ 9,666** |
| Current Liabilities | $ 391 | $ 6,154 | $ 920 | $ (6,099 ) | $ 1,366 |
| Noncurrent Liabilities | 466 | 1,037 | 112 | (186 ) | 1,429 |
| Long-Term Debt | 2,862 | | | | 2,862 |
| Member s Equity | 4,010 | 4,965 | 379 | (5,345 ) | 4,009 |
| **Total Liabilities and Member s Equity** | **$ 7,729** | **$ 12,156** | **$ 1,411** | **$ (11,630 )** | **$ 9,666** |
| **December 31, 2008:** | | | | | |
| Current Assets | $ 2,395 | $ 5,507 | $ 439 | $ (5,636 ) | $ 2,705 |
| Property, Plant and Equipment, net | 44 | 4,513 | 924 | | 5,481 |
| Investment in Subsidiaries | 4,758 | 384 | | (5,142 ) | |
| Noncurrent Assets | 244 | 1,166 | 50 | (187 ) | 1,273 |
| **Total Assets** | **$ 7,441** | **$ 11,570** | **$ 1,413** | **$ (10,965 )** | **$ 9,459** |
| Current Liabilities | $ 371 | $ 5,880 | $ 919 | $ (5,637 ) | $ 1,533 |
| Noncurrent Liabilities | 532 | 935 | 109 | (187 ) | 1,389 |
| Long-Term Debt | 2,653 | | | | 2,653 |
| Member s Equity | 3,885 | 4,755 | 385 | (5,141 ) | 3,884 |
| **Total Liabilities and Member s Equity** | **$ 7,441** | **$ 11,570** | **$ 1,413** | **$ (10,965 )** | **$ 9,459** |

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

This combined MD&A is separately filed by PSEG, Power and PSE&G. Information contained herein relating to any individual company is filed by such company on its own behalf. Power and PSE&G each make representations only as to itself and make no representations whatsoever as to any other company.

PSEG s business consists of three reportable segments, which are:

**Power**, our wholesale energy supply company that integrates its generating asset operations with its wholesale energy, fuel supply, energy trading and marketing and risk management activities primarily in the Northeast and Mid Atlantic U.S.;

**PSE&G**, our public utility company which provides transmission and distribution of electricity and gas in New Jersey; and

**Energy Holdings,** which owns our other generation assets and holds other

energy-related
investments.

**OVERVIEW OF 2009 AND FUTURE OUTLOOK**

Our business discussion in Part I Item 1 Business of our 2008 Annual Report on Form 10-K provides a review of the regions and markets where we operate and compete, as well as our strategy for conducting our businesses within these markets, focusing on operational excellence, financial strength and making disciplined investments. The following discussion supplements that discussion and the discussion included in the Overview of 2008 and Future Outlook provided in Item 7 in our Form 10-K by describing significant events and business developments that have occurred during 2009 and any changes to the key factors that will drive our future performance. The following discussion refers to the Condensed Consolidated Financial Statements (Statements) and the Related Notes to Condensed Consolidated Financial Statements (Notes). This information should be read in conjunction with such Statements, Notes and the 2008 Annual Report on Form 10-K.

**Operational Excellence**

Our generating assets continued to perform with strong operations in the first quarter of 2009. Our nuclear capacity factor for the first quarter 2009 was slightly higher than in the comparable period in 2008. Our fossil fleet also performed well in the first quarter 2009, although generation volumes were negatively impacted by lower electric prices than in the recent past, and the general economic slowdown. The largest reduction in volume was at our coal units which are burning higher-priced coal in 2009 than in 2008. Continued lower electric prices and recessionary conditions could prolong this trend for the foreseeable near-term future. Our hedging strategy has resulted in higher average prices than a year ago, thus largely offsetting our reduced generation. The increase in prices was due to comparably higher-priced contracts that replaced older, lower-priced contracts, such as the 2005 Basic Generation Service (BGS) auction contracts which expired in May 2008, that were replaced with higher priced contracts.

Our utility operations experienced a 2% decline in total electric volumes and 3% increase in total gas volumes in the first quarter of 2009 as compared to the same period in 2008. Residential sales contribute approximately 45% of our electric margin and 75% of our gas margin. In the Commercial and Industrial Segments, billings to customers are not based on total energy consumption as measured by kilowatt-hours or deka-therms, but are based on fixed, monthly demand charges that are set by the highest electric and gas demand for an hour period during the previous 12- month period or, in the case of some electric rates, by the peak demand during the current month. Therefore, any changes in energy usage over comparative periods may not impact sales margin.

During 2008 and the first quarter of 2009, we undertook a project to update our customer service system. In April 2009 our customer service system was fully integrated into our utility operations.

During the quarter there were also two significant regulatory developments that we believe have the potential to positively impact future operations.

On March 26, 2009, the Federal Energy Regulatory Commission (FERC) issued an order regarding PJM s Reliability Pricing Model (RPM). The effect of this order upon our generation fleet in PJM is generally positive, particularly the increase in the cost of new entry value which more accurately reflects construction and equipment costs. This should incent both new build and continued operation of existing facilities. For additional information, see Part II, Item 1. Legal Proceedings.

On April 1, 2009, the U.S. Supreme Court concluded that the U.S. Environmental Protection

Agency (EPA) permissibly relied upon cost-benefit analysis in setting the national performance standards and in providing for cost-benefit variances from those standards as part of the Phase II Section 316(b) regulations of the Federal Water Pollution Control Act. This is important to us in that it allows the EPA to continue to use the site-specific cost-benefit test in determining best technology available for minimizing adverse environmental impact. For additional information, see Note 5. Commitments and Contingent Liabilities.

There continue to be significant developments addressing the need to promote clean and renewable energy, energy efficiency and the reduction of greenhouse gases which may impact our operations in the future as new rules and regulations are adopted.

In April 2009 the EPA

released a proposed finding under the Clean Air Act concluding that $CO_2$ is one type of six specific greenhouse gases which cause or contribute to the climate change problem and constitute air pollution which endangers both public health and welfare. If applied to fossil fuel generation facilities additional regulation of $CO_2$ emissions could impact our operations, ability to renew permits and licenses, and could result in material compliance costs.

