NexCen Brands, Inc.
Form 10-K
March 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER: 000-27707
NEXCEN BRANDS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**20-2783217**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1330 Avenue of the Americas, New York, N.Y.	**10019-5400**
(Address of principal executive offices)	(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.01	**The NASDAQ Stock Market LLC**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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

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

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

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant was $210,085,794 ($5.50 per share) as of June 30, 2006.

As of March 1, 2007 50,402,562 shares of the registrant's common stock, $.01 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant will disclose the information required under Part III, Items 10, 11, 12, 13, and 14 by (a) incorporating the information by reference from the registrant's definitive proxy statement or (b) filing an amendment to this Form 10-K which contains the required information no later than 120 days after the end of the registrant's fiscal year.

NEXCEN BRANDS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2006

INDEX

FORWARD-LOOKING STATEMENTS

In this Annual Report on Form 10-K, we make statements that are considered forward-looking statements within the meaning of the Securities Act of 1934, as amended. The words "anticipate," "believe," "estimate," "intend," "may," "will," "ex and similar expressions often indicate that a statement is a "forward-looking statement." Statements about non-historic results also are considered to be forward-looking statements. None of these forward-looking statements are guarantees of future performance or events, and they are subject to numerous risks, uncertainties and other factors. Given the risks, uncertainties and other factors, you should not place undue reliance on any forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include those discussed in Item 1A of this Report under the heading "Risk Factors," as well as elsewhere in this Report. Forward-looking statements reflect our reasonable beliefs and expectations as of the time we make them, and we have no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

General Overview

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

We commenced our IP business in June 2006, when we acquired UCC Capital Corporation, which we refer to as UCC. Upon the closing of that acquisition, Robert W. D'Loren, who was the president and chief executive officer of UCC, became our president and chief executive officer and a member of our Board of Directors.

In November 2006, we entered the retail franchising business by acquiring Athlete's Foot Brands, LLC, along with an affiliated company and certain related assets. As a result of this acquisition, we are now the owner of The Athlete's Foot brand and related marks. The Athlete's Foot is one of the largest athletic footwear and apparel franchisors with over 600 retail locations in over 40 countries.

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

Also in February 2007, we acquired MaggieMoo's International, LLC ("MaggieMoo's") and the assets of Marble Slab Creamery, Inc. ("Marble Slab"), two well known and established brands within the hand-mixed, premium ice cream category. With these acquisitions NexCen entered the QSR franchising business.

More detailed information about The Athlete's Foot, Bill Blass, MaggieMoo's, and Marble Slab acquisitions is included below under the caption "Company Brands."

We are evaluating various other potential acquisitions and are actively in discussions to acquire additional IP-centric businesses. On March 13, 2007 we signed a definitive agreement to acquire the Waverly brand from F. Schumacher & Co. for $36.75 million in cash and a warrant to purchase 50,000 common shares (to be priced at issuance). Waverly is a home décor lifestyle brand for harmonious and tasteful decorating. We expect to close this transaction by the end of April 2007, and intend to finance 50% of the purchase price with borrowings under the new credit facility entered into on March 12, 2007, as discussed under Item 7. *Management Discussion and Analysis of Financial Condition and Results of Operations* under the caption "Liquidity and Capital Resources".

At December 31, 2006, we had only one operating segment - our intellectual property business. As we continue to acquire IP businesses, we expect to have three segments in the future: retail franchising, consumer brand products, and quick service restaurants. The businesses that we owned and operated in 2005 and 2004 have been sold. As a result, their results have been reclassified to discontinued operations in our historical financial statements, and our continuing operations in 2005 and earlier years reflect only corporate expenses and other non-operating items.

