

ICONIC BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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Iconic Brands, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(Unaudited)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,825	\$ 716
Accounts receivable	192,209	246,377
Inventory	58,488	16,950
Receivable from affiliated entity	<u>91,256</u>	<u>-</u>
Total current assets	<u>346,778</u>	<u>264,043</u>
Total assets	<u>\$ 346,778</u>	<u>\$ 264,043</u>
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Current portion of debt	\$ 603,628	\$ 1,065,126
Accounts payable and accrued expenses	409,105	430,816
Loans payable to officer and affiliated entities -noninterest bearing and due on demand	38,916	57,944
Accrued interest payable	70,834	278,722
Derivative liability	<u>4,144,223</u>	<u>7,315,935</u>
Total current liabilities	<u>5,266,706</u>	<u>9,148,543</u>
Total liabilities	<u>5,266,706</u>	<u>9,148,543</u>
Stockholders' deficiency:		
Preferred stock, \$.001 par value; authorized 100,000,000 shares:		
Series A, 1 and 1 share issued and outstanding, respectively	1	1
Series C, 1,000 and 1,000 shares issued and outstanding, respectively	1	1
Series D, 10 and 10 shares issued and outstanding, respectively	-	-
Common stock, \$.001 par value; authorized 2,000,000,000 shares, 820,755,738 and 814,790,609 shares issued and outstanding respectively	820,756	814,791
Common stock to be issued to Escrow Agent, \$.001 par value; 482,926,829 and 0 shares, respectively	482,927	-
Additional paid-in capital	11,119,496	10,692,894
Accumulated deficit	<u>(17,340,562)</u>	<u>(20,391,046)</u>
Total Iconic Brands, Inc. stockholders' equity	(4,917,381)	(8,883,359)
Noncontrolling interests in subsidiaries	<u>(2,547)</u>	<u>(1,141)</u>
Total stockholders' deficiency	<u>(4,919,928)</u>	<u>(8,884,500)</u>
Total liabilities and stockholders' deficiency	<u>\$ 346,778</u>	<u>\$ 264,043</u>

See notes to consolidated financial statements.

Iconic Brands, Inc. and Subsidiaries  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Sales	\$ 300,889	\$ 11,311
Cost of Sales	<u>177,668</u>	<u>7,560</u>
Gross profit	<u>123,221</u>	<u>3,751</u>
Operating expenses:		
Officers compensation	-	21,866
Professional and consulting fees	16,316	24,676
Marketing and advertising	23,353	79,312
Occupancy costs	13,815	13,905
Travel and entertainment	51,774	17,956
Other general and administrative expenses	<u>95,999</u>	<u>21,687</u>
Total operating expenses	<u>201,257</u>	<u>179,402</u>
Loss from operations	<u>(78,036)</u>	<u>(175,651)</u>
Other income (expense):		
Income (expense) from derivative liability	3,159,062	-
Interest expense	<u>(31,948)</u>	<u>(36,369)</u>
Total other income (expense)	<u>3,127,414</u>	<u>(36,369)</u>
Net income (loss)	3,049,078	(212,020)
Net income (loss) attributable to noncontrolling interests in subsidiaries	<u>1,406</u>	<u>7,399</u>
Net income (loss) attributable to Iconic Brands, Inc.	<u>\$ 3,050,484</u>	<u>\$ (204,621)</u>
Net income (loss) per common share – basic and diluted	<u>\$ 0.00</u>	<u>\$ (0.00)</u>
Weighted average common shares outstanding – basic and diluted	<u>839,542,275</u>	<u>221,582,379</u>

See notes to consolidated financial statements.

The accompanying notes are an integral part of these financial statements.