Legislation has been introduced in Congress to promote clean energy, energy efficiency, and reduce greenhouse gases. The bill sets forth major initiatives which include establishing a national renewable energy standard. This would provide for setting maximum pollution levels and creating a market mechanism for the sale and purchase of pollution allowances (cap-and-trade programs). While the proposed regulation would not eliminate individual state-level renewable portfolio standards, it could reduce or eliminate regional inconsistencies in environmental regulations.

**Financial Strength**

In 2009, we have continued to focus on managing costs while maintaining our safety and reliability standards and believe that our financial position remains strong.

Our businesses continue to generate strong cash from operations in 2009. In addition, Power established a program for the issuance of up to $500 million of unsecured medium-term notes (MTNs) to retail investors in January and to date has issued $209 million under this program. We used these funds, cash from operations and cash on hand to:

contribute $257 million of the approximately $370 million we expect to contribute into our pension

- plans in 2009,
- pay $250 million of Power s 3.75% Senior Notes at maturity,
- redeem $280 million of non-recourse debt at our Texas plants at the end of February and
- repurchase $10 million of Energy Holdings remaining Senior Notes.

In addition, the Board of Directors has approved an increase in the quarterly dividends from $0.3225 per share to $0.3325 per share for the first and second quarters of 2009 with an indicated annual dividend of $1.33 per share. This increase is consistent with maintaining our target payout ratio of 40% to 50% of Operating Earnings.

**Disciplined Investment**

During 2009, we expect to continue to pursue investments focusing on areas that complement our existing businesses and provide prudent growth opportunities. These areas include responding to climate change and continuing to improve environmental performance, upgrading critical energy infrastructure and providing new energy supplies. During 2009:

- We were assigned construction and operating responsibility for two additional 500 kV transmission lines in New Jersey. The first line would run from Branchburg to Roseland and the second from Roseland to Hudson. These lines are still in the design phase.

- We obtained incentive rate approval from FERC for our portion of a 500 kV transmission line that may extend to Lower Alloways Creek Township, New Jersey. We will be responsible for constructing and operating a portion of this line, known as the Mid-Atlantic Pathway Project (MAPP). Receipt of incentive rates is contingent upon our portion of the MAPP project being approved by PJM as a Regional Transmission Expansion Plan (RTEP) project.

We requested approval from the New Jersey Board of Public Utilities (BPU) for a new solar loan program, called Solar Loan II . Under Solar Loan II, we would help finance the installation of an additional 40 MW of solar-powered generating systems in our electric service territory. Any remaining financing capacity from our current solar loan program would be rolled into the new program.

The BPU approved our Capital Economic Stimulus Program. Under this program, we anticipate accelerating $694 million of capital infrastructure investments through our utility for electric and gas programs in New Jersey over a 24-month period. The goal of the program is to help improve New Jersey s economy through the creation of new jobs while enhancing our utility s infrastructure. The program provides for a charge for immediate recovery of a return on the program expenditures plus depreciation of the assets which will be adjusted each January.

There is no guarantee that these or future initiatives will be achieved since many issues need to be favorably resolved, such as system reliability concerns, regulatory approvals and funding of construction or development costs.

**RESULTS OF OPERATIONS**

The results for us and our subsidiaries for the quarters ended March 31, 2009 and 2008 are presented below:

| Earnings (Losses) | Quarters Ended March 31, 2009 | Quarters Ended March 31, 2008 |
|---|---|---|
| | (Millions) | |
| Power | $ 318 | $ 275 |
| PSE&G | 124 | 137 |
| Energy Holdings | 7 | 29 |
| Other | (5 ) | (6 ) |
| **PSEG Income from Continuing Operations** | $ 444 | $ 435 |
| Income from Discontinued Operations | | 13 |
| **PSEG Net Income** | **$ 444** | **$ 448** |

| Earnings Per Share (Diluted) | Quarters Ended March 31, 2009 | 2008 |
|---|---|---|
| **PSEG Income from Continuing Operations** | $ 0.88 | $ 0.85 |
| Income from Discontinued Operations | | 0.03 |
| **PSEG Net Income** | $ 0.88 | $ 0.88 |

Our results include the following after-tax impacts of mark-to-market (MTM) activity:

| Non-Trading Mark-to-Market After Tax | Quarters Ended March 31, 2009 | 2008 |
|---|---|---|
| | (Millions) | |
| Power | $ (18 ) | $ 3 |
| Energy Holdings | 3 | 2 |
| **Total** | **$ (15 )** | **$ 5** |

The quarter-over-quarter increase in our Income from Continuing Operations reflects the following large drivers:

- Improved earnings at Power due to higher prices realized under sales contracts partially offset by lower volumes and losses related to the Nuclear Decommissioning Trust (NDT) Funds, and
- the absence of tax benefits taken in 2008 at PSE&G and Energy Holdings related to an IRS refund claim and other tax items.

**PSEG**

Our results of operations are primarily comprised of the results of operations of our operating subsidiaries, Power, PSE&G and Energy Holdings, excluding changes related to intercompany transactions, which are eliminated in consolidation. We also include certain financing costs, donations and general and administrative costs at the parent company. For additional information on intercompany transactions, see Note 14. Related-Party Transactions. For an explanation of the variances, see the discussions for Power, PSE&G and Energy Holdings that follow the table below.

| | **Quarters Ended March 31,** | | **Increase/ (Decrease)** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009 vs 2008** | |
| | (Millions) | | (Millions) | % |
| Operating Revenues | $ 3,921 | $ 3,792 | $ 129 | 3 |
| Energy Costs | 2,068 | 2,119 | (51 ) | (2 ) |
| Operation and Maintenance | 675 | 627 | 48 | 8 |
| Depreciation and Amortization | 207 | 192 | 15 | 8 |
| Income from Equity Method Investments | 10 | 12 | (2 ) | (17 ) |
| Other Income and Deductions | (44 ) | (2 ) | 42 | N/A |
| Interest Expense | (145 ) | (153 ) | (8 ) | (5 ) |
| Income Tax Expense | (304 ) | (233 ) | 71 | 30 |
| Income from Discontinued Operations, net of tax | | 13 | (13 ) | (100 ) |

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**Power**

| | Quarters Ended March 31, 2009 | Quarters Ended March 31, 2008 | Increase/ (Decrease) 2009 vs 2008 |
|---|---|---|---|
| | (Millions) | | (Millions) |
| Income from Continuing Operations | $ 318 | $ 275 | $ 43 |
| Net Income | $ 318 | $ 275 | $ 43 |

For the quarter ended March 31, 2009, the primary reasons for the $43 million increase in Income from Continuing Operations were:

higher prices and sales volumes on BGS contracts supported by lower generation costs,

improved margins on a reduced sales volume under the BGSS contract, and

higher trading gains,

partially offset by higher maintenance costs and net losses on investments in the NDT Funds.