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

3

Our Business

Operations and Strategy

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

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

We operate our IP business in what we call a “value net” business model. This model does not require us to incur substantial operating or capital costs in running our business, as we do not (and do not plan to) manufacture, warehouse or distribute the branded products associated with the IP we acquire (or build stores in the case of franchise operations). We intend to rely on third-party licensees and other business partners to incur such capital costs and perform such services. However, we will generally be involved in the marketing, promotion and quality control of products and services that make use of our IP (such as trademarks and trade names that we own), and we also may provide certain merchandising, purchasing and training support services with respect to franchise operations. We believe that this business model mitigates -- or transfers to third parties -- the risks related to working capital (i.e. inventory and receivables) and capital expenditures. We believe that this model allows us to maintain maximum operational and financial flexibility and positions us to succeed in today’s competitive global economy. As a result of our business model, we rely heavily on third parties, including licensees and franchisees, to make sales, generate revenues and help grow our business. Such reliance involves various risks and uncertainties, which are discussed below in Item *1A. Risk Factors* under the caption “Risks of Business We Acquire.”

We intend to leverage our brand management, marketing, and licensing expertise, costs and professionals across our three operating verticals. We expect that these operating verticals will enable us to generate royalties at the wholesale and retail level on sales of goods for brands that we acquire, through distribution channels that we own, without the loss of sales in third-party channels. For example, we might decide to contract with third parties to produce a “private label” brand of socks that use our owned brand, The Athlete’s Foot, for sale in our chain of The Athlete’s Foot franchisee stores. The manufacturer of the socks who sells the product to the franchisees would pay us a royalty on those sales and in turn the franchisees who sell the socks to their retail customers also would pay us a royalty on their sales.

The following graphic summarizes our three operating segments (retail franchising, consumer branded products and QSR franchising) and the opportunities to cross-leverage the operating verticals with each other. Franchise concepts we purchase can be sold to our existing network of master franchisees who currently manage our franchise brands worldwide. Brands that we acquire can be sold through third party retail channels and channels that we own and control, allowing us to earn wholesale and retail royalties. Our objective is to create a flexible operating structure, control our distribution channels, and sell our owned brands through these channels as well as third party channels.

Diversification and Growth

As we build a portfolio of IP-centric businesses, we expect to operate a business model that is diversified in several ways:

- across industries, ranging from apparel, footwear and sporting goods to QSR and retail franchising;

· across channels of distribution, ranging from luxury to mass-market;

- across consumer demand categories, ranging from luxury to mass-market;
- across licensees and franchisees, ranging from large licensees to individual franchisees; and
- across geographies (both within the United States and internationally); and
- across multiple demographic groups.

We believe that this multi-category diversification will help reduce potential volatility in our financial results (given the varied sources of royalty payments from franchisees and licensees of different types and in different markets, demographics, and geographies) and may mitigate impairment risk.

We believe that our business model offers a three-tiered growth opportunity:

- our businesses can grow both domestically and internationally through organic, and synergistic growth;
- our businesses can grow organically by expanding and extending owned brands into new product categories and retail channels, increasing brand awareness and executing new licenses or selling new franchises;
- we can grow through acquisition by acquiring new brands or additional franchise systems; and
- our business can grow synergystically by leveraging our three operating verticals.

We can grow acquired brands by enabling them to sell branded products through franchise systems that we own. Conversely, we can expand our franchise systems by allowing them to sell additional branded products that we own or acquire. In either case, our objective will be to allow both our product brands and our systems to increase their sales. In each case, we would collect additional retail and wholesale royalties.

Development of Our IP Business and Acquisition Strategy

We entered the IP business when we acquired UCC in June 2006. Historically, UCC provided strategic advice and structured finance solutions to IP-centric companies. At the time that we acquired UCC, UCC's former president and chief executive officer, Robert D'Loren, became our president and chief executive officer, as well as a member of our board of directors. In September 2006, we hired David B. Meister to become our new chief financial officer, and in December 2006 we hired Charles Zona to become our Executive Vice President, Brand Management and Licensing. Other members of the UCC management team assumed management roles in our developing IP business, and at the end of 2006 we moved our corporate headquarters to New York City, where our IP business is based.

