

G III APPAREL GROUP LTD /DE/

Form 10-Q

December 10, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2010

OR

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 0-18183
G-III APPAREL GROUP, LTD.**

(Exact name of registrant as specified in its charter)

Delaware

41-1590959

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

512 Seventh Avenue, New York, New York

10018

(Address of Principal Executive Offices)

(Zip Code)

(212) 403-0500

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting

company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of December 1, 2010, there were 19,298,847 shares of our common stock, par value \$0.01 per share, outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	October 31, 2010 (Unaudited)	October 31, 2009 (Unaudited)	January 31, 2010
	(In thousands, except share and per share amounts)		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 16,586	\$ 16,633	\$ 46,813
Accounts receivable, net of allowance for doubtful accounts and sales discounts of \$39,942, \$35,979 and \$29,092, respectively	297,101	235,943	73,456
Inventories	208,507	127,087	119,877
Deferred income taxes	15,315	11,565	15,315
Prepaid expenses and other current assets	6,540	5,660	10,694
Total current assets	544,049	396,888	266,155
PROPERTY AND EQUIPMENT, NET	19,020	8,455	7,539
DEFERRED INCOME TAXES	10,672	11,640	10,672
OTHER ASSETS	2,275	1,363	1,723
INTANGIBLES, NET	18,793	20,171	19,826
GOODWILL	26,100	25,900	26,100
	\$ 620,909	\$ 464,417	\$ 332,015
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Notes payable	\$ 166,739	\$ 167,815	\$
Income taxes payable	28,232	15,484	10,874
Accounts payable	85,638	54,629	50,337
Accrued expenses	40,511	29,847	29,333
Deferred income taxes	1,529	1,578	1,529
Total current liabilities	322,649	269,353	92,073
DEFERRED INCOME TAXES	6,495	6,648	6,495
OTHER NON-CURRENT LIABILITIES	6,105	785	1,237
TOTAL LIABILITIES	335,249	276,786	99,805
STOCKHOLDERS EQUITY			

Preferred stock; 1,000,000 shares authorized; No shares issued and outstanding			
Common stock \$.01 par value; 40,000,000 shares authorized; 19,666,072, 17,229,294 and 19,192,704 shares issued	197	172	192
Additional paid-in capital	146,866	102,215	137,764
Accumulated other comprehensive loss	(43)	(36)	(36)
Retained earnings	139,610	86,250	95,260
Common stock held in treasury 367,225 shares at cost	(970)	(970)	(970)
	285,660	187,631	232,210
	\$ 620,909	\$ 464,417	\$ 332,015

The accompanying notes are an integral part of these statements.

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G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended October 31,	
	2010	2009
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	\$ 450,002	\$ 363,540
Cost of goods sold	296,055	237,912
Gross profit	153,947	125,628
Selling, general and administrative expenses	80,140	66,738
Depreciation and amortization	1,508	1,303
Operating profit	72,299	57,587
Interest and financing charges, net	1,706	1,891
Income before income taxes	70,593	55,696
Income tax expense	27,871	23,393
Net income	\$ 42,722	\$ 32,303
NET INCOME PER COMMON SHARE:		
Basic:		
Net income per common share	\$ 2.22	\$ 1.93
Weighted average number of shares outstanding	19,227	16,770
Diluted:		
Net income per common share	\$ 2.16	\$ 1.87
Weighted average number of shares outstanding	19,764	17,238

The accompanying notes are an integral part of these statements.

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G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended October 31,	
	2010	2009
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	\$ 793,239	\$ 607,029
Cost of goods sold	529,502	409,371
Gross profit	263,737	197,658
Selling, general and administrative expenses	183,665	150,817
Depreciation and amortization	4,065	4,091
Operating profit	76,007	42,750
Interest and financing charges, net	2,702	3,599
Income before income taxes	73,305	39,151
Income tax expense	28,955	16,443
Net income	\$ 44,350	\$ 22,708
NET INCOME PER COMMON SHARE:		
Basic:		
Net income per common share	\$ 2.32	\$ 1.36
Weighted average number of shares outstanding	19,087	16,740
Diluted:		
Net income per common share	\$ 2.26	\$ 1.33
Weighted average number of shares outstanding	19,606	17,011

The accompanying notes are an integral part of these statements.

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G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended October 31,	
	2010	2009
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 44,350	\$ 22,708
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,065	4,091
Stock based compensation	2,423	1,387
Deferred financing charges	664	484
Changes in operating assets and liabilities:		
Accounts receivable, net	(223,645)	(166,248)
Inventories	(88,630)	(10,475)
Income taxes, net	17,358	10,262
Prepaid expenses and other current assets	4,022	4,659
Other assets, net	(1,084)	11
Accounts payable, accrued expenses and other liabilities	51,347	13,961
Net cash used in operating activities	(189,130)	(119,160)
Cash flows from investing activities		
Capital expenditures	(14,513)	(1,448)
Contingent purchase price paid		(5,341)
Net cash used in investing activities	(14,513)	(6,789)
Cash flows from financing activities		
Proceeds from notes payable, net	166,739	138,767
Proceeds from exercise of stock options	2,518	854
Tax benefit from exercise/vesting of equity awards	4,166	489
Net cash provided by financing activities	173,423	140,110
Effect of exchange rate changes	(7)	(36)
Net (decrease) / increase in cash and cash equivalents	(30,227)	14,125
Cash and cash equivalents at beginning of period	46,813	2,508
Cash and cash equivalents at end of period	\$ 16,586	\$ 16,633

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$	2,651	\$	3,216
Income taxes		7,404		5,396

The accompanying notes are an integral part of these statements.