Iconic Brands, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Operating Activities:		
Net income (loss)	\$ 3,050,484	\$ (204,621)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net loss attributable to noncontrolling interests in subsidiaries	(1,406)	(7,399)
Expense (income) from derivative liability	(3,159,062)	-
Changes in operating assets and liabilities:		
Accounts receivable	54,168	759
Inventory	(41,538)	7,560
Receivable from affiliated entity	(91,256)	-
Accounts payable and accrued expenses	13,924	63,974
Accrued interest payable	31,948	36,369
	(142,738)	(103,358)
Net cash used in operating activities		
Financing Activities :		
Proceeds from issuance of debt	165,875	100,000
Loans payable to officer and affiliated entities	(19,028)	(334)
	146,847	99,666
Net cash provided by financing activities		
Increase (decrease) in cash and cash equivalents	4,109	(3,692)
Cash and cash equivalents, beginning of period	716	5,781
Cash and cash equivalents, end of period	\$ 4,825	\$ 2,089
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock in satisfaction of debt and accrued interest	\$ 22,773	\$ 99,998
Agreement to issue common stock in satisfaction of debt and accrued interest	\$ 892,721	\$ -

The accompanying notes are an integral part of these financial statements.

Iconic Brands, Inc. and Subsidiaries  
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## **1. ORGANIZATION AND NATURE OF BUSINESS**

Iconic Brands, Inc., formerly Paw Spa, Inc. (“Iconic Brands” or “Iconic”), was incorporated in the State of Nevada on October 21, 2005. Effective December 31, 2016, Iconic closed on a May 15, 2015 agreement to acquire a 51% interest in BiVi LLC (“BiVi”), the brand owner of “BiVi 100 percent Sicilian Vodka,” and closed on a December 13, 2016 agreement to acquire a 51% interest in Bellissima Spirits LLC (“Bellissima”), the brand owner of Bellissima sparkling wines. These transactions involved entities under common control of the Company’s chief executive officer and represented a change in reporting entity. The financial statements of the Company have been retrospectively adjusted to reflect the operations at BiVi and Bellissima from their inception.

BiVi was organized in Nevada on May 4, 2015, Bellissima was organized in Nevada on November 23, 2015.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Basis of Presentation and Going Concern**

The financial statements are prepared on a “going concern” basis, which contemplates the realization of assets and liabilities in the normal course of business; however, there is substantial doubt as to the Company’s ability to continue as a going concern.

As of March 31, 2017, the Company had negative working capital of \$4,919,928 and a stockholders’ deficiency of \$4,919,928. The Company has accumulated losses of \$17,340,562 as of March 31, 2017. These factors create substantial doubt as to the Company’s ability to continue as a going concern.

The Company plans to improve its financial condition through its investment in BiVi LLC (see Note 3) and its investment in Bellissima Spirits LLC (see Note 4.). However, there is no assurance that the Company will be successful in accomplishing its objectives. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

### **(b) Principles of Consolidation**

The consolidated financial statements include the accounts of Iconic and its two 51% owned subsidiaries BiVi and Bellissima (collectively, the “Company”). All inter-company balances and transactions have been eliminated in consolidation.

### **(C) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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**(d) Fair Value of Financial Instruments**

Generally accepted accounting principles require disclosing the fair value of financial instruments to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

In assessing the fair value of financial instruments, the Company uses a variety of methods and assumptions, which are based on estimates of market conditions and risks existing at the time. For certain instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, it was estimated that the carrying amount approximated fair value because of the short maturities of these instruments. All debt is carried at face value.

**(e) Cash and Cash Equivalents**

The Company considers all liquid investments purchased with original maturities of ninety days or less to be cash equivalents.

**(f) Accounts Receivable, Net of Allowance for Doubtful Accounts**

The Company extends unsecured credit to customers in the ordinary course of business but mitigates risk by performing credit checks and by actively pursuing past due accounts. The allowance for doubtful accounts is based on customer historical experience and the aging of the related accounts receivable.

**(g) Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or market, with due consideration given to obsolescence and to slow moving items. Inventory at March 31, 2017 and December 31, 2016 consists of cases of BiVi Vodka and cases of Bellissima sparkling wines purchased from our Italian suppliers.

