SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 2, 2015.

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

For the Transition Period From to .

Commission file number 0-18640

CHEROKEE INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4182437**
(State or other jurisdiction of Incorporation or organization)	(IRS employer identification number)
5990 Sepulveda Boulevard, Sherman Oaks, CA	**91411**
(Address of principal executive offices)	Zip Code

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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

Class	**Outstanding at June 5, 2015**
Common Stock, $.02 par value per share	8,668,201

Table of Contents

CHEROKEE INC.

INDEX

Table of Contents

Part 1. Financial Information

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CHEROKEE INC.

CONSOLIDATED BALANCE SHEETS

Unaudited

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

	May 2, 2015	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 8,859	$ 7,581
Receivables	10,566	7,425
Income taxes receivable		919
Prepaid expenses and other current assets	454	431
Deferred tax asset	412	412
Total current assets	20,291	16,768
Trademarks, net	39,626	39,821
Deferred tax asset	595	858
Property and equipment, net	1,243	1,165
Other assets	46	48
Total assets	$ 61,801	$ 58,660
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and other accrued payables	$ 1,974	$ 1,720
Current portion of long term debt	7,308	7,308
Income taxes payable	497	
Deferred revenue current	84	17
Accrued compensation payable	850	1,430
Total current liabilities	10,713	10,475
Long term liabilities:		
Long term debt	16,009	17,836
Income taxes payable	394	391
Other non-current	109	121
Total liabilities	27,225	28,823
Commitments and Contingencies		
Stockholders Equity		
Preferred stock, $.02 par value, 1,000,000 shares authorized, none issued and outstanding		
Common stock, $.02 par value, 20,000,000 shares authorized, 8,629,573 issued and outstanding at May 2, 2015 and 8,558,411 issued and outstanding at January 31, 2015	173	171
Additional paid-in capital	25,190	24,024
Retained earnings	9,213	5,642
Total stockholders equity	34,576	29,837

Total liabilities and stockholders equity	$	61,801	$	58,660

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

Table of Contents

CHEROKEE INC.

CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(amounts in thousands, except per share amounts)

	Three Months ended May 2, 2015	Three Months ended May 3, 2014
Royalty revenues	$ 10,230	$ 9,960
Selling, general and administrative expenses	4,230	4,562
Amortization of trademarks	210	232
Operating income	5,790	5,166
Other income (expense):		
Interest (expense)	(176)	(241)
Income before provision for income taxes	5,614	4,925
Income tax provision	2,043	1,333
Net income	$ 3,571	$ 3,592
Basic earnings per share	$ 0.42	$ 0.43
Diluted earnings per share	$ 0.41	$ 0.43
Weighted average shares outstanding:		
Basic	8,565	8,396
Diluted	8,761	8,423
Dividends declared per share	$ 0.00	$ 0.05

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

Table of Contents

CHEROKEE INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(amounts in thousands)

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
Net income	$ 3,571	$ 3,592
Other comprehensive income		
Comprehensive income	$ 3,571	$ 3,592

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

Table of Contents

CHEROKEE INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Unaudited

(amounts in thousands)

	Common Stock		Additional Paid-in	Retained	
	Shares	Par Value	Capital	Earnings	Total
Balance at January 31, 2015	8,558	$ 171	$ 24,024	$ 5,642	$ 29,837
Stock-based compensation			332		332
Tax effect from stock option exercises			112		112
Stock option exercises and equity issuances, net of tax	71	2	722		724
Net income				3,571	3,571
Balance at May 2, 2015	8,629	$ 173	$ 25,190	$ 9,213	$ 34,576

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

Table of Contents

CHEROKEE INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(amounts in thousands)

	Three Months Ended	
	May 2, 2015	May 3, 2014
Operating activities		
Net income	$ 3,571	$ 3,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	96	102
Amortization of trademarks	210	232
Deferred income taxes	31	296
Reversal of uncertain tax liabilities		(738)
Stock-based compensation	332	190
Excess tax benefit from share-based payment arrangements	(151)	
Other, net	(1)	11
Changes in operating assets and liabilities:		
Receivables	(3,141)	(4,103)
Prepaids and other current assets	(23)	(310)
Income taxes receivable and payable, net	1,763	737
Accounts payable and other accrued payables	254	(430)
Deferred revenue	67	(59)
Accrued compensation	(783)	175
Net cash provided by (used in) operating activities	2,225	(305)
Investing activities		
Purchase of property and equipment	(174)	(161)
Purchases of trademarks, including registration and renewal cost	(15)	(20)
Net cash used in investing activities	(189)	(181)
Financing activities		
Payments of JPMorgan Term Loan	(1,836)	(1,519)
Proceeds from exercise of stock options	927	
Excess tax benefit from share-based payment arrangements	151	
Net cash used in financing activities	(758)	(1,519)
Increase (decrease) in cash and cash equivalents	1,278	(2,005)
Cash and cash equivalents at beginning of period	7,581	3,634
Cash and cash equivalents at end of period	$ 8,859	$ 1,629
Cash paid during period for:		
Income taxes	$ 371	$ 1,089
Interest	163	229

Non-cash financing activities:		
Accrued and declared dividends	$	$ 420

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

Table of Contents

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 May 2, 2015 and for the three month periods ended May 2, 2015 and May 3, 2014 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 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 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 31, 2015 has been derived from audited consolidated financial statements, but does not include all disclosures required by GAAP. The results of operations for the three month period ended May 2, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending January 30, 2016. 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 31, 2015.

