NexCen Brands, Inc.
Form 10-K
March 21, 2008

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, 2007

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 x

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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 x

The aggregate market value of the voting stock held by nonaffiliates of the registrant was $505,033,738 ($11.14 per share) as of June 30, 2007.

As of March 1, 2008, 56,616,764 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, 2007

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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 is a vertically integrated global brand management and franchising company. Our business is focused on managing, developing and acquiring intellectual property, which we refer to as IP, and IP-centric businesses operating in three segments: Consumer Branded Products, Retail Franchising and Quick Service Restaurant Franchising (which we refer to as "QSR" Franchising). We own, license, franchise and market a growing portfolio of brands including Bill Blass, Waverly, The Athlete's Foot, Shoebox New York, Great American Cookies, MaggieMoo's, Marble Slab Creamery, Pretzel Time, and Pretzelmaker. We license and franchise our brands to a network of leading retailers, manufacturers and franchisees that includes every major segment of retail distribution from the luxury market to the mass market in the United States and in over 50 countries around the world. Our franchise network consists of approximately 1,900 retail stores.

We commenced our current 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 ("The Athlete's Foot" or "TAF"). The Athlete's Foot is one of the largest athletic footwear and apparel franchisors with approximately 640 franchised units 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 ("Bill Blass"). The Bill Blass label represents timeless, modern American style.

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, having a combined total of approximately 580 franchised units. With these acquisitions NexCen entered the QSR franchising business.

In May 2007, we expanded our consumer branded products business by acquiring all of the intellectual property and license contracts related to the Waverly brand. Waverly is a premier lifestyle brand with an array of licensed home furnishings products, including fabrics, wallpapers, paint, bedding, window treatments, and decorative accessories.

In August 2007, we acquired substantially all of the assets of Pretzel Time Franchising, LLC ("Pretzel Time") and Pretzelmaker Franchising, LLC ("Pretzelmaker"), adding two hand-rolled pretzel chains with approximately 380 franchised units worldwide to our QSR franchising business.

In January 2008, we acquired the trademarks and other intellectual property of The Shoe Box, Inc. ("Shoebox") in partnership with the Camuto Group, a premier women's fashion footwear company. Shoebox is a multi-brand luxury shoe retailer based in New York with nine locations. The partnership has begun franchising the Shoebox's luxury footwear concept domestically and internationally under the Shoebox New York brand.

In January 2008, we also acquired substantially all of the assets of Great American Cookie Company Franchising, LLC and Great American Manufacturing, LLC (collectively, "Great American Cookies"). This transaction added another premium treat brand and approximately 300 franchised units to our QSR portfolio.

More detailed information about The Athlete's Foot, Bill Blass, MaggieMoo's, Marble Slab, Pretzel Time, Pretzelmaker, Shoebox, Waverly and Great American Cookies acquisitions is included below under the caption "Company Segments."

We are continuously evaluating various other potential acquisitions and are actively exploring opportunities to acquire additional IP-centric businesses.

We own the proprietary rights to a number of trademarks discussed in this report which are important to our business, including The Athlete's Foot, Bill Blass, Great American Cookies, MaggieMoo's, Marble Slab, Pretzel Time, Pretzelmaker, Shoebox New York and Waverly. 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.

Our Business

Operations and Strategy

We operate a brand management and franchising business in three segments: Consumer Branded Products, Retail Franchising and QSR Franchising. We generate revenue from licensing, franchising and other commercial arrangements with third parties who want to use our brands and associated IP, including trademarks, trade names, copyrights, franchise rights, patents, trade secrets, know-how and other similar valuable property. These third parties pay us licensing, franchising 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 geographic markets.

We receive licensing, franchising and other contractual fees that 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 sold). Accordingly, our revenues reflect both recurring and non-recurring payment streams.

We operate our brand management and franchising 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 generally do not manufacture, warehouse or distribute the branded products associated with the IP we acquire or build stores in the case of franchise operations. In connection with the recent acquisition of Great American Cookies, we do operate a cookie batter manufacturing facility, which manufactures and supplies cookie batter to our franchisees on a cost-plus-40% profit margin basis. The proprietary dough that is manufactured at the facility is considered a key factor in the product differentiation of Great American Cookies. Other than the special circumstances of the Great American Cookies franchise system, we rely on third-party licensees and other business partners to manufacture, warehouse and distribute branded products and incur the associated capital cost.

We believe that this business model mitigates much of the risks related to working capital (i.e. inventory and receivables) and capital expenditures. We also 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 Our Business.”

We leverage our brand management, franchising, marketing, and licensing expertise, as well as operational costs and infrastructure across our three operating segments. We oversee the marketing, promotion and quality control of products and services that make use of our brands. We also provide support services with respect to franchise operations through our state-of-the-art training, research, development and operations center located in Norcross, Georgia, which we call NexCen University. The following graphic provides a summary of the services that NexCen University provides across all of our franchise systems.

With NexCen University, we have consolidated the operations of all seven of our acquired franchise systems: The Athlete's Foot, MaggieMoo's, Marble Slab, Pretzel Time, Pretzelmaker, Shoebox and Great American Cookies. NexCen University was built to provide our Company with the infrastructure to operate and grow our current franchise systems and integrate additional franchise systems, all in a cost efficient manner. We believe we will be able to achieve cost savings and operational efficiencies by consolidating back office functionalities such as IT, HR, Legal, and Accounting, as well as front end drivers such as research and development, marketing and sales. We also believe that NexCen University will provide franchisees with the tools and support needed to optimize their performance in the marketplace.

Diversification and Growth

As we have built a portfolio of IP-centric businesses, we operate a business 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;
- 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).

We believe that our business also offers a multi-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 synergistically by leveraging our three operating segments.

The following graphic summarizes our three operating segments and the opportunities to cross-leverage those segments with each other.

Franchise concepts we purchased can be sold to our existing network of master franchisees who currently manage our franchise brands worldwide. Brands that we acquired can be sold through third party retail channels and channels that we own and control, allowing us to earn wholesale and retail royalties. For example, we have contracted with a third party to produce women's footwear under the Bill Blass label for sale in our Shoebox New York franchisee stores. The manufacturer of the Bill Blass shoes who sells the product to the franchisees will pay us a royalty on those sales and in turn the franchisees who sell the shoes to their retail customers also will pay us a royalty on their sales. We believe we have created a flexible operating structure that allows us in certain cases to control our distribution channels and sell our owned brands through these channels as well as third party channels.

Development of Our Brand Management and Franchising Business

We entered the brand management and franchising 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.

Since June 2006, we have acquired and integrated nine IP-centric companies, fulfilling our stated objective of acquiring 3 to 5 businesses or significant IP assets per year. We have also been (and expect to continue to be) in active discussions with other potential acquisition candidates. We intend to maintain our objective of 3 to 5 acquisitions per year in 2008 and 2009, with transaction sizes generally in excess of $50 million total enterprise value.

We maintain a highly disciplined pricing approach to acquisitions. We have acquired and plan to acquire consumer branded products companies at transaction multiples that range from 4.5 to 5.5 times royalties. For franchise concepts, our target range has been and will be from 3.0 to 4.5 times revenues. We believe this approach has enabled us to make accretive acquisitions, 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, as well as risks associated with our ability to gain access to additional funding for acquisitions, see *Item 1A. Risk Factors* under the captions "Risk of Our Business" and "Risks of Our Acquisition Strategy."