Since June 2006, we have acquired four IP-centric companies. We have also been (and expect to continue to be) in active discussions with other potential acquisition candidates. Our objective is to acquire 3 to 5 businesses or significant groups of IP assets per year, with transaction sizes generally in excess of $50 million total enterprise value.

We maintain a highly disciplined pricing approach to acquisitions. Our objective is to acquire consumer branded products companies at transaction multiples that range from 4.5 to 5.5 times royalties. For QSR franchise concepts, our target range is from 3.0 to 4.5 times revenues. We believe this approach will enable us to make accretive acquisitions given our capital structure (using a combination of cash on hand, shares of our common stock and borrowings under debt facilities). For a discussion of limitations and risks associated with the use of our stock for acquisitions and to raise additional capital, see *Item 1A. Risk Factors* under the caption "Risks of Our Acquisition Strategy."

Company Brands

Acquisition of The Athlete's Foot. On November 7, 2006, our NexCen Acquisition Corp. subsidiary acquired Athlete's Foot Brands, LLC, along with an affiliated advertising and marketing fund, and certain nominal fixed assets owned by an affiliated company. The Athlete's Foot is an athletic footwear and apparel franchisor with 600 retail locations in over 40 countries. The business also provides advertising and marketing support for the benefit of the franchisees, using a portion of the royalties it receives from franchisees. This business operates in our retail franchising vertical.

The purchase price for this acquisition, excluding contingent consideration, was $53.1 million, consisting of approximately $42.1 million in cash and $9.2 million in our common stock (approximately 1.4 million shares which were valued at $6.55 per share), which was the average closing price of our common stock for the five consecutive days that ended on November 6, 2006, which is the day immediately preceeding the date in which we closed the agreement to purchase The Athhlete's Foot), and $1.8 million in other deal related costs. At the closing on November 7, 2006, we also issued to one of the sellers a three-year warrant to purchase an additional 500,000 shares of our common stock at a per share price of $6.49 (which was the closing price of our common stock on November 7, 2006). On March 14, 2007, we borrowed $26.5 million under a new $150 million senior credit facility secured by the assets of The Athlete's Foot. This debt facility is discussed below in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* under the caption "Liquidity and Capital Resources."

Under the purchase agreement for The Athlete's Foot, we may be required to pay up to an additional $8.5 million of cash and stock (in the same proportion as the initial acquisition), if the revenue and EBITDA of the acquired business (as defined in the purchase agreement) for the year ended December 31, 2006 equal or exceed performance targets specified in the purchase agreement. The purchase agreement requires a stand-alone audit of the 2006 financial results of Athletes Foot Brands, LLC to be completed by March 31, 2007. The earn-out will be calculated based on the 2006 audited financial results. We estimate that the contingent consideration will be $4.0 million, and we have recorded a liability as of December 31, 2006 to reflect this expected payment.

Acquisition of Bill Blass. On February 15, 2007, our Blass Acquisition Corp. subsidiary acquired Bill Blass Holding Co., Inc. and two affiliated businesses. The Bill Blass label represents timeless style, modern American and is an American legacy brand. This business operates in our consumer brands vertical.

At the closing, one of the Bill Blass companies executed a licensing agreement for men's and women's denim with Designer License Holding Company, LLC. The new license replaced a denim license and an active wear license that were terminated and had been held by two companies that are affiliated with one of the prior owners of Bill Blass.

The initial purchase price for this acquisition was $54.6 million, consisting of $39.1 million in cash and $15.5 million in our common stock (approximately 2.2 million shares which were valued at $7.09 per share, which was the average closing price of our common stock for the ten consecutive days that ended on December 19, 2006, which is when we signed the agreement to purchase Bill Blass). Under the purchase agreement, the sellers will be entitled to receive up to an additional $16.2 million of consideration, payable in early 2008. The additional consideration under the earn-out will be equal to the amount by which the royalties generated from the Bill Blass trademarks in fiscal 2007, multiplied by 5.5, exceed $51.8 million, subject to certain adjustments. The total purchase price will not exceed $70.8 million. We expect to borrow approximately $27 million under our new credit facility, which will be secured by the assets of Bill Blass.