The increase also included the recognition of non-trading MTM losses of $18 million, after-tax, in 2009 as compared to $3 million of after-tax MTM gains in 2008.

The quarter-over-quarter details for these variances are discussed below:

| | Quarters Ended March 31, | | Increase/ (Decrease) | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009 vs 2008** | |
| | (Millions) | | (Millions) | % |
| Operating Revenues | $ 2,374 | $ 2,375 | $ (1 ) | |
| Energy Costs | 1,462 | 1,589 | (127 ) | (8 ) |
| Operation and Maintenance | 258 | 239 | 19 | 8 |
| Depreciation and Amortization | 47 | 38 | 9 | 24 |
| Other Income and Deductions | (40 ) | (5 ) | 35 | N/A |
| Interest Expense | (43 ) | (42 ) | 1 | 2 |
| Income Tax Expense | (206 ) | (187 ) | 19 | 10 |

**For the quarter ended March 31, 2009 as compared to 2008**

**Operating Revenues** decreased $1 million due to:

***Generation*** revenues increased $59 million due to

¡ a net increase of $88 million from higher prices on a higher volume of BGS contracts modestly offset by the expiration of several contracts in May 2008, and

- higher revenues of $19 million due to several new wholesale contracts that were entered into in late 2008 and early 2009,

- partially offset by lower revenues of $41 million resulting from lower volumes of generation being sold at lower prices.

***Gas Supply*** revenues decreased $76 million

- including a net decrease of $8 million resulting from sales under the

BGSS contract, comprised of $46 million from lower average gas prices in 2009 net of gains on financial hedging transactions, partly offset by higher sales volumes of $38 million due to colder winter temperatures in 2009, and

- a net decrease of $68 million due to lower prices on a reduced sales volume to third party customers.

***Trading*** revenues increased $16 million principally due to premiums received on the termination of certain trades and gains on electric-related contracts.

**Operating Expenses**

***Energy Costs*** represent the cost of generation, which includes fuel purchases for generation as well as purchased energy in the market, and gas purchases to meet Power s obligation under its BGSS contract with PSE&G. Energy Costs decreased by $127 million due to:

¡ **Generation costs** decreased by $39 million due to $98 million of lower fuel costs, primarily reflecting lower volumes of natural gas and coal purchases and lower average natural gas prices, partly offset by net losses of $51 million from financial hedging transactions.

¡ **Gas costs** decreased $88 million, reflecting net decreases of $9 million and $75 million related to Power s obligations under the BGSS contract and sales to third party customers, respectively, reflecting lower inventory costs partially offset by higher volumes.

***Operation and Maintenance*** increased $19 million primarily due to

- a net increase of $8 million due to higher planned maintenance costs at our fossil stations, primarily Keystone, Bergen and Linden, and
- an increase of $9 million primarily related to a planned outage at Hope Creek.

***Depreciation and Amortization*** increased $9 million due to

- an increase of $4 million resulting from a larger depreciable nuclear asset base in 2009, principally due to depreciation of the Salem 2 steam generator replacement being placed into service in May 2008, and a higher depreciable fossil asset base in 2009, and

- an increase of $4 million due to pollution control equipment being placed into service in December 2008 at our Mercer 1 and 2 generating facilities.

**Other Income and Deductions** decreased $35 million due to

higher charges of $22 million ($60 million in 2009 versus $38 million in 2008) for other-than-temporary impairments related to the NDT Fund securities,

net realized losses of $17 million on the NDT Fund securities, and

- a $4 million write-off of obsolete pollution-control equipment,
- partially offset by an increase of $7 million in net unrealized gains on NDT Fund derivative instruments.

**Interest Expense** experienced no material change.

**Income Tax Expense** increased $19 million in 2009 primarily due to

- an increase of $25 million due to higher pre-tax income,
- partially offset by a reduction of $3 million due to lower earnings from the NDT Funds, and
- a reduction of $2 million due to increased benefits from a manufacturing deduction under the American Jobs Creation Act of 2004.

**PSE&G**

| | Quarters Ended March 31, 2009 | Quarters Ended March 31, 2008 | Increase/ (Decrease) 2009 vs 2008 |
|---|---|---|---|
| | (Millions) | | |
| Income from Continuing Operations | $ 124 | $ 137 | $ (13 ) |
| Net Income | $ 124 | $ 137 | $ (13 ) |

For the quarter ended March 31, 2009, the primary reasons for the $13 million decrease in Income from Continuing Operations were:

- higher taxes as a result of tax benefits recorded in 2008 related to an IRS refund claim and other tax items, and
- increased Operation and Maintenance expense and depreciation, offset by
- higher margin revenues due to favorable weather and a Transmission formula rate increase.

The quarter-over-quarter details for these variances are discussed below.

| | Quarters Ended March 31, 2009 | Quarters Ended March 31, 2008 | Increase/ (Decrease) 2009 vs 2008 | |
|---|---|---|---|---|
| | (Millions) | | (Millions) | % |
| Operating Revenues | $ 2,735 | $ 2,618 | $ 117 | 4 |
| Energy Costs | 1,859 | 1,793 | 66 | 4 |
| Operation and Maintenance | 395 | 360 | 35 | 10 |

| | | | | |
|---|---|---|---|---|
| Depreciation and Amortization | 149 | 143 | 6 | 4 |
| Other Income and Deductions | | 4 | (4 ) | (100 ) |
| Interest Expense | (79 ) | (81 ) | (2 ) | (2 ) |
| Income Tax Expense | (85 ) | (65 ) | 20 | 31 |

**For the quarter ended March 31, 2009 as compared to 2008**

**Operating Revenues** increased $117 million primarily due to

*Commodity* related revenues increased $65 million due to

¡ increased electric revenues of $75 million primarily due to $97 million in higher BGS and Non-Utility Generation (NGC) revenues (higher prices of $129 million offset by decreased sales of $32 million), offset by $22 million in lower non-utility generation (NUG) revenues, primarily due to lower prices, and

¡ decreased gas

revenues of $10 million due to $48 million in decreased BGSS prices offset by $38 million in higher sales due to weather.

