

CHEROKEE INC  
Form 10-Q  
June 09, 2016  
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended April 30, 2016.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period From            to            .

Commission file number 0-18640

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CHEROKEE INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of Incorporation or organization)

95-4182437  
(IRS employer identification  
number)

5990 Sepulveda Boulevard, Sherman Oaks, CA  
(Address of principal executive offices)

91411  
Zip Code

Registrant's telephone number, including area code (818) 908-9868

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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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer      Accelerated filer

Non-accelerated filer      Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date.

| Class                                   | Outstanding at June 3, 2016 |
|---|-----------------------------|
| Common Stock, \$.02 par value per share | 8,720,012                   |

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CHEROKEE INC.

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## PART 1. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## CHEROKEE INC.

## CONSOLIDATED BALANCE SHEETS

Unaudited

(amounts in thousands, except share and per share amounts)

|  | April 30,<br>2016 | January<br>30<br>2016 |
|--|-------------------|-----------------------|
| Assets   |                   |                       |
| Current assets:  |                   |                       |
| Cash and cash equivalents  | \$ 5,099          | \$ 6,534              |
| Receivables  | 10,892            | 7,365                 |
| Income taxes receivable  | 223               | 707                   |
| Prepaid expenses and other current assets  | 460               | 425                   |
| Total current assets   | 16,674            | 15,031                |
| Intangible assets, net   | 52,984            | 53,195                |
| Deferred tax asset   | 1,001             | 1,136                 |
| Property and equipment, net  | 1,068             | 1,151                 |
| Other assets   | 36                | 35                    |
| Total assets   | \$ 71,763         | \$ 70,548             |
| Liabilities and Stockholders' Equity   |                   |                       |
| Current liabilities:   |                   |                       |
| Accounts payable and other accrued payables  | \$ 2,479          | \$ 2,195              |
| Current portion of long term debt  | 8,471             | 8,456                 |
| Deferred revenue—current   | 464               | 479                   |
| Accrued compensation payable   | 720               | 891                   |
| Total current liabilities  | 12,134            | 12,021                |
| Long term liabilities:   |                   |                       |
| Long term debt   | 12,939            | 15,068                |
| Other non-current  | 1,402             | 1,388                 |
| Total liabilities  | 26,475            | 28,477                |
| Commitments and Contingencies (Note 4)   |                   |                       |
| Stockholders' Equity   |                   |                       |
| Preferred stock, \$.02 par value, 1,000,000 shares authorized, none issued and outstanding | —                 | —                     |
|  | 174               | 174                   |

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Common stock, \$.02 par value, 20,000,000 shares authorized, 8,720,012 shares issued and outstanding at April 30, 2016 and 8,720,012 issued and outstanding at January 30, 2016

|  |           |           |
|--|-----------|-----------|
| Additional paid-in capital                 | 28,458    | 27,822    |
| Retained earnings                          | 16,656    | 14,075    |
| Total stockholders' equity                 | 45,288    | 42,071    |
| Total liabilities and stockholders' equity | \$ 71,763 | \$ 70,548 |

See the accompanying notes which are an integral part of these consolidated financial statements.

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CHEROKEE INC.

## CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(amounts in thousands, except per share amounts)

|   | Three Months Ended |                |
|---|--------------------|----------------|
|   | April 30,<br>2016  | May 2,<br>2015 |
| Royalty revenues  | \$ 10,678          | \$ 10,230      |
| Selling, general and administrative expenses                                    | 6,176              | 4,230          |
| Amortization of intangible assets   | 226                | 210            |
| Operating income  | 4,276              | 5,790          |
| Other income (expense):   |                    |                |
| Interest expense  | (197)              | (176)          |
| Income before income taxes  | 4,079              | 5,614          |
| Income tax provision  | 1,498              | 2,043          |
| Net income  | \$ 2,581           | \$ 3,571       |
| Net income per common share attributable to common stockholders:                |                    |                |
| Basic earnings per share  | \$ 0.30            | \$ 0.42        |
| Diluted earnings per share  | \$ 0.29            | \$ 0.41        |
| Weighted average common shares outstanding attributable to common stockholders: |                    |                |
| Basic   | 8,720              | 8,565          |
| Diluted   | 8,833              | 8,761          |

See the accompanying notes which are an integral part of these consolidated financial statements.

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CHEROKEE INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(amounts in thousands)

|                            | Three Months<br>Ended |                |
|----------------------------|-----------------------|----------------|
|                            | April 30,<br>2016     | May 2,<br>2015 |
| Net income                 | \$ 2,581              | \$ 3,571       |
| Other comprehensive income | —                     | —              |
| Comprehensive income       | \$ 2,581              | \$ 3,571       |

See the accompanying notes which are an integral part of these consolidated financial statements.

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CHEROKEE INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Unaudited

(amounts in thousands)

|                             | Common Stock |           | Additional         | Retained  | Total     |
|-----------------------------|--------------|-----------|--------------------|-----------|-----------|
|                             | Shares       | Par Value | Paid-in<br>Capital | Earnings  |           |
| Balance at January 30, 2016 | 8,720        | \$ 174    | \$ 27,822          | \$ 14,075 | \$ 42,071 |
| Stock-based compensation    | —            | —         | 636                | —         | 636       |
| Net income                  | —            | —         | —                  | 2,581     | 2,581     |
| Balance at April 30, 2016   | 8,720        | \$ 174    | \$ 28,458          | \$ 16,656 | \$ 45,288 |

See the accompanying notes which are an integral part of these consolidated financial statements.

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CHEROKEE INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(amounts in thousands)

|  | Three Months Ended<br>April 30, 2016 | May 2, 2015 |
|--|--------------------------------------|-------------|
| Operating activities:  |                                      |             |
| Net income   | \$ 2,581                             | \$ 3,571    |
| Adjustments to<br>reconcile net income<br>to net cash provided<br>by operating activities: |                                      |             |
| Depreciation   | 127                                  | 96          |
| Amortization of<br>intangible assets   | 226                                  | 210         |
| Deferred income taxes  | 135                                  | 31          |
| Stock-based<br>compensation  | 636                                  | 332         |
| Excess tax benefit<br>from share-based<br>payment arrangements                             | —                                    | (151)       |
| Other, net   | 21                                   | (1)         |
| Changes in operating<br>assets and liabilities:  |                                      |             |
| Receivables  | (3,527)                              | (3,141)     |
| Prepays and other<br>current assets  | (35)                                 | (23)        |
| Income taxes<br>receivable and<br>payable, net   | 484                                  | 1,763       |
| Accounts payable and<br>other accrued payables   | 280                                  | 254         |
| Deferred revenue   | 3                                    | 67          |
| Accrued compensation   | (171)                                | (783)       |
| Net cash provided by<br>operating activities   | 760                                  | 2,225       |
| Investing activities:  |                                      |             |
|  | (15)                                 | (15)        |

|  |         |       |         |       |
|--|---------|-------|---------|-------|
| Purchases of trademarks, including registration and renewal cost |         |       |         |       |
| Purchase of property and equipment                               | (44)    |       | (174)   |       |
| Net cash used in investing activities                            | (59)    |       | (189)   |       |
| Financing activities:  |         |       |         |       |
| Payments of JPMorgan Term Loan                                   | (2,136) |       | (1,836) |       |
| Proceeds from exercise of stock options                          | —       |       | 927     |       |
| Excess tax benefit from share-based payment arrangements         | —       |       | 151     |       |
| Net cash used in financing activities                            | (2,136) |       | (758)   |       |
| Increase (decrease) in cash and cash equivalents                 | (1,435) |       | 1,278   |       |
| Cash and cash equivalents at beginning of period                 | 6,534   |       | 7,581   |       |
| Cash and cash equivalents at end of period                       | \$      | 5,099 | \$      | 8,859 |
| Cash paid during period for:                                     |         |       |         |       |
| Income taxes   | \$      | 894   | \$      | 371   |
| Interest   | \$      | 180   | \$      | 163   |

See the accompanying notes which are an integral part of these consolidated financial statements.

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CHEROKEE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except percentages, share and per share amounts)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of April 30, 2016 and for the three month periods ended April 30, 2016 and May 2, 2015 have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and Article 10 of Regulation S-X. These consolidated financial statements include the accounts of Cherokee Inc. (“Cherokee” or the “Company”) and its consolidated subsidiaries and have not been audited by independent registered public accountants, but include all adjustments, consisting of normal recurring accruals, which in the opinion of management of Cherokee are necessary for a fair statement of the Company’s financial position and the results of operations for the periods presented. All material intercompany accounts and transactions have been eliminated during the consolidation process. The accompanying consolidated balance sheet as of January 30, 2016 has been derived from audited consolidated financial statements, but does not include all disclosures required by GAAP for an audited balance sheet. The results of operations for the three month period ended April 30, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending January 28, 2017 or for any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

As used herein, the term “First Quarter” or “Three Months” refers to the three months ended April 30, 2016; the term “Fiscal 2017” refers to the fiscal year ending January 28, 2017; the term “Fiscal 2016” refers to the fiscal year ending January 30, 2016; and the term “Fiscal 2015” refers to fiscal year ended January 31, 2015.

(2) Summary of Significant Accounting Policies

Receivables

Receivables are reported at amounts the Company expects to be collected, net of allowance for doubtful accounts.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based upon its assessment of various factors, such as: historical experience, age of accounts receivable balances, credit quality of the Company's licensees or franchisees, current economic conditions, bankruptcy, and other factors that may affect the Company's licensees' or franchisees' ability to pay. There was no allowance for doubtful accounts as of April 30, 2016 or January 30, 2016.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued new guidance relating to revenue from contracts with customers that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the Financial Accounting Standards Board deferred the effective date of this guidance for all entities by one year. As a result, this guidance is effective for fiscal periods beginning after December 15, 2017. The anticipated impact of the adoption of this guidance on the Company's consolidated financial statements is still being evaluated.

In November 2015, the Financial Accounting Standards Board issued authoritative guidance which modifies the balance sheet classification for deferred tax liabilities and assets to be classified as noncurrent in a statement of financial position. This guidance is effective for fiscal periods beginning after December 15, 2016, and allows for full retrospective adoption, with early adoption permitted. The Company has early adopted this guidance, which is reflected in the Company's consolidated financial statements and related disclosures.

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In March 2016, the Financial Accounting Standards Board issued authoritative guidance which modifies existing guidance for off-balance sheet treatment of a lessees' operating leases. This guidance is effective for fiscal periods beginning after January 1, 2019 and allows for early adoption. The anticipated impact of the adoption of this guidance on the Company's financial statements is still being evaluated.

In March 2016, the Financial Accounting Standards Board issued authoritative guidance which simplifies accounting for employee share-based payments. This guidance is effective for fiscal periods beginning after December 15, 2016 and allows for early adoption. The anticipated impact of the adoption of this guidance on the Company's financial statements is still being evaluated.

### Use of Estimates

On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, impairment of long-lived assets, contingencies and litigation, stock-based compensation and income taxes. The Company bases its estimates on historical and anticipated results, trends and on various other assumptions that it believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ materially from these estimates.

### Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased and money market funds purchased with an original maturity date of three months or less to be cash equivalents. At April 30, 2016 and January 30, 2016, the Company's cash and cash equivalents exceeded Federal Deposit Insurance Corporation ("FDIC") limits.

### Revenue Recognition and Deferred Revenue

The Company recognizes revenue when persuasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, the buyer's price is fixed or determinable and collection is reasonably assured. Revenues from royalty and brand representation agreements are recognized when earned by applying contractual royalty rates to quarterly point of sale data received from the Company's licensees. The Company's royalty recognition policy provides for recognition of royalties in the quarter earned.

The Company's agreement with Target Corporation ("Target") covering sales of Cherokee branded products in the U.S. accounts for the majority of the Company's historical revenues and, for most such products, is structured to provide royalty rate reductions once certain cumulative levels of retail sales are achieved by Target. With respect to Target's sales in the U.S. of Cherokee branded products other than in the school uniforms category and adult products sold on Target's website, revenue is recognized by applying the reduced contractual royalty rates prospectively to point of sale data after defined sales thresholds are exceeded. The royalty rate reductions do not apply retroactively to sales since the beginning of the fiscal year. As a result, the Company's historical royalty revenues as a percentage of Target's retail

sales in the U.S. are highest at the beginning of each fiscal year and decrease during the fiscal year as Target exceeds sales thresholds as set forth in the Company's agreement with Target. The amount of Cherokee brand royalty revenue earned by the Company from Target in any quarter is dependent not only on Target's retail sales of Cherokee branded products in the U.S. in each quarter, but also on the royalty rate then in effect after considering Target's cumulative level of retail sales for most Cherokee branded products in the U.S. for the fiscal year. Historically, with Target, this has caused the Company to record its highest revenues and profits in its first quarter and its lowest revenues and profits in its fourth quarter. However, such historical patterns may vary in the future depending upon the terms of any new license agreements, retail sales volumes achieved in each quarter from Target and revenues the Company receives that are not subject to reduced royalty rates based upon cumulative sales.

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In order to ensure that Cherokee’s licensees are appropriately reporting and calculating royalties owed to Cherokee, all of Cherokee’s license agreements include audit rights to allow Cherokee to validate the amount of the royalties paid. Any revenue resulting from these audits, or other audits, is recognized in the financial statements of the current reporting period.