Acquisition of MaggieMoo's. On February 28, 2007, we acquired MaggieMoo's International, LLC ("MaggieMoo's"). The initial purchase price for this acquisition was $16.1 million, consisting of approximately $10.8 million of cash and debt repayment, and 515,352 shares of our common stock (reflecting valued at $5.3 million, based on the average closing price of our common stock for the fifteen consecutive days that ended on February 27, 2007, of $10.21). Under the purchase agreement, the sellers will be entitled to receive up to an additional $2.0 million of consideration in the form of an earn-out, payable on March 31, 2008. The earn-out will be based on the amount royalty payments earned during fiscal 2007 exceed royalty payments earned by MaggieMoo's during fiscal 2006, pursuant to a formula set forth in the purchase agreement. MaggieMoo's is the franchisor of 184 stores located in 36 states domestically. Each location features a menu of freshly made super-premium ice creams, mix-ins, smoothies, and custom ice cream cakes. This business operates in our QSR vertical.

Acquisition of Marble Slab. On February 28, 2007, we acquired the assets of Marble Slab Creamery, Inc. ("Marble Slab"). The purchase price of the acquisition was $21 million, consisting of $16 million of cash, and the issuance of

$5.0 million of notes payable which mature on February 28, 2008. The notes accrue interest at an annual rate of 6% per annum until maturity, and 8% thereafter, and are payable in cash or common stock priced at the time of issuance, at the Company's option. We have deposited $5.0 million into an escrow account to collateralize the payment of these notes. Marble Slab is the franchisor of 336 stores located in 35 states, Puerto Rico, Canada and the United Arab Emirates. Since 1983, each Marble Slab Creamery has featured homemade super-premium ice cream that is hand-rolled in freshly baked waffle cones. This business operates in our QSR vertical. We intend to borrow $19 million under the new senior credit facility entered into on March 12, 2007 secured by the assets of MaggieMoo's and Marble Slab.

We expect to borrow $19 million under our new senior credit facility, which will be secured by the assets of MaggieMoo's and Marble Slab. Assuming we borrow all of the expected amounts for the Bill Blass, MaggieMoo's and Marble Slab acquisitions, our total borrowings under our new $150 million credit facility (including the $26.5 million we borrowed for The Athlete's Foot acquisition) would be approximately $72.5 million. For a discussion of risks associated with borrowings, see *Item 1A. Risk Factors* under the caption "Risks of Our Our Current Business - Any failure to meet our debt obligations would adversely affect our business and financial condition."

6

Competition

Our brands are all subject to extensive competition by numerous domestic and foreign brands. Each of our brands has numerous competitors within each of our specific distribution channels. Our degree of success is dependent on the image of our brands to consumers and our licensees' ability to design, manufacture and sell products bearing our brands.

In seeking to make acquisitions of IP and IP-centric businesses, we compete with other companies and financial buyers (such as private equity funds). While we believe the number of competitors is currently limited, we expect that more competitors will develop over time. Competitors may be larger than us, have access to greater financial and other resources or be willing to pay higher prices in acquisitions or assume greater acquisition-related risks. See *Item 1A. Risk Factors* under the caption “Risks of Our Acquisition Strategy **-** Competition may negatively affect our ability to complete suitable acquisitions.”

The Athletes Foot. Our franchisees operate in the retail athletic footwear and apparel business which is highly competitive with relatively low barriers to entry. The principal competitive factors in these markets are price, quality, selection of merchandise, reputation, store location, advertising and customer service.

The businesses we acquired in 2007, and businesses we acquire in the future, are also subject to competitive risks and pressures, including price, quality, selection of merchandise, reputation, store location, advertising and customer service.