Company Segments

Consumer Branded Products

The brands that comprise our Consumer Branded Products segment are as follows:

Bill Blass

Founded by William Ralph Blass in 1970, Bill Blass defines timeless style and modern American fashion. From its inception, the Bill Blass brand has offered modern, sophisticated and tailored clothing. The internationally recognized Bill Blass brand provides contemporary apparel, home furnishings, and accessories for the discerning consumer.

On February 15, 2007, we acquired Bill Blass Holding Co., Inc. and two affiliated businesses. 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, 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). To finance the acquisition, we borrowed approximately $27 million under our BTMU Credit Facility, which was secured by the acquired assets.

Waverly

Launched in 1923, Waverly is a premier home fashion and lifestyle brand and one of the most recognized names in home furnishings. Its signature look is expertly translated into countless classic styles among home furnishing products including fabrics, wall coverings, paint, bedding, window treatments and decorative accessories. Waverly is available through retailers and interior design showrooms in over 7,000 doors nationwide. Its family of brands consists of Waverly, Waverly Home, Waverly Home Classics, Waverly Baby, Waverly Sun N Shade, Gramercy and Village.

On May 2, 2007, we completed the acquisition of all of the intellectual property and license contracts related to the Waverly brand products and services. The aggregate purchase price for the assets was $34.0 million paid in cash. We also paid $2.75 million in cash and issued a 10-year warrant to purchase 50,000 shares of our common stock to Ellery Homestyles, LLC, an existing Waverly licensee, to cancel the right of first refusal held by Ellery to acquire the Waverly brand. The exercise price of the warrant is $12.43 per share, which was the closing price of our common stock on the day prior to the issuance of the warrant. To finance the acquisition, we borrowed $22 million under the BTMU Credit Facility, secured by the acquired assets.

Retail Franchising

The brands that comprise our Retail Franchising segment are as follows:

The Athlete's Foot (TAF)

The Athlete's Foot (TAF) is the world's first franchisor of athletic footwear stores and is recognized today as a world leader in athletic footwear franchising. Robert and David Lando opened the first The Athlete's Foot store in 1971 in Pittsburgh, Pennsylvania. It was the first athletic footwear specialty store of its kind in the United States. Soon thereafter, The Athlete's Foot began franchising domestically, with the first store opening in Oshkosh, Wisconsin. The first international franchise store opened in 1978 in Adelaide, Australia. TAF now has approximately 640 retail locations in over 40 countries.

On November 7, 2006, we 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 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), 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 our senior credit facility with BTMU Capital Corporation (the "BTMU 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."

In June 2007, we launched a global re-branding effort for TAF. With a mission focused on meeting the needs of athletes every day, we are reinvigorating the 37 year-old brand with an innovative new modular merchandising system, new in-store design, a modernized company logo, and a line of TAF branded apparel.

Shoebox New York

Since 1954, Shoebox has been one of New York's top multi-brand retailers for women's luxury footwear, handbags and accessories. Known for its vast product assortment and trend-setting styles, the Shoebox offers women the latest fashions from top European and American designers such as Jimmy Choo, Stuart Weitzman, D&G, Giuseppe Zanotti, Marc Jacobs, Chloé, Casadei, Salvatore Ferragamo, and Michael Kors.

We, in partnership with the Camuto Group, acquired the trademarks and other intellectual property of The Shoe Box, Inc. on January 15, 2008 for the total purchase price of $1.3 million. Our partnership with the Camuto Group brings together our management experience of owning and operating The Athlete's Foot, a global retail footwear franchise system, with Camuto Group's experience in design, sourcing and branding women's shoes. The partnership has begun franchising the Shoebox's luxury, multi-brand footwear concept domestically and internationally under the Shoebox New York brand.

Quick Service Restaurant (QSR) Franchising

The brands that comprise our QSR Franchising segment are as follows:

MaggieMoo's

Each MaggieMoo's Treatery features a menu of freshly made super-premium ice creams, mix-ins, smoothies, sorbets and custom ice cream cakes. MaggieMoo's has been consistently awarded The National Ice Cream Retailers Association's prestigious Blue Ribbon Award for taste, texture and overall appearance of its most popular flavors. MaggieMoo's is the franchisor of approximately 190 stores located across the United States.

On February 28, 2007, we acquired MaggieMoo's International, LLC. The initial purchase price for this acquisition was $16.1 million, consisting of approximately $10.8 million of cash and debt repayment and $5.3 million in our common stock (approximately 515,000 shares which were valued at $10.21 per share, the average closing price our common stock for the fifteen consecutive days that ended on February 27, 2007). Pursuant to the purchase agreement, the sellers will receive additional consideration in the form of an earn-out, if certain revenue thresholds are met for 2007, which is payable on March 31, 2008.

Marble Slab

Marble Slab Creamery is a purveyor of super-premium hand-mixed ice cream. All Marble Slab Creamery ice cream is made in small batches in franchise locations using the finest ingredients in the world and served in freshly baked waffle cones. Marble Slab has an international presence with approximately 390 locations in the United States, Canada and the United Arab Emirates.

On February 28, 2007, we acquired the assets of Marble Slab Creamery, Inc. The purchase price of the acquisition was $21 million, consisting of $16 million of cash, and the issuance of a total of $5.0 million of notes that matured and became payable on February 28, 2008. The notes accrued interest at an annual rate of 6% per annum until maturity, and 8% thereafter. On February 28, 2008, we paid the former owner of Marble Slab a total of $3,710,767 representing the full $3.5 million principal amount of the first note and $210,767 of accrued interest. As permitted by the terms of the second note for $1.5 million, we did not pay the note or the accrued interest thereon because we asserted indemnity claims in excess of $2 million under the asset purchase agreement. The former owner of Marble

Slab has disputed our indemnity claims. We cannot predict whether we will be successful in collecting on our claims. Until these claims are resolved, a total of $1,596,107 million of our cash will remain in escrow as collateral for payments owned under the second note, and interest will continue to accrue on the unpaid amounts not ultimately recovered pursuant to indemnification claims at the rate of 8% per annum.

To finance the acquisition, we borrowed $19 million under the BTMU Credit Facility, secured by the assets of MaggieMoo's and Marble Slab.

Pretzel Time and Pretzelmaker

Pretzel Time and Pretzelmaker introduced their famous soft pretzel in 1991 and have grown to become among the leaders in the soft pretzel category. Pretzelmaker and Pretzel Time specialize in offering steaming hot, freshly-baked, fresh twisted pretzels, pretzel dogs, freshly squeezed lemonade and cold beverages. Pretzel Time has approximately 190 stores located domestically and in Panama, Guatemala, Trinidad and Jordan. Pretzelmaker stores can be found in approximately 190 locations in the United States, Canada and Guam.

On August 7, 2007, we acquired substantially all of the assets of Pretzel Time Franchising, LLC and Pretzelmaker Franchising, LLC for the purchase price of approximately $30.0 million, consisting of $22.0 million in cash and $7.3 million in our common stock (approximately one million shares which were valued at $7.35 per share, the closing price per share of our common stock on the day immediately prior to the closing date). To finance the acquisition, we borrowed $16 million under the BTMU Credit Facility, secured by the acquired assets.

Great American Cookies

Founded in 1977 on the strength of an old family chocolate chip cookie recipe, Great American Cookies has set the standard for gourmet cookie sales in shopping centers nationwide. With a strategy and quality product that has propelled over 30 years of growth, Great American Cookies now leads as the mall-based cookie system with approximately 300 franchised units primarily located in the continental United States.