As used herein, the term First Quarter or Three Months refers to the three months ended May 2, 2015; the term Fiscal 2016 refers to the fiscal year ending January 30, 2016; the term Fiscal 2015 refers to the most recent past fiscal year ended January 31, 2015; and the term Fiscal 2014 refers to the fiscal year ended February 1, 2014.

(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 its 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, current economic conditions, bankruptcy, and other factors that may affect the Company s licensees ability to pay. There was no allowance for doubtful accounts as of May 2, 2015 or January 31, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued new guidance surrounding revenue from contracts with customers noting that an entity should 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. This guidance is effective for fiscal periods beginning after December 15, 2016. The anticipated impact of the adoption of this guidance on the Company is still being evaluated.

In August 2014, the Financial Accounting Standards Board issued authoritative guidance that requires an entity s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern and requires additional disclosures if certain criteria are met. This guidance is effective for fiscal periods ending after December 15, 2016. The adoption of this guidance will not impact the Company s consolidated financial statements or related disclosures.

In February 2015, the Financial Accounting Standards Board issued authoritative guidance which modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This guidance is effective for fiscal periods beginning after December 15, 2015, and allows for either full retrospective or modified retrospective adoption, with early adoption permitted. The adoption of this guidance is not expected to impact the Company s consolidated financial statements or related disclosures.

Use of Estimates

On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, valuation of long-lived assets, 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 May 2, 2015 and January 31, 2015, 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 revenue recognition policy provides for recognition of royalties in the quarter earned. The Company s agreement with Target Corporation (Target) for the Cherokee brand in the U.S. accounts for the majority of the Company s historical revenues and 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 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 Cherokee branded products in the U.S. for the fiscal year. Historically, with Target, this has caused the Company s first quarter to be the Company s highest revenue and most profitable quarter and the Company s fourth quarter to be the Company s lowest revenue and least profitable 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 from Target or other licensees that may or may not be subject to reduced royalty rates based upon cumulative sales, including with respect to the Company s Liz Lange and Completely Me by Liz Lange brands, Cherokee brand in the school uniforms category, Cherokee adult products sold on Target s website, and the recently acquired Hawk and Tony Hawk brands.

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 statement of the current reporting period.

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.

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.

Property and Equipment

Property and equipment consist of the following:

	May 2, 2015	January 31, 2015
Computer Equipment	$ 596	$ 426
Software	62	62
Furniture and Store Fixtures	1,458	1,457
Leasehold Improvements	415	413
Less: Accumulated depreciation	(1,288)	(1,193)
Property and Equipment, net	$ 1,243	$ 1,165

Table of Contents

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 licensee agreement. Leasehold improvements are depreciated over the shorter of five years, or the remaining life of the lease term. Depreciation expense was $96 and $102 for the three month periods ended May 2, 2015 and May 3, 2014, respectively.

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 May 2, 2015 and May 3, 2014:

	Three Months Ended	
	May 2, 2015	May 3, 2014
Numerator:		
Net income-numerator for net income per common share and net income per common share assuming dilution	$ 3,571	$ 3,592
Denominator:		
Denominator for net income per common share weighted average shares	8,565	8,396
Effect of dilutive securities:		
Stock options	196	27
Denominator for net income per common share, assuming dilution:		
Adjusted weighted average shares and assumed exercises	8,761	8,423

The computation for diluted number of shares excludes unexercised stock options which are anti-dilutive. There were 35 and 880 anti-dilutive shares for the three month periods ended May 2, 2015 and May 3, 2014 respectively.

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 the dilutive potential common shares had been issued. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method since the nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, earnings attributable to nonvested restricted stockholders are excluded from net earnings attributable to common stockholders for purposes of calculating basic and diluted earnings per common share. There is no material impact on the calculation under the two-class method.

Significant Contracts

The terms of the Company s relationship with Target as of the date of this report 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) in Fiscal 2015 and in future periods 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 guaranteed 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. The current term of the Restated Target Agreement continues through January 31, 2017; however, the Restated Target Agreement may be renewed by Target for additional two year terms by providing written notice of renewal at least one year prior to the end of the then current extended restated term.

Under the current terms of the Restated Target Agreement, the minimum annual guaranteed royalty for Target 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 guaranteed royalty 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 for sales of Cherokee branded products in the school uniforms category and, beginning in Fiscal 2015, other than for 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 assets in September 2012.

In connection with the acquisition of the Hawk and Tony Hawk signature apparel brands and related trademarks (the Hawk Acquisition), Cherokee and Kohl s Department Stores (Kohl s) entered into an amended license agreement. Pursuant to such amendment, Kohl s is granted the exclusive right to sell Tony Hawk and Hawk branded apparel and related products in the United States 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 guaranteed royalty of $4,800 for four years.

Stock-Based Compensation

Effective July 16, 2013, the Company s stockholders approved the 2013 Stock Incentive Award 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 such 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 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 $178, as compared to $164 for the comparable period in the prior year.

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

	Shares		Weighted Average Price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value
Outstanding, at January 31, 2015	1,185,767	$	15.89	3.49	$	2,910
Granted	15,000	$	19.64			
Exercised/cancellations for net settlements	(115,932)		14.74			
Expired/forfeited	(46,167)	$	14.84			
Outstanding, at May 2, 2015	1,038,668	$	16.12	3.29	$	5,826
Vested and Exercisable at May 2, 2015	680,833	$	16.96	2.43	$	3,256

Table of Contents

As of May 2, 2015, total unrecognized stock-based compensation expense related to non-vested stock options was approximately $899, which is expected to be recognized over a weighted average period of approximately 1.64 years. The total fair value of all options which vested during the Three Months was $204.