***Delivery*** revenues increased $52 million due to

- increased gas revenues of $30 million due to $15 million of higher sales due to favorable weather and $15 million due to higher SBC revenues, and
- increased electric revenues of $22 million due to $14 million for SBC revenues, $7 million for net transmission rate increases, $4 million for a securitization transition charge rate

increase, offset by $3 million in decreased distribution sales and demands due to economic conditions. PSE&G retains no margins from SBC or STC collections as the revenues are offset in operating expenses below.

**Operating Expenses**

***Energy Costs*** increased $66 million due to

- increased electric costs of $75 million due to $120 million or 16% in higher prices for BGS and NUG purchases offset by $45 million or 6% in lower BGS and NUG volumes due to economic conditions, offset by
- decreased gas costs of $10 million due to $48 million or 5% lower prices offset by $38 million or 4% in higher sales volumes due to favorable weather.

***Operation and***

***Maintenance*** increased $35 million primarily due to

- increases in SBC expenses of $30 million, and
- $11 million of higher labor and benefits, primarily increased pension expense,
- partially offset by lower materials usage of $4 million, and
- lower injuries and damages of $2 million.

***Depreciation and Amortization*** increased $6 million due to

- increases of $4 million due to additional plant in service, and

¡ increases of $3 million for amortization of regulatory assets,

¡ partially offset by $1 million in capitalized depreciation and software amortization.

**Other Income and Deductions** decreased $4 million due to

$3 million in lower investment income due to current market conditions, and

$1 million reduction in income tax gross-ups on contributions in aid of construction (CIAC). CIAC is taxable and PSE&G recognizes the gross-up as income when collected.

**Interest Expense** experienced no material change.

**Income Tax Expense** increased $20 million primarily due to

$3 million on higher

pre-tax income, and

$18 million in tax benefits taken in 2008 related to an IRS refund claim.

**Energy Holdings**

| | Quarters Ended March 31, 2009 | Quarters Ended March 31, 2008 | Increase/ (Decrease) 2009 vs 2008 |
|---|---|---|---|
| | (Millions) | | (Millions) |
| Income from Continuing Operations | $ 7 | $ 29 | $ (22 ) |
| Income from Discontinued Operations, net of tax | | 13 | (13 ) |
| Net Income | $ 7 | $ 42 | $ (35 ) |

For the quarter ended March 31, 2009, the primary reasons for the $22 million decrease in Income from Continuing Operations were:

lower tax benefits as a result of the absence of benefits recorded in 2008 related to an IRS refund claim,

lower generation revenues, and

lower leveraged lease revenues primarily due to the tax reserve taken in mid-2008 and the sale of leveraged lease assets,

partially offset by gains on sales and terminations of leveraged lease assets, and

lower interest expense due to debt retirement.

The quarter-over-quarter details for these variances are discussed below:

| | **Quarters Ended March 31,** | | **Increase/ (Decrease)** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009 vs 2008** | |
| | (Millions) | | (Millions) | % |
| Operating Revenues | $ 135 | $ 131 | $ 4 | 3 |
| Energy Costs | 69 | 68 | 1 | 1 |
| Operation and Maintenance | 30 | 35 | (5 ) | (14 ) |
| Depreciation and Amortization | 7 | 7 | | |
| Income from Equity Method Investments | 10 | 12 | (2 ) | (17 ) |
| Other Income and Deductions | 3 | 3 | | |
| Interest Expense | (19 ) | (23 ) | (4 ) | (17 ) |
| Income Tax (Expense) Benefit | (16 ) | 16 | 32 | N/A |
| Income from Discontinued Operations, net of Tax | | 13 | (13 ) | (100 ) |

**For the quarters ended March 31, 2009 as compared to 2008**

**Operating Revenues** increased $4 million due to a gain of $23 million on the sales and terminations of leveraged lease assets in the first quarter,

partially offset by lower leveraged lease revenues of $13 million, primarily due to the tax reserve taken in mid-2008, and the sale of leveraged lease assets, and

a decrease of $6 million in generation revenues due to lower electricity prices, partially offset by an increase in electricity sales and higher unrealized MTM gains.

**Operating Expenses**

***Energy Costs*** experienced no material change.

***Operation and Maintenance*** decreased $5 million primarily due to

- a decrease of $3 million in administrative costs due to the closure of our administrative office in Texas, and
- a decrease of $2 million in outside service costs.

**Income from Equity Method Investments** decreased $2 million primarily due to lower income from GWF Energy Expansion due to the absence of the sale of water rights in 2008.

**Interest Expense** decreased $4 million primarily due to lower debt balances.

**Income Tax Expense** increased $32 million due to

an increase of $23 million due to the absence of tax benefits recorded in 2008 associated with an IRS claim, and

an increase of $11 million as a result of the sale of leveraged lease assets in 2009,

partially offset by a reduction of $2 million due to other credits.

**Income from Discontinued Operations, net of tax**

During 2008, we sold our investments in SAESA Group and Bioenergie. Income from Discontinued Operations relating to these investments for the quarter ended March 31, 2008 totaled $13 million. See Note 3. Discontinued Operations and Dispositions for additional information.

**LIQUIDITY AND CAPITAL RESOURCES**

The following discussion of our liquidity and capital resources is on a consolidated basis, noting the uses and contributions, where material, of our three direct operating subsidiaries.

**Operating Cash Flows**

Our operating cash flows combined with cash on hand and financing activities are expected to be sufficient to fund capital expenditures and shareholder dividend payments.

For the quarter ended March 31, 2009, our operating cash flow increased by $346 million as compared to the same quarter in 2008. The net change was due to net changes from our subsidiaries as discussed below.

**Power**

Power s operating cash flow increased $325 million from $938 million to $1,263 million for the quarter ended March 31, 2009, as compared to the same period in 2008, primarily resulting from an increase of $223 million in net cash collateral receipts and an increase of $211 million from net collections of counterparty receivables, partially offset by contributions of $78 million to the employee pension plan in 2009.

**PSE&G**

PSE&G s operating cash flow decreased $45 million from $261 million to $216 million for the quarter ended March 31, 2009, as compared to the same period in 2008, primarily due to $153 million in increased pension fund contributions. This was offset by $111 million in higher recovery of regulatory assets.