On January 29, 2008, we acquired substantially all of the assets of Great American Cookie Company Franchising, LLC and Great American Manufacturing, LLC for the purchase price of approximately $93.65 million, consisting of $89 million in cash and $4.65 million of our common stock (approximately 1.1 million shares which were valued at $4.23 per share, the closing price per share of our common stock the day immediately prior to the closing date. To finance the acquisition, we borrowed $70 million under the BTMU Credit Facility, which was increased from $150 million to $181 million at that time.

Our total borrowing to date under the BTMU Credit Facility is approximately $181 million. Repayments of our borrowings through December 31, 2007 totaled $1.2 million. For a discussion of risks associated with borrowings, see *Item 1A. Risk Factors* under the caption "Risks of Our Business - Any failure to meet our debt obligations would adversely affect our business and financial condition."

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. Each is subject to competitive risks and pressures, including price, quality and selection of merchandise, reputation, store location, advertising and customer service. 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. See *Item 1A. Risk Factors* under the caption "Risks of Our Business - Our business depends on market acceptance of our brands in highly competitive markets."

In seeking to make acquisitions of IP and IP-centric businesses, we compete with other companies and financial buyers (such as private equity funds). 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."

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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, 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 brand management and franchising business. We sold our MBS investments in November 2006, and since that time, we have focused entirely on our brand management and franchising 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 predecessor businesses through 2004, as of December 31, 2007, we had federal net operating loss carry forwards of approximately $782 million that expire on various dates between 2011 and 2026. These tax loss carry forwards 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 $188 million that expire between 2008 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 carry forwards 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, we cannot guarantee that these restrictions will prevent a change of ownership from occurring 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. Our Board of Directors also has the right to waive the application of these restrictions to any transfer.

One of our important 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, 2007, 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 cannot 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, 2007, we employed a total of 107 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 may 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 our 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 also maintain, in some cases through our licensees, sites for each of the Company's brands and operations, www.theathletesfoot.com, www.billblass.com, www.greatamericancookies.com, www.maggiemoos.com, www.marbleslab.com, www.pretzeltime.com, www.pretzelmaker.com, www.shoeboxny.com, and www.waverly.com. 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 links, and the contents of these websites are not incorporated into, and do not constitute a part of, this Report.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks along with the other information contained in this Annual Report on Form 10-K. All of the following risks could materially and adversely affect our business, financial condition or results of operations. In addition to the risks discussed below and elsewhere in this Annual Report on 10-K, other risks and uncertainties not currently known to us or that we currently consider immaterial could, in the future, materially and adversely affect our business, financial condition and financial results.

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Risks of Our Business

Acquisitions involve numerous risks that we may not be able to address or overcome and that may negatively affect our business and financial results.

We have built our brand management and franchising business through acquisitions. Our recent acquisitions may not deliver the value we paid or will pay for them. Excessive expenses may result if we do not successfully integrate them, or if the costs and management resources we expend in connection with the integrations exceed our expectations. We expect that our recent acquisitions, and any acquisitions, investments or strategic alliances that we may pursue in the future, will have a continuing, significant impact on our business, financial condition and operating results. The value of the companies that we acquired or may in the future acquire may be less than the amount we paid or will pay, and our financial results may be adversely affected if we fail to realize anticipated benefits from our acquisitions, including various synergies and economies of scope and scale. Risks associated with our past and future acquisitions include, among others:

- overpaying for acquired assets or businesses;
- being unable to license, market or otherwise exploit IP that we acquire on anticipated terms or at all;
- negative effects on reported results of operations from acquisition-related expenses, amortization or impairment of acquired intangibles and impairment of goodwill;
- diversion of management's attention from management of day-to-day operational issues;
- failing to maintain focus on, or ceasing to execute, core strategies and business plans as our brand portfolio grows and becomes more diversified;
- failing to achieve synergies across our diverse brand portfolio;
- failing to acquire or hire additional successful managers, or being unable to retain critical acquired managers;
- potential adverse effects of a new acquisition on an existing business or business relationship;
- failing to integrate acquired businesses with our existing businesses due to unanticipated costs and difficulties, which may disrupt our existing businesses or delay or diminish our ability to realize financial and operational benefits from those acquisitions; and
- underlying risks of the businesses that we acquire, which may differ from one acquisition to the next, including those related to entering new lines of business or markets in which we have little or no prior experience.

We may be unable to increase profitability unless we can identify and acquire IP and IP-centric businesses on favorable terms.

Our ability to achieve our business objective of increasing profitability may depend on our ability to identify and acquire suitable acquisitions on favorable terms, so that we can increase our revenues and our operating income. If we are unable to complete additional acquisitions on favorable terms, the expenses associated with our brand management and franchising business may be disproportionate to our revenues. There is no assurance that we will be able to complete any future acquisitions or that such transactions, if completed, will contribute positively to our operations and financial results and condition.

Our ability to grow through the acquisition of additional IP assets and business will depend on the availability of capital to complete acquisitions.

We financed our acquisitions of The Athlete's Foot, Bill Blass, Great American Cookies, MaggieMoo's, Marble Slab, Pretzel Time, Pretzelmaker, and Waverly with a combination of cash and equity. We intend to finance many of our future IP acquisitions through a combination of available cash, bank or other institutional financing, and issuances of equity and possibly debt securities. As of March 14, 2008, we had approximately $19 million of cash on hand (excluding restricted cash) after borrowing $181 million under the BTMU Credit Facility, which we entered into on March 12, 2007 and which was amended on January 29, 2008 to increase the maximum amount of borrowing that may be outstanding thereunder at any one time from $150 million to $181 million. There is no assurance that we will be able to secure borrowings in the future to fund acquisitions, either on terms that we consider reasonable or at all. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, we face limitations on the number of shares of equity that we can issue without triggering limitations on our future ability to use our substantial accumulated tax loss carry forwards. Under certain circumstances, these limitations (if triggered) could significantly or, under certain circumstances, totally reduce the future value of our tax loss carry forwards (assuming we are able to generate taxable income that would benefit from the use of the tax loss carry forwards).

As a result of these factors, we may lack access to sufficient capital to complete acquisitions that we identify and want to complete. In such a case, our inability to complete acquisitions could have a material adverse effect on our business, our financial results and the trading price of our common stock.

We are dependent upon our president and chief executive officer, Robert W. D'Loren. If we lose Mr. D'Loren's services, we may not be able to successfully implement our brand management and franchising business strategy.

Although we have established a corporate structure and hired personnel with expertise in franchise and brand management, the successful implementation of our business strategy remains dependent upon the efforts of Mr. D'Loren, our president and chief executive officer. Mr. D'Loren is the person primarily responsible for conceiving of and implementing our brand management and franchising business strategy. Although we have an employment agreement with Mr. D'Loren that runs through June 2009, there is no guarantee that he will remain employed by us throughout the term or thereafter. If he ceases to work with us, or if his services are reduced, we will need to identify and hire other qualified executives, and we may not be successful in finding or hiring adequate replacements. This could impede our ability to fully implement our brand management and franchising business strategy, which would harm our business and prospects.

Any failure to meet our debt obligations would adversely affect our business and financial condition.

On March 12, 2007, we entered into a $150 million master loan agreement with BTMU Capital Corporation ("BTMU"). In connection with the financing of our acquisition of Great American Cookies on January 29, 2008, we increased the maximum amount of borrowing that may be outstanding at any one time from $150 million to $181 million and modified certain defined terms used in the original loan documentation and related documents to take into account the Company's acquisition of real estate assets in the Great American Cookies transaction. With the exception of these changes, the increase to the BTMU Credit Facility is substantially on the same terms as the original credit facility.