Revenues from arrangements involving license fees, up-front payments and milestone payments, which are received or billable by the Company in connection with other rights and services that represent continuing obligations of the Company, are deferred and recognized in accordance with the license agreement. Deferred revenues also represent minimum licensee revenue royalties paid in advance of the culmination of the earnings process, the majority of which are non-refundable to the licensee. Deferred revenues will be recognized as revenue in future periods in accordance with the license agreement.

Franchise revenues includes royalties and franchise fees. Royalties from franchisees are based on a percentage of net sales of the franchisee and are recognized as earned. Initial franchise fees are recorded as deferred revenue when received and are recognized as revenue when a franchised location commences operations, as all material services and conditions related to the franchise fee have been substantially performed upon the location opening. Renewal franchise fees are recognized as revenue when the franchise agreements are signed and the fee is paid, since there are no material services and conditions related to these franchise fees.

Foreign Withholding Taxes

Licensing revenue is recognized gross of withholding taxes that are remitted by the Company’s licensees directly to their local tax authorities.

Deferred Financing Costs and Debt Discount

Deferred financing costs and debt discounts are capitalized and amortized into interest expense over the life of the debt.

Property and Equipment

Property and equipment consist of the following:

| (amounts in thousands) | April 30, 2016 | January 30, 2016 |
|------------------------|----------------|------------------|
| Computer Equipment     | \$ 583         | \$ 561           |

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|                                |          |          |
|--------------------------------|----------|----------|
| Software                       | 79       | 79       |
| Furniture and Fixtures         | 1,729    | 1,706    |
| Leasehold Improvements         | 436      | 436      |
| Less: Accumulated depreciation | (1,759)  | (1,631)  |
| Property and Equipment, net    | \$ 1,068 | \$ 1,151 |

Property and equipment are stated at cost, less accumulated depreciation. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of property and equipment sold or retired are written off, and the resulting gains or losses are included in current operations. Depreciation is provided on a straight line basis over the estimated useful life of the related asset.

Computers and related equipment and software are depreciated over three years. Furniture and store fixtures are depreciated over the shorter of seven years, or the remaining term of the corresponding license agreement. Leasehold improvements are depreciated over the shorter of five years, or the remaining life of the lease term. Depreciation expense was \$127 for the three month period ended April 30, 2016 and \$96 for the three month period ended May 2, 2015, respectively.

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## Earnings Per Share Computation (amounts in thousands, including share amounts)

The following table provides a reconciliation of the numerator and denominator of the basic and diluted per-share computations for the three month periods ended April 30, 2016 and May 2, 2015:

|  | Three Months Ended |             |
|--|--------------------|-------------|
|  | April 30, 2016     | May 2, 2015 |
| Numerator:   |                    |             |
| Net income-numerator for net income per common share and net income per common share assuming dilution | \$ 2,581           | \$ 3,571    |
| Denominator:   |                    |             |
| Denominator for net income per common share — weighted average shares                                  | 8,720              | 8,565       |
| Effect of dilutive securities:   |                    |             |
| Stock options  | 113                | 196         |
| Denominator for net income per common share, assuming dilution:  |                    |             |
| Adjusted weighted average shares and assumed exercises   | 8,833              | 8,761       |

The computation for the diluted number of shares excludes unexercised stock options that are anti-dilutive. There were 674 shares underlying anti-dilutive stock options for the three month period ended April 30, 2016, and 35 shares underlying anti-dilutive stock options for the three month period ended May 2, 2015.

Basic earnings per share (“EPS”) is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is similar to the computation for basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued.

## Significant Contracts

The terms of the Company’s relationship with Target are set forth in a restated license agreement with Target, which was entered into effective as of February 1, 2008 and amended (i) on January 31, 2013 to add the category of school uniforms, (ii) on April 3, 2013 to provide for a fixed royalty rate of 2% for sales of Cherokee branded products in the category of adult merchandise sold on Target’s website (target.com) beginning in Fiscal 2015 and (iii) on January 6, 2014 to reflect Target’s election to renew the agreement through January 31, 2017 and to provide that Target can renew the agreement for successive two (2) year periods, provided that it satisfies the minimum annual royalty payment of \$10,500 for the preceding fiscal year (the “Restated Target Agreement”). The Restated Target Agreement grants Target

the exclusive right in the United States to use the Cherokee trademarks in various specified categories of merchandise. In September 2015, Target informed the Company that the Restated Target Agreement would not be renewed and will terminate at the end of its current term, which expires January 31, 2017 (except with respect to Cherokee branded products in the school uniforms category will expire at the end of its current term on January 31, 2018). The Restated Target Agreement, including the existing royalty obligations, will remain in effect and continue to generate revenues to Cherokee until its expiration.

Under the terms of the Restated Target Agreement, Target's minimum annual royalty payment is \$10,500 and applies to all sales made by Target in the United States, other than sales of Cherokee branded products in the school uniforms category (which products are subject to a separate minimum annual royalty payment of \$800). Under the Restated Target Agreement, Target has agreed to pay royalties based on a percentage of Target's net sales of Cherokee branded merchandise during each fiscal year, which percentage varies according to the volume of sales of merchandise other than sales of Cherokee branded products in the school uniforms category and, beginning in Fiscal 2015, other than sales of Cherokee branded products in the adult merchandise category that are made on Target's website. The Company assumed a separate license agreement with Target for the Liz Lange brand in connection with the Company's acquisition of the applicable assets in September 2012. Our relationship with Target for the Liz Lange brand has been renewed through January 31, 2018.

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In connection with the acquisition of the “Hawk” and “Tony Hawk” signature apparel brands and related trademarks in January 2014, Cherokee and Kohl’s Illinois, Inc. (“Kohl’s”) entered into an amended license agreement. Pursuant to the license agreement, Kohl’s is granted the exclusive right to sell Tony Hawk and Hawk branded apparel and related products in the United States for a four-year term and has agreed to pay Cherokee an annual royalty rate for its sales of Hawk branded signature apparel and related products in the United States, subject to a minimum annual royalty payment of \$4,800.

## Stock-Based Compensation

Effective July 16, 2013, the Company’s stockholders approved the 2013 Stock Incentive Plan (the “2013 Plan”). The 2013 Plan serves as the successor to the 2006 Incentive Award Plan (which includes the 2003 Incentive Award Plan as amended by the adoption of the 2006 Incentive Award Plan) (the “2006 Plan”). The 2013 Plan authorized to be issued (i) 700,000 additional shares of common stock, and (ii) 102,483 shares of common stock previously reserved but unissued under the 2006 Plan. No future grants will be awarded under the 2006 Plan, but outstanding awards previously granted under the 2006 Plan continue to be governed by its terms. Any shares of common stock that are subject to outstanding awards under the 2006 Plan which are forfeited, terminate or expire unexercised and would otherwise have been returned to the share reserve under the 2006 Plan will be available for issuance as common stock under the 2013 Plan. The 2013 Plan provides for the issuance of equity-based awards to officers, other employees, and directors.

## Stock Options

Stock options issued to employees are granted at the market price on the date of grant, generally vest over a three-year period, and generally expire seven to ten years from the date of grant. The Company issues new shares of common stock upon exercise of stock options. The Company has also granted non-plan stock options to certain executives as a material inducement for employment. The Company accounts for stock options under authoritative guidance, which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees and directors based on estimated fair values.

The Company estimates the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the consolidated statements of income. The compensation expense recognized for all stock-based awards is net of estimated forfeitures over the award’s service period.

Stock-based compensation expense recognized in selling, general and administrative expenses for stock options for the Three Months was \$295, as compared to \$178 for the three months ended May 2, 2015.

A summary of activity for the Company's stock options for the Three Months is as follows:

|  | Shares    | Weighted<br>Average<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value |
|--|-----------|------------------------------|---|---------------------------------|
| Outstanding, at January 30, 2016         | 1,113,003 | \$ 17.50                     | 4.06  | 1,339                           |
| Granted                                  | —         | \$ —                         |   |                                 |
| Exercised                                | —         | \$ —                         |   |                                 |
| Canceled/forfeited                       | —         | \$ —                         |   |                                 |
| Outstanding, at April 30, 2016           | 1,113,003 | \$ 17.50                     | 3.81  | 1,074                           |
| Vested and Exercisable at April 30, 2016 | 640,826   | \$ 15.58                     | 2.44  | 790                             |

As of April 30, 2016, total unrecognized stock-based compensation expense related to non-vested stock options was approximately \$1,741, which is expected to be recognized over a weighted average period of approximately 1.93 years. The total fair value of all options that vested during the Three Months was \$319.

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## Performance Stock Units and Restricted Stock Units

In April 2016, the Compensation Committee of the Company's board of directors granted certain performance-based equity awards, which are sometimes referred to as performance stock units, to executives under the 2013 Plan.

The performance metric applicable to such awards is compound stock price growth, using the closing price of the Company's common stock on April 5, 2016, or \$16.89, as the benchmark. The target growth rate is 10% annually, which results in an average share price target of (i) \$18.58 for Fiscal 2017, (ii) \$20.44 for Fiscal 2018 and (iii) \$22.48 for Fiscal 2019. The average share price will be calculated as the average of all market closing prices during the January preceding the applicable fiscal year end. If a target is met at the end of a fiscal year, one third of the shares subject to the award will vest. If the stock price target is not met at the end of a fiscal year, the relevant portion of the shares subject to the award will not vest but will roll over to the following fiscal year. The executive must continue to be employed by the Company through the relevant vesting dates to be eligible for vesting.

Since the vesting of these performance-based equity awards is subject to market based performance conditions, the fair value of these awards was measured on the date of grant using the Monte Carlo simulation model for each vesting tranche. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the performance conditions stipulated in the award and calculates the fair market value for the performance stock units granted. The Monte Carlo simulation model also uses stock price volatility and other variables to estimate the probability of satisfying the performance conditions and the resulting fair value of the award.

Stock-based compensation expense for restricted stock units and performance stock units for the Three Months was \$341 compared to \$154 for the three months ended May 2, 2015.

A summary of activity for the Company's restricted stock units and performance stock units for the Three Months is as follows:

|                                    | Number of<br>Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|------------------------------------|---------------------|---|
| Unvested stock at January 30, 2016 | 196,500             | \$ 21.67  |
| Granted                            | 19,500              | \$ 10.31  |
| Vested                             | —                   | \$ —  |

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|                                  |         |          |
|----------------------------------|---------|----------|
| Forfeited                        | (5,000) | \$ 17.81 |
| Unvested stock at April 30, 2016 | 211,000 | \$ 20.71 |

As of April 30, 2016, total unrecognized stock-based compensation expense related to restricted stock units and performance stock units was approximately \$2,981, which is expected to be recognized over a weighted average period of approximately 2.09 years.

#### Intangible Assets

The Company holds various trademarks including Cherokee®, Liz Lange®, Completely Me by Liz Lange®, Hawk®, Tony Hawk®, Everyday California®, Flip Flop Shops®, Sideout®, Sideout Sport®, Carole Little®, Saint Tropez-West®, Chorus Line®, All That Jazz®, and others, in connection with numerous categories of apparel and other goods. These trademarks are registered with the United States Patent and Trademark Office and corresponding government agencies in a number of other countries. The Company also holds trademark applications for Cherokee, Liz Lange, Completely Me by Liz Lange, Hawk, Tony Hawk, Everyday California, Flip Flop Shops, Sideout, Sideout Sport, Carole Little, Saint Tropez-West, Chorus Line, All That Jazz, and others in numerous countries. The Company intends to renew these registrations, as appropriate, prior to expiration. The Company monitors on an ongoing basis unauthorized uses of the Company's trademarks, and relies primarily upon a combination of trademark, copyright, know-how, trade secrets, and contractual restrictions to protect the Company's intellectual property rights both domestically and internationally.

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Trademark registration and renewal fees are capitalized and are amortized on a straight-line basis over the estimated useful lives of the assets. Trademark acquisitions are capitalized and are either amortized on a straight-line basis over the estimated useful lives of the assets, or are capitalized as indefinite-lived assets, if no legal, regulatory, contractual, competitive, economic, or other factors limit their useful lives to Cherokee. Trademarks are evaluated for the possibility of impairment at least annually.

Franchise agreements have been treated as finite-lived and are amortized on a straight-line basis over the estimated useful lives of the agreements. Franchise agreements are evaluated for the possibility of impairment at least annually.

Goodwill is evaluated for the possibility of impairment at least annually.

Intangible assets consist of the following:

| (amounts in thousands)         | April 30, 2016 | January 30, 2016 |
|--------------------------------|----------------|------------------|
| Acquired Trademarks            | \$ 60,754      | \$ 60,754        |
| Other Trademarks               | 8,732          | 8,717            |
| Franchise Agreements           | 1,300          | 1,300            |
| Goodwill                       | 100            | 100              |
| Total Intangible Assets, gross | 70,886         | 70,871           |
| Accumulated amortization       | (17,902)       | (17,676)         |
| Total Intangible Assets, net   | \$ 52,984      | \$ 53,195        |

## Fair Value of Financial Instruments

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

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

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

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

The carrying amount of receivables, accounts payable and accrued liabilities approximates fair value due to the short-term nature of these instruments. Long-term debt approximates fair value due to the variable rate nature of the debt.