**Energy Holdings**

Energy Holdings operating cash flow increased $96 million from $(138) million to $(42) million for the quarter ended March 31, 2009, as compared to the same period in 2008. The increase was mainly attributable to tax payments made in 2008 related to the sales of certain equity method investments.

**Short-Term Liquidity**

We have been managing our liquidity to assure that we continue to have sufficient access to cash to operate our businesses in the event the capital markets do not allow for near-term financing at reasonable terms. We are also closely monitoring the financial condition and concentration of lenders in our bank facilities. There is no provision in any of the credit facilities that would require other lenders in the facility to assume loan commitments of any financial institution that fails to meet its loan commitments. As of March 31, 2009, no single institution represents more than 11% of the commitments in our credit facilities.

We continually monitor our liquidity and seek to add capacity as needed to meet our liquidity requirements. Each of our credit facilities is restricted as to availability and use to the specific companies as listed below;

however, if necessary, the PSEG facilities can also be used to support our subsidiaries liquidity needs. Our total credit facilities and available liquidity as of March 31, 2009 were as follows:

| | March 31, 2009 | | | | |
|---|---|---|---|---|---|
| **Company/Facility** | **Total Facility** | **Usage** | **Available Liquidity** | **Expiration Date** | **Primary Purpose** |
| | | (Millions) | | | |
| **PSEG:** | | | | | |
| 5-year Credit Facility (A) | $ 1,000 | $ 13 (B) | $ 987 | Dec 2012 | CP Support/Funding/ Letters of Credit |
| Bilateral Credit Facility | 100 | | 100 | June 2009 | CP Support/Funding |
| Uncommitted Bilateral Agreement | N/A | | N/A | N/A | Funding |
| **Total PSEG** | $ 1,100 | $ 13 | $ 1,087 | | |
| **Power:** | | | | | |
| 5-year Credit Facility (A) | $ 1,600 | $ 192 (B) | $ 1,408 | Dec 2012 | Funding/Letters of Credit |
| Bilateral Credit Facility | 100 | | 100 | June 2009 | Funding/Letters of Credit |
| Bilateral Credit Facility | 100 | 24 (B) | 76 | March 2010 | Funding/Letters of Credit |
| Bilateral Credit Facility | 50 | | 50 | Sep 2009 | Funding |
| **Total Power** | $ 1,850 | $ 216 | $ 1,634 | | |
| **PSE&G:** | | | | | |
| 5-year Credit Facility (A) | $ 600 | $ | $ 600 | June 2012 | CP Support/Funding/ Letters of Credit |
| Uncommitted Bilateral Agreement | N/A | | N/A | N/A | Funding |
| **Total PSE&G** | $ 600 | $ | $ 600 | | |
| **Energy Holdings** | | | | | |
| 5-year Credit Facility | $ 136 | $ 3 (B) | $ 133 | June 2010 | Funding/Letters of Credit |
| **Total** | $ 3,686 | $ 232 | $ 3,454 | | |

(A)

In December 2011, facilities reduce by $47 million, $75 million, and $28 million for PSEG, Power and PSE&G, respectively.

(B) These amounts relate to letters of credit outstanding.

On April 3, 2009, Power executed a $150 million bilateral credit agreement to replace a $150 million credit agreement that expired during March 2009. The new credit agreement is available for funding and the issuance of letters of credit and expires on September 30, 2009.

In the second and third quarters of 2009, $250 million of bilateral credit facilities at PSEG and Power are scheduled to expire. While we expect to request renewal of each of these facilities, no assurances can be given that such facilities will be renewed or renewed on comparable terms.

**Long-Term Debt Financing**

In February 2009, Energy Holdings redeemed the remaining $280 million outstanding non-recourse project debt associated with the assets of PSEG Texas. The debt was scheduled to mature on December 31, 2009. PSEG and PSE&G have $249 million and $60 million, respectively, of debt maturities upcoming in 2009, excluding securitized and nonrecourse debt. These maturities will occur in late May 2009 for PSE&G and during the third and fourth quarters for PSEG. We believe that we will be able to refinance or retire these obligations assuming continued access to the capital markets. For a discussion of our long-term debt transactions during 2009, see Note 6. Changes in Capitalization.

**Common Stock Dividends and Repurchases**

Dividend payments on common stock for the quarter ended March 31, 2009 were $0.3325 per share and totaled $168 million. Dividend payments on common stock for the quarter ended March 31, 2008 were $0.3225 per share and totaled $164 million.

In July 2008, our Board of Directors authorized the repurchase of up to $750 million of our common stock to be executed over 18 months beginning August 1, 2008. We are not obligated to acquire any specific number of shares and may suspend or terminate share repurchases at any time. We repurchased 2,382,200 shares of our common stock for $92 million under this authorization through September 30, 2008. No repurchases have been made since that date.

On April 21, 2009, our Board of Directors approved a common stock dividend of $0.3325 per share for the second quarter of 2009. This reflects an indicated annual dividend rate of $1.33 per share. We expect to continue to pay cash dividends on our common stock; however, the declaration and payment of future dividends to holders of our common stock will be at the discretion of the Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our business, alternate investment opportunities, legal requirements, regulatory constraints, industry practice and other factors that the Board of Directors deems relevant.

**Credit Ratings**

If the rating agencies lower or withdraw our credit ratings, such revisions may adversely affect the market price of our securities and serve to materially increase our cost of capital and limit access to capital. Outlooks assigned to ratings are as follows: stable, negative (Neg) or positive (Pos). There is no assurance that the ratings will continue for any given period of time or that they will not be revised by the rating agencies, if, in their respective judgments, circumstances warrant. Each rating given by an agency should be evaluated independently of the other agencies ratings. The ratings should not be construed as an indication to buy, hold or sell any security. In March 2009, S&P affirmed the ratings and outlooks of PSEG, PSE&G, Power and Energy Holdings.

| | **Moody s(A)** | **S&P(B)** | **Fitch(C)** |
|---|---|---|---|
| **PSEG:** | | | |
| Outlook | Stable | Stable | Stable |
| Commercial Paper | P2 | A2 | F2 |
| **Power:** | | | |
| Outlook | Stable | Stable | Stable |
| Senior Notes | Baa1 | BBB | BBB+ |
| **PSE&G:** | | | |
| Outlook | Stable | Stable | Stable |
| Mortgage Bonds | A3 | A | A |
| Preferred Securities | Baa3 | BB+ | BBB+ |
| Commercial Paper | P2 | A2 | F2 |

(A) Moody s ratings range from Aaa (highest) to C (lowest) for long-term securities and P1 (highest) to NP (lowest) for short-term securities.