Restricted Stock and Restricted Stock Units

In 2013, the Compensation Committee of the Company s board of directors (the Board of Directors) granted certain performance-based equity awards to executives under the Company s 2006 Stock Plan.

The performance metric applicable to such awards is compound stock price growth, using the closing price of the Company s Common Stock on February 1, 2013, or $13.95, as the benchmark. The target growth rate is 10% annually, which results in an average share price target of (i) $15.35 for Fiscal 2014, (ii) $16.88 for Fiscal 2015 and (iii) $18.57 for the Company s fiscal year ending in 2016. The average share price will be calculated as the average of all market closing prices during the January preceding 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, 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. The target average share price was met for Fiscal 2015, which resulted in the vesting of two thirds of the shares subject to each award

Since the vesting of these performance-based equity awards are subject to market based performance conditions, the fair value of these awards were 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 grant and calculates the fair market value for the performance 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.

Pursuant to a compensation program for non-employee directors adopted by the Compensation Committee, at the meeting of the Board of Directors held in June each year, each non-employee member of the Board of Directors must make an election regarding the percentage, up to 100%, of his annual compensation for service on the Board of Directors to be paid in equity, in the form of restricted stock units (RSU s). All of the RSU s issuable under this program in June 2014 were approved and granted on July 28, 2014. The fair value of these awards was measured on the effective date of grant using the price of the Company s common stock.

The RSU s awarded to the non-employee directors are subject to the terms of the 2013 Plan and RSU agreements that provide for quarterly vesting over a one year service period of August 4, 2014 through August 3, 2015, subject to acceleration of vesting upon the earlier to occur of the following: (i) a change in control of the Company, (ii) the death of the recipient or (iii) the recipient s failure to be re-elected to the Board of Directors in any election in which the recipient stands for re-election.

In August 2014, the Compensation Committee of the Company s Board of Directors granted a sales-based performance-based equity award to an employee under the 2013 Plan, which vests in five increments dependent upon achievement of certain annual sales targets. The fair value of this award was measured on the effective date of grant using the price of the Company s common stock.

Stock-based compensation expense for shares of restricted stock and performance stock units for the Three Months was $154 compared to $26 for the comparable period in the prior year.

	Number of Shares		Weighted Average Grant-Date Fair Value
Unvested stock at January 31, 2015	76,936	$	13.02
Granted			
Vested	(6,645)		16.67
Forfeited			
Unvested stock at May 2, 2015	70,291	$	12.68

Table of Contents

As of May 2, 2015, total unrecognized stock-based compensation expense related to restricted stock and performance stock units was approximately $425, which is expected to be recognized over a weighted average period of approximately 1.76 years.

Trademarks

The Company holds various trademarks including Cherokee®, Liz Lange®, Completely Me by Liz Lange®, Hawk®, Tony Hawk®, 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, Sideout, Sideout Sport, Carole Little, Chorus Line, Saint Tropez-West, 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.

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 its useful life to Cherokee. Trademarks are evaluated for the possibility of impairment at least annually.

Trademarks consist of the following:

	May 2, 2015	January 31, 2015
Acquired Trademarks	$ 47,994	$ 47,994
Other Trademarks	8,636	8,621
Accumulated amortization	(17,004)	(16,794)
Total	$ 39,626	$ 39,821

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 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. 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 what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company s own data.

Income Taxes

Income tax expense of $2,043 was recognized for the First Quarter, resulting in an effective tax rate of 36.4% in the First Quarter, as compared to 27.1% in the first quarter of last year and compared to 32.4% for the full year of Fiscal 2015. The effective tax rate for the First Quarter differs from the statutory rate due to the effect of certain permanent nondeductible expenses and the apportionment of income among state jurisdictions.

Table of Contents

The amount of unrecognized tax benefits was approximately $449 and $449, respectively, at May 2, 2015 and January 31, 2015. At May 2, 2015, approximately $296 of unrecognized tax benefits would, if recognized, affect the effective tax rate.

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 $5 as compared with $(191) in the first quarter of last year. As of May 2, 2015 and January 31, 2015, respectively, the total amount of accrued interest and penalties included in the liability for unrecognized tax benefits was $89 and $84.

The Company has unrecognized tax benefits pertaining to the issue of its taxability in various state tax jurisdictions. It is reasonably possible that the amount of unrecognized tax benefits may decrease within the next 12 months as a result of the Company s interaction with these various state tax jurisdictions. The Company anticipates that the total amount of unrecognized tax benefits may decrease in the next 12 months by approximately $449.

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 2012 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 2011 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 totaled $243 and $164 for the three month periods ended May 2, 2015 and May 3, 2014, 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 May 2, 2015 and May 3, 2014 were $218 and $49, respectively, and are included in the 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 May 2, 2015 and May 3, 2014, the Company has 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.

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.