As of March 14, 2008, we have approximately $179 million of long-term debt outstanding under the master loan agreement with BTMU. Interest rates for our master loan agreement vary based upon changes in the debt service coverage ratio, which is the outstanding balance compared to operating revenue of the underlying collateral, and based changes in the London Interbank Offering Rate ("LIBOR").

Our master loan agreement contains affirmative and negative covenants customary for senior secured credit facilities, including, among other things, restrictions on indebtedness, liens, fundamental changes, loans, acquisitions, capital expenditures, restricted payments, transactions with affiliates, common stock repurchases, dividends and other payment restrictions affecting subsidiaries and sale leaseback transactions. Although these covenants are limited to the collateral-holding entities and do not apply to the Company itself, our failure to comply with the financial and other restrictive covenants relating to our indebtedness could result in a default under the indebtedness, which could materially adversely affect our business, financial condition and results of operations. These restrictions may also limit our ability to operate our businesses and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise.

As a result of our indebtedness, a substantial portion of cash flow from our operations is needed to pay principal and interest. This reduces the cash available to finance our operations and other business activities and could limit our flexibility in planning for or reacting to changes in our business. Although the master loan agreement does not restrict our ability to obtain future financings, it may limit our ability to do so, which could negatively impact our business, financial condition, results of operations and growth. The amount of our debt may also cause us to be more vulnerable to economic downturns and adverse developments in our business.

Our business depends on market acceptance of our brands in highly competitive markets.

Continued market acceptance of our brands is critical to our future success and subject to great uncertainty. The retail franchising, consumer branded products and QSR franchising business segments in which we operate and on which we expect to focus our acquisition activities are extremely competitive, both in the United States and overseas. Accordingly, we and our current and future licensees, franchisees and other business partners face and will face intense and substantial competition with respect to marketing and expanding products and services under our brands. As a result, we may not be able to attract licensees, franchisees and other business partners on favorable terms or at all. In addition, licensees, franchisees and other third parties with whom we deal may not be successful in selling products and services that make use of our brands. They (and we) also may not be able to expand the distribution of such products and services into new markets.

In general, competitive factors include quality, price, style, name recognition and service. In addition, the presence in the marketplace of short-lived “fads” and the limited availability of shelf space can affect competition for many consumer products. Changes in consumer tastes, discretionary spending priorities, demographic trends, traffic patterns and the type, number and location of competing products and outlets also can affect market results. Competing trademarks and brands may have the backing of companies with greater financial, distribution, marketing, capital and other resources than we or our licensees and other business partners do. This may increase the obstacles that we and they face in competing successfully. Among other things, we may have to spend more on advertising and marketing or may need to reduce the amounts that we charge licensees and other business partners. This could have a negative impact on our business and financial results.

Deterioration of general economic conditions and declines in consumer spending can negatively affect our business.

Our business is sensitive to consumer spending patterns and preferences. Market and general economic conditions affect the level of discretionary spending on the merchandise we, our licensees and our franchisees offer, including general business conditions, interest rates, taxation, the availability of consumer credit and consumer confidence in future economic conditions. Any unfavorable occurrences in these economic conditions on a local, regional, national or multi-national level may adversely affect our growth, sales and profitability. Given the significance of our domestic business, the likely negative impact of a recession in the general economy in the United States or a general decline in domestic consumer spending may not be wholly mitigated by our business outside the United States.

Many of our franchisees’ stores are located in shopping malls, particularly in the United States. Our franchisees derive revenue, in part, from the high volume of traffic in these malls. The inability of mall *"anchor"* tenants and other area attractions to generate consumer traffic around our franchised stores or the decline in popularity of malls as shopping destinations could reduce our licensing and franchising revenue dependent on sales volume.

Because we rely on unaffiliated third parties to market, distribute, sell and in some cases design products and services using our brands under license, the success of our business may depend upon various factors that are beyond our control.

Substantially all of our earnings come from royalties generated from licensees, franchisees and similar contractual relationships involving our IP. Licensees, franchisees and other business partners are independent operators, and we do not exercise day-to-day control over any of them. As a result, our business faces a number of risks, including the following:

- Products using our IP are generally manufactured by third party licensees, either directly or through third-party manufacturers on a subcontract basis. All manufacturers have limited production capacity, and the ones with whom we work (directly or indirectly) may not, in all instances, be able to satisfy manufacturing requirements for our (and our licensees’) products.

- We provide limited training and support to franchisees. Consequently, franchisees may not successfully operate their businesses in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel.

- While we will try to ensure that our licensees and other business partners maintain a high quality of products and services that use our IP, they may take actions that adversely affect the value of our IP or our business reputation.

We operate a global business that exposes us to additional risks that may negatively affect our results of operations and financial condition.

Our franchisees operate in over 50 countries. In addition, the brands and other IP assets that we own and manage are currently used, and in the future are expected to be used, for products and services that will be advertised and sold in many different countries. As a result, we are subject to risks associated with doing business globally. We intend to continue to pursue growth opportunities for our IP business outside the United States, which could expose us to greater risks. The risks associated with our IP business outside the United States include:

- Political and economic instability or civil unrest;
- Armed conflict, natural disasters or terrorism;
- Health concerns or similar issues, such as a pandemic or epidemic;
- Multiple foreign regulatory requirements that are subject to change and that differ between jurisdictions;

- Changes in trade protection laws, policies and measures, and other regulatory requirements effecting trade and investment;
- Differences from one country to the next in legal protections applicable to IP assets, including trademarks and similar assets, enforcement of such protections and remedies available for infringements;
- Fluctuations in foreign currency exchange rates and interest rates; and
- Adverse consequences from changes in tax laws.

The effects of these risks, individually or in the aggregate, could have a material adverse impact on our brand management and franchising business.

Our failure to protect our proprietary rights could decrease the value of those assets.

We own a combination of trademarks, copyrights, franchise rights, service marks, trade secrets and similar intellectual property rights. The success of our brand management and franchising business will depend in part on our ability to license our intellectual property for use by third parties in selling various products and services and developing brand and product awareness in new geographic and product markets. Although much of our intellectual property is protected by registration or other legal rules in the United States, in some cases registration may not be in place or available, particularly outside of the United States. In some cases, third parties may be using similar trademarks or other intellectual property in certain countries, and we may not be able to use certain of our intellectual property in those countries.

We monitor on an ongoing basis unauthorized use and filings for registrations that conflict with our trademarks and other intellectual property rights. We rely primarily upon a combination of trademark, copyright, know-how, trade secrets laws and contractual restrictions to protect our intellectual property rights. We believe that such measures afford only limited protection and, accordingly, there can be no assurance that actions taken in the past, or that we take in the future, to establish and protect our proprietary rights will be adequate to prevent infringement by others, or prevent a loss of revenue or other damages. In addition, the laws of some countries do not protect intellectual property rights to the same extent as the laws of the United States.

We may be required to spend significant time and money on protecting or defending our intellectual property rights.

We may from time to time be required to institute litigation to enforce legal protections that we believe apply to our intellectual property, including to protect our trade secrets. Such litigation could result in substantial costs and diversion of resources and could negatively affect our sales, profitability and prospects, regardless of whether we are able to successfully enforce our rights. In addition, to the extent that any of our intellectual property is deemed to violate the proprietary rights of others, we could be prevented from using it, which could cause a termination of licensing and other commercial arrangements. This would adversely affect our revenues and cash flow. We also could be required to defend litigation brought against us, which can be costly and time-consuming. It could also result in a judgment or monetary damages being levied against us.