Historical Operations

Historical Overview

Until late 2004, we owned, acquired and operated a number of mobile and wireless communications businesses. These businesses never became profitable, and during 2004 we sold these businesses and started a mortgage-backed securities, or MBS, business. During 2004 and 2005, we assembled a leveraged portfolio of MBS investments. However, market conditions for the MBS business changed significantly during 2005 and into 2006, and the profitability of our leveraged MBS portfolio declined. In light of these changing market conditions, in late 2005 and into 2006, we began to explore additional and alternative business strategies that we thought could help us become profitable more quickly and create shareholder value. These efforts resulted in our decision to acquire UCC in June 2006. On October 31, 2006, at the 2006 Annual Meeting of Stockholders (the “Annual Meeting”), our stockholders approved the sale of our MBS portfolio for the purpose of discontinuing our MBS business and allocating all cash proceeds from such sale to the growth and development of our IP business. We sold our MBS investments in November 2006, and since that time, we have focused entirely on our IP business.

Holding Company Reorganization and Name Change

Aether Systems Inc. (“Aether Systems”), the historical entity through which we previously conducted the Mobile Government, EMS and Transportation businesses, was formed in January 1996. On July 12, 2005, the stockholders of Aether Systems approved a holding company reorganization of Aether Systems in which each share of Aether Systems common stock was exchanged for one share of common stock of Aether Holdings, Inc. (“Aether Holdings”), and Aether Systems became a wholly owned subsidiary of Aether Holdings. The reorganization was undertaken to implement restrictions on certain changes in the ownership of our common stock in an effort to protect the long-term value of our substantial net operating loss and capital loss carry forwards (as described in further detail below). In recognition of the changing business strategy of the Company, on October 31, 2006, our stockholders approved a change of our Company name from Aether Holdings to NexCen Brands. Effective November 1, 2006, we changed our “ticker” symbol, under which our common stock is traded on the Nasdaq Global Market, from “AETH” to “NEXC.”

Tax Loss Carry Forwards

As a result of the substantial losses incurred by our mobile and wireless communications businesses through 2004, as of December 31, 2006, we had federal net operating loss carry forwards of approximately $777 million that expire on various dates between 2011 and 2026. These tax loss carryforwards are generally available to offset federal income taxes. We expect to remain subject to certain state, local, and foreign tax obligations, as well as to a portion of the federal alternative minimum tax, as discussed below in *Item 1A. Risk Factors* under the caption “Risks of Our Tax Loss Carry Forwards.” In addition, we had capital loss carry forwards of approximately $251 million that expire between 2007 and 2011. If we had an ownership change as defined in Section 382 of the Internal Revenue Code of 1986, as amended (“IRC”), our net operating loss carryforwards and capital loss carry forwards generated prior to the ownership change would be subject to annual limitations, which could reduce, eliminate, or defer the utilization of these losses.

Generally, an ownership change occurs if one or more stockholders, each of whom owns 5% or more in value of a corporation's stock, increase or decrease their aggregate percentage ownership by 50% or more as compared to the lowest percentage of stock owned by such stockholders at any time during the preceding three-year period. For example, if a single stockholder owning 10% of our stock acquired an additional 50% of our stock in a three-year period, a change of ownership would occur. Similarly, if ten persons, none of whom owned our stock, each acquired slightly over 5% of our stock within a three-year period (so that such persons own, in the aggregate more than 50%) an ownership change would occur. Ownership of stock is determined by certain constructive ownership rules which can attribute ownership of stock owned by entities (such as estates, trusts, corporations, and partnerships) to the ultimate indirect owner.

For purposes of this rule, all holders who each own less than 5% of a corporation's stock are generally treated together as one (or, in certain cases, more than one) 5% stockholder. Transactions in the public markets among stockholders owning less than 5% of the equity securities generally are not included in the calculation. Special rules can result in the treatment of options (including warrants) or other similar interests as having been exercised if such treatment would result in an ownership change.