Table of Contents

(3) Debt

Credit Agreement with JPMorgan Chase

On September 4, 2012, and in connection with the acquisition of the Liz Lange and Completely Me by Liz Lange brands, Cherokee and JPMorgan Chase (or 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 and was further amended on January 10, 2014 in connection with the Hawk Acquisition. Effective January 10, 2014, Cherokee and JPMorgan entered into amendments to each of (i) the Credit Agreement, (ii) the existing term note, which was originally issued by Cherokee in favor of JPMorgan as of September 4, 2012 and previously amended by the parties effective January 31, 2013 (as amended, the 2013 Term Note) and (iii) the line of credit note, which was issued by Cherokee in favor of JPMorgan as of September 4, 2012 (as amended, the Revolver). In addition, pursuant to the Credit Agreement, JPMorgan issued to Cherokee a new term note (the 2014 Term Note and, together with the foregoing amendments, the Loan Agreement Amendments) in the principal sum equal to the purchase price in the Hawk Acquisition, or $19,000. The 2014 Term Note bears interest equal to either: (i) an adjusted annual LIBOR rate reset monthly, bimonthly 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 one 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) 2.50 to 1.00 until the fiscal quarter ending October 31, 2014, (ii) 2.25 to 1.00 from the fiscal quarter ending January 31, 2015 until the fiscal quarter ending January 31, 2016, and (iii) 2.00 to 1.00 thereafter. Prior to the effectiveness of the January 2014 amendment to the Credit Agreement, such limitation on Cherokee s senior funded debt ratio was fixed at 2.00 to 1.00 for all periods. In addition, pursuant to the Loan Agreement Amendments, the interest rate that applies to the 2013 Term Note and to the Revolver was amended to equal either: (i) an adjusted annual LIBOR rate reset monthly, bimonthly or quarterly, plus 2.25% or 2.5% depending on the applicable senior funded debt ratio or (ii) the Bank 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%.

Following the issuance of the 2014 Term Note, Cherokee s total borrowings under the Credit Agreement (collectively, the Loan) is evidenced by (i) the 2013 Term Note, which was issued in the principal amount of $16,600 and is payable on a quarterly basis through August 2017 and of which $8,820 was outstanding as of May 2, 2015, (ii) the Revolver, which provides Cherokee with a revolving line of credit in the principal amount of $2,000, none of which is outstanding as of May 2, 2015 and (iii) the 2014 Term Loan, which was issued in the principal amount of $19,000 and is payable on a quarterly basis through November 2018 and of which approximately $14,497 is outstanding as of May 2, 2015. Cherokee paid an upfront fee equal to $95 in connection with the issuance of the 2014 Term Loan.

Consistent with the existing terms of the Credit Agreement, the Loan is 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 following the Hawk Acquisition, (iii) issue any equity securities other than pursuant to Cherokee s employee equity incentive plans or programs and (iv) repurchase or redeem any outstanding shares of common stock 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 Loan. In the event of a default under the Credit Agreement, the Bank has the right to terminate its obligations under the Credit Agreement, accelerate the payment on any unpaid balance of the Credit Agreement and exercise its other rights, including foreclosing on Cherokee s assets under the security agreements. As of May 2, 2015, the Company was in compliance with these financial covenants.

(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.

Table of Contents

Litigation

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 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 May 2, 2015 or January 31, 2015 related to any of the Company s legal proceedings.

(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 separate 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 which 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 some of the Company s licensees that are located all around the world. Revenues by geographic area based upon the licensees country of domicile consisted of the following:

	Three Months Ended	
	May 2, 2015	**May 3, 2014**
U.S. and Canada	$ 7,740	$ 7,567
Asia	869	872
Latin America	545	648
All Others	672	540
United Kingdom and Europe	404	333
Total	$ 10,230	$ 9,960

Long-lived tangible assets have been located in the U.S., United Kingdom, Mexico and Asia with net values of approximately $895, $0, $283 and $65 as of May 2, 2015 and net values of approximately $794, $0, $299 and $72 as of January 31, 2015.

Table of Contents

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 31, 2015 contained in our 2015 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on April 16, 2015, as well as the consolidated financial statements and notes contained therein (collectively, our Annual Report). In addition to historical information, the following discussion and analysis 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 Quarterly 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 discussion and analysis, 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 term First Quarter or Three Months refers to the three months ended May 2, 2015; the term Fiscal 2016 refers to the fiscal year ending January 30, 2016; the term Fiscal 2015 refers to the most recent past fiscal year ended January 31, 2015; and the term Fiscal 2014 refers to the fiscal year ended February 1, 2014.

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 2015, Fiscal 2014 and Fiscal 2013 was a 52-week, 52-week and 53-week fiscal year, respectively. 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.

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 and àle by alessandra brands 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 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 turn-key solution. Cherokee provides its licensees with a proprietary 360-degree turn-key solution that seamlessly integrates with the DTR model. Our retail responsiveness process and 360-degree unique value proposition have allowed for Cherokee 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 are constantly being measured, evaluated and incorporated into our 360-degree turn-key solution, we believe Cherokee has become a key strategic partner to our licensees. We refer to this strategy as our Direct to Retail or DTR licensing model. As of May 2, 2015, we had thirty-one continuing license agreements covering both domestic and international markets, thirteen of which pertained to the Cherokee brand.

We derive revenues from licensing our trademarks to retailers all over the world. Our current retail licensee relationships cover over fifty countries and nearly 7,000 retail stores and online businesses and include relationships with Target, Kohl s, RT Mart, Comercial Mexicana, TJ Maxx, Nishimatsuya and Argos. Our two most significant licensees are Target Corporation (Target) and Kohl s Illinois, Inc. (Kohl s).