**(h) Revenue Recognition**

Revenue from product sales is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) the price is fixed or determinable, (3) collectability is reasonably assured, and (4) delivery has occurred. Persuasive evidence of an arrangement and fixed price criteria are satisfied through purchase orders. Collectability criteria are satisfied through credit approvals. Delivery criteria are satisfied when the products are shipped to a customer and title and risk of loss passes to the customer in accordance with the terms of sale. The Company has no obligation to accept the return of products sold other than for replacement of damaged products. Other than quantity price discounts negotiated with customers prior to billing and delivery (which are reflected as a reduction in sales), the Company does not offer any sales incentives or other rebate arrangements to customers.

**(i) Shipping and Handling Costs**

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Shipping and handling costs to deliver product to customers are reported as operating expenses in the accompanying statements of operations. Shipping and handling costs to purchase inventory are capitalized and expensed to cost of sales when revenue is recognized on the sale of product to customers.

**(j) Stock-Based Compensation**

Stock-based compensation is accounted for at fair value in accordance with Accounting Standards Codification (“ASC”) Topic 718, “Compensation- Stock Compensation”. For the three months ended March 31, 2017 and 2016, stock-based compensation totaled \$0.

**(k) Income Taxes**

Income taxes are accounted for under the assets and liability method. Current income taxes are provided in accordance with the laws of the respective taxing authorities. Deferred income taxes are provided for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is not more likely than not that some portion or all of the deferred tax assets will be realized.

**(l) Net Income (Loss) per Share**

Basic net income (loss) per common share is computed on the basis of the weighted average number of common shares outstanding during the period of the financial statements.

Diluted net income (loss) per common share is computed on the basis of the weighted average number of common shares and dilutive securities (such as stock options, warrants, and convertible securities) outstanding. Dilutive securities having an anti-dilutive effect on diluted net income (loss) per share are excluded from the calculation.

**(m) Recently Issued Accounting Pronouncements**

Certain accounting pronouncements have been issued by the FASB and other standard setting organizations which are not yet effective and have not yet been adopted by the Company. The impact on the Company’s financial position and results of operations from adoption of these standards is not expected to be material.

**3. INVESTMENT IN BIVI LLC**

On May 15, 2015, Iconic entered into a Securities Exchange Agreement by and among the members of BiVi LLC, a Nevada limited liability company (“BiVi”), under which Iconic acquired a 51% majority interest in BiVi in exchange for the issuance of (a) 1,000,000 shares of restricted common stock and (b) 1,000 shares of newly created Series C Convertible Preferred Stock.

Prior to May 15, 2015, BiVi was beneficially owned and controlled by Richard DeCicco,

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the controlling shareholder, President, CEO and Director of Iconic Brands, Inc.

#### 4. INVESTMENT IN BELLISSIMA SPIRITS LLC

On December 13, 2016, Iconic entered into a Securities Purchase Agreement with Bellissima Spirits LLC (“Bellissima”) and Bellissima’s members under which Iconic acquired a 51% Majority Interest in Bellissima in exchange for the issuance of a total of 10 shares of newly designated Iconic Series D Convertible Preferred Stock. Each share of Iconic Series D Convertible Preferred Stock is convertible into the equivalent of 5.1% of Iconic common stock issued and outstanding at the time of conversion.

Prior to December 13, 2016, Bellissima was controlled by Richard DeCicco, the controlling shareholder, president, CEO and Director of Iconic.