The realizability of long-lived assets is evaluated periodically as events or circumstances indicate a possible inability to recover the carrying amount. Long-lived assets that will no longer be used in the business are written off in the period identified since they will no longer generate any positive cash flows for the Company. Periodically, Long-lived assets that will continue to be used by the Company need to be evaluated for recoverability when events or circumstances indicate a potential impairment. Such evaluation is based on various analyses, including cash flow and profitability projections. The analyses involve management judgment. In the event the projected undiscounted cash flows are less than the net book value of the assets, the carrying value of the assets will be written down to their estimated fair value, in accordance with authoritative guidance. The estimated undiscounted cash flows used for this nonrecurring fair value measurement are considered a Level 3 input, which consist of unobservable inputs that reflect assumptions about how market participants would price the asset or liability. These inputs would be based on the best information available, including the Company's own data.

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### Income Taxes

Income tax expense of \$1,498 was recognized for the First Quarter, resulting in an effective tax rate of 36.7% in the First Quarter, as compared to 36.4% in the first quarter of last year and compared to 34.1% for the full year of Fiscal 2016. The effective tax rate for the First Quarter differs from the statutory rate due to the effect of certain permanent nondeductible expenses, the apportionment of income among state jurisdictions, and the benefit of certain tax credits.

In accordance with authoritative guidance, interest and penalties related to unrecognized tax benefits are included within the provision for taxes in the consolidated statements of income. The total amount of interest and penalties recognized in the consolidated statements of income for the First Quarter was \$0 as compared with \$5 in the first quarter of last year. As of April 30, 2016 and January 30, 2016, respectively, the total amount of accrued interest and penalties included in the liability for unrecognized tax benefits was \$0 and \$0.

The Company files income tax returns in the U.S. federal and California and certain other state jurisdictions. For federal income tax purposes, the fiscal 2013 and later tax years remain open for examination by the tax authorities under the normal three year statute of limitations. For state tax purposes, the fiscal 2012 and later tax years remain open for examination by the tax authorities under a four year statute of limitations.

### Marketing and Advertising

Generally, the Company's "Direct to Retail" licensees fund their own advertising programs. Cherokee's marketing, advertising and promotional costs were approximately \$281 and \$243 for the three month periods ended April 30, 2016 and May 2, 2015, respectively. These costs are expensed as incurred and were accounted for as selling, general and administrative expenses.

The Company provides marketing expense money to certain large licensees based upon sales criteria to help them build the Company's licensed brands in their respective territories, thus providing an identifiable benefit to Cherokee. The amounts paid for such marketing expenses during the three month periods ended April 30, 2016 and May 2, 2015 were approximately \$157 and \$218, respectively, and are included in the Company's total marketing, advertising and promotional costs.

### Deferred Rent and Lease Incentives

When a lease includes lease incentives (such as a rent abatement) or requires fixed escalations of the minimum lease payments, rental expense is recognized on a straight line basis over the term of the lease and the difference between the average rental amount charged to expense and amounts payable under the lease is included in deferred rent and lease incentives in the accompanying consolidated balance sheets. For leasehold allowances, the Company records a deferred lease credit on the consolidated balance sheets and amortizes the deferred lease credit as a reduction of rent expense in the consolidated statements of income over the term of the lease.

#### Comprehensive Income

Authoritative guidance establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. For the three months ended April 30, 2016 and May 2, 2015, the Company had no comprehensive income components and accordingly, net income equals comprehensive income.

#### Treasury Stock

Repurchased shares of the Company's common stock are held as treasury shares until they are reissued or retired. When the Company reissues treasury stock, and the proceeds from the sale exceed the average price that was paid by the Company to acquire the shares, the Company records such excess as an increase in additional paid-in capital.

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Conversely, if the proceeds from the sale are less than the average price the Company paid to acquire the shares, the Company records such difference as a decrease in additional paid-in capital to the extent of increases previously recorded, with the balance recorded as a decrease in retained earnings.

(3) Debt

Credit Agreement with JPMorgan Chase (amounts in thousands)

On September 4, 2012, Cherokee and JPMorgan Chase Bank, N.A. (“JPMorgan”) entered into a credit agreement (as amended, the “Credit Agreement”), which was amended on January 31, 2013 in connection with the Company’s acquisition of rights related to the Cherokee brand in the school uniforms category, was further amended on January 10, 2014 in connection with the Company’s acquisition of the Hawk and Tony Hawk brands, and was further amended on October 13, 2015 in connection with the Company’s acquisition of the Flip Flop Shops trademark, brand name and franchisee relationships.

As of April 30, 2016, Cherokee’s total borrowings under the Credit Agreement totaled approximately \$21,000 and are evidenced by: (i) a term note that was originally issued as of September 4, 2012 (as amended, the “2013 Term Note”), which was issued in the principal amount of \$16,600 and of which approximately \$5,317 was outstanding as of April 30, 2016; (ii) a term note that was originally issued as of January 10, 2014 (as amended, the “2014 Term Note”), which was issued in the principal amount of \$19,000 and of which approximately \$10,767 was outstanding as of April 30, 2016; (iii) a term note that was originally issued October 13, 2015 (as amended, the “2015 Term Note” and, together with the 2013 Term Note and the 2014 Term Note, the “Term Notes”), which was issued in the principal amount of \$6,000 and of which approximately \$5,400 was outstanding as of April 30, 2016, which provides Cherokee with a revolving line of credit in the principal amount of \$2,000, none of which was outstanding as of April 30, 2016. Pursuant to amendments to the Credit Agreement, the Term Notes and the Revolver dated May 27, 2016, the maturity dates thereof were amended as follows: (i) the maturity date of the 2013 Term Note is August 31, 2017; (ii) the maturity date of the 2014 Term Note is December 31, 2018; (iii) the maturity date of the 2015 Term Note is October 13, 2020; and (iv) if any amounts are outstanding thereunder, the maturity date of the Revolver is June 30, 2017. The principal outstanding under each Term Note is to be repaid on a quarterly basis in equal principal installments, with any remaining principal balance due on the maturity date of the Term Note. The Term Notes bear interest equal to either: (i) an adjusted annual LIBOR rate reset monthly, bi-monthly or quarterly, plus 2.75% or 3.00% depending on the applicable senior funded debt ratio or (ii) JPMorgan’s annual prime rate or such annual prime rate plus 0.25% depending on the applicable senior funded debt ratio, with a floor equal to the 1 month LIBOR rate plus 2.5%. Pursuant to the Credit Agreement, the definition of “senior funded debt ratio” requires that Cherokee not exceed a ratio equal to (i) 2.25 to 1.00 until the fiscal quarter ending January 31, 2016, and (ii) 2.00 to 1.00 thereafter.

Consistent with the existing terms of the Credit Agreement, the amounts owed thereunder are secured by continuing security agreements, trademark security agreements and continuing guarantees executed by Cherokee and its subsidiaries, as applicable. In addition, the Credit Agreement includes various restrictions and covenants regarding the operation of Cherokee's business, including covenants that require Cherokee to obtain JPMorgan's consent in certain circumstances before Cherokee can: (i) incur additional indebtedness, (ii) make acquisitions, mergers or consolidations in excess of \$5,000 on an aggregate basis, (iii) issue any equity securities other than pursuant to Cherokee's employee equity incentive plans or programs or (iv) repurchase or redeem any outstanding shares of common stock, stock repurchases in an aggregate amount not to exceed \$1,000 or pay dividends or other distributions, other than stock dividends, to Cherokee's stockholders. The Credit Agreement also imposes financial covenants, including: (i) a minimum "fixed charge coverage ratio" of at least 1.2 to 1.0 and (ii) a limitation of Cherokee's "senior funded debt ratio" as described above. Further, Cherokee has granted a security interest in favor of JPMorgan in all of Cherokee's assets (including trademarks) as collateral for the amounts borrowed under the Credit Agreement. As of April 30, 2016, the Company was in compliance with its financial and other covenants under the Credit Agreement. If an event of default occurs under the Credit Agreement that is not forborne, cured or waived in accordance with the terms of the Credit Agreement, JPMorgan has the right to terminate its obligations under the Credit Agreement, accelerate the payment on any unpaid balance of the Credit Agreement and exercise any other rights it may have, including foreclosing on our assets under the related security agreements.

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(4) Commitments and Contingencies

Trademark Indemnities

Cherokee indemnifies certain customers against liability arising from third- party claims of intellectual property rights infringement related to the Company's trademarks. These indemnities appear in the licensing agreements with the Company's customers, are not limited in amount or duration and generally survive the expiration of the contracts. Given that the amount of any potential liabilities related to such indemnities cannot be determined until an infringement claim has been made, the Company is unable to determine the range of estimated losses that it could incur related to such indemnifications.

Litigation Reserves

Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in the consolidated balance sheets. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the expected probable favorable or unfavorable outcome of each claim. As additional information becomes available, the Company assesses the potential liability related to new claims and existing claims and revises estimates as appropriate. As new claims arise or existing claims evolve, such revisions in estimates of the potential liability could materially impact the Company's results of operations and financial position. The Company may also be involved in various other claims and other matters incidental to the Company's business, the resolution of which is not expected to have a material adverse effect on the Company's financial position or results of operations. No material amounts were accrued as of April 30, 2016 or January 30, 2016 related to any of the Company's legal proceedings.

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## (5) Segment Reporting

Authoritative guidance requires public companies to report financial and descriptive information about their reportable operating segments. The Company identifies reportable segments based on how management internally evaluates financial information, business activities and management responsibility.

The Company operates in a single business segment, the marketing and licensing of brand names and trademarks for apparel, footwear and accessories. Cherokee's marketing and licensing activities extend to brands that the Company owns and to brands owned by others. Cherokee's operating activities relating to owned and represented brands are identical and are performed by a single group of marketing professionals. While Cherokee's principal operations are in the United States, the Company also derives royalty revenues from the Company's international licensees and franchisees. Revenues by geographic area based upon the licensees' country of domicile consisted of the following:

| (amounts in thousands)    | Three Months Ended |             |
|---------------------------|--------------------|-------------|
|                           | April 30, 2016     | May 2, 2015 |
| U.S. and Canada           | \$ 8,121           | \$ 7,740    |
| Asia                      | 1,102              | 869         |
| Latin America             | 554                | 545         |
| United Kingdom and Europe | 155                | 404         |
| All Others                | 746                | 672         |
| Total                     | \$ 10,678          | \$ 10,230   |

Long-lived tangible assets were located in the U.S., United Kingdom, Mexico and Asia with net values of approximately \$768, \$45, \$218 and \$37, respectively, as of April 30, 2016 and with net values of approximately \$818, \$54, \$234 and \$44, respectively, as of January 30, 2016.

## (6) Subsequent Events

On May 27, 2016, Cherokee and JPMorgan entered into amendments to the Credit Agreement, the Term Notes and the Revolver in order to (i) amend the maturity dates of each Term Note and the Revolver as follows: (a) the maturity date of the 2013 Term Note is August 31, 2017, (b) the maturity date of the 2014 Term Note is December 31, 2018, (c) the maturity date of the 2015 Term Note is October 13, 2020, and (iv) if any amounts are outstanding thereunder, the maturity date of the Revolver is June 30, 2017, and (ii) permit Cherokee to make stock repurchases in an aggregate amount not to exceed \$1,000 without obtaining JPMorgan's prior consent.



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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (this “MD&A”) should be read together with the unaudited condensed consolidated financial statements and the related notes included in this report. For additional context with which to understand our financial condition and results of operations, refer to the MD&A for the fiscal year ended January 30, 2016 contained in our 2016 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (“SEC”) on April 14, 2016, as well as the consolidated financial statements and notes contained therein (collectively, our “Annual Report”). In addition to historical information, this MD&A contains forward-looking statements based upon our current views, expectations and assumptions that are subject to risks and uncertainties. Actual results may differ substantially from those expressed or implied by any forward-looking statements due to a number of factors, including, among others, the risks described in Part II, Item 1A, “Risk Factors” and elsewhere in this report. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our Annual Report pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date we file this report to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

As used in this MD&A and elsewhere in this report, “Cherokee”, the “Company”, “we”, “us” and “our” refer to Cherokee Inc. and its consolidated subsidiaries, unless the context indicates or requires otherwise. Additionally, as used herein, the terms “First Quarter” or “Three Months” refer to the three months ended April 30, 2016; the term “Fiscal 2018” refers to the fiscal year ending February 3, 2018; the term “Fiscal 2017” refers to the fiscal year ending January 28, 2017; and the term “Fiscal 2016” refers to the most recent past fiscal year ended January 30, 2016.

We have a 52- or 53-week fiscal year ending on the Saturday nearest to January 31, which aligns us with our retail licensees who generally also operate and plan using such a fiscal year. This results in a 53-week fiscal year approximately every four or five years. Each of Fiscal 2016 and Fiscal 2017 is a 52-week fiscal year. Certain of our international licensees report royalties to us for quarterly and annual periods that may differ from ours. We do not believe that the varying quarterly or annual period ending dates from our international licensees have a material impact upon our reported financial results, as these international licensees maintain comparable annual periods in which they report retail sales and royalties to us on a year-to-year basis.