The acquisition of IP assets and IP-centric businesses resulted in our recording a material amount of goodwill and other intangible assets on our balance sheet. If we are required to write down a portion of this goodwill and other intangible assets, our financial results would be adversely affected.

As a result of our acquisition strategy, we recorded a material amount of good will and other identifiable intangible assets with indefinite lives on our balance sheet. We will not amortize goodwill. We may not be able to realize the full

fair value of intangible assets with indefinite lives and goodwill from our acquisitions. We will evaluate on at least an annual basis whether all or a portion of identifiable intangible assets and goodwill and intangible assets may be impaired. Any write-down of intangible assets or goodwill resulting from future periodic evaluations would decrease our net income, and those decreases could be material.

Material weaknesses in disclosure controls and procedures and internal control over financial reporting of the businesses we acquire could adversely impact our ability to provide timely and accurate financial information.

The integration of acquisitions includes ensuring that our disclosure controls and procedures and our internal control over financial reporting effectively apply to and address the operations of newly acquired businesses. While we have made every effort to thoroughly understand any acquired entity's business processes, our planning for proper integration into our company can give no assurance that we will not encounter operational and financial reporting difficulties impacting our controls and procedures. As a result, we may be required to change our disclosure controls and procedures or our internal control over financial reporting to accommodate newly acquired operations, and we may also be required to remediate historic weaknesses or deficiencies at acquired businesses. Our review and evaluation of disclosure controls and procedures and internal controls of the companies we have acquired may take time and require additional expense, and if they are not effective on a timely basis could adversely affect our business and the market's perception of our company.

Risks of Our Acquisition Strategy

Competition may negatively affect our ability to complete suitable acquisitions.

We face competition for acquisitions. Existing and future competitors may be larger than us and have access to greater financial and other resources. As a result, acquisitions may become more expensive, and we may face greater difficulty in identifying suitable acquisition candidates on terms that we believe will make sense. If we are unable to expand our business by completing acquisitions on favorable terms, our financial results may be negatively affected.

The market price of our common stock has been, and may continue to be, volatile, which could reduce the market price of our common stock and, among other things, make it more expensive and difficult for us to complete acquisitions using our stock as consideration.

Since we announced the acquisition of UCC and the hiring of Mr. D'Loren, the trading price of our common stock has experienced significant price and volume fluctuations. This market volatility could reduce the market price of our common stock, regardless of our operating performance. In addition, the trading price of our common stock could change significantly over short periods of time in response to actual or anticipated variations in our quarterly operating results, announcements by us or by third parties on whom we rely or against whom we compete, factors affecting the markets in which we do business or changes in national or regional economic conditions. The market price of our common stock also could be reduced by general market price declines or market volatility in the future or future declines or volatility in the prices of stocks for companies against whom we compete or companies in the industries in which our licensees compete. If our stock price declines, sellers of IP and IP-centric businesses may be less willing to accept shares of our common stock as consideration for a portion of future acquisitions. In addition, if sellers are willing to accept shares of our common stock, we may be required to issue additional shares to complete acquisitions, which would make acquisitions more dilutive to our stockholders. The volatility in the price of our common stock may also limit our ability to pursue equity sales as a financing strategy.

Shares eligible for future resale by our current stockholders may depress our share price.

We issued a large number of shares of our common stock and securities convertible into common stock in connection with the acquisitions of UCC, The Athlete's Foot, Bill Blass, MaggieMoo's, Waverly, Pretzel Time, Pretzelmaker and Great American Cookies. We have agreed to register for public resale substantially all of the shares issued in these acquisitions. In registration statements filed with the SEC on September 15, 2006 and May 4, 2007, we registered the resale of 10,728,191 shares of our common stock related to the UCC, The Athlete's Foot, Bill Blass, MaggieMoo's, and Waverly acquisitions. We also have a registration statement pending with the SEC to register the resale of 3,697,671 shares of our common stock related to the Pretzel Time and Pretzelmaker acquisitions and an earn-out related to the UCC acquisition and we are required under the terms of our acquisition of Great American Cookies to register the resale of an additional 1,399,290 shares of our common stock. Additionally, we may issue shares of our common stock in future acquisitions and become obligated to register additional shares. Although some of the shares that we registered are subject to contractual restrictions on resale (as we discuss in our filings), the resale of substantial amounts of our common stock in the public markets could have an adverse effect on the market price of our common stock. Such an adverse effect on the market price of our common stock would make it more difficult for us to sell our shares in the future at prices which we deem appropriate or to use our shares as currency for future acquisitions.

Risks of Our Tax Loss Carry Forwards

If we experience an ownership change, our ability to realize value from our tax loss carry forwards could be significantly limited.

As of December 31, 2007**,** we had federal net operating loss carry forwards of approximately $782 million that expire between 2011 and 2026. In addition, we had capital loss carry forwards of approximately $188 million that expire between 2008 and 2011. If we had an “ownership change” as defined in Section 382 of the Internal Revenue Code, our net operating loss carry forwards 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. Based upon a review of past changes in our ownership, as of December 31, 2007, 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 cannot assure you 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.

While we expect that the transfer restrictions on our stockholders approved and adopted in July 2005 will help guard against an ownership change occurring under Section 382 and the related rules, we cannot guarantee that these restrictions will prevent a change of ownership from occurring because we are using stock as consideration to make acquisitions, and 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 more than 5% of our stock prior to these restrictions taking effect can sell (and in some cases have sold) shares of our stock.

We may not be able to use our tax loss carry forwards because we may not generate taxable income.

The use of our net operating loss carry forwards is subject to uncertainty because it is dependent upon the amount of taxable income we generate. Similarly, the extent of our actual use of our capital loss carry forwards is also subject to uncertainty because their use depends on the amount of capital gains we generate. There can be no assurance that we will have sufficient taxable income (or capital gains) in future years to use the net operating loss carry forwards or capital loss carry forwards before they expire. This is especially true for our capital loss carry forwards, because they expire over a shorter period of time than our net operating loss carry forwards.

The IRS could challenge the amount of our tax loss carry forwards.

The amount of our net operating loss carry forwards and capital loss carry forwards has not been audited or otherwise validated by the IRS. The IRS could challenge the amount of our net operating loss carry forwards and capital loss carry forwards, which could result in an increase in our liability for income taxes. In addition, calculating whether an ownership change has occurred is subject to uncertainty, both because of the complexity and ambiguity of Section 382 and because of limitations on a publicly traded company’s knowledge as to the ownership of, and transactions in, its securities. Therefore, we cannot assure you that the calculation of the amount of our net loss carry forwards may not be changed as a result of a challenge by a governmental authority or our learning of new information about the ownership of, and transactions in, our securities.

We expect to be subject to state, local and foreign taxes, as well as the alternative minimum tax. Our net loss carry forwards would not offset the alternative minimum tax in its entirety.

We will continue to be subject to state, local, and foreign taxes. As a result of our capital loss carry forwards and net operating loss carry forwards, we anticipate our federal income tax liability over the next several years will be reduced substantially. However, we expect to be subject to the alternative minimum tax provisions of the Internal Revenue Code which limits the use of net operating loss carry forwards. These provisions would result, in effect, in 10% of our alternative minimum taxable income being subject to the 20% alternative minimum tax assessed on corporations. This amounts to a 2% effective tax rate on our alternative minimum taxable income.

The IRS may seek to impose the accumulated earnings tax on some or all of the taxable income we retain.