(B) S&P ratings range from AAA (highest) to D (lowest) for long-term securities and A1 (highest) to D (lowest) for short-term securities.

(C) Fitch ratings range from AAA (highest) to D (lowest) for long-term securities and F1 (highest) to D (lowest) for short-term securities.

**CAPITAL REQUIREMENTS**

We expect that the majority of funding for our capital requirements over the next three years will come from internally generated funds. The balance will be provided by the issuance of debt at the respective subsidiary or project level and by equity contributions from us to our subsidiaries.

PSE&G s projected construction and investment expenditures through 2011 are expected to increase by $778 million as compared to amounts previously reported, primarily due to $694 million of spending accelerated from later years under the Capital Economic Stimulus Program approved by the BPU in April 2009. These expenditures will be financed by a combination of external capital and internally generated funds.

Other than this increase at PSE&G, our projected construction and investment expenditures through 2011 are consistent with the amounts disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

**Power**

During the quarter ended March 31, 2009, Power made $162 million of capital expenditures (excluding $45 million for nuclear fuel), primarily related to various projects at Fossil and Nuclear. For additional information regarding current projects, see Note 5. Commitments and Contingent Liabilities.

**PSE&G**

During the quarter ended March 31, 2009, PSE&G made $194 million of capital expenditures, primarily for reliability of transmission and distribution systems. The $194 million does not include expenditures for cost of removal, net of salvage, of $9 million, which are included in operating cash flows.

**ACCOUNTING MATTERS**

For information related to recent accounting matters, see Note 2. Recent Accounting Standards.

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

The market risk inherent in our market-risk sensitive instruments and positions is the potential loss arising from adverse changes in commodity prices, equity security prices and interest rates as discussed in the notes to Condensed Consolidated Financial Statements. It is our policy to use derivatives to manage risk consistent with business plans and prudent practices. We have a Risk Management Committee comprised of executive officers who utilize a risk oversight function to ensure compliance with our corporate policies and risk management practices.

Additionally, we are exposed to counterparty credit losses in the event of non-performance or non-payment. We have a credit management process, which is used to assess, monitor and mitigate counterparty exposure. In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on our financial condition, results of operations or net cash flows.

**Commodity Contracts**

The availability and price of energy-related commodities are subject to fluctuations from factors such as weather, environmental policies, changes in supply and demand, state and federal regulatory policies, market rules and other events. To reduce price risk caused by market fluctuations, we enter into supply contracts and derivative contracts, including forwards, futures, swaps and options with approved counterparties. These contracts, in conjunction with demand obligations, help reduce risk and optimize the value of owned electric generation capacity.

**Value-at-Risk (VaR) Models**

We use VaR models to assess the market risk of our commodity businesses. The portfolio VaR model includes our owned generation and physical contracts, as well as fixed price sales requirements, load requirements and financial derivative instruments. VaR represents the potential gains or losses, under normal market conditions, for instruments or portfolios due to changes in market factors, for a specified time period and confidence level. We estimate VaR across our commodity businesses.

We manage our exposure at the portfolio level, which consists of owned generation, load-serving contracts (both gas and electric), fuel supply contracts and energy derivatives designed to manage the risk around generation and load. While we manage our risk at the portfolio level, we also monitor separately the risk of our trading activities and hedges. Non-trading mark-to-market (MTM) VaR consists of MTM derivatives that are economic hedges, some of which qualify for hedge accounting. The MTM derivatives that are not hedges are included in the trading VaR.

The VaR models used are variance/covariance models adjusted for the change of positions with a 95% confidence level and a one-day holding period for the MTM trading and non-trading activities and a 95% confidence level with a one-week holding period for the portfolio VaR. The models assume no new positions throughout the holding periods; however, we actively manage our portfolio.

Increased trading activities during 2009 have led to a higher VaR as compared to December 31, 2008. As of March 31, 2009, trading VaR was $2 million. As of December 31, 2008, trading VaR was $1 million.

| **For the Quarter Ended March 31, 2009** | **Trading VaR** | **MTM VaR Non-Trading** |
|---|---|---|
| | (Millions) | |
| *95% confidence level, Loss could exceed VaR one day in 20 days:* | | |
| Period End | $ 2 | $ 31 |
| Average for the Period | $ 1 | $ 33 |
| High | $ 2 | $ 49 |
| Low | $ * | $ 23 |
| *99% confidence level, Loss could exceed VaR one day in 200 days:* | | |
| Period End | $ 3 | $ 48 |
| Average for the Period | $ 1 | $ 52 |
| High | $ 3 | $ 77 |
| Low | $ 1 | $ 36 |

* less than $1 million

**Credit Risk**

Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties pursuant to the terms of their contractual obligations. We have established credit policies that we believe significantly minimize credit risk. These policies include an evaluation of potential counterparties financial condition (including credit rating), collateral requirements under certain circumstances and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty.

In the event of non-performance or non-payment by a major counterparty, there may be a material adverse impact on Power s financial condition, results of operations or net cash flows. As of March 31, 2009, 98% of the credit exposure (MTM plus net receivables and payables, less cash collateral) for Power s operations was with investment grade counterparties.

The following table provides information on Power s credit exposure, net of collateral, as of March 31, 2009. Credit exposure is defined as any positive results of netting accounts receivable/accounts payable and the forward value on open positions. It further delineates that exposure by the credit rating of the counterparties and provides guidance on the concentration of credit risk to individual counterparties and an indication of the maturity of a company s credit risk by credit rating of the counterparties.

**Schedule of Credit Risk Exposure on Energy Contracts Net Assets as of March 31, 2009**

| Rating | Current Exposure | Securities Held as Collateral | Net Exposure | Number of Counterparties >10% | Net Exposure of Counterparties >10% |
|---|---|---|---|---|---|
| | | (Millions) | | | (Millions) |
| Investment Grade External Rating | $ 1,543 | $ 402 | $ 1,366 | 2 (A) | $ 935 |
| Non-Investment Grade External Rating | 5 | 6 | | | |
| Investment Grade No External Rating | 7 | 1 | 7 | | |
| Non-Investment Grade No External Rating | 22 | 22 | 9 | | |
| **Total** | **$ 1,577** | **$ 431** | **$ 1,382** | **2** | **$ 935** |

(A) PSE&G is a counterparty with net exposure of $769 million. The remaining net exposure of $166 million is with a nonaffiliated power purchaser which is a regulated investment grade counterparty.