#### 5. DEBT

Debt consists of:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Southridge Partners II, L.P. and Tarpon Bay Partners LLC (“Southridge”):		
\$50,000 Promissory Note assigned September 8, 2015, interest at 12%, due December 31, 2017 (A) (B) (D) (E) (F)	\$ -	\$ 46,320
\$185,000 Promissory Notes dated in 2015, interest at 12%, due December 31, 2017 (B) (D) (E) (F)	-	5,000
\$248,600 Promissory Notes dated in 2015, interest at 12%, due December 31, 2017 (B) (D) (E) (F)	-	248,600
Total Southridge	<u>-</u>	<u>299,920</u>
Equity Markets Advisory Inc. (“Equity Markets”):		
\$159,000 Promissory Notes dated April 15, 2010, November 1, 2013, and January 15, 2014, interest at 12%, due December 31, 2017 (B) (D) (E) (F)	111,227	159,000
\$41,235 Promissory Notes assigned in 2013, interest at 12%, due December 31, 2017 (D) (E) (F)	-	41,235
\$80,000 Promissory Notes assigned by Southridge in October 2016, interest at 12%, due December 31, 2017 (B) (D) (E) (F)	-	80,000
Total Equity Markets	<u>111,227</u>	<u>280,235</u>
Beaufort Capital Partners, LLC (“Beaufort”):		
\$50,000 Promissory Note assigned January 7, 2016, interest at 12%, due December 31, 2017 (A) (B) (D) (E) (F)	-	5,445
\$40,000 Promissory Note assigned February 8, 2016, interest at 12%, due December 31, 2017 (A) (B) (D) (E) (F)	-	40,000



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\$100,000 Promissory Note dated January 7, 2016, interest at 12%, due December 31, 2017 (B) (D) (E) (F)	-	100,000
Total Beaufort	-	145,445
Alpha Capital Anstalt (“Alpha”):		
\$100,000 Promissory Notes dated May 22, 2015 and June 4, 2015, interest at 12%, due December 31, 2017 (B) (D) (F)	93,873	93,873
\$100,000 Promissory Note dated August 28, 2015, interest at 12%, due December 31, 2017 (B) (D) (F)	100,000	100,000
Total Alpha	193,873	193,873
Sky-Direct LLC (“Sky”):		
\$21,000 Promissory Notes dated January 27, 2016 and March 4, 2016, interest at 12%, due December 31, 2017 (C) (D)	8,350	18,350
\$15,000 Promissory Note assigned March 25, 2016, interest at 12%, due December 31, 2017 (A) (B) (D)	15,000	15,000
\$14,975 Promissory Notes dated October 19 2016, November 29, 2016, and December 30, 2016, interest at 12%, due one year from respective dates of issuance (C)	14,975	9,800
\$80,700 Promissory Note dated January 30, 2017, interest at 12%, due January 29, 2018 (C)	80,700	-
\$80,000 Promissory Note dated February 28, 2017, interest at 12%, due February 28, 2018 (C)	80,000	-
\$7,000 Promissory Note dated March 31, 2017, interest at 12%, due March 31, 2018 (C)	7,000	-
Total Sky	206,025	43,150
Other:		
\$10,000 Promissory Note to Sable Ridge Special Equity Fund LP dated October 10, 2014, interest at 10%, past due	-	10,000
\$10,000 Promissory Note to Durham Property Management Inc. dated November 1, 2013, interest at 12%, past due	10,000	10,000
Loans from Peter Levine and affiliates, non-interest bearing, no terms of repayment	82,503	82,503
Total Other	92,503	102,503
Total	603,628	1,065,126
Less current portion	(603,628)	(1,065,126)
Non-current portion	\$ -	\$ -

Legend

Iconic Brands, Inc. and Subsidiaries  
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- (A) Assigned by Equity Markets Advisory Inc.
- (B) Convertible into ICNB common stock at a Conversion Price equal to the lesser of (1) \$0.01 per share or (2) 50% discount from the lowest closing bid price during the 30 days prior to the Notice of Conversion. See Note 6 (Derivative Liability).
- (C) Convertible into ICNB common stock at a Conversion Price equal to a 50% discount to market. See Note 6 (Derivative Liability).
- (D) On December 7, 2016, the Conversion Price on these notes was amended to \$0.0015 per share (subject to a lower December 31, 2017 reset price if the average of the closing bid price of the Company's common stock for the 60 trading days ending December 31, 2017 is less than \$0.0015 per share). See Note 6 (Derivative Liability).
- (E) On March 28, 2017, pursuant to a Settlement Agreement and Release, these notes and related accrued interest (totaling \$892,721) were satisfied through the Company's agreement to issue of a total of 482,926,829 shares of its common stock. See Note 7.
- (F) On May 5, 2017, pursuant to an Amended Settlement Agreement and Release, these notes and related accrued interest (totaling \$1,099,094) were satisfied through the Company's agreement to issue a total of 613,000,000 shares of its common stock. See Note 10.