We own the registered trademarks or trademark applications for Cherokee®, Liz Lange®, Completely Me by Liz Lange®, Hawk®, Tony Hawk®, Everyday California®, Flip Flop Shops®, Sideout®, Sideout Sport®, Carole Little®, Saint Tropez-West®, Chorus Line®, All That Jazz®, and others. All other trademarks, trade names and service marks included in this MD&A or elsewhere in this report are the property of their respective owners.

## Overview

Cherokee is a global marketer and manager of a portfolio of fashion and lifestyle brands it owns or represents, licensing the Cherokee, Liz Lange, Completely Me by Liz Lange, Hawk, Tony Hawk, Sideout, Carole Little, Everyday California and Flip Flop Shops and related trademarks and other brands in multiple consumer product categories and sectors. We are one of the leading global licensors of style focused lifestyle brands for apparel, footwear, home products and accessories. As part of our business strategy, we frequently evaluate other brands and trademarks for acquisition into our portfolio. We enter into license agreements with recognizable retail partners in their respective global locations to provide them the rights to design, manufacture and sell products bearing our brands and to provide them our proprietary 360-degree platform. We refer to this strategy as our “Direct to Retail” or “DTR” licensing model. We have also entered into wholesale arrangements for the manufacture and sale of products bearing certain of our brands, including eight new wholesale arrangements with distributors and anticipate they will begin selling product at retail bearing our Cherokee brand commencing in early Fiscal 2018. In addition, we have franchise relationships for the Flip Flop Shops brand with franchisees that operate Flip Flop Shops retail stores located worldwide.

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We believe our retail responsiveness process and 360-degree unique value proposition have allowed us to address the growing power of the consumer and the present and future needs of the retailers that are selling our portfolio of lifestyle brands. Based on consumer research, retail insights and brand insights that we continually measure, evaluate and incorporate into our 360-degree platform, we believe we have become a key strategic partner to our licensees. As of April 30, 2016, we had forty effective license agreements covering domestic and international markets, twenty-two of which pertained to the Cherokee brand. Additionally, as of April 30, 2016, we are the franchisor for approximately 90 existing Flip Flop Shops franchise shops.

We derive revenues primarily from licensing our trademarks to retailers all over the world. Our current retail licensee relationships cover over fifty countries and over 9,000 retail stores and online businesses and include relationships with Target Corporation (“Target”), Kohl’s Illinois, Inc. (“Kohl’s”), RT Mart, Comercial Mexicana, TJ Maxx, Tottus, Pick N Pay, Argos, Nishimatsuya, Walmart Canada and Sears Canada. Our two most significant licensees are Target and Kohl’s.

## Recent Developments

### Extension of Credit Facility

On May 27, 2016, we amended our credit facility with JPMorgan Chase Bank, N.A. (“JPMorgan”) to (i) amend the maturity dates of the three existing term notes issued under the credit facility to various maturity dates beginning in August 2017 and ending in October 2020, (ii) amend the maturity date of a line of credit note issued under the credit facility, under which no amounts have been borrowed as of April 30, 2016, to June 2017 and (iii) permit us to make stock repurchases in an aggregate amount not to exceed \$1.0 million without obtaining JPMorgan’s prior consent. See Note 3 and Note 6 to our condensed consolidated financial statements included in this report for further information about our credit facility with JPMorgan.

### New Licensee Partners

During the First Quarter, we have acquired new licensees for our brands in the United States in an effort to expand our portfolio of licensee partners. Below is a discussion of representative license agreements that we entered into in the First Quarter of Fiscal 2017:

#### Cherokee

In the First Quarter Fiscal 2017, we entered into license agreements with eight wholesale distributors to distribute a variety of categories of products bearing the Cherokee brand within the U.S. to various retailers beginning in Fiscal 2018. The categories cover a wide range of Cherokee products including men’s and boy’s casual sportswear, sweaters

and outerwear; newborn, infant and toddler boys and girls clothing and layette; girl's active wear, sportswear, dresses, denim, and sweaters; and swimwear and sleepwear.

We believe these agreements signal a significant shift in our future strategy for sales of products bearing the Cherokee brand in the U.S., which currently and in the past has been governed by license arrangements using our Direct to Retail licensing model and which, commencing in early Fiscal 2018 will be governed by our new wholesale arrangements with distributors as they begin selling product at retail bearing our Cherokee brand. Our new wholesale arrangements for the Cherokee brand in the U.S. consist of multiple license agreements at higher royalty rates as compared to one license agreement with Target at a lower and declining, tiered royalty rate. Our shift to a wholesale licensing model for sales in the U.S. of Cherokee-branded products exposes us to a number of risks. See Item 1A, "Risk Factors", for additional information.

#### Critical Accounting Policies and Estimates

There has been no material change to our critical accounting policies and estimates from the information provided in our Annual Report.

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This MD&A is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management evaluates its estimates and assumptions on an ongoing basis. Management bases its estimates on historical and anticipated results, trends and various other assumptions that are believed to be reasonable under the circumstances, including expectations about future events. These estimates form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

We consider accounting policies relating to the following areas to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment:

- Allowance for doubtful accounts;
- Revenue recognition and deferred revenue;
- Provision for income taxes and deferred taxes;
- Valuation and impairment of long-lived assets;
- Contingencies and litigation; and
- Accounting for stock-based compensation.

You should refer to our Annual Report for a discussion of our policies on revenue recognition, deferred taxes, impairment of long-lived assets, contingencies and litigation and accounting for stock-based compensation.

See Note 2 to our consolidated financial statements included in this report for a description of recent accounting pronouncements.

## Results of Operations

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The table below sets forth certain of our consolidated financial data for the periods indicated. Historical results are not necessarily indicative of results to be expected in the current period or in future periods.

| (amounts in thousands)                                    | Three Months<br>ended April<br>30,<br>2016 | Three Months<br>ended May 2,<br>2015 |
|---|--|--------------------------------------|
| Royalty revenues  | \$ 10,678                                  | \$ 10,230                            |
| Selling, general and, administrative expenses             | 6,402                                      | 4,440                                |
| Operating income  | 4,276                                      | 5,790                                |
| Interest income (expense) and other income (expense), net | (197)                                      | (176)                                |
| Income tax provision                                      | 1,498                                      | 2,043                                |
| Net income  | \$ 2,581                                   | \$ 3,571                             |

Revenues

In the three month period ended April 30, 2016, our revenues totaled \$10.7 million compared to \$10.2 million in the three month period ended May 2, 2015. Revenues for the First Quarter were primarily generated from licensing our trademarks to retailers and, to a lesser extent, to wholesalers, our share of licensing revenues from brand representation licensing agreements with other brand owners and franchise fees and royalty revenues received from franchisees of our Flip Flop Shops brand. The increase in revenues between periods was principally due to an increase in worldwide Cherokee royalties in addition to revenue related to the acquisition of Flip Flop Shops, partially offset by the timing of certain retail partner transitions.

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Total worldwide retail sales of merchandise bearing the Cherokee brand totaled approximately \$326 million and \$330 million in the first quarter periods ended April 30, 2016 and May 2, 2015, respectively.

We anticipate that our Flip Flop Shops brand contribution as a percentage of total revenues will increase in future periods. We anticipate revenues will fluctuate depending upon the number of shops opened both domestically and internationally in any given period, as well as royalty fluctuations based on seasonal demand, brand offerings, promotions and number of shops open.

In the three month period ended April 30, 2016, we entered into several new wholesale licensing arrangements covering sales of products bearing our Cherokee brand in the U.S. We anticipate that these wholesale licensing arrangements will help to diversify our sources of revenue and licensee or other partner relationships and provide additional avenues to obtain brand recognition and grow our Company. For further discussion on wholesale licensing arrangements, see Item 1A, "Risk Factors".

Because we do not have direct oversight over our licensees and franchisees, we may not have all the information necessary to determine or predict the specific reasons why revenue may increase or decrease in any given period. Given our contractual royalty rate reductions as certain sales volume thresholds are achieved for Cherokee branded products in various product categories in the U.S., historically, this has caused the Company to record its highest revenues and profits in its first quarter and its lowest revenues and profits in its fourth quarter. However, such historical patterns may vary in the future depending upon the terms of any new license agreements, retail sales volumes achieved in each quarter from Target and revenues the Company receives that are not subject to reduced royalty rates based upon cumulative sales. In Fiscal 2018, and in future fiscal years, we do not anticipate this trend to continue due to the expiration of the Target license agreement at the end of Fiscal 2017. As a result, beginning in Fiscal 2018 we will no longer be subject to royalty rate reductions over the course of the year for sales of our Cherokee branded products in the U.S., as our new wholesale license agreements covering these products include a fixed royalty rate that is consistent throughout the year and typically have their highest whole sales in our fourth quarter of each fiscal year. Typically, U.S. wholesalers and retailers have their highest sales in the fourth quarter for the holiday season.

During Fiscal 2015 and Fiscal 2016, Target reached its minimum annual royalty in the third quarter of each respective year and we anticipate the minimum annual royalty amount to be met in the third quarter of Fiscal 2017. Due to the expiration of the Target license agreement at the end of Fiscal 2017 and our anticipation that Target will reduce sales of Cherokee branded product throughout Fiscal 2017 to no less than its minimum annual royalty obligation, we may have minimal revenue from Target in the fourth quarter of Fiscal 2017. However, we anticipate that we will have revenue in the fourth quarter of Fiscal 2017 from our new wholesale arrangements with distributors for Cherokee branded products in the U.S., as we anticipate they will begin delivering products to retailers in the fourth quarter, with retailers selling these products commencing in early Fiscal 2018.

Revenues By Brand

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The following table sets forth our revenues by brand for the three months ended April 30, 2016 and May 2, 2015.

| (amounts in thousands, except percentages) | Three Months Ended<br>April 30, 2016 |                       |   | Three Months Ended<br>May 2, 2015 |                       |   |
|--|--------------------------------------|-----------------------|---|-----------------------------------|-----------------------|---|
|  | Royalty<br>Revenue                   | % of Total<br>Revenue |   | Royalty<br>Revenue                | % of Total<br>Revenue |   |
| Royalty Revenue                            |                                      |                       |   |                                   |                       |   |
| Cherokee Brand Royalty Revenues            | \$ 8,202                             | 77                    | % | \$ 7,944                          | 77                    | % |
| Hawk Brand Royalty Revenues                | 1,207                                | 11                    | % | 1,215                             | 12                    | % |
| Liz Lange Brand Royalty Revenues           | 645                                  | 6                     | % | 671                               | 7                     | % |
| Flip Flop Shops Brand Royalty Revenues     | 356                                  | 3                     | % | —                                 | —                     | % |
| All Other Brand Revenues                   | 268                                  | 3                     | % | 400                               | 4                     | % |
| Total Royalty Revenues                     | \$ 10,678                            | 100                   | % | \$ 10,230                         | 100                   | % |

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## Geographic Revenues

The following table sets forth our geographic licensing revenues for the three months ended April 30, 2016 and May 2, 2015.

| (amounts in thousands, except percentages) | Three Months Ended<br>April 30, 2016 |                       |   | Three Months Ended<br>May 2, 2015 |                       |   |
|--|--------------------------------------|-----------------------|---|-----------------------------------|-----------------------|---|
|  | Royalty<br>Revenue                   | % of Total<br>Revenue |   | Royalty<br>Revenue                | % of Total<br>Revenue |   |
| U.S. and Canada                            | \$ 8,121                             | 76                    | % | \$ 7,740                          | 76                    | % |
| Asia                                       | 1,102                                | 10                    | % | 869                               | 8                     | % |
| Latin America                              | 554                                  | 5                     | % | 545                               | 5                     | % |
| United Kingdom and Europe                  | 155                                  | 2                     | % | 404                               | 4                     | % |
| All others                                 | 746                                  | 7                     | % | 672                               | 7                     | % |
| Total Royalty Revenues                     | \$ 10,678                            | 100                   | % | \$ 10,230                         | 100                   | % |

## U.S. and Canada

Our largest licensees in the U.S. generally are Target and Kohl's, which together contributed 62% and 65% of our consolidated revenues for the First Quarter, respectively. In Canada, we transitioned from Target Canada to Sears Canada for our Cherokee and Liz Lange brand during the First Quarter.

Target. Target currently has approximately 1,800 stores in the United States. Retail sales of Cherokee branded products at Target in the U.S. were slightly lower in the First Quarter at approximately \$263 million, down from \$267 million in the first quarter of Fiscal 2016. Target pays royalty revenues to us based on a percentage of its sales of Cherokee branded products pursuant to our license agreement with Target. The license agreement is structured to provide royalty rate reductions for Target after it has achieved certain levels of retail sales of Cherokee branded products in certain product categories in the U.S. during each fiscal year. Target also pays fixed royalty rates for Target's sales of Cherokee branded products in the adult merchandise category that are made by Target through its website (target.com) and sales of Cherokee branded products in the category of school uniforms. In addition, Target pays a fixed percentage of net sales of products bearing the Liz Lange brand in the U.S.

Under the terms of the license agreement with Target, the minimum annual royalty payment from Target is \$10.5 million, which applies to all sales of Cherokee branded products made by Target in the United States other than sales of Cherokee branded products in the school uniforms category (which products are subject to a separate minimum annual royalty payment of \$0.8 million).