The net exposure listed above, in some cases, will not be the difference between the current exposure and the collateral held. A counterparty may have posted more cash collateral than the outstanding exposure, in which case there would not be exposure. When letters of credit have been posted as collateral, the exposure amount is not reduced, but the exposure amount is transferred to the rating of the issuing bank. As of March 31, 2009, Power had 148 active counterparties.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We have established and maintain disclosure controls and procedures as defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act ) that are designed to provide reasonable assurance that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported and is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer of each respective company, as appropriate, by others within the entities to allow timely decisions regarding required disclosure. We have established a disclosure committee which includes several key management employees and which reports directly to the Chief Financial Officer and Chief Executive Officer of each respective company. The committee monitors and evaluates the effectiveness of these disclosure controls and procedures. The Chief Financial Officer and Chief Executive Officer of each company have evaluated the effectiveness of the disclosure controls and procedures and, based on this evaluation, have concluded that disclosure controls and procedures at each respective company were effective at a reasonable assurance level as of the end of the period covered by the report.

**Internal Controls**

We continually review our disclosure controls and procedures and make changes, as necessary, to ensure the quality of our financial reporting. There have been no changes in internal control over financial reporting that occurred during the first quarter of 2009 that have materially affected, or are reasonably likely to materially affect, each registrant s internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are party to various lawsuits and regulatory matters in the ordinary course of business. For information regarding material legal proceedings, including updates to information reported under Item 3 of Part I of the respective 2008 Annual Reports on Form 10-K of PSEG, Power and PSE&G, see Note 5. Commitments and Contingent Liabilities and Item 5. Other Information, Regulatory Issues.

**RPM Model**

***PJM FERC Filing to Prospectively Change Elements of RPM and FERC Order on PJM Filing***

***2008 Form 10-K, Page 43.*** PJM submitted a filing at FERC seeking to implement certain prospective changes to the RPM model. Issues in this proceeding included:

the cost of new entry (CONE),

integration of transmission upgrades into RPM modeling,

recognition of locational capacity value,

participation in RPM by demand-side and energy efficiency resources, penalties for deficiencies and unavailability of capacity resources, and

the calculation of avoided cost and long-term contracting to encourage new entry.

On March 26, 2009, the FERC issued an order accepting various parts and rejecting others, including retaining CONE values and reducing RPM auction requirements to encourage participation. While we believe that the order is generally positive, we sought rehearing of this order for further adjustments to PJM s filing.

**ITEM 1A. RISK FACTORS**

There are no additional Risk Factors to be added to those disclosed in Part I Item 1A of our 2008 Annual Reports on Form 10-K.

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

In July 2008, our Board of Directors authorized the repurchase of up to $750 million of our Common Stock to be executed over 18 months beginning August 1, 2008. We are not obligated to acquire any specific number of shares and may suspend or terminate the share repurchases at any time. As of March 31, 2009, 2,382,200 shares were repurchased at a total price of $92 million.

| 2009 | Total Number of Shares Purchased (A) | Average Price Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan (Millions) |
|---|---|---|---|---|
| January 1 January 31 | 10,285 | $ 29.12 | N/A | $ 658 |
| February 1 February 28 | 50,000 | $ 32.97 | N/A | $ 658 |
| March 1 March 31 | | $ | N/A | $ 658 |

(A) Represents repurchase of shares in the open market to satisfy obligations under various equity compensation award programs.

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

Our Annual Meeting of Stockholders was held on April 21, 2009. Proxies for the meeting were solicited pursuant to Regulation 14A under the Securities Act of 1934. There was no solicitation of proxies in opposition to management s nominees as listed in the proxy statement and all of management s nominees were elected to the Board of Directors. Details of the voting are provided below:

| | Votes For | | Votes Withheld |
|---|---|---|---|
| **Proposal 1:** | | | |
| **Election of Directors** | | | |
| **Terms expiring in 2010** | | | |
| Albert R. Gamper, Jr. | 425,996,198 | | 9,094,619 |
| Conrad K. Harper | 426,808,991 | | 8,281,826 |
| Shirley Ann Jackson | 414,567,330 | | 20,523,487 |
| David Lilley | 430,440,419 | | 4,650,398 |
| Thomas A. Renyi | 425,916,757 | | 9,174,060 |
| Hak Cheol Shin | 430,216,359 | | 4,874,458 |
| | **Votes For** | **Votes Against** | **Abstentions** |
| **Proposal 2:** | | | |
| Ratification of Appointment of Deloitte & Touche LLP as Independent Auditor | 429,071,580 | 4,454,930 | 1,564,306 |

**ITEM 5. OTHER INFORMATION**

Certain information reported under the 2008 Annual Report on Form 10-K is updated below. Additionally, certain information is provided for new matters that have arisen subsequent to the filing of the 2008 Annual Report on Form 10-K. References are to the related pages on the Form 10-K as printed and distributed.

**FEDERAL REGULATION**

**Transmission Expansion**

***2008 Form 10-K, Page 19.*** PJM has approved the construction of a 500 kV transmission line running from Virginia through Maryland and Delaware and is still considering approval of the portion terminating in Lower Alloways Creek Township, New Jersey. We will be responsible for constructing and operating a portion of this line, known as the Mid-Atlantic Pathway Project (MAPP), if its portion of the line is approved. In March 2009, we obtained from FERC approval of a 150 basis point ROE adder for this project (yielding a ROE of 13.18%), 100% recovery of abandonment costs and the ability to transfer the project to an affiliate. Receipt of incentive rates is contingent upon our portion of the MAPP project being approved by PJM as a RTEP project.

In December 2008, PJM approved another transmission project, including two additional 500 kV transmission lines, and has assigned construction responsibility to PSE&G. The first line would run from Branchburg to Roseland, and the second from Roseland to Hudson. These lines are still in the design phase.