On December 7, 2016, Southridge agreed to retire \$100,000 of notes payable with no further recourse. Accordingly, the Company recognized a \$100,000 gain on retirement of debt in the three months ended December 31, 2016.

## 6. DERIVATIVE LIABILITY

The derivative liability consists of:

	March 31, 2017		December 31, 2016	
	Face Value	Derivative Liability	Face Value	Derivative Liability
Southridge Partners II, L.P. and Tarpon Bay Partners LLC ("Southridge"):				
\$50,000 Promissory Note assigned September 8, 2015, interest at 12%, due December 31, 2017 (A) (B) (D) (E)	\$ -	\$ -	\$ 46,320	\$ 352,032
\$185,000 Promissory Notes dated in 2015, interest at 12%, due December 31, 2017 (B) (D) (E)	-	-	5,000	38,000
\$248,600 Promissory Notes dated in 2015, interest at 12%, due December 31, 2017 (B) (D) (E)	-	-	248,600	1,889,360
<b>Total Southridge</b>	<b>-</b>	<b>-</b>	<b>299,920</b>	<b>2,279,392</b>
Equity Markets Advisory Inc. ("Equity Markets"):				
\$159,000 Promissory Notes dated April 15, 2010, November 1, 2013, and January 15, 2014, interest at 12%, due December 31, 2017 (B)(D)(E)	111,227	1,283,049	159,000	1,208,400
\$41,235 Promissory Notes assigned in 2013, interest at 12%, due December 31, 2017 (D) (E)	-	-	41,235	313,386
\$80,000 Promissory Notes assigned by Southridge, in October 2016, interest at 12%, due December				

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31, 2017 (B) (D) (E)	-	-	80,000	608,000
Total Equity Markets	<u>111,227</u>	<u>1,283,049</u>	<u>280,235</u>	<u>2,129,786</u>
Beaufort Capital Partners, LLC (“Beaufort”):				
\$50,000 Promissory Note assigned January 7, 2016, interest at 12%, due December 31, 2017 (B) (B) (D) (E)	-	-	5,445	41,382
\$40,000 Promissory Note assigned February 8, 2016, interest at 12%, due December 31, 2017 (B) (B) (D) (E)	-	-	40,000	304,000
\$100,000 Promissory Note dated January 7, 2016, interest at 12%, due December 31, 2017 (B) (D) (E)	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>760,000</u>
Total Beaufort	<u>-</u>	<u>-</u>	<u>145,445</u>	<u>1,105,382</u>
Alpha Capital Anstalt (“Alpha”):				
\$100,000 Promissory Notes dated May 22, 2015 and June 4, 2015, interest at 12%, due December 31, 2017 (B) (D)	93,873	1,082,669	93,873	713,435
\$100,000 Promissory Note dated August 28, 2015, interest at 12%, due December 31, 2017(B)(D)	<u>100,000</u>	<u>1,153,333</u>	<u>100,000</u>	<u>760,000</u>
Total Alpha	<u>193,873</u>	<u>2,236,002</u>	<u>193,873</u>	<u>1,473,435</u>
Sky-Direct LLC (“Sky”):				
\$21,000 Promissory Notes dated January 27, 2016 and March 4, 2016, interest at 12%, due December 31, 2017 (C) (D)	8,350	96,303	18,350	139,460
\$15,000 Promissory Note assigned March 25, 2016, interest at 12%, due December 31, 2017 (A) (B) (D)	15,000	173,000	15,000	114,000
\$14,975 Promissory Notes dated October 19 2016, November 29, 2016, and December 30, 2016, interest at 12%, due one year from respective dates of issuance (C)	14,975	28,929	9,800	74,480
\$80,700 Promissory Note dated January 30, 2017, interest at 12%, due January 29, 2018 (C)	80,700	156,815	-	-
\$80,000 Promissory Note dated February 28, 2017, interest at 12%, due February 28, 2018 (C)	80,000	156,364	-	-
\$7,000 Promissory Note dated March 31, 2017, interest at 12%, due March 31, 2018 (C) respective dates of issuance (C)	<u>7,000</u>	<u>13,761</u>	<u>-</u>	<u>-</u>