Royalty revenues from our Cherokee brand at Target, excluding sales of Cherokee branded products in Canada and Cherokee branded products sold in the school uniforms category, remained flat between periods at \$5.3 million in the First Quarter and the first quarter of Fiscal 2016, which accounted for 50% and 52% of our consolidated revenues for the First Quarter and the first quarter of Fiscal 2016, respectively.

In September 2015, Target informed us that it would not renew the license agreement covering sales of Cherokee branded products in the U.S., which expires at the end of its current term on January 31, 2017 for most Cherokee branded products. The license agreement with Target, including the existing royalty obligations, will remain in effect and continue to generate revenues in Fiscal 2017. Our license agreement with Target covering sales of Cherokee branded products in the school uniforms category will expire at the end of its current term on January 31, 2018, and will continue to generate revenues to Cherokee until its expiration. Our relationship with Target for the Liz Lange brand has been renewed through January 31, 2018.

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Kohl's. Kohl's currently has approximately 1,100 stores in the United States. Kohl's pays royalty revenues to us based on a percentage of its sales of Hawk and Tony Hawk branded products pursuant to our license agreement with Kohl's. The minimum annual royalty payment applicable to our license agreement with Kohl's for the Hawk and Tony Hawk brands is \$4.8 million, which applies to all sales of Hawk and Tony Hawk branded products in the U.S. Because retail sales did not exceed the contractual minimum guarantees, royalty revenues from our Hawk and Tony Hawk brands at Kohl's remained flat between periods at \$1.2 million in the First Quarter and the first quarter of Fiscal 2016, which accounted for 11% and 12% of our consolidated revenues for such periods, respectively.

United Kingdom and Europe

We have a number of licensees with rights to our brands in various European countries. One of our more significant European licensees is Argos, a subsidiary of Home Retail Group plc, which launched a broad assortment of Cherokee lifestyle products online, in catalogs and in more than 750 Argos stores across the United Kingdom and Ireland in late July 2015. Revenues from Argos began during the third quarter of Fiscal 2016.

Latin America, Asia and Others

Other international royalty revenues in the First Quarter increased to \$2.4 million from \$2.1 million in the first quarter of Fiscal 2016, representing a 15.1% increase. This total includes licensees for Japan, China, Mexico, South Africa, Peru, Israel, Chile, India, and other territories. The increase was principally due to strength in the Japanese market combined with the strengthening of the Japanese Yen. In local currencies, the majority of our international licensees had growth in retail sales for the Three Months.

The majority of our international licensees are required to pay the royalty revenues owed to us in U.S. dollars. As a consequence, any weakening of the U.S. dollar benefits us in that the total royalty revenues reported from our international licensees increases when the dollar weakens against such foreign currencies. Conversely, any strengthening of the U.S. dollar against an international licensee's foreign currency results in lower royalty revenues from such licensee. As the U.S. dollar remained relatively stable between periods, there was no net estimated cumulative effect on our revenues of changes to applicable foreign currency exchange rates during the First Quarter in comparison to the first quarter of Fiscal 2016.

Selling, General and Administrative Expenses

The following table sets forth detailed information regarding the components for selling, general and administrative expenses for the three months ended April 30, 2016 and May 2, 2015.

| (amounts in thousands)  | Three<br>Months<br>ended April<br>30,<br>2016 | Three<br>Months<br>ended May<br>2,<br>2015 |
|---|---|--|
| Personnel expenses (including salaries, taxes, benefits, consultants and bonus) | \$ 2,746                                      | \$ 2,072                                   |
| Corporate expenses  | 1,212   | 1,021                                      |
| Transaction costs/U.S. Business development                                     | 729   | —  |
| Marketing expenses  | 530   | 517  |
| Product development expenses  | 196   | 192  |
| Non cash stock compensation   | 636   | 332  |
| Depreciation and amortization   | 353   | 306  |
| Total selling, general, administrative and amortization expenses                | \$ 6,402                                      | \$ 4,440                                   |

Selling, general and administrative expenses, including amortization of trademarks, were \$6.4 million in the First Quarter compared to \$4.4 million in the first quarter of Fiscal 2016, representing an increase of \$2.0 million between periods. The increase in selling, general, and administrative expenses between periods was primarily related to an increase in professional fees from legal and due diligence expenses for potential acquisitions, an increase in business development expenses related to the identification and establishment of new brand licensees in the U.S., an increase in stock based compensation and expenses associated with franchising our Flip Flop Shops brand, which we acquired in October 2015.

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Interest and Other Income or Expense

Our interest expense for the First Quarter was \$0.2 million compared to \$0.2 million for first quarter of Fiscal 2016.

Tax Provision

In the First Quarter, we recorded a tax provision of \$1.5 million, which equates to an effective tax rate of 36.7%, compared to a tax provision of \$2.0 million, and an effective tax rate of 36.4%, recorded for the first quarter of Fiscal 2016. The effective tax rate for the First Quarter differs from the statutory rate due to the effect of certain permanent nondeductible expenses, the apportionment of income among state jurisdictions, and the benefit of certain tax credits.

Net Income

During the First Quarter, our net income was \$2.6 million, or \$0.29 per diluted share, compared to \$3.6 million, or \$0.41 per diluted share, for the first quarter of Fiscal 2016.

Liquidity and Capital Resources

Cash Flows

On April 30, 2016, we had cash and cash equivalents of \$5.1 million, which represented a decrease of \$1.4 million from January 30, 2016.

During the Three Months, cash provided by our operations during the Three Months and the first three months of Fiscal 2016 was \$0.8 million and \$2.2 million, respectively. The decrease of \$1.4 million during the Three Months was primarily due to the changes in: (i) decrease of net income of \$1.0 million; (ii) tax receivables and payables, net, which provided cash of \$0.5 million in the Three Months as compared to \$1.8 million in the first three months of last year; (iii) accrued compensation, which decreased by \$0.2 million in the Three Months as compared to a decrease of \$0.8 million in the first three months of last year and (iv) stock-based compensation expense of \$0.6 million in the

Three Months as compared to \$0.3 million in the three months of last year.

Cash used by investing activities during the Three Months and the first three months of Fiscal 2016 was \$0.1 million and \$0.2 million, respectively. In both periods, cash used by investing activities consisted of capital expenditures for property and equipment and trademark registration and renewal costs.

Cash used in financing activities was \$2.1 million during the Three Months, which consisted of \$2.1 million in principal payments on our outstanding term loans under our credit agreement with JP Morgan. In comparison, during the first three months of Fiscal 2016, cash used in financing activities was \$0.8 million, which consisted of principal payments of \$1.8 million for the term loan with JP Morgan, partially offset by proceeds from exercise of stock options of \$0.9 million and excess tax benefit from share-based payment arrangements of \$0.1 million.

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### Credit Facility with JPMorgan

In September 2012, we entered into a credit facility with JPMorgan. Approximately \$21 million in principal amount was outstanding under our credit facility as of April 30, 2016, and is evidenced by (i) three term notes, which were issued on January 31, 2013, January 10, 2014 and October 13, 2015 in the principal amounts of \$16.6 million, \$19 million and \$6 million, respectively, and (ii) a revolving line of credit, pursuant to which we may borrow up to \$2 million in principal (none of which has been borrowed as of April 30, 2016). As described above under “—Recent Developments,” we amended the terms of our credit facility and the term notes and revolving line of credit thereunder in order to, among other things, extend the maturity dates thereof. The terms of the credit facility include various restrictions and covenants regarding the operation of our business financial covenants that set financial standards we must maintain. As collateral for the credit facility, we granted a security interest in favor of JPMorgan in all of our assets (including trademarks), and our indebtedness is guaranteed by our wholly owned subsidiaries. See Note 3 and Note 6 to our condensed consolidated financial statements included in this report for additional information about our credit facility with JPMorgan.

### Sources of Liquidity

We expect our primary sources of liquidity to be cash flow generated from operations, cash and cash equivalents currently on hand, and up to \$2.0 million of funds available to us until June 2017 pursuant to the revolving line of credit issued by JPMorgan under our credit facility. We believe our cash flow from operations, together with our cash and cash equivalents currently on hand and access to funds pursuant to the revolving line of credit, will be sufficient to meet our working capital, capital expenditure and other commitments and otherwise support our operations for the next twelve months.

In September 2015, Target informed us that it would not renew the license agreement covering sales of Cherokee branded products in the U.S., which expires at the end of its current term on January 31, 2017 for most Cherokee branded products. The license agreement with Target, including the existing royalty obligations, will remain in effect and continue to generate revenues in Fiscal 2017. Our license agreement with Target covering sales of Cherokee branded products in the school uniforms category will expire at the end of its current term on January 31, 2018, and will continue to generate revenues to Cherokee until its expiration. We expect Target to reduce sales of Cherokee branded product throughout Fiscal 2017, thereby reducing revenues from Target to amount to no less than their minimum annual royalty. Our relationship with Target for the Liz Lange brand has been renewed through January 31, 2018.

We cannot predict our revenues and cash flows that will be generated from operations in future periods, and our revenues and cash flows could be materially lower than we expect. If our revenues and cash flows are lower than we anticipate, or if our expenses are higher than we anticipate, then we may not have sufficient cash available to fund our planned operations and we could fail to comply with the terms of our credit facility with JPMorgan or our other contractual commitments. In that case, we may need to take steps to reduce expenditures by scaling back operations and reducing staff related to these activities or seek funds from other sources, which may not be available when needed, on acceptable terms or at all. See Item 1A, “Risk Factors”, for additional information.

As of April 30, 2016, we were not the guarantor of any material third party obligations and we did not have any irrevocable repurchase obligations.



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### Uses of Liquidity

Our cash requirements over the next twelve months are primarily to fund our operations and working capital, to make payments of principal and interest under our credit facility with JPMorgan, at our discretion and subject to the terms of the credit facility, to repurchase shares of our common stock or pay dividends as determined by our board of directors (“Board of Directors”), and, to a lesser extent, to fund capital expenditures. As of April 30, 2016, we had approximately \$21 million in principal amount of outstanding indebtedness owed under our credit facility with JPMorgan, which is due at various maturity dates beginning in August 2017 and ending in October 2020. We may seek to refinance all or a portion of this indebtedness before its applicable maturity date. Any such refinancing would depend on the capital markets and our financial condition at the time, which could affect our ability to obtain attractive refinance terms when desired, or at all. Subject to limited exceptions, the declaration and payment of any future dividends or repurchases of our common stock are subject to negative covenants contained in our credit facility and, assuming the satisfaction or waiver by JPMorgan of such covenants, would be made solely at the discretion of our Board of Directors and would be dependent upon our financial condition, results of operations, cash flows, capital expenditures, and other factors that may be deemed relevant by our Board of Directors. Additionally, should an established and marketable brand or similar equity property become available on favorable terms, we would consider using our liquidity to fund such an acquisition opportunity, subject to obtaining any consent required under our credit facility with JPMorgan.

### Seasonality

We have agreed to certain contractual royalty rate reductions with Target for sales of certain Cherokee branded products in various product categories in the U.S. in each fiscal year, which apply for future sales during the applicable fiscal year as certain sales volume thresholds are achieved. Historically, with Target, this has caused the Company to record its highest revenues and profits in its first quarter and its lowest revenues and profits in its fourth quarter. However, such historical patterns may vary in the future depending upon the terms of any new license agreements, retail sales volumes achieved in each quarter from Target and revenues the Company receives that are not subject to reduced royalty rates based upon cumulative sales. In Fiscal 2018, and in future fiscal years, we do not anticipate this trend to continue due to the expiration of the Target license agreement at the end of Fiscal 2017. As a result, beginning in Fiscal 2018 we will no longer be subject to royalty rate reductions over the course of the year for sales of our Cherokee branded products in the U.S., as our new wholesale license agreements covering these products include a fixed royalty rate that is consistent throughout the year and typically have their highest whole sales in our fourth quarter of each fiscal year. Typically, U.S. wholesalers and retailers have their highest sales in the fourth quarter for the holiday season.

During Fiscal 2015 and Fiscal 2016, Target reached its minimum annual royalty in the third quarter of each respective year and we anticipate the minimum annual royalty amount to be met in the third quarter of Fiscal 2017. Due to the expiration of the Target license agreement at the end of Fiscal 2017 and our anticipation that Target will reduce sales of Cherokee branded product throughout Fiscal 2017 to no less than its minimum annual royalty obligation, we may have minimal revenue from Target in the fourth quarter of Fiscal 2017. However, we anticipate that we will have revenue in the fourth quarter of Fiscal 2017 from our new wholesale arrangements with distributors for Cherokee branded products in the U.S., as we anticipate they will begin delivering products to retailers in the fourth quarter, with retailers selling these products commencing in early Fiscal 2018.

### Inflation and Changing Prices

The rate of inflation over the past several years has not had a material effect on our revenues and profits. Since most of our future revenues will be based upon a percentage of sales by our licensees and franchisees of products bearing our owned or represented trademarks, we do not anticipate that short term future inflation will have a material impact, positive or negative, on future financial results.

#### Off Balance Sheet Arrangements

We have no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our market risk generally represents the risk that losses may occur in the values of financial instruments as a result of movements in interest rates and foreign currency exchange rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Interest

From time to time we invest our excess cash in interest bearing temporary investments of high quality issuers. Due to the short time the investments are outstanding and their general liquidity, these instruments are classified as cash equivalents in our consolidated balance sheets and do not represent a material interest rate risk to us. In relation to our credit facility with JPMorgan, a 100 basis point increase in the interest rate would have had an immaterial impact on interest expense for the quarter ended April 30, 2016.