**U.S. Department of Energy (DOE) Congestion Study National Interest Electric Transmission Corridors and FERC Back-Stop Siting Authority**

***2008 Form 10-K, Page 20.*** In October 2007, the DOE acted to designate transmission corridors within these critical congestion areas. One of the designated corridors is the Mid-Atlantic Area National Corridor. Thus, entities seeking to build transmission within the Mid-Atlantic Area Corridor, which includes New Jersey, most of Pennsylvania and New York, may be able to use the FERC s back-stop siting authority in the future under certain circumstances, if necessary, to site transmission, including with respect to the Susquehanna-Roseland line. On February 18, 2009, the United States Court of Appeals for the Fourth Circuit narrowed the scope of the FERC s back-stop siting authority. FERC has sought reconsideration of this Court of Appeals decision.

**STATE REGULATION**

**Energy Supply**

**BGSS**

***2008 Form 10-K, Page 23.*** In May 2008, PSE&G requested an increase in annual BGSS revenue of $376 million, excluding Sales and Use Tax, to be effective October 1, 2008. Since that time, due to the significant downward trend in wholesale natural gas prices, we filed three revisions to the BGSS increase, a revised Stipulation (increase of 14% or $267 million), a BGSS self-implementing decrease (5% or approximately $108 million) and a second BGSS self-implementing decrease (7% or approximately $145 million). The increase in the BGSS-Residential Service Gas (RSG) rate became effective on October 3, 2008 and the decreases became effective on January 1, 2009 and March 1, 2009, respectively.

**Energy Policy**

**Solar Initiatives**

***2008 Form 10-K, Page 23.*** We are investing approximately $105 million over two years in a pilot program to help finance the installation of 30 MW of solar systems throughout our utility s electric service area by providing loans to customers for the installation of solar photovoltaic (PV) systems on their premises. As of April 24, 2009, we have provided approximately $9 million in loans for approximately 2 MW of solar systems.

In February 2009, we filed a new solar initiative with the BPU called the Solar 4 All Program. Through this program, we would invest approximately $773 million to develop 120 MW of solar PV systems over a five-year horizon. The program consists of a centralized PV system (35MW), solar systems installed on distribution system poles (40MW), roof-mounted systems installed on local government buildings in our electric service territory (43MW) and roof-mounted solar systems installed in New Jersey Housing and Mortgage Finance Agency affordable housing communities (2MW). This program remains under review by the BPU.

On March 31, 2009, we also filed a new solar loan program, called Solar Loan II , with the BPU. This program is modeled on the original solar loan pilot program discussed above. Under Solar Loan II, we would help finance the installation of an additional 40 MW of solar systems in our electric service territory. Any remaining financing and capacity from the original solar loan program would be rolled into the new program.

**Capital Economic Stimulus Infrastructure Program**

***2008 Form 10-K, Page 25.*** On January 21, 2009, we filed for approval of a capital economic stimulus infrastructure investment program. Under this initiative, we proposed to undertake $698 million of capital infrastructure investments for electric and gas programs over a 24 month period. The goal of these accelerated capital investments is to help improve the State s economy through the creation of new jobs. This filing was made in response to the Governor of New Jersey s proposal to help revive the economy through job growth and capital spending.

The BPU approved a settlement agreement on April 16, 2009 which identified 38 qualifying projects totaling $694 million. These projects are expected to create more than 900 new jobs. On April 28, 2009, we received the BPU s written order which was effective May 1, 2009.

Under the program new Capital Adjustment Charges (CAC) will provide for immediate recovery of a return on program expenditures plus depreciation of the assets. The CAC s will be adjusted each January based on forecasted program expenditures and will be subject to deferred accounting. The rates are subject to annual adjustments based on actual expenditures and actual general and economic market conditions.

**Susquehanna-Roseland BPU Petition**

***2008 Form 10-K, Page 25.*** In January 2009, we filed a Petition with the BPU seeking authorization from the BPU to construct the New Jersey portion of the Susquehanna-Roseland line. The New Jersey portion of the line spans approximately 45 miles and crosses through 16 municipalities. The Petition seeks a finding from the BPU that municipal land use and zoning ordinances of these municipalities do not apply to this line. A procedural schedule has been established, under which the BPU expects to issue a decision in December 2009. We are also in the process of seeking to obtain all necessary environmental permits for the project.

**ITEM 6. EXHIBITS**

A listing of exhibits being filed with this document is as follows:

**a. PSEG:**

| | |
|---|---|
| Exhibit 10: | Employment Agreement with Caroline Dorsa dated March 11, 2009, as amended April 24, 2009 |
| Exhibit 12: | Computation of Ratios of Earnings to Fixed Charges |
| Exhibit 31: | Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934 (1934 Act) |
| Exhibit 31.1: | Certification by Caroline Dorsa Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act |
| Exhibit 32: | Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code |
| Exhibit 32.1: | Certification by Caroline Dorsa Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code |

**b. Power:**

| | |
|---|---|
| Exhibit 10: | Employment Agreement with Caroline Dorsa dated March 11, 2009, as amended April 24, 2009 |
| Exhibit 12.1: | Computation of Ratios of Earnings to Fixed Charges |
| Exhibit 31.2: | Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act |
| Exhibit 31.3: | Certification by Caroline Dorsa Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act |
| Exhibit 32.2: | Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code |
| Exhibit 32.3: | Certification by Caroline Dorsa Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code |

**c. PSE&G:**

| | |
|---|---|
| Exhibit 10: | Employment Agreement with Caroline Dorsa dated March 11, 2009, as amended April 24, 2009 |
| Exhibit 12.2: | Computation of Ratios of Earnings to Fixed Charges |
| Exhibit 12.3: | Computation of Ratios of Earnings to Fixed Charges Plus Preferred Securities Dividend Requirements |
| Exhibit 31.4: | Certification by Ralph Izzo Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act |
| Exhibit 31.5: | Certification by Caroline Dorsa Pursuant to Rules 13a-14 and 15d-14 of the 1934 Act |
| Exhibit 32.4: | Certification by Ralph Izzo Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code |
| Exhibit 32.5: | Certification by Caroline Dorsa Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code |

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) 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. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

**PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED**
(Registrant)

By: /s/ DEREK M. DIRISIO

Derek M. DiRisio
Vice President and Controller
(Principal Accounting Officer)

Date: May 5, 2009

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) 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. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

**PSEG POWER LLC**
(Registrant)

By: /s/ DEREK M. DIRISIO

Derek M. DiRisio
Vice President and Controller
(Principal Accounting Officer)

Date: May 5, 2009

## SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**
(Registrant)

By: /s/ DEREK M. DIRISIO

Derek M. DiRisio
Vice President and Controller
(Principal Accounting Officer)

Date: May 5, 2009