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Total Sky	<u>206,025</u>	<u>625,172</u>	<u>43,150</u>	<u>327,940</u>
Total	<u>\$ 511,125</u>	<u>\$ 4,144,223</u>	<u>\$ 962,623</u>	<u>\$ 7,315,935</u>

The above convertible notes contain variable conversion features based on the future trading price of the Company common stock. Therefore, the number of shares of common stock issuable upon conversion of the notes are indeterminate. Accordingly, we recorded the \$7,315,935 fair value of the embedded conversion features at December 31, 2016 as a derivative liability. The \$3,171,712 decrease in the fair value of the derivative liability from \$7,315,935 at December 31, 2016 to \$4,144,223 at March 31, 2017 was credited to income from derivative liability.

The fair values of the embedded conversion features are measured quarterly using the Black Scholes option pricing model. Assumptions used to calculate the derivative liability at December 31, 2016 include (1) stock price of \$0.0115 per share, (2) exercise price of \$0.0015 per share, (3) terms of 1 year, (4) expected volatility of 491%, and (5) risk free interest rates of 0.85%. Assumptions used to calculate the derivative liability at March 31, 2017 include (1) stock price of \$0.0175 per share, (2) exercise prices ranging from \$0.0015 to \$0.0088 per share, (3) terms ranging from 9 months to 12 months, (4) expected volatility of 468%, and (5) risk free interest rates ranging from 0.97% to 1.03%.

## 7. CAPITAL STOCK

### **Preferred Stock**

The one share of Series A Preferred Stock, which was issued to Richard DeCicco on June 10, 2009, entitles the holder to two votes for every share of Common Stock Deemed Outstanding and has no conversion or dividend rights.

The 1000 shares of Series C Preferred Stock, which were issued to Richard DeCicco on May 15, 2015 pursuant to the Securities Exchange Agreement (see note 4) for the Company's 51% investment in BiVi, entitles the holder in the event of a Sale (as defined) to receive out of the proceeds of such Sale (in whatever form, be it cash, securities, or other assets), a distribution from the Company equal to 76.93% of all such proceeds received by the Company prior to any distribution of such proceeds to all other classes of equity securities, including any series of preferred stock designated subsequent to this Series C Preferred Stock.

The 10 shares of Series D Preferred Stock, which were issued to Richard DeCicco and Roseann Faltings (5 shares each) on December 13, 2016 pursuant to the Securities Purchase Agreement (See Note 5) for the Company's 51% investment in Bellissima, entitles the holders to convert each share of Series D Preferred Stock to the equivalent of 5.1% of the common stock issued and outstanding at the time of conversion.

### **Common Stock**

For the year ended December 31, 2016, the Company issued an aggregate of 689,290,596 shares of its Common Stock in settlement of convertible notes payable and accrued interest payable totaling \$61,767.

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In February 2017, the Company issued an aggregate of 5,965,129 shares of its common stock in settlement of convertible notes payable totaling \$22,773.

On March 28, 2017, the Company executed a Settlement Agreement and Release (the “Settlement Agreement”) with 4 holders of convertible notes payable. Notes payable and accrued interest totaling \$892,721 were satisfied through the Company’s agreement to irrevocably reserve a total of 482,926,829 shares of its common stock and to deliver such shares in separate tranches to the Escrow Agent upon receipt of a conversion notice delivered by the Escrow Agent to the Company.

## **8. INCOME TAXES**

No income taxes were recorded in the three months ended March 31, 2017 and 2016 since the Company had taxable losses in these periods.

Based on management’s present assessment, the Company has not yet determined that a deferred tax asset attributable to the future utilization of the net operating loss carryforward as of March 31, 2017 will be realized. Accordingly, the Company has maintained a 100% valuation allowance against the deferred tax asset in the financial statements at March 31, 2017. The Company will continue to review this valuation allowance and make adjustments as appropriate.