We expect to retain all or a substantial portion of future earnings over the next several years to finance the development and growth of our IP business. As a result, we may not declare or pay any significant dividends on shares of our common stock for an extended period. If the IRS believed we were accumulating earnings beyond our reasonable business needs, the IRS could seek to impose an accumulated earnings tax, or AET, of 15% on our accumulated taxable income. We do not believe that we will be subject to the AET due to various reasons, including the existence of our large deficit in accumulated earnings and profits. However, the IRS may disagree with us on this point, and the IRS may attempt to impose the AET on all or a portion of our taxable income. In such event, we would expect to challenge any attempt by the IRS to impose the AET on our business, but the outcome of such a challenge is uncertain.

If we distributed our accumulated taxable income for each year to our stockholders as dividends, we would not be subject to the AET for the amounts so distributed, but would be subject to the AET only for the amount of earnings retained. If we paid dividends to stockholders out of current earnings, these dividends would, generally speaking, be eligible to be treated as "qualified dividends" for federal income tax purposes, taxed at the current maximum federal rate of 15%, assuming that the recipient stockholder met the various requirements under the Internal Revenue Code for such treatment. The maximum rate for qualified dividends is currently projected to increase to the maximum federal income tax rate applicable to ordinary income (currently 35%) for tax years beginning after December 31, 2010 in accordance with the Jobs and Growth Tax Relief Reconciliation Act of 2003, as amended by the Tax Increase Prevention and Reconciliation Act of 2005.

Limits on ownership of our common stock could have an adverse consequence to you and could limit your opportunity to receive a premium on our stock.

As noted above, it is important that we avoid an ownership change under Section 382 of the Internal Revenue Code, in order to retain the ability to use our net operating loss carry forwards and capital loss carry forwards to offset future income. Under transfer restrictions that have been applicable to our common stock since 2005, no one is permitted to acquire 5% or more of our stock without the consent of our Board of Directors. In addition, even if our Board of Directors consented to a significant stock acquisition, a potential buyer might be deterred from acquiring our common stock while we still have significant tax losses being carried forward, because such an acquisition might trigger an ownership change and severely impair our ability to use our tax losses against future income. Thus, this potential tax situation could have the effect of delaying, deferring or preventing a change in control and, therefore, could affect adversely our shareholders' ability to realize a premium over the then prevailing market price for our common stock in connection with a change in control.

The transfer restrictions that apply to shares of our common stock, although designed as a protective measure to avoid an ownership change, may have the effect of impeding or discouraging a merger, tender offer or proxy contest, even if such a transaction may be favorable to the interests of some or all of our shareholders. This effect might prevent our stockholders from realizing an opportunity to sell all or a portion of their common stock at a premium to the prevailing market price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2007, we leased a total of approximately 49,500 square feet of office space for our operations. Our principal executive office totals 10,250 square feet and is located in New York, New York. Our Waverly showroom totals 7,150 square feet, and our Bill Blass showroom totals 11,700 square feet. These showrooms are both located in New York, New York. Our retail franchising and QSR brands are centralized in one facility totaling approximately 20,400 square feet located in Norcross, Georgia. We believe that our facilities are adequate for the purposes for which they are presently used and that replacement facilities are available at comparable cost, should the need arise.

We are also obligated under a lease for space in Marlborough, Massachusetts that we used for the Mobile Government business that we sold in 2005. We have sublet this office space to BIO-Key International, Inc., the company that purchased the Mobile Government business ("BIO-Key"). In addition, we assumed leases for office space in connection with our acquisitions of MaggieMoo's and Marble Slab which we no longer use. We have negotiated a settlement of the MaggieMoo's lease for a one-time payment of $330,000 which was made in January 2008. We have sublet the Marble Slab office in Houston, Texas to a third party through the lease expiration in April 2009.

On January 29, 2008, in connection with the acquisition of Great American Cookies, we acquired a cookie dough manufacturing facility. The facility is located on approximately four acres of land in Atlanta, Georgia and totals 37,400 square feet. The acquisition of the cookie dough manufacturing facility was financed under our BTMU Credit Facility and consequently is subject to BTMU's security interest.

As we acquire additional businesses, we expect to own or lease additional office space. Such additions may come through assuming leases of businesses we acquire, purchasing property owned by acquired businesses as part of the acquisitions, or entering into new leases either to consolidate operations in multiple locations or to accommodate the needs of our business as it expands. We do not own or lease property used by our franchisees, but in connection with

certain acquisitions we have become obligated under guarantees for certain franchise location leases.

ITEM 3. LEGAL PROCEEDINGS

IPO Litigation. NexCen is among the hundreds of defendants named in a series of class action lawsuits seeking damages due to alleged violations of securities law. The case is being heard in the United States District Court for the Southern District of New York. The court has consolidated the actions by all of the named defendants that actually issued the securities in question. There are approximately 310 consolidated cases before Judge Scheindlin, including this action, under the caption *In Re Initial Public Offerings Litigation*, Master File 21 MC 92 (SAS).

As to NexCen, these actions were filed on behalf of persons and entities that acquired the Company's stock after its initial public offering in October 20, 1999. Among other things, the complaints claim that prospectuses, dated October 20, 1999 and September 27, 2000 and issued by NexCen in connection with the public offerings of common stock, allegedly contained untrue statements of material fact or omissions of material fact in violation of securities laws. The complaint alleges that the prospectuses allegedly failed to disclose that the offerings' underwriters had solicited and received additional and excessive fees, commissions and benefits beyond those listed in the arrangements with certain of their customers, which were designed to maintain, distort and/or inflate the market price of the Company's common stock in the aftermarket. The actions seek unspecified monetary damages and rescission. NexCen believes the claims are without merit and is vigorously contesting these actions.

After initial procedural motions and the start of discovery in 2002 and 2003, the plaintiffs voluntarily dismissed without prejudice the officer and director defendants of each of the 310 named issuers, including NexCen. Then in June 2003, the Plaintiff's Executive Committee announced a proposed settlement with the issuer-defendants, including NexCen, and the officer and director defendants of the issuers (the "Issuer Settlement"). A settlement agreement was signed in 2004 and presented to the District Court for approval. The proposed Issuer Settlement did not include the underwriter-defendants, and they continued to defend the actions and objected to the proposed settlement. (One of the defendant-underwriters signed a memorandum of understanding in April 2006 agreeing to a $425 million settlement of claims against it.) Under terms of the proposed Issuer Settlement, NexCen has a reserve of $465,000 for its estimated exposure.

The District Court granted preliminary approval of the proposed Issuer Settlement in 2005 and held a fairness hearing on the matter in April 2006. In December 2006, before final action by the District Court on the proposed Issuer Settlement, the U.S. Court of Appeals for the Second Circuit issued a ruling vacating class certification for certain plaintiffs in the actions against the underwriter-defendants (the "Miles Decision"). Plaintiffs filed a petition in early 2007 seeking rehearing of this decision and/or a rehearing en banc. On April 6, 2007, the Second Circuit denied the petition for rehearing in an opinion. After careful consideration by the parties of the effect of the Miles Decision on the proposed settlement (i.e., whether in light of the Miles Decision no class may be certified in these actions, even a settlement class), plaintiffs and the issuer-defendants executed a stipulation and proposed order terminating the proposed Issuers' Settlement on June 22, 2007. The district court "so ordered" the stipulation and proposed order, terminating the proposed Issuers' Settlement shortly thereafter.

Discovery in the actions has resumed, and plaintiffs filed amended complaints in the focus cases shortly thereafter. Defendants have moved to dismiss the amended complaints. Plaintiffs have also filed motions for class certification in the focus cases. Defendants have filed papers opposing class certification. Neither the motion to dismiss nor the motion for class certification has been ruled upon by the Court.

