

PERRY ELLIS INTERNATIONAL, INC

Form 10-Q

September 10, 2015

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**UNITED STATES**

**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 August 1, 2015**

**OR**

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

**Commission File Number: 0-21764**

**PERRY ELLIS INTERNATIONAL, INC.**

**(Exact Name of Registrant as Specified in its Charter)**

**Florida**  
**(State or other jurisdiction of**  
**Incorporation or Organization)**

**59-1162998**  
**(I.R.S. Employer**  
**Identification No.)**

**3000 N.W. 107 Avenue**

**Miami, Florida**  
**(Address of Principal Executive Offices)**

**33172**  
**(Zip Code)**

**Registrant's Telephone Number, Including Area Code: (305) 592-2830**

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

The number of shares outstanding of the registrant's common stock is 15,773,000 (as of September 4, 2015).

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**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(amounts in thousands, except share data)

	August 1, 2015	January 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 27,265	\$ 43,547
Accounts receivable, net	124,275	137,432
Inventories	153,978	183,734
Investments, at fair value	10,704	19,996
Deferred income taxes	701	725
Prepaid income taxes	6,174	6,384
Prepaid expenses and other current assets	7,898	7,124
Total current assets	330,995	398,942
Property and equipment, net	66,219	64,633
Other intangible assets, net	206,557	210,201
Goodwill	6,022	6,022
Other assets	4,231	5,191
<b>TOTAL</b>	<b>\$ 614,024</b>	<b>\$ 684,989</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 74,517	\$ 117,789
Accrued expenses and other liabilities	26,154	22,355
Accrued interest payable	1,511	4,045
Unearned revenues	4,439	4,856
Deferred pension obligation	9,015	8,930
Deferred income taxes	82	797
Total current liabilities	115,718	158,772
Senior subordinated notes payable, net	50,000	150,000
Senior credit facility	58,211	
Real estate mortgages	21,684	22,109
Unearned revenues and other long-term liabilities	15,325	15,009
Deferred income taxes	39,386	37,082
Total long-term liabilities	184,606	224,200

Total liabilities	300,324	382,972
Commitment and contingencies		
Equity:		
Preferred stock \$.01 par value; 5,000,000 shares authorized; no shares issued or outstanding		
Common stock \$.01 par value; 100,000,000 shares authorized; 15,774,314 shares issued and outstanding as of August 1, 2015 and 16,128,775 shares issued and outstanding as of January 31, 2015	157	161
Additional paid-in-capital	147,809	161,336
Retained earnings	177,232	169,102
Accumulated other comprehensive loss	(11,498)	(12,852)
Total	313,700	317,747
Treasury stock at cost; no shares as of August 1, 2015 and 770,753 shares as of January 31, 2015		(15,730)
Total equity	313,700	302,017
TOTAL	\$ 614,024	\$ 684,989

See Notes to Unaudited Condensed Consolidated Financial Statements

**Table of Contents****PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(amounts in thousands, except per share data)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 1, 2015</b>	<b>August 2, 2014</b>	<b>August 1, 2015</b>	<b>August 2, 2014</b>
Revenues:				
Net sales	\$ 204,638	\$ 196,010	\$ 462,895	\$ 445,926
Royalty income	8,661	7,522	16,818	14,920
Total revenues	213,299	203,532	479,713	460,846
Cost of sales	137,357	133,068	313,671	302,717
Gross profit	75,942	70,464	166,042	158,129
Operating expenses:				