Current United States income tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited.

## **9. COMMITMENTS AND CONTINGENCIES**

### **a. Iconic Guarantees**

On May 26, 2015, BiVi LLC (“BiVi”) entered into a License Agreement with Neighborhood Licensing, LLC (the “BiVi Licensor”), an entity owned by Chazz Palminteri (“Palminteri”), to use Palminteri’s endorsement, signature and other intellectual property owned by the BiVi Licensor. Iconic has agreed to guarantee and act as surety for BiVi’s obligations under certain sections of the License Agreement and to indemnify the BiVi Licensor and Palminteri against third party claims.

On November 12, 2015, Bellissima Spirits LLC (“Bellissima”) entered into a License Agreement with Christie Brinkley, Inc. (the “Bellissima Licensor”), an entity owned by Christie Brinkley (“Brinkley”), to use Brinkley’s endorsement, signature, and other intellectual property owned by the Bellissima Licensor. Iconic has agreed to guarantee and act as surety for Bellissima’s obligations under certain sections of the License Agreement and to indemnify the Bellissima Licensor and Brinkley against third party claims. Also, Brinkley was granted a 24 month option to purchase 1% of the outstanding shares of Iconic common stock on a fully diluted basis (as of the date of Brinkley’s exercise of the option) at an exercise price of \$0.001 per share.

Iconic Brands, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
March 31, 2017  
(Unaudited)

**b. Royalty Obligations of BiVi and Bellissima**

Pursuant to the License Agreement with the Bivi Licensor (see note 9a. above), BiVi is obligated to pay the BiVi Licensor a Royalty Fee equal to 5% of monthly gross sales of BiVi Brand products payable monthly subject to an annual Minimum Royalty Fee of \$100,000 in year 1, \$150,000 in year 2, \$165,000 in year 3, \$181,500 in year 4, \$199,650 in year 5, and \$219,615 in year 6 and each subsequent year.

Pursuant to the License Agreement with the Bellissima Licensor (see note 9a. above), Bellissima is obligated to pay the Bellissima Licensor a Royalty Fee equal to 10% of monthly gross sales of Bellissima Brand products payable monthly. The Bellissima Licensor has the right to terminate the endorsement if Bellissima fails to sell 10,000 cases of Bellissima Brand products in year 1, 15,000 cases in year 2, or 20,000 cases in year 3 and each subsequent year.

**c. Compensation Arrangements**

the Company uses the services of its chief executive officer Richard DeCicco and its assistant secretary Roseann Faltings under informal compensation arrangements (without any employment agreements).

For the year ended December 31, 2016, the Company accrued compensation of \$250,000 (\$150,000 for DeCicco; \$100,000 for Faltings) for their services rendered. The compensation was allocated 50% to Iconic (\$125,000), 30% to Bellissima (\$75,000), and 20% to BiVi (\$50,000). The \$250,000 liability at December 31, 2016 is included in "Accounts Payable and Accrued Expenses" on the Consolidated Balance Sheet at December 31, 2016.

## **10. SUBSEQUENT EVENTS**

On May 5, 2017, the Company executed an Amended Settlement Agreement and Release (the "Amended Settlement Agreement") replacing the Settlement Agreement and Release dated March 28, 2017 (see Note 7). The Amended Settlement Agreement is with 5 holders of convertible notes payable (the 4 holders who were parties to the Settlement Agreement and Release dated March 28, 2017 and one additional holder) and provided for the satisfaction of notes payable and accrued interest totaling \$1,099,094 (a \$206,373 increase from the \$892,721 amount per the Settlement Agreement and Release dated March 28, 2017) through the Company's agreement to irrevocably reserve a total of 613,000,000 shares of its common stock (a 130,073,171 share increase from the 482,926,829 shares per the Settlement Agreement and Release dated March 28, 2017) and deliver such shares in separate tranches to the Escrow Agent upon receipt of a conversion notice delivered by the Escrow Agent to the Company.