Transportation Business Sale. On March 13, 2006, a complaint, captioned *Geologic Solutions, Inc., v. Aether Holdings, Inc.,* was filed against the Company in the Supreme Court for the State of New York, New York County. The complaint alleged that plaintiff Geologic was damaged as a result of certain alleged breaches of contract and fraudulent inducement arising out of NexCen's alleged misrepresentations and failure to disclose certain information in connection with the asset purchase agreement dated as of July 20, 2004 for the purchase and sale of our Transportation business. In July 2007, the Company settled all claims with the plaintiff for a payment of $600,000. The case has been

dismissed with prejudice. The Company's costs in connection with the defense of this case have been recorded against discontinued operations, further increasing the loss on the sale of the Transportation segment, and decreasing the amount of cash we have available for acquisitions and operations. The settlement amount has also been recorded against discontinued operations.

Legacy UCC Litigation. UCC and Mr. D'Loren in his capacity as president of UCC are parties along with unrelated parties to litigation resulting from a default on a loan to The Songwriter Collective, LLC ("TSC"), which UCC had referred to a third party. A shareholder of TSC filed a lawsuit in the U.S. District Court for the Middle District of Tennessee, captioned *Tim Johnson v. Fortress Credit Opportunities I, L.P., et al.,* in which the plaintiff alleged that certain misrepresentations by TSC and its agents (including UCC and D'Loren) induced the shareholder to contribute certain rights to musical compositions to TSC. UCC and Mr. D'Loren filed cross-claims claiming indemnity against TSC and certain TSC officers. TSC filed various cross and third-party claims against UCC, Mr. D'Loren and another TSC shareholder, Annie Roboff. Roboff filed a separate action in the Chancery Court in Davidson County, Tennessee, captioned *Roboff v. Mason, et al.*, as well as claims in the federal court lawsuit, against UCC, Mr. D'Loren, TSC and the other parties. The parties reached a global settlement on December 19, 2007, with UCC contributing a total of $125,000 to the settlement amount, which amount has been included in discontinued operations. The case has been dismissed with prejudice.

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Other. The Company and its subsidiaries are subject to other litigation in the ordinary course of business, including contract, franchisee, trademark and employment-related litigation. In the course of operating its franchise systems and enforcing its rights under existing and former franchisee agreements, we are also subject to complaints, letters threatening litigation and law suits, particularly in cases involving defaults and terminations of franchises.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our common stock has been quoted on the Nasdaq Global Market under the symbol NEXC since November 1, 2006. Prior to that time, the symbol AETH had been used, starting with our initial public offering on October 20, 1999. The following table sets forth, for the periods indicated, the high and low prices per share of the common stock as reported on the Nasdaq Global Market.

	2007		2006	
QUARTER ENDED	**HIGH**	**LOW**	**HIGH**	**LOW**
March 31	$ 11.04	$ 7.42	$ 3.85	$ 3.13
June 30	$ 12.98	$ 9.98	$ 5.50	$ 3.75
September 30	$ 11.41	$ 5.56	$ 6.33	$ 5.54
December 31	$ 7.37	$ 3.89	$ 7.42	$ 5.71

APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

The number of stockholders of record of NexCen's common stock as of February 29, 2008 was 352.

DIVIDENDS

We have never declared or paid any cash dividends on our capital stock or, when we were organized as a limited liability company, did we make any distributions to our members. For the period that our accumulated tax loss carry forwards remain available for use, we expect to retain earnings, if any, to support the development of our business, rather than pay periodic cash dividends. Our Board of Directors may reconsider or change this policy in the future. Payment of future dividends, if any, will be at the discretion of our Board of Directors, after taking into account such factors as it considers relevant, including our financial condition, the performance of our business, the perceived benefits to the Company and our stockholders of re-investing earnings, anticipated future cash needs of our business, the tax consequences of retaining earnings and the tax consequences to the Company and its stockholders of making dividend payments.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Plan Category	Plan Name	Number of securities to be issued upon exercise of outstanding options, and restricted stock	Weighted-average exercise price of outstanding options, and restricted stock	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1999 Equity Incentive Plan	3,964,064	$ 4.40	—
	2006 Equity Incentive Plan	1,973,666	$ 7.34	1,526,334
Equity compensation plans not approved by security holders	Acquisition Incentive Plan	89,127	$ 2.71	—
Total		6,026,857	$ 5.34	1,526,334

The 1999 Equity Incentive Plan (the “1999 Plan”) provides for the issuance of NexCen common stock, pursuant to grants of stock options or restricted stock, in an amount equal to 20% of the Company’s outstanding shares. On September 2, 2005, the Company filed a registration statement with the Securities and Exchange Commission on Form S-8 registering an additional 973,866 shares under the 1999 Plan.

The Acquisition Incentive Plan (the “2000 Plan”) was effective December 15, 2000. Grants under the 2000 Plan may be made to all employees, consultants and certain other service providers (other than directors and executive officers) of the Company. Under the 2000 Plan, NexCen’s Board of Directors has authorized the issuance of up to 1,900,000 shares of NexCen common stock in connection with the grant of stock options or restricted stock. All options granted under the 2000 Plan must be nonqualified stock options. Any shares covered by an award that are used to pay the exercise price or any required withholding tax will become available for re-issuance under the plan. In the event of a “change of control” as such term is defined in the 2000 Plan, awards of restricted stock and stock options will become fully vested or exercisable, as applicable, to the extent the award agreement granting such restricted stock or options provides for such acceleration. (Individuals receive an award agreement upon grant of an award under the 2000 Plan.) A participant will immediately forfeit any and all unvested options and forfeit all unvested restricted stock at the time of termination from NexCen, unless the award agreement provides otherwise. No participant may exercise vested options after the 90th day from the date of termination from NexCen, unless the award grant provides otherwise.

Effective October 31, 2006, the Company adopted the 2006 Plan to replace the 1999 Plan and the 2000 Plan. The Company’s stockholders approved the adoption of the 2006 Plan at the Annual Meeting held on October 31, 2006. The 2006 Plan is now the sole plan for providing stock-based compensation to eligible employees, directors and consultants. The 1999 Plan and the 2000 Plans will remain in existence solely for the purpose of addressing the rights of holders of existing awards already granted under those plans. No new awards will be granted under the 1999 Plan

and the 2000 Plan. A total of 3.5 million shares of common stock are initially reserved for issuance under the 2006 Plan, which represented approximately 7.4% of NexCen's outstanding shares at the time of adoption. Options under the 2006 Plan expire after ten years and are granted at an exercise price no less than the fair value of the common stock on the grant date.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table presents shares surrendered by employees to exercise stock options and to satisfy tax withholding obligations on vested restricted stock and stock option exercises.

Period	Total Number of Shares Purchased	Average Price Paid for Shares	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans and Programs
January 1 - January 31, 2007	-	-	-	-
February 1 - February 28, 2007	-	-	-	-
March 1 - March 31, 2007	-	-	-	-
April 1 - April 30, 2007	-	-	-	-
May 1 - May 31, 2007	-	-	-	-
June 1 - June 30, 2007	4,000	$ 3.75	-	-
July 1 - July 31, 2007	-	-	-	-
August 1 - August 31, 2007	-	-	-	-
September 1 - September 30, 2007	-	-	-	-
October 1 - October 31, 2007	-	-	-	-
November 1 - November 30, 2007	-	-	-	-
December 1 - December 31, 2007	2,000	$ 3.75	-	-
Total	6,000	$ 3.75	-	-

ITEM 6. SELECTED FINANCIAL DATA

The table that follows presents portions of our Consolidated Financial Statements and is not a complete presentation in accordance with U.S. generally accepted accounting principles. You should read the following Selected Financial Data together with our Consolidated Financial Statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Report. The historical results presented below are not necessarily indicative of the results to be expected for any future fiscal year.