Foreign Currency

We conduct business in various parts of the world. As most of our international licensees are required to pay the royalty revenues owed to us in U.S. dollars, we are exposed to fluctuations in the exchange rates of the foreign currencies in countries in which our licensees do business when they are converted to the U.S. dollar, and significant fluctuations in exchange rates could materially impact our results of operations and cash flows. For the Three Months, revenues from international licensing activities comprised 27% of our consolidated revenues. A hypothetical 10% strengthening of the U.S. dollar relative to the foreign currencies of countries where our licensees operate would have negatively affected our revenues by approximately \$0.3 million, which represents 3% of our consolidated revenues reported for the Three Months. Such change is not considered to represent a material effect on our results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the “SEC”) and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of April 30, 2016.

#### Changes in Internal Control over Financial Reporting.

During our most recent fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. The impact and outcome of litigation, if any, is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that could harm our business. We are not currently aware of any such legal proceedings or claims to which we or our wholly owned subsidiaries are a party that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

The occurrence of any of the risks and uncertainties and other factors described below and elsewhere in this report, our annual report on Form 10-K for the year ended January 30, 2016 and the other documents we file with the SEC could have a material adverse effect on our business, financial condition, results of operations and share price and could also cause our future business, financial condition and results of operations to differ materially from our historical results and the results contemplated by any forward-looking statements we may make herein, in any other document we file with the SEC, or in any press release or other written or oral statement we may make. You should carefully consider all of these risks and the other information in this report and the other documents we file with the SEC before making any investment decision with respect to our common stock. The risks described below and elsewhere in this report are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our financial condition and business operations.

Risks Related to Our Business

Our business is subject to intense competition.

Royalties paid to us under our licensing agreements are generally based on a percentage of our licensees' net sales of licensed products. Additionally, franchisees of our Flip Flop Shops brand pay us a percentage of their net sales. Merchandise bearing our Cherokee, Carole Little, Sideout, Liz Lange, Completely Me by Liz Lange, Hawk, Tony Hawk and Everyday California brands, all of which are manufactured and sold by both domestic and international wholesalers and retail licensees, as well as merchandise sold by Flip Flop Shops retail shops, are subject to extensive competition by numerous domestic and foreign companies. Such competitors with respect to the Cherokee brand include Polo Ralph Lauren, Tommy Hilfiger, Liz Claiborne, and private label brands (developed by retailers) such as Faded Glory, Arizona, Merona, and Route 66. Factors that shape the competitive environment include quality of garment construction and design, brand name, style and color selection, price, fashion and other trends, avenue of purchase (including in stores and online), and the manufacturer's ability to respond quickly to the retailer on a national basis. In recognition of what we believe is an increasing trend toward consolidation of retailers, our business plan in the United States focuses on creating strategic alliances with major retailers for their sale of products bearing our brands through the licensing of our trademarks directly to retailers and, to a lesser extent, entering into franchise relationships with Flip Flop Shops retail store owners and engaging wholesalers to manufacture products bearing our brands and sell these products to retailers. Therefore, our degree of success is dependent on the strength of our brands,

consumer acceptance of and desire for our brands, our licensees' ability to design, manufacture and sell products bearing our brands and our franchisees' ability to sell products bearing our or third-party brands, and the ability of our licensees and franchisees to respond to ever-changing consumer demands. Failures with respect to any of these factors could have a material adverse effect on our business prospects, financial condition, results of operations and liquidity. We cannot control the level of consumer acceptance of our brands and changing preferences and trends may lead customers to purchase other products. Further, we cannot control the level of resources that our licensees or franchisees commit to supporting our brands, and our licensees may choose to support products bearing other brands to the detriment of our brands because our agreements generally do not prevent our licensees from licensing or selling products of, our competitors. In addition, we compete with other companies owning established trademarks, which have entered into, and could continue to enter into, similar arrangements with retailers and wholesale manufacturers in the U.S. and internationally, including with our existing retail and wholesale partners, thereby competing with us for consumer attention, limited floor and rack space in the same stores in which our branded products are sold and time and resources of wholesale licensees that manufacture our products.

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We are subject to risks related to the retail business that are applicable to our licensees and franchisees.

There are numerous risks and other factors applicable to the businesses of retailers (including our licensees and franchisees) that can impact the sale of products that bear our brands and, with respect to our franchisees, the sale of products bearing other brands from which we generate revenues. Any decline in sales by one or more of our licensees or franchisees could adversely affect our revenues.

Factors that may adversely affect our licensees and franchisees and their sales of products include the following, among others: (i) weather, environmental or other conditions that may impact consumer shopping activity in retail stores; (ii) consumer preferences regarding fashion trends and styles, which can be region-dependent and subject to rapid and significant fluctuations; (iii) consumer preferences regarding where to shop; (iv) the growth of online shopping and the ability of our licensees and franchisees to market and sell products through these avenues; (v) changes in the availability or cost of capital in light of the financial condition and capital requirements of our licensees and franchisees; (vi) shifts in the seasonality of shopping patterns; (vii) fluctuating retail prices; (viii) labor strikes or other interruptions that impact supply chains and transport vendors (ix) the impact of excess retail capacity; (x) changes in the cost of accepting various payment methods and changes in the rate of utilization of these payment methods; (xi) material acquisitions or dispositions; (xii) investments in new business strategies; (xiii) the success or failure of significant new business ventures or technologies; (xiv) actions taken or omitted to be taken by legislative, regulatory, judicial and other governmental authorities and officials; (xv) security breaches; (xvi) natural disasters, the outbreak of war, acts of terrorism or other significant national or international events; and (xvii) the other risks discussed in this Item 1A.

We rely on the accuracy of our licensees' and franchisees' retail sales reports for reporting and collecting our revenues, and if these reports are untimely or incorrect, our revenues could be delayed or inaccurately reported or collected.

Most of our revenues are generated from retailers who license our brands to manufacture and sell products bearing our brands in their stores and on their websites. In addition, we have a number of franchise agreements with franchisees of the Flip Flop Shops brand and we have arrangements with several wholesalers who license our brands to manufacture products bearing our brands and sell these products to retailers. Under our existing agreements, these licensees and franchisees pay us fees based in part on the value of products sold. We rely on our licensees and franchisees to accurately report the retail sales in collecting our license and franchise fees, preparing our financial reports, projections and budgets, and directing our sales and marketing efforts. All of our license and franchise agreements permit us to audit our licensees and franchisees. If any of our licensee or franchisee reports understate the retail sales of products they sell, we may not collect and recognize revenues to which we are entitled on a timely basis or at all, or may endure significant expense to obtain compliance.

Our business is dependent on the success of our Direct to Retail licensing model, as well as our other licensing and franchising models.

Although we recently commenced franchise operations with our acquisition of the Flip Flop Shops brand and we intend to grow this business in the future and we also recently entered into several new licensing arrangements with wholesalers and may seek to enter into additional wholesale arrangements in the future, we continue to be focused on our Direct to Retail licensees. In Direct to Retail licensing, we grant retailers a license to use our trademarks on certain categories of merchandise. In many cases, the licensee is responsible for designing and manufacturing the merchandise, although we typically collaborate with our licensees' product development staff and merchandisers on design direction, packaging, marketing, and other aspects pertaining to products bearing our trademarks. Over the past two decades, the Direct to Retail licensing model has become more widely accepted by many retailers worldwide, and our business plan is still based on the continued success of this model with our current licensees and with new retailers we may solicit to license our brands in new territories and additional product categories as we seek to expand our

business. Although we believe there is an increasing trend towards consolidation of retailers, which could support the growth of our Direct to Retail licensing model, this belief may turn out to be wrong. If our current or potential future retail licensees do not perceive our Direct to Retail licensing model to be advantageous to them, then they may move away from this model and instead embrace alternatives, such as purchasing from wholesalers or manufacturing private label products. Such a change in perception could occur for a variety of reasons, including reasons based on retailers' beliefs or expectations that do not turn out to be accurate.

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Further, even though our pursuits of wholesale and franchise models may diversify our sources of revenue in the event that our expectations regarding Direct to Retail licensing trends do not prove to be accurate, these pursuits could themselves be unsuccessful and could divert management's attention and other resources, including time and capital, from our Direct to Retail licensing strategy. As a result, our future success depends in part on our ability to successfully manage these multiple licensing avenues.

If our Direct to Retail licensing model ceases to be attractive to retailers or we are unable to manage our wholesale and franchise arrangements together with our Direct to Retail licensing model, then we would be unable to continue to pursue our business plan and our financial condition and prospects would be harmed.

Our business is largely dependent on royalties from Target, which has notified us that it will not renew its current relationship with us for the Cherokee brand.

Royalty revenues from our Cherokee brand at Target Corporation ("Target") accounted for greater than 40% of our consolidated revenues during each of Fiscal 2015, 2016 and the first quarter of Fiscal 2017. In September 2015, Target informed us that it would not renew its license agreement covering sales of Cherokee branded products in the U.S., which expires at the end of its current term on January 31, 2017 for most Cherokee branded products. The license agreement with Target, including the existing royalty obligations, will remain in effect and continue to generate minimum annual royalties to us in Fiscal 2017 until its expiration. Our license agreement with Target covering sales of Cherokee branded products in the school uniforms category will expire at the end of its current term on January 31, 2018, and will continue to generate revenues to us until its expiration. If Target were to reduce its sales of Cherokee branded products prior to expiration of its license, even if Target continues to pay the minimum annual royalties required under the license agreement with Target, any increased revenues we may receive from other licensees or franchisees may not be sufficient to offset such a reduction in royalty revenues from Target. Replacing the royalty payments received from Target is a significant challenge, and we might not be successful in doing so. If we are not successful in replacing the Target royalty payments with equal or greater payments from other partners, including, for instance, our newly engaged wholesale licensees that will sell Cherokee branded products in a wide range of categories in the U.S., the termination of this license agreement on January 31, 2017 could have an adverse effect upon our revenues and cash flows. Our relationship with Target for the Liz Lange brand has been renewed through January 31, 2018. We acquired the Liz Lange brand in part based upon our expectation that revenues from Target for this brand would grow in future periods, although such revenue growth may never occur.

Additionally, as a result of our reliance on Target at least through Fiscal 2017, our continued success is dependent on various factors affecting Target's business, including, for example, perceptions of Target by consumers in the United States. For example, we believe that sales of Cherokee branded products at Target in the United States were adversely impacted following Target's announcement in December 2013 of unauthorized access to payment card data in U.S. stores

Revenues from our Hawk and Tony Hawk brands depend on Kohl's.

In January 2014, we acquired the Hawk and Tony Hawk brands. Concurrently with this acquisition, we entered into a retail license agreement with Kohl's, pursuant to which Kohl's Illinois, Inc. ("Kohl's") is granted the exclusive right to sell Tony Hawk and Hawk-branded apparel and related products in the United States. We agreed to this exclusive license in part based upon our expectation that revenues from Kohl's for these brands will grow in future periods, although this expectation may turn out to be wrong and such revenue growth may never occur beyond the \$4.8 million minimum annual royalty payment required under the license agreement.



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The failure of our licensees to sell products bearing our brands or our franchisees to sell products that generate royalties to us, to pay us royalties for such products or to renew their license or franchise agreements with us could result in a decline in our results of operations.

Our revenues are dependent on royalty payments made to us under our license and franchise agreements. Although the license agreements for our brands in many cases provide for guaranteed minimum royalty payments to us, the failure of our licensees or franchisees to satisfy their obligations under their agreements with us, their decision to not renew their agreements with us or their inability to grow or maintain their businesses could cause our revenues to suffer. Further, while we are substantially dependent on our relationships with Target and Kohl's and expect to continue to be at least through Fiscal 2017 when our agreement with Target for the Cherokee brand will expire, the concurrent failure by several of our other material licensees or franchisees to meet their financial obligations to us or to renew their respective license or franchise agreements could materially and adversely impact our results of operation and our financial condition.

Our franchise business exposes us to numerous risks.

In connection with our acquisition of the Flip Flop Shops brand in October 2015, we acquired, and became the franchisor under, a number of franchise agreements with franchisees of this brand. Many of these franchisees maintain one or more Flip Flop Shops retail stores located across the globe, including in the U.S., Canada, the Caribbean, the Middle East and South Africa. This new Flip Flop Shops franchise business exposes us to a variety of risks, including, among others, that: (i) we may not be able to find capable and experienced franchisees who can implement the Flip Flop Shops brand concept and strategies we believe are necessary for the future growth of this brand or sell merchandise and operate stores in a manner consistent with our standards and requirements, which could limit our revenues from this brand and diminish the image and reputation of this brand and our other brands; (ii) even if we are able to attract capable franchise owners, these franchisees may not be able to open new Flip Flop Shops retail stores in a timely manner, or manage and maintain them once opened, if they cannot secure desirable site locations, obtain adequate financing, construct and develop new store locations without delays and attract qualified operating personnel, which could slow the growth of this brand and reduce our franchise revenues; (iii) the third party brands that are sold at Flip Flop Shops stores could decline in popularity or decide to stop selling their merchandise at some or all of the Flip Flop Shops store locations, which could cause sales at these stores to decline; (iv) neighborhood or economic conditions or other demographic patterns where existing or new Flip Flop Shops stores are located could decline or otherwise change in a negative way, which could result in reduced sales by these store locations; and (v) our franchise business is subject to complex and varying franchise laws and regulations imposed by the U.S. federal, state and foreign jurisdictions in which we operate, and we may need to devote significant costs and resources in order to learn and comply with these laws and regulations.