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.

Table of Contents

Management s discussion and analysis of financial condition and results of operations 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. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, deferred taxes, impairment of long-lived assets, contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ 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:

- Revenue recognition;
- Provision for income taxes and deferred taxes;
- 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.

Results of Operations

The following table sets forth for the periods indicated certain of our consolidated financial data.

(amounts in thousands)	**Three Months ended May 2, 2015**	**Three Months ended May 3, 2014**

Royalty revenues	$	10,230	$	9,960
Selling, general, administrative and amortization expenses		4,440		4,794
Operating income		5,790		5,166
Interest (expense)		(176)		(241)
Income tax provision		2,043		1,333
Net income	$	3,571	$	3,592

Revenues

In the First Quarter, our revenues totaled $10.2 million, as compared to $10.0 million in the first quarter ended May 3, 2014. Revenues for the first quarter periods ended May 2, 2015 and May 3, 2014 were primarily generated from licensing our trademarks to retailers and to a lesser extent wholesalers and our share of licensing revenues from brand representation licensing agreements with other brand owners. The increase in revenues was principally due to increased revenues from Cherokee-branded products at international retailers and increases with our other brands.

Total worldwide retail sales of merchandise bearing the Cherokee brand totaled approximately $330 million and approximately $342.4 million in the first quarter periods of Fiscal 2016 and Fiscal 2015, respectively.

Because we do not have direct oversight over our licensees, 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 and Hawk and Tony Hawk branded products in various product categories in the U.S., we expect that our first quarter will continue to be our highest revenue and profitability quarter and our fourth quarter will continue to be our lowest revenue and profitability quarter.

Additionally, we are transitioning in Canada from Target Canada to Sears Canada for our Cherokee and Liz Lange brands and from Tesco to Argos in the United Kingdom for our Cherokee brand. We expect no sales of these brands in Canada and the UK for the second and third quarter of Fiscal 2016, with revenues from these new licensees to begin during the fourth quarter of Fiscal 2016.

Table of Contents

The following table sets forth our revenues by brand for the three months ended May 2, 2015 and May 3, 2014.

(dollar amounts in thousands)	Three Months ended May 2, 2015		Three Months ended May 3, 2014	
Royalty Revenue	**Royalty Revenue**	**% of Total Revenue**	**Royalty Revenue**	**% of Total Revenue**
Cherokee Brand Royalty Revenues	$ 7,944	77%	$ 7,900	79%
Hawk Brand Royalty Revenues	1,215	12%	1,240	12%
Liz Lange Brand Royalty Revenues	671	7%	647	7%
All Other Brand Revenues	400	4%	173	2%
Total Royalty Revenue	**$ 10,230**	**100%**	**$ 9,960**	**100%**

Geographic Revenues

The following table sets forth our geographic licensing revenues for the three months ended May 2, 2015 and May 3, 2014.

	Three Months Ended May 2, 2015		Three Months Ended May 3, 2014	
	Royalty Revenue	**% of Total Revenue**	**Royalty Revenue**	**% of Total Revenue**
U.S. and Canada	$ 7,740	76%	$ 7,567	76%
Asia	869	8%	872	9%
Latin America	545	5%	648	7%
All Others	672	7%	540	5%
United Kingdom and Europe	404	4%	333	3%
Total	**$ 10,230**	**100%**	**$ 9,960**	**100%**

U.S. and Canada

Target

Target currently has approximately 1,780 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 $267 million from $274 million in the first quarter of last year. 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 its products bearing the Liz Lange brand in the U.S.

Under the current terms of the restated Target agreement, the minimum annual guaranteed royalty for Target is $10.5 million 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 guaranteed royalty of $0.8 million).

Royalty revenues from our Cherokee brand at Target U.S., which excludes sales of Cherokee branded products in Canada and Cherokee branded products sold in the school uniforms category were $5.3 million in the First Quarter and $5.5 million in the first quarter of last year, which accounted for 52% and 55%, respectively, of our consolidated revenues for such periods.

Kohl s

Kohl s currently has approximately 1,200 stores in the United States. Retail sales of Hawk branded products at Kohl s in the U.S. were lower in the First Quarter at $18.8 million from $25.8 million in the first quarter of last year.

Royalty revenues from our Hawk brand at Kohl s were $1.2 million in the First Quarter and for the first quarter of last year, which accounted for 12% of our consolidated revenues for such periods.

Table of Contents

United Kingdom and Europe

We terminated our license agreement with Tesco as of January 31, 2015 and entered into a new license agreement with Argos, a subsidiary of Home Retail Group plc, to launch a broad assortment of Cherokee lifestyle products online, in catalog and in more than 750 Argos stores across the United Kingdom and Ireland in the fall of 2015.

Latin America, Asia and others

Other international royalty revenues in the First Quarter remained flat at $2.1 million from the first quarter of Fiscal 2015. This total includes licensees for Japan, China, Mexico, South Africa, Peru, Israel, Chile, India, and other territories.

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 strengthened, the 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 2015 was an approximate $0.2 million decrease.

Selling, General and Administrative

The following table sets forth additional detail information regarding the components for selling, general and administrative expenses for the three months ended May 2, 2015 and May 3, 2014.