The results of operations in the following Selected Financial Data, as well as in our Consolidated Financial Statements, present the results of our brand management and franchising business as continuing operations. We began operating this business in 2006, but we owned only one of our nine brands in 2006 (and only for the last seven weeks of that fiscal year). In fiscal 2007, we acquired six additional brands. We acquired two of our current nine brands in January 2008. The results of the mobile and data communications business that we sold during 2004 and the mortgage-backed securities business that we sold in 2006 are reported as discontinued operations. Loss from continuing operations does not include any financial results of these discontinued operations. As a result of the reclassification of our former businesses to discontinued operations, these results differ from the results that we presented in reporting periods prior to the fourth quarter of 2006.

	YEAR ENDED DECEMBER 31,				
	2007	2006	2005	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Royalty revenues	$ 15,289	$ 1,175	$ —	$ —	$ —
Franchise fee revenues	3,464	749	—	—	—
Licensing revenues	15,542	—	—	—	—
Total revenues	34,295	1,924	—	—	—
Total operating expenses	(32,105)	(10,413)	(5,241)	(14,643)	(21,796)
Operating income (loss)	2,190	(8,489)	(5,241)	(14,643)	(21,796)
Total non-operating income (loss)	(2,950)	3,337	1,690	(10,000)	(3,900)
Loss from continuing operations before taxes	(760)	(5,152)	(3,551)	(24,643)	(25,696)
Income taxes:				—	—
Current	(236)	(81)	—	—	—
Deferred	(3,067)	—	—	—	—
Loss from continuing operations	(4,063)	(5,233)	(3,551)	(24,643)	(25,696)
Income (loss) from discontinued operations, net of tax expense of $64 and $75 for 2006 and 2003, respectively	(586)	2,358	225	(44,510)	(23,756)
Gain (loss) on sale of discontinued operations	—	755	(1,194)	20,825	—
Net loss	$ (4,649)	$ (2,120)	$ (4,520)	$ (48,328)	$ (49,452)
Loss per share (basic and diluted) from continuing operations	$ (0.08)	$ (0.11)	$ (0.08)	$ (0.57)	$ (0.60)
Income (loss) per share (basic and diluted) from discontinued operations	(0.01)	0.07	(0.02)	(0.54)	(0.56)
Net loss per share - basic and diluted	$ (0.09)	$ (0.04)	$ (0.10)	$ (1.11)	$ (1.16)
Weighted average shares outstanding - basic and diluted	51,889	45,636	44,006	43,713	42,616
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents (including restricted cash of $7 and $1 million in 2007 and 2006, respectively)	$ 53,275	$ 84,834	$ 9,725	$ 69,555	$ 39,682
Investments available for sale - discontinued operations	$ —	$ —	$ —	$ —	$ 220,849
Trademarks and goodwill	$ 278,048	$ 64,607	$ —	$ —	$ —

Mortgage-backed securities, at fair value, discontinued operations	$ —	$ —	$ 253,900	$ 62,184	$ —
Total assets	$ 359,207	$ 158,385	$ 266,008	$ 136,586	$ 398,105
Repurchase agreements related to discontinued operations	$ —	$ —	$ 133,924	$ —	$ —
Total debt	$ 109,578	$ —	$ —	$ —	$ 154,942
Stockholders' equity	$ 192,813	$ 146,613	$ 126,387	$ 130,590	$ 179,301

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the results of operations and financial condition of NexCen Brands, Inc. should be read in conjunction with the information contained in the Consolidated Financial Statements and related Notes, which appear in Item 8 of this Report.

OVERVIEW

NexCen Brands is a vertically integrated global brand management and franchising company. Our business is focused on managing, developing and acquiring IP and IP-centric businesses, operating in three vertical segments: consumer branded products, retail franchising and QSR franchising. We own, license, franchise and market a growing portfolio of brands. We license and franchise our brands to a network of leading retailers, manufacturers and franchisees that includes every major segment of retail distribution from the luxury market to the mass market in the United States and in over 50 countries around the world. Our franchise network consists of approximately 1,900 retail stores. We discuss our business, our operating strategy, our three business segments and our brands in detail in Item 1 of this Report.

We commenced our current business in June 2006 when we acquired UCC Capital Corporation. 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.

We generate revenue from licensing, franchising and other commercial arrangements with third parties who want to use our brands and associated IP, including trademarks, trade names, copyrights, franchise rights, patents, trade secrets, know-how and other similar valuable property.

These third parties pay us licensing, franchising 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 demographic and/or geographic markets.

We receive licensing, franchising and other contractual fees that 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 sold). Accordingly, our revenues reflect both recurring and non-recurring payment streams. Our revenue represents a relatively small percentage of the revenue of our licensees and franchisees (typically a 6% royalty). Our revenue depends upon our ability to negotiate successful licensing and franchising arrangements for our acquired brands, our ability to expand our franchised business and the ability of our licensees and franchisees to sell products and services that make use of our IP (which will entitle us to receive fees and royalties from them).

Our principal assets are intangible assets (the trademarks and other IP assets and associated goodwill related to the brands and businesses that we acquire, manage and develop) and our people. We do not expect to have substantial tangible assets, as our business model is not designed to require significant capital investment in tangible assets.

Through March 17, 2008, we have acquired nine brands, as follows:

Brand Management:
Consumer Branded Products

- Bill Blass (acquired February 15, 2007)
- Waverly (acquired May 2, 2007)

Franchise Management:
Retail Franchising

- The Athlete's Foot (acquired November 7, 2006)
- Shoebox (acquired January 15, 2008)

QSR franchising

- MaggieMoo’s (acquired February 28, 2007)
- Marble Slab (acquired February 28, 2007)
- Pretzel Time (acquired August 7, 2007)
- Pretzelmaker (acquired August 7, 2007)
- Great American Cookies (acquired January 29, 2008)

Our operating segments are discussed in *Note 23-Segment Reporting* to our *Consolidated Financial Statements* included in this Report. Because we owned only one brand in 2006 (and then only for the last seven weeks of that year) and did not operate in our current three business segments until the first quarter of 2007, we do not include any discussion of period-to-period comparisons for the results of our three business segments in the discussion that follows.

We are continuously evaluating additional potential acquisitions and are actively exploring opportunities to acquire additional IP-centric businesses. However, as of the date of this Report, we have not entered into any binding agreements to complete any additional acquisitions.

Before transitioning to our current business, we managed a leveraged portfolio of MBS. We liquidated our MBS portfolio and exited that business in the fourth quarter of 2006. We also previously owned and operated various mobile and wireless communications businesses, which we sold in 2004. For the periods reflected in our financial statements, the MBS business and related assets and liabilities, as well as anything related to our former mobile and wireless communications businesses, are reported as discontinued operations. The results of our brand management and franchising business are reported as our continuing operations.

In reviewing our results for the year ended December 31, 2007, you should keep in mind the following factors:

- Comparisons to prior periods are not yet meaningful, because we did not initiate our current business strategy until the second half of 2006 and did not begin to earn royalties or license and franchise fees until halfway through the fourth quarter of 2006, when we acquired The Athlete’s Foot.
-