As a result of the holding company reorganization that we completed in 2005, as described above under the caption "Holding Company Reorganization and Name Change," shares of our common stock are subject to transfer restrictions contained in our certificate of incorporation. In general, the transfer restrictions prohibit any person from acquiring 5% or more of our stock without our consent. Persons who owned 5% or more of our stock prior to May 4, 2005 are permitted to sell the shares owned as of May 4, 2005 without regard to the transfer restrictions. Shares acquired by such persons after May 4, 2005 are subject to the transfer restrictions. While we expect that these transfer restrictions will help guard against a change of ownership occurring under Section 382 and the related rules, because we are using stock as consideration to make acquisitions, because we may decide (or need) to sell additional shares of our common stock in the future to raise capital for our business and because persons who held 5% or more of our stock prior to these restrictions taking effect can sell (and in some cases have sold) shares of our stock, we cannot guarantee that these restrictions will prevent a change of ownership from occurring. Our board of directors also has the right to waive the application of these restrictions to any transfer.

One of our principal business objectives is to operate profitably so that we can realize value, in the form of tax savings, from our accumulated tax loss carry forwards. The Company monitors the change in shareholdings on a monthly basis and has an outside accounting firm (other than our independent auditor) perform a quarterly analysis to determine the cumulative percent change through the end of the particular quarter. Based upon a review of past changes in our ownership, as of December 31, 2006, we do not believe that we have experienced an ownership change (as defined under Section 382) that would result in any limitation on our future ability to use these net operating loss and capital loss carry forwards. However, we can not be certain that the IRS or some other taxing authority may not disagree with our position and contend that we have already experienced such an ownership change, which would severely limit our ability to use our net operating loss carry forwards and capital loss carry forwards to offset future taxable income.

For a discussion on the risks associated with our tax loss carry forwards, please refer to *Item 1A. Risk Factors* under the caption "Risks of Our Tax Loss Carry Forwards."

Employees

As of December 31, 2006, we employed a total of 36 persons. None of our employees is covered by a collective bargaining agreement. We believe that our relations with our employees are good. As we acquire additional businesses, our employee base will increase.

General Corporate Matters

Our executive offices are located at 1330 Avenue of the Americas, 34th Floor, New York, NY 10019. Our telephone number is (212) 277-1100 and our fax number is (212) 277-1160.

Availability of Information

We maintain a website at www.nexcenbrands.com, which provides a wide variety of information on each of its brands. You may read and copy any materials we file with the Securities and Exchange Commission at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. For further information concerning the SEC's Public Reference Room, you may call the SEC at 1-800-SEC-0330. Some of this information may also be accessed on the SEC's website at www.sec.gov. We also make available free of charge, on or through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We are providing the address of our internet website solely for the information of investors. We do not intend the internet address to be an active link, and the contents of the website are not a part of this Report. We also maintain, in some cases through our licensees, sites for each of the Company's brands and operations, www.theathletesfoot.com, www.ucccapital.com and www.billblass.com.

ITEM 1A. RISK FACTORS

Investing on our common stock involves a high degree of risk. Before making an investment decision, you should carefully consider these risks as well as information we include or incorporate by reference in this prospectus. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected, and you may lose some or all of your investment.

Risks of Our Current Business

We have incurred significant losses throughout our history and may not be profitable in the future.

Since our inception, we have incurred net losses of approximately $2.5 billion. We only recently began to implement our new IP-centric business strategy. There is no assurance that we will be able to operate this new IP business profitably or to report net income in the future and realize the value of our substantial tax loss carryforwards.

Our IP-centric business is new, and we may not be successful in operating or expanding it.

We do not have an established history of acquiring IP, or IP-centric businesses, and managing IP assets and businesses. We began to implement our IP-centric business in June 2006, when we acquired UCC. Upon the closing of that acquisition, Mr. D'Loren, who was the president and chief executive officer of UCC, became our president and chief executive officer. During their tenure with UCC, Mr. D'Loren and the other members of our senior management team were involved primarily in providing banking, finance, consulting and other advisory services to IP-centric businesses. They did not own or manage an IP-centric business directly. As a result, we may encounter unanticipated difficulties or challenges as we work to implement our new business strategy. If we are unable to address and overcome such difficulties or challenges, we may not be successful with our new business strategy.