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G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

As used in these financial statements, the term "Company" refers to G-III Apparel Group, Ltd. and its wholly-owned subsidiaries. The results for the three and nine month periods ended October 31, 2010 are not necessarily indicative of the results expected for the entire fiscal year, given the seasonal nature of the Company's business. The accompanying financial statements included herein are unaudited. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented have been reflected.

The Company consolidates the accounts of all its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated.

The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the Securities and Exchange Commission.

Note 2 Inventories

Wholesale inventories are stated at the lower of cost (determined by the first-in, first out method) or market. Retail inventories are valued at the lower of cost or market as determined by the retail inventory method. Inventories consist of:

	October 31, 2010	October 31, 2009	January 31, 2010
	(In thousands)		
Finished goods	\$ 204,987	\$ 123,744	\$ 116,627
Raw materials and work-in-process	3,520	3,343	3,250
	\$ 208,507	\$ 127,087	\$ 119,877

Note 3 Net Income per Common Share

Basic net income per common share has been computed using the weighted average number of common shares outstanding during each period. Diluted net income per share is computed using the weighted average number of common shares and potential dilutive common shares, consisting of stock options, stock purchase warrants and unvested restricted stock awards outstanding during the period. For the three and nine months ended October 31, 2010, there were no anti-dilutive shares excluded from the diluted per share calculation. For the three and nine months ended October 31, 2009, there were 265,000 and 870,000 anti-dilutive shares excluded from the diluted per share calculation. For the nine months ended October 31, 2010 and 2009, 473,368 and 166,292 shares of common stock, respectively, were issued in connection with the exercise or vesting of equity awards.

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A reconciliation between basic and diluted net income per share is as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Net income	\$ 42,722	\$ 32,303	\$ 44,350	\$ 22,708
Basic net income per share:				
Basic common shares	19,227	16,770	19,087	16,740
Basic net income per share	\$ 2.22	\$ 1.93	\$ 2.32	\$ 1.36
Diluted net income per share:				
Basic common shares	19,227	16,770	19,087	16,740
Stock options, warrants and restricted stock awards	537	468	519	271
Diluted common shares	19,764	17,238	19,606	17,011
Diluted net income per share	\$ 2.16	\$ 1.87	\$ 2.26	\$ 1.33

Note 4 Notes Payable

The Company has a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The financing agreement is a senior secured revolving credit facility. The financing agreement was amended in May 2010 to (a) increase the maximum line of credit from \$250 million to \$300 million, (b) reduce the interest rate on borrowings by 0.25% to, at the Company's option, the prime rate plus 0.50% or LIBOR plus 2.75%, (c) extend the maturity of the loan from July 11, 2011 to July 31, 2013, and (d) revise the maximum senior leverage ratio that must be maintained. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires the Company, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined, and also limits payments for cash dividends and stock redemptions. As of October 31, 2010, the Company was in compliance with these covenants. The financing agreement is secured by all of the Company's assets.

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The Company's reportable segments are business units that offer products through different channels of distribution and are managed separately. The Company operates in three segments; wholesale licensed apparel, wholesale non-licensed apparel and retail operations. There is substantial intersegment cooperation, cost allocations and sharing of assets. As a result, the Company does not represent that these segments, if operated independently, would report the operating results set forth in the table below. The following information, in thousands, is presented for the three and nine month periods indicated below:

	Three Months Ended October 31,					
	Wholesale Licensed	2010 Wholesale Non- Licensed	Retail	Wholesale Licensed	2009 Wholesale Non- Licensed	Retail
Net sales ⁽¹⁾	\$ 319,853	\$ 106,805	\$ 32,046	\$ 252,934	\$ 89,357	\$ 29,653
Cost of goods sold ⁽¹⁾	216,987	71,289	16,481	171,661	59,133	15,522
Gross profit	102,866	35,516	15,565	81,273	30,224	14,131
Selling, general and administrative	50,650	14,101	15,389	40,724	11,138	14,876
Depreciation and amortization	187	1,002	319	210	782	311
Operating profit (loss)	\$ 52,029	\$ 20,413	\$ (143)	\$ 40,339	\$ 18,304	\$ (1,056)

	Nine Months Ended October 31,					
	Wholesale Licensed	2010 Wholesale Non- Licensed	Retail	Wholesale Licensed	2009 Wholesale Non- Licensed	Retail