(amounts in thousands)	**Three Months ended May 2, 2015**	**Three Months ended May 3, 2014**
Personnel expenses (including salaries, taxes, benefits, consultants and bonus)	$ 2,192	$ 2,665
Corporate expenses	1,021	1,006
Marketing expenses	397	326
Product development expenses	192	273
Non cash stock compensation	332	190
Depreciation and amortization	306	334
Total selling, general, administrative and amortization expenses	$ 4,440	$ 4,794

Selling, general and administrative expenses, including amortization of trademarks, were $4.4 million for the First Quarter, compared to $4.8 million for the first quarter for Fiscal 2015, representing a decrease of $0.4 million. The decrease is due to the timing of personnel changes.

Interest and Other Income

Our interest expense for the First Quarter was $0.2 million compared to $0.2 million for first quarter of Fiscal 2015.

Tax Provision

During the First Quarter, we recorded a tax provision of $2.0 million, which equates to an effective tax rate of 36.4%, as compared to a tax provision of $1.3 million, and an effective tax rate of 27.1% recorded for the first quarter of last year. The effective tax rate for the First Quarter differs from the statutory rate due to the effect of certain permanent nondeductible expenses and the apportionment of income among state jurisdictions. In the first quarter of last year, the effective tax rate differed from the statutory rate due to the effect of certain permanent nondeductible expenses, the apportionment of income among state jurisdictions, and the recognition of approximately $0.5 million, net of federal effect, of previously unrecognized tax benefits upon the conclusion of income tax examinations during the first quarter of last year by the States of California and New York and upon entering into a tax amnesty agreement with the State of New Jersey.

Net Income

During the First Quarter, our net income was $3.6 million, or $0.41 per diluted share, compared to $3.6 million, or $0.43 per diluted share, for the first quarter of Fiscal 2015.

Table of Contents

Liquidity and Capital Resources

Cash Flows. On May 2, 2015, we had cash and cash equivalents of $8.9 million, which represented an increase of $1.3 million from January 31, 2015.

During the Three Months, cash provided by our operations was $2.2 million, compared to cash used in our operations of $0.3 million for the three months of Fiscal 2015. The increase of $2.5 million during the First Quarter was primarily due to the changes in: (i) tax receivables and payables, net, which increased by $1.8 million in the First Quarter, as compared to an increase of $0.7 million in the first quarter of Fiscal 2015 (ii) accounts receivable, which increased by $3.1 million in the First Quarter, as compared to an increase of $4.1 million in the prior year, which was primarily due to the increase in royalty revenues received from the Tony Hawk brand in first quarter of Fiscal 2015; (iii) accounts payable, which increased by $0.3 million in the First Quarter as compared to a decrease of $0.4 million in the first quarter of last year, which we attribute primarily to acquisition related expenses incurred in Fiscal 2014.

Cash used by investing activities during the Three Months was $0.2 million, which consisted of capital expenditures of property and equipment and trademark registration and renewal costs. In comparison, during the three months of Fiscal 2015, cash used by investing activities was $0.2 million, which also consisted of capital expenditures of property and equipment and trademark registration and renewal costs.

Cash used in financing activities was $0.8 million during the Three Months, which consisted of principal payments of $1.8 million on our 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. In comparison, during the three months of Fiscal 2015, cash used in financing activities was $1.5 million, which consisted of principal payments of $1.5 million for the term loan with JP Morgan.

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 (the Board of Directors), and, to a lesser extent, to fund capital expenditures. 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.

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 funds made available to us pursuant to the revolving line of credit issued by JPMorgan. 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.

We cannot predict our revenues and cash flow 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 fall out of compliance with the terms of our credit facility 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. See Risk Factors in Item 1A of Part II of this quarterly report on Form 10-Q.

As of May 2, 2015, we were not the guarantor of any other material third-party obligations and did not have any irrevocable repurchase obligations.

Seasonality

We have agreed to certain contractual royalty rate reductions with our two most significant licensees, Target and Kohl s, for sales of certain Cherokee branded products and Hawk and Tony Hawk 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, this has caused our first quarter to be our highest revenue and profitability quarter and our fourth quarter to be our lowest revenue and profitability quarter. However, such historical patterns and seasonal trends may vary significantly in future periods, depending upon retail sales volumes achieved in each quarter by Target and Kohl s, the revenues we receive from Target and our other licensees that are not subject to reduced royalty rates based upon cumulative sales, and the terms of any new license agreements.

Table of Contents

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 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.

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 sheet 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 period ended May 2, 2015.

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 flow. For the Three Months, revenues from international licensing activities comprised 26% of our total 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 for the Three Months, which represents 3% of the total revenues reported. As the U.S. dollar strengthened, the 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 2015 was an approximate $0.2 million decrease. Such change is not considered to represent a material effect on our results of operations or cash flow.

ITEM 4. CONTROLS AND PROCEDURES

(a) *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 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 May 2, 2015.

(b) *Changes in Internal Control Over Financial Reporting.* During our most recent fiscal quarter, there were no changes in our internal control over financial reporting identified in connection with the evaluation described above that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which 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

In addition to the other information contained herein or incorporated herein by reference, the risks and uncertainties and other factors described below 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 the results contemplated by any forward-looking statement we may make herein, in any other document we file with the Securities and Exchange Commission, or in any press release or other written or oral statement we may make. Please also see Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements for additional risks and uncertainties applicable to us. The risks described below and elsewhere in this Quarterly 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 business operations.

Our business is subject to intense competition.