Our wholesale licensing arrangements subject us to a number of risks.

In our wholesale licensing relationships, we license our brands to manufacturers that produce and import various categories of apparel, footwear, home products and accessories under our trademarks and sell the licensed products to retailers. We have some historical wholesale licensees with respect to some of our brands and we have recently entered into several new wholesale arrangements, primarily covering sales of products bearing our Cherokee brand in the U.S. Wholesale arrangements do not have the minimum annual royalty obligations to the magnitude of our Direct to Retail licensing arrangements (including Target and Kohl's).

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Additionally, in wholesale arrangements, we have limited ability to control various aspects of the manufacturing process, including access to raw materials, the timing of delivery of finished products, and the quality of finished products or manufacturing costs. Our wholesale licensees or any other wholesale licensees we may engage in the future may not be able to produce finished products of the quality or in the quantities that are sufficient to meet retailer demand, in a timely manner or at all, which could result in an inability to generate revenue from any such products and loss of retailer confidence in our brands. On the other hand, wholesale licensees may produce inventory in excess of retailer and consumer demand, in which case over-supply may cause retail prices of products bearing our products to decline. Additionally, there may be delays in the manufacturing process over which we may have no control, including shortages of raw materials, labor disputes, backlogs or insufficient devotion of resources to the manufacture of products bearing our brands. Further, we compete with other brand owners for the time and resources of our wholesalers, which could curtail or limit our ability to engage new or maintain relationships with existing wholesale licensee partners on acceptable terms or at all. Interruptions in the supply of products bearing our brands to retailers or lapses in quality could adversely impact our financial condition. Further, the unplanned loss of any of our wholesale licensees could lead to inadequate market coverage for retail sales of products bearing our brands, create negative impressions of us and our brands with retailers and consumers and add downward pressure on prices of products bearing our brands as a result of liquidating a former wholesaler's inventory of such products.

Our business may be negatively impacted by general economic conditions.

Our performance is subject to worldwide economic conditions and the corresponding impact on levels of consumer spending, which may affect our licensees' and franchisees' retail sales. It is difficult to predict future levels of consumer spending and any such predictions are inherently uncertain. Many factors affect the level of consumer spending in the apparel industries, including, among others, prevailing economic conditions, levels of employment, salaries and wage rates, energy costs, interest rates, the availability of consumer credit, taxation and consumer confidence in future economic conditions. Further, the worldwide apparel industry is heavily influenced by general economic cycles. Purchases of apparel, footwear and accessories tend to decline in periods of recession or uncertainty regarding future economic prospects, as disposable income typically declines. As a result, during periods of economic uncertainty, slowdown or recession, the risks associated with our business are generally more acute. In addition to decreased consumer spending generally, these periods may be accompanied by decreased demand for, or additional downward pricing pressure on, the products carrying our brands. Accordingly, any prolonged economic slowdown, a lengthy or severe recession or any other negative trend in either the U.S. or the global economy is likely to have a material adverse effect on our results of operations, financial condition and business prospects.

We are subject to additional risks associated with our international licensees and franchisees.

We franchise our Flip Flop Shops brand and market and license our other brands outside the United States. Many of our licensees and franchisees are located outside the United States. As a key component of our business strategy, we intend to expand our international sales as well as the support we provide our international licensees and franchisees. During the first quarter of Fiscal 2017, approximately 27% of our revenues were derived from our international licensees. We face numerous risks in doing business outside the United States, including: (i) unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements; (ii) tariffs, trade protection measures, import or export licensing requirements, trade embargos, and other trade barriers; (iii) difficulties in attracting and retaining qualified personnel to manage foreign licensees and franchisees; (iv) competition from foreign companies; (v) longer accounts receivable collection cycles and difficulties in collecting accounts receivable; (vi) less effective and less predictable protection and enforcement of our intellectual property; (vii) changes in the political or economic condition of a specific country or region, particularly in emerging markets; (viii) potentially adverse tax consequences; and (ix) cultural differences in the conduct of business. Any one or more of such factors could cause our future international sales to decline or could cause us to fail to execute on our business strategy involving international expansion. In addition, our business practices in international markets are subject to the

requirements of the Foreign Corrupt Practices Act, any violation of which could subject us to significant fines, criminal sanctions and other penalties.

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Additionally, and because the majority of our international revenue is denominated in U.S. dollars, fluctuations in the value of the U.S. dollar relative to the foreign currencies of our international licensees' or franchisees' operations may negatively impact our royalty revenues. The main foreign currencies we encounter in our operations are the Mexican Peso, the EURO, the Great British Pound, the South African Rand, the Japanese Yen, the Chinese Yuan, and the Canadian Dollar. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations.

Our business and the success of our products could be harmed if we are unable to maintain the strength of our brands.

Our success to date has been due in large part to the strength of our brands. If we are unable to timely and appropriately respond to changing consumer demand, the strength of our brands may be impaired. Even if we react appropriately to changes in consumer preferences, consumers may consider one or more of our brands to be outdated or associate one or more of our brands with styles that are no longer popular. In the past, many apparel companies have experienced periods of rapid growth in sales and earnings followed by periods of declining sales and losses. Our business may be similarly affected in the future.

We are dependent on our intellectual property, and we may not be able to successfully protect our rights or we may become involved in costly legal proceedings regarding our intellectual property.

We hold various trademarks for our brands, including Cherokee, Liz Lange, Completely Me by Liz Lange, Hawk, Tony Hawk, Everyday California, Flip Flop Shops, Sideout and Carole Little and others in connection with apparel, footwear, home and accessories. These trademarks are vital to the success and future growth of our business. These trademarks are registered with the United States Patent and Trademark Office and corresponding government agencies in numerous other countries and we also hold trademark applications for these brands in a number of other countries, although the laws of many countries may not protect our intellectual property rights to the same extent as the laws of the United States. These actions taken by us to establish and protect our trademarks and other proprietary rights might not prevent imitation of our products, infringement of our intellectual property rights by unauthorized parties or other challenges to our intellectual property ownership, or prevent the loss of licensing or franchise revenue or other damages caused thereby. If any of these events occurs, our business prospects, financial condition, results of operations and liquidity could be materially harmed. In the future, we may be required to assert infringement claims against third parties, and one or more parties may assert infringement claims against us. Any resulting litigation could result in significant expense and divert the efforts of our management personnel whether or not such litigation is determined in our favor. Further, if any adverse ruling in any such matter occurs, any resulting limitations in our ability to market or license our brands could have a material adverse effect on our business, financial condition and results of operations.

We may become involved in other litigation and administrative proceedings that may materially affect us.

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including commercial, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations, audits and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any of these actions or legal costs associated with these actions could have a material adverse effect on our business, results of operations or financial condition.

We are dependent on our key management personnel.

Our success is highly dependent upon the continued services of our key executives and employees, including, Henry Stupp, our Chief Executive Officer and a member of our Board of Directors, Howard Siegel, our President and Chief

Operating Officer, Jason Boling, our Chief Financial Officer, and Brian Curin, the President of our subsidiary FFS Holdings, LLC, which manages our Flip Flop Shops franchise operations. We have a limited number of employees and Mr. Stupp's and our other executives' leadership and experience in the apparel licensing industry and Mr. Curin's expertise in the franchising industry is important to the successful implementation of our business and marketing strategy. We do not carry key person life insurance covering any of our executives or other employees. The loss of the services of Mr. Stupp or our other key executives or employees could have a material adverse effect on our business prospects, financial condition, results of operations and liquidity.

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We may encounter difficulties in connection with acquisitions or other strategic transactions and we may not realize the expected benefits from these transactions.

We regularly evaluate opportunities to acquire or represent new brands. During our three most recently completed fiscal years, we have consummated three such acquisitions: our acquisition of the Hawk and Tony Hawk signature apparel brands in January 2014; our acquisition of the Everyday California Lifestyle brand in May 2015; and our acquisition of the Flip Flop Shops brand in October 2015. We expect to continue to consider opportunities to acquire or make investments in other brands or to engage in other strategic transactions that could enhance our portfolio of products and services or expand the breadth of our markets. Our experience integrating acquired assets and businesses is limited, and we may not be successful in realizing the expected benefits from an acquisition. Our future success depends, in part, upon our ability to manage an expanded portfolio of brands, which could involve significantly increased costs and pose substantial challenges for management. Acquisitions and other strategic transactions can involve numerous risks and potential difficulties, including, among others: (i) problems assimilating the brands; (ii) significant future charges relating to the amortization of intangible assets; (iii) problems maintaining and enforcing standards, procedures, controls, policies and information systems; (iv) difficulty and cost in combining the operations and personnel of any acquired businesses with our operations and personnel, and failure to retain key employees of any acquired businesses; (v) unanticipated costs associated with an acquisition, including accounting and legal charges, capital expenditures, and transaction expenses; (vi) diversion of management's attention from our core business or our existing brand portfolio; (vii) adverse effects on existing business relationships with our partners; and (viii) risks associated with entering new markets or new types of business arrangements in which we have no or limited prior experience, such as, for instance, our acquisition of franchise agreements and entry into the franchising business upon our acquisition of the Flip Flop Shops brand in October 2015. Accordingly, our recent acquisitions as well as any future transactions that we pursue could have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, future acquisitions may also require us to obtain additional equity or debt financing, which may not be available when needed, on favorable terms or at all. If we finance future acquisitions or other strategic transactions by issuing equity or convertible debt securities, our existing stockholders would be diluted. If we finance future acquisitions or other strategic transactions by issuing debt, we may become over-leveraged and our ability to operate our business may be restricted by the agreements governing the debt. In addition, we may experience or incur contingent liabilities, amortization expenses or write-offs of goodwill or trademarks in connection with such transactions. Any of these effects could harm our operating results or financial condition.

We have incurred a significant amount of indebtedness to pay the cash consideration for our recent acquisitions. Our level of indebtedness, and restrictions under such indebtedness, could adversely affect our operations and liquidity.

We entered into a credit facility with JPMorgan in September 2012 and we increased the size of the credit facility in January 2013, January 2014 and October 2015, in each case in connection with our acquisition of new brands or new rights relating to existing brands. Approximately \$21 million in principal amount was outstanding under our credit facility as of April 30, 2016, and is evidenced by (i) three term notes, which were issued on January 31, 2013, January 10, 2014 and October 13, 2015 in the principal amounts of \$16.6 million, \$19 million and \$6 million, respectively, and (ii) a revolving line of credit, pursuant to which we may borrow up to \$2 million in principal. Our outstanding indebtedness under the credit facility is due at various maturity dates beginning in August 2017 and ending in October 2020.

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Our indebtedness under the credit facility could adversely affect our operations and liquidity, by, among other things: making it more difficult for us to pay or refinance our debts as they become due during adverse economic and industry conditions because we may not have sufficient cash flows to make our scheduled debt payments; causing us to use a larger portion of our cash flow to fund interest and principal payments, thereby reducing the availability of cash to fund working capital, product development and capital expenditures and other business activities; making it more difficult for us to take advantage of significant business opportunities, such as acquisition opportunities or other strategic transactions, and to react to changes in market or industry conditions; and limiting our ability to borrow additional monies in the future to fund working capital, product development, capital expenditures, brand acquisitions and other general corporate purposes. We may seek to refinance all or a portion of this indebtedness before its applicable maturity date. Any such refinancing would depend on the capital markets and our financial condition at the time, which could affect our ability to obtain attractive refinance terms when desired, or at all.

In addition, the terms of our indebtedness contain various restrictions and covenants regarding the operation of our business, including covenants that require us to obtain JPMorgan's consent before we can: (i) incur additional indebtedness, (ii) consummate acquisitions, mergers or consolidations, (iii) issue any equity securities other than pursuant to our employee equity incentive plans or programs, or (iv) repurchase or redeem any outstanding shares of common stock, other than stock repurchases in an aggregate amount not to exceed \$1.0 million, or pay dividends or other distributions, other than stock dividends, to our stockholders. The credit facility also imposes financial covenants, including a minimum "fixed charge coverage ratio" of at least 1.2 to 1.0 and a limitation of our "senior funded debt ratio" to not exceed a ratio equal to 2.00 to 1.00. Further, as collateral for the credit facility, we granted a security interest in favor of JPMorgan in all of our assets (including trademarks), and our indebtedness is guaranteed by Cherokee's wholly owned subsidiaries.

If an event of default occurs under the credit facility that is not forborne, cured or waived in accordance with the terms of the credit facility, JPMorgan has the right to terminate its obligations under the credit facility, accelerate the payment on any unpaid balance of the credit facility and exercise any other rights it may have, including foreclosing on our assets under the related security agreements. Our failure to comply with the terms of our indebtedness could have a material adverse effect to our business, financial condition and liquidity.

Our future capital needs may be uncertain and we may need to raise additional funds in the future, and such funds may not be available when needed, on acceptable terms or at all.

Our capital requirements in future periods may be uncertain and could depend upon many factors, including: acceptance of, and demand for, our brands; the costs of developing new brands; the extent to which we invest in new brands; the number and timing of our acquisitions and other strategic transactions; the costs associated with our expansion, if any; and the costs of litigation and enforcement activities to defend our trademarks. In the future, we may need to raise additional funds, and such funds may not be available when needed, on favorable terms, or at all. Furthermore, if we issue equity or convertible debt securities to raise additional funds, our existing stockholders would experience dilution and the new equity or debt securities may have rights, preferences, and privileges senior to those of our existing stockholders, and if we incur additional debt to raise funds, we may become over-leveraged and our ability to operate our business may be restricted by the agreements governing the debt. Moreover, we may incur substantial costs in pursuing future capital transactions, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. If we cannot raise funds when needed, on acceptable terms or at all, we may not be able to develop or enhance our products and services, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. This may materially harm our business, results of operations and financial condition.



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Our strategic and marketing initiatives may not be successful.

In recent periods, we have invested significant funds and management time in furtherance of our global strategic and marketing initiatives, which are designed to strengthen our brands, assist our licensees in generating increased sales of products bearing our brands and build value for our stockholders over the long term. We expect to continue and, in some cases, expand such initiatives in future periods. While we are hopeful that our efforts in executing on these initiatives will expand our business and build stockholder value over the long-term, we may not be successful in doing so and such initiatives may not result in the intended benefits. Any failure by us to execute on our strategic initiatives, or the failure of such initiatives to cause our revenues to grow, could have a materially adverse impact on our operating results and financial performance.

We must successfully maintain and/or upgrade our information technology systems.

We rely on various information technology systems, including our Enterprise Resource Planning system, to manage our operations, which subjects us to inherent costs and risks associated with maintaining, upgrading, replacing and changing these systems, including impairment of our information technology, potential disruption of our internal control systems, substantial capital expenditures, demands on management time and delays or difficulties in upgrading existing systems, transitioning to new systems or integrating new systems into our current systems.

Our business and operations would suffer in the event of cybersecurity and other system failures.

Despite the implementation of security measures, our internal computer systems and those of our licensees and franchisees are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Although we have not experienced any such cybersecurity or system failure, accident or breach to date, some of our licensees, including Target, have experienced such events in the past. If such an event were to occur to our internal systems, it could result in a material disruption of our operations, substantial costs to rectify or correct the failure, if possible, loss of or damage to our data or applications, inappropriate disclosure of confidential or proprietary information or the incurrence of other material liabilities. If such events were to occur to our licensees' or franchisees' systems, our royalty revenues could be reduced or disrupted due to decreased sales of our branded products as a result of reputational damage, diversion of costs and other resources from selling products bearing our brands or inability of our licensees or franchisees to calculate royalties or generate royalty reports. Any of these events could severely harm our business, results of operations and prospects.

Unanticipated changes in our tax provisions or adverse outcomes resulting from examination of our income tax returns could adversely affect our net income.

We are subject to income taxes in the United States, California and certain other state jurisdictions. Our effective income tax rates could in the future be adversely affected by changes in tax laws or interpretations of tax laws, or by changes in the valuation of our deferred tax assets and liabilities. Significant judgment is required in determining our provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We may be audited by tax authorities, which could evaluate and disagree with our judgments regarding our tax provisions. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be expensive to defend and materially different from our historical income tax provisions and accruals. The results of an audit or litigation could materially affect our income tax provision, net income or cash flows in the period or periods for which that determination is made. In addition, changes in tax rules may adversely affect our future reported financial results or the way in which we conduct our business.



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Compliance with changing securities laws, regulations and financial reporting standards will increase our costs and pose challenges for our management team.

Existing, changing and new laws, regulations, listing requirements and other standards relating to corporate governance and public disclosure create uncertainty for public companies and significantly increase the costs and risks associated with operating as a publicly traded company in the United States. Our management team devotes significant time and financial resources to comply with existing and evolving standards for public companies. Further, the SEC has passed, promulgated or proposed new rules on a variety of subjects including, for example, with respect to the preparation and filing of financial statements, establishment or disclosure of clawback and hedging policies and disclosure of executive compensation information. The existence of new and proposed laws and regulations relating to our financial reporting or other disclosure obligations or that impose additional or more stringent compliance requirements could make it more difficult for us to attract and retain qualified members of our board of directors (“Board of Directors”), particularly to serve on our audit and compensation committees, and qualified executive officers. In addition, in order to comply with existing and any new or additional requirements, we may need to add additional accounting staff, engage consultants or change our internal practices, standards and policies, which could significantly increase our costs and divert the time and attention of our management team away from revenue generating activities. Notwithstanding our efforts, it is possible in future periods that our financial and other public reporting may not be considered timely, accurate or complete. If reporting delays or errors actually occur, we could be subject to sanctions or investigation by regulatory authorities, such as the SEC, which could involve fines or other penalties, adversely affect our financial results, result in a loss of investor confidence in the reliability of our financial information and other public disclosures, and materially and adversely affect the market price of our common stock.

### Risks Related to Our Common Stock

The trading price of our stock may be volatile and shares of our common stock are relatively illiquid.

The trading price of our common stock is likely to be subject to fluctuations as a result of various factors impacting our business, including (i) our financial results, (ii) announcements by us, our retail partners or our competitors, as applicable, regarding or affecting the retail environment either domestically or internationally, the reputation of our brands, our existing or new license agreements and brand representations or acquisitions, strategic alliances or other transactions, (iii) recruitment or departure of key personnel, (iv) changes in the estimates of our financial results or changes in the recommendations of any securities analysts that elect to follow our common stock, and (v) market conditions in the retail industry and the economy as a whole.

Further, as a result of our relatively small public float, our common stock may be less liquid than the common stock of companies with broader public ownership. Among other things, trading of a relatively small volume of our common shares may have a greater impact on the trading price for our common stock than would be the case if our public float was larger.

We may not pay dividends regularly or at all in the future.

The determination regarding the payment of dividends is subject to the discretion of our Board of Directors, and therefore we may not pay any dividends in future periods, whether or not we generate sufficient cash to do so. In addition, pursuant to our credit facility with JPMorgan, we are prohibited from paying dividends without JPMorgan’s consent and in the event that we would be in violation of our covenant regarding our “fixed charge coverage ratio” after giving effect to any proposed dividend or are otherwise then in default under the credit facility.



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Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

The sale by our stockholders of substantial amounts of our common stock in the public market or the perception that such sales could occur upon the expiration of any statutory holding period, such as under Rule 144 under the Securities Act of 1933, as amended, upon expiration of any lock-up periods applicable to outstanding shares or upon our issuance of shares upon the exercise of outstanding options or warrants or the vesting of restricted stock units, could cause the market price of our common stock to fall. The availability for sale of a substantial number of shares of our common stock, whether or not sales have occurred or are occurring, also could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future when needed, on acceptable terms or at all.

Our Certificate of Incorporation allows our Board of Directors to issue up to 1,000,000 shares of “blank check” preferred stock.

Our Certificate of Incorporation allows our Board of Directors to issue up to 1,000,000 shares of “blank check” preferred stock, without action by our stockholders. Subject to the approval of JPMorgan pursuant to our credit facility, such shares of preferred stock may be issued on terms determined by our Board of Directors in its discretion, and may have rights, privileges and preferences superior to those of our common stock. For instance, such shares of preferred stock could have liquidation rights that are senior to the liquidation preference applicable to our common stock, could have superior voting or conversion rights, which could adversely affect the voting power of the holders of our common stock, or could have other terms that negatively impact the voting control or other rights of our common stockholders. Additionally, the ownership interest of holders of our common stock would be diluted following the issuance of any shares of our preferred stock. Further, the preferred stock could be utilized, under certain circumstances, as a method for discouraging, delaying or preventing a change in control of our Company.

We previously identified material weaknesses in our internal control over financial reporting which could, if repeated, result in material misstatements in our financial statements.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. Material weaknesses or significant deficiencies in our internal control could be discovered or occur in the future. In that case, our consolidated financial statements may be more likely to contain material misstatements, and we could be required to restate our financial results. Any such restatement of our financial results could lead to substantial additional costs for accounting and legal fees and litigation and could cause our stock price to decline.

In addition, our current controls and procedures may not be adequate in future periods to prevent or identify irregularities or errors or to facilitate the fair presentation of our consolidated financial statements. If we fail to maintain the adequacy of our internal controls in accordance with applicable standards, we may be unable to conclude in future periods that our internal control over financial reporting is effective in ensuring the reliability of our financial reports. If we cannot produce reliable financial reports, our business and financial condition could be harmed, investors could lose confidence in our reported financial information and the market price of our common stock could decline significantly. Moreover, our reputation with lenders, retailers, investors, securities analysts and others may be adversely affected.



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## ITEM 5. OTHER INFORMATION

On June 6, 2016, we held our annual meeting of stockholders (the “Meeting”). As of April 7, 2016, the record date for the Meeting, there were 8,720,012 shares of our common stock issued and outstanding and entitled to vote on the proposals presented at the Meeting. A total of 7,838,928 shares, which constituted a quorum, were present in person or by proxy at the Meeting. The holders of shares of our common stock are entitled to one vote for each share held. Set forth below are the final voting results for each of the proposals submitted to a vote of our stockholders at the Meeting.

1. Our stockholders elected the following six persons as directors of the Company, each to serve as such until our annual meeting of stockholders to be held in 2017 or until his respective successor is duly elected and qualified, by the following vote:

| Name           | Votes For | Votes Withheld | Broker Non-Votes |
|----------------|-----------|----------------|------------------|
| Timothy Ewing  | 5,061,270 | 2,007,636      | 770,022          |
| Robert Galvin  | 6,935,368 | 133,538        | 770,022          |
| Keith Hull     | 5,030,176 | 2,038,730      | 770,022          |
| Jess Ravich    | 6,932,382 | 136,524        | 770,022          |
| Henry Stupp    | 6,966,736 | 102,170        | 770,022          |
| Frank Tworecke | 6,832,938 | 235,968        | 770,022          |

2. Our stockholders approved the ratification of the appointment of Ernst & Young LLP to serve as our independent registered public accounting firm for the fiscal year ending January 28, 2017, by the following vote:

| For       | Against | Abstain | Broker Non-Votes |
|-----------|---------|---------|------------------|
| 7,827,553 | 10,259  | 1,116   | n/a              |

3. Our stockholders approved the amendment and restatement of the Cherokee Inc. 2013 Stock Incentive Plan (as amended and restated, the “2013 Plan”) to, among other things, increase the aggregate number of shares available thereunder by 500,000 shares, by the following vote:

| For       | Against | Abstain | Broker Non-Votes |
|-----------|---------|---------|------------------|
| 6,615,091 | 446,833 | 6,982   | 770,022          |

A summary of the 2013 Plan is included in our definitive proxy statement for the proposals voted on at the Meeting filed with the SEC on April 27, 2016, which summary is incorporated herein by reference, and a copy of the 2013 Plan is filed as Exhibit 10.6 hereto and incorporated herein by reference.

4. Our stockholders approved, on an advisory basis, our executive compensation, as disclosed in our definitive proxy statement for the Meeting in accordance with the compensation disclosure rules of the SEC, by the following vote:

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| For       | Against | Abstain | Broker Non-Votes |
|-----------|---------|---------|------------------|
| 6,913,029 | 148,546 | 7,331   | 770,022          |

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## ITEM 6. EXHIBITS

## (a) Exhibits

| Exhibit<br>Number | Description of Exhibit   |
|-------------------|--|
| 10.1*             | Fourth Amendment to Credit Agreement and Waiver, dated as of May 27, 2016, by and between Cherokee Inc. and JPMorgan Chase Bank, N.A.  |
| 10.2*             | Fourth Amendment to Term Note, dated as of May 27, 2016, by and between Cherokee Inc. and JPMorgan Chase Bank, N.A.  |
| 10.3*             | Third Amendment to Line of Credit Note, dated as of May 27, 2016, by and between Cherokee Inc. and JPMorgan Chase Bank, N.A.   |
| 10.4*             | Second Amendment to Term Note B-1, dated as of May 27, 2016, by and between Cherokee Inc. and JPMorgan Chase Bank, N.A.  |
| 10.5*             | First Amendment to Term Note B-2, dated as of May 27, 2016, executed by Cherokee Inc. in favor of JPMorgan Chase Bank, N.A.  |
| 10.6*             | Cherokee Inc. Amended and Restated 2013 Stock Incentive Plan.  |
| 31.1*             | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2*             | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1**            | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2**            | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101*              | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at April 30, 2016 and January 30, 2016; (ii) Consolidated Statement of Operations for the three months ended April 30, 2016 and May 2, 2015; (iii) Condensed Consolidated Statement of Stockholders' Equity for the three months ended April 30, 2016; (iv) Consolidated Statements of Cash Flows for the three months ended April 30, 2016 and May 2, 2015; and (v) Notes to Condensed Consolidated Financial Statements, tagged as block of text. |

\* Filed herewith.

\*\*Furnished herewith.

(1)Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a supplemental copy of any omitted schedules or exhibits to the Securities and Exchange Commission upon request.

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SIGNATURES

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

Dated: June 9, 2016

CHEROKEE INC.

By: /s/ Henry Stupp

Henry Stupp  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Jason Boling

Jason Boling  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)