Royalties paid to us under our licensing agreements are generally based on a percentage of our licensee s net sales of licensed products. Cherokee, Carole Little and Sideout brand footwear, apparel, and accessories, together with merchandise bearing our Liz Lange, Completely Me by Liz Lange, Hawk and Tony Hawk brands, all of which are manufactured and sold by both domestic and international wholesalers and retail licensees, 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 which 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 towards consolidation of retailers and what appears to be a de-emphasis by retailers on the manufacture of private label merchandise, 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. Therefore, our degree of success is dependent on the strength of our brands, consumer acceptance of and desire for our brands, and our licensees ability to design, manufacture and sell products bearing our brands and 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 commit to supporting our brands, and our licensees may choose to support other brands to the detriment of our brands because our license agreements generally do not prevent our licensees from licensing from our competitors. In addition, we complete with other companies owning established trademarks, which have entered into, and could continue to enter into, similar arrangements with retailers in the U.S. and internationally, including with our existing retail partners, thereby competing with us for consumer attention and limited floor and rack space in the same stores in which our branded products are sold.

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

There are numerous risks and other factors applicable to the businesses of retailers (including our licensees) that can impact the sale of products that bear our brands. Any decline in sales by one or more of our licensees can adversely affect our revenues.

Table of Contents

Factors that may adversely affect our licensees and their sales of products bearing our brands 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 to market and sell our branded 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; (vi) shifts in the seasonality of shopping patterns; (vii) declining retail prices; (viii) labor strikes or other interruptions that impact supply chains and transport vendors, such as the recent labor strikes impacting ports in California and the Pacific Northwest and products that move through these channels; (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. For example, we believe that sales of Cherokee branded products at Target in the United States after the fourth quarter of Fiscal 2014 were adversely impacted following Target s announcement of unauthorized access to payment card data in U.S. stores, which resulted in fewer revenues to Cherokee than we otherwise may have received from Target absent such announcement.

We rely on the accuracy of our licensees 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.

Most of our revenues are generated from retailers who license our brands for manufacture and sale of products bearing our brands in their stores and on their websites. Under our existing agreements, these licensees pay us licensing fees based in part on the retail value of products sold. We rely on our licensees to accurately report the retail sales in collecting our license fees, preparing our financial reports, projections and budgets, and directing our sales and marketing efforts. All of our license agreements permit us to audit our licensees. If any of our licensee reports understate the retail sales of products they sell, we may not collect and recognize revenues to which we are entitled, or may endure significant expense to obtain compliance.

Our business is dependent on the success of our Direct to Retail licensing model.

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 the products sold with 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 largely 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 are increasing trends towards consolidation of retailers and de-emphasis on the manufacture of private label merchandise, which would 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.

Our business is largely dependent on royalties from Target.

Royalty revenues from our Cherokee brand at Target accounted for greater than 40% of our consolidated revenues during each of Fiscal 2015, Fiscal 2014, and Fiscal 2013. We could suffer substantially decreased royalty revenues and cash flow if Target were to reduce its sales of Cherokee branded products, even if Target continues to pay the minimum annual royalty of $10.5 million required under our license agreement with Target. For instance, in January 2015, Target announced the discontinuation of its operations in Canada. Moreover, any further limitations of Target s operations could severely reduce its sales of products bearing our brands and its royalty payments to us. Replacing the royalty payments received from Target would be a significant challenge and we might not be successful in doing so, and the termination of this license agreement, which currently extends through January 31, 2017, would have a material adverse effect upon our revenues and cash flow. In addition, in September 2012 we expanded our relationship with Target as a result of our assumption of an additional license agreement with Target for the Liz Lange brand, which we assumed in connection with our acquisition of assets related to such brand. We further expanded our relationship with Target in connection with our January 2013 acquisition of rights to the Cherokee brand in the category of school uniforms. We acquired the Liz Lange brand as well as our rights to the Cherokee brand for the school uniforms category in part based upon our expectation that revenues from Target for this brand and the school uniforms category will grow in future periods, although such revenue growth may never occur. As a result of our reliance on Target, 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 after the fourth quarter of Fiscal 2014 were adversely impacted following Target s announcement of unauthorized access to payment card data in U.S. stores.

Table of Contents

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

In January 2014, we acquired the Hawk and Tony Hawk brands from Quiksilver, Inc. Concurrently with this acquisition, we entered into a retail license agreement with Kohl s , pursuant to which 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 such 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 guaranteed under the license agreement. We have recently entered into a new agreement to license the Hawk and Tony Hawk brands in the United Kingdom, but we do not expect to generate any material revenue from this license in fiscal year 2016.

The failure of our licensees to sell products bearing our brands or to pay us royalties for such products could result in a decline in our results of operations.

Our revenues are dependent on royalty payments made to us under our licensing agreements. Although the licensing agreements for our brands in most cases provide for guaranteed minimum royalty payments to us, the failure of our licensees to satisfy their obligations under these agreements 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, the concurrent failure by several of our other material licensees to meet their financial obligations to us could materially and adversely impact our results of operation and our financial condition.

Our business may be negatively impacted by general economic conditions.

Our performance is subject to worldwide economic conditions and its corresponding impact on levels of consumer spending, which may affect our licensees 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. During periods of economic uncertainty, we may not be able to maintain or increase our revenues. As a result, our operating results may be materially affected by trends in the United States or global economy.

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, the risks associated with our business are generally more acute during periods of economic slowdown or recession. 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 or a lengthy or severe recession with respect to 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.

We market and license our brands outside the United States. Many of our licensees 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. During the first three months of Fiscal 2016, greater than 25% 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; (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) fluctuations in the value of foreign currency versus the U.S. dollar and the cost of currency exchange; (ix) potentially adverse tax consequences; and (x) 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.

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 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.

Table of Contents

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 cannot assure you that we will be able to successfully protect our rights or that we will not 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, 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 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, whistleblower 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 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, including, Henry Stupp, our Chief Executive Officer and a member of our Board or Directors, Howard Siegel, our President and Chief Operating Officer, and Jason Boling, our Chief Financial Officer. We have a limited number of employees and Mr. Stupp s and our other executives leadership and experience in the apparel licensing 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. The loss of the services of Mr. Stupp or our other key executives could have a material adverse effect on our business prospects, financial condition, results of operations and liquidity.

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 the past three years, we have consummated three significant acquisitions: our acquisition of the Liz Lange brands in September 2012; our acquisition of various rights to the Cherokee brand in the category of school uniforms in January 2013; and our acquisition of the Hawk and Tony Hawk signature apparel brands in January 2014. In addition, in February 2013, we commenced a relationship with Alessandra Ambrosio to market and represent her brand *àle by alessandra*. 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 history of acquiring and integrating acquisitions is limited, and we may not be successful in realizing the expected benefits from an acquisition. Future success depends, in part, upon our ability to manage an expanded portfolio of brands, which could 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 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 inability 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 markets in which we have no or limited prior experience. Accordingly, our recent acquisitions as well as any future transaction that we pursue could have a material adverse effect on our business, results of operations, financial condition and prospects.

Table of Contents

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-levered and our ability to operate the Company 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 covenant restrictions under such indebtedness, could adversely affect our operations and liquidity.

In order to fund our acquisition of the Liz Lange brands, we entered into a credit facility with JPMorgan on September 4, 2012. We initially increased the size of our credit facility on January 31, 2013 in connection with our acquisition of rights related to the Cherokee brand in the school uniforms category. We further increased the size of our credit facility on January 10, 2014 in connection with our acquisition of various assets related to the Hawk and Tony Hawk signature apparel brands.

The size of our credit facility currently totals $37.6 million, of which approximately $23 million was outstanding as of May 2, 2015, and is evidenced by (i) two five-year term notes, which were issued on January 31, 2013 and January 10, 2014 in the principal amounts of $16.6 million and $19 million, respectively, and (ii) a three-year revolving line of credit, pursuant to which we may borrow up to $2 million in principal.

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 and other general corporate purposes.

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 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 (i) 2.25 to 1.00 through our fiscal quarter ending January 31, 2016, and (ii) 2.00 to 1.00 thereafter. 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. In the event of a default under 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 its other rights including foreclosing on our assets under the related security agreements. Our failure to comply with the terms of our indebtedness could result in a material adverse effect to our business, including our financial condition and our 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 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 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 may 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-levered and our ability to operate the Company 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 and 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.

Table of Contents

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 Cherokee branded products and products bearing our other 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 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 of such agreement.

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 other risks of delays or difficulties in upgrading, transitioning to new systems or of 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 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. 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 additional such events were to occur to our licensees systems, our royalty revenues could be reduced or disrupted due to decreased sales of our branded products as a result of reputational damage or diversion of costs and other resources from selling products bearing our brands. Any of these events could severely harm our business, results of operations and prospects.

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 by our competitors, as applicable, regarding or affecting the retail environment either domestically or internationally, our existing license agreements, our existing brand representations, new license agreements, new brand representations or acquisition, 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 shares than would be the case if our public float were larger.

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.

Table of Contents

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. Our effective income tax rates could in the future be adversely affected by changes in tax laws or interpretations of those 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 come under audit by tax authorities, where these authorities may 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 materially different from our historical income tax provisions and accruals. Based on the results of an audit or litigation, a material effect on our income tax provision, net income or cash flows in the period or periods for which that determination is made could result. In addition, changes in tax rules may adversely affect our future reported financial results or the way we conduct our business.

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. Management has previously identified material weaknesses in our internal control over financial reporting as of the end of Fiscal 2013 and during the first three quarters of Fiscal 2014. 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. During Fiscal 2014, we developed and implemented a remediation plan that was designed to address these material weaknesses. While we believe our remedial measures have sufficiently addressed our previously identified material weaknesses, it is possible that additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future. In this case, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results, which could lead to substantial additional costs for accounting and legal fees and litigation.

In addition, while we believe we have strengthened our controls and procedures, 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.

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 and proposed new rules on a variety of subjects including, for example, with respect to the preparation and filing of our financial statements. The existence of new and proposed laws and regulations relating to our financial reporting or that impose additional or more stringent compliance requirements on us could make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee, 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 adversely affect our financial results or result in a loss of investor confidence in the reliability of our financial information and other public disclosures, and could materially and adversely affect the market price of our common stock.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description of Exhibit
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 May 2, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at May 2, 2015 and January 31, 2015; (ii) Consolidated Statement of Operations for the three months ended May 2, 2015 and May 3, 2014, 2013; (iii) Condensed Consolidated Statement of Stockholders Equity for the three months ended May 2, 2015; (iv) Consolidated Statements of Cash Flows for the three months ended May 2, 2015 and May 3, 2014; and (v) Notes to Condensed Consolidated Financial Statements, tagged as block of text.

* Filed herewith.

Table of Contents

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 11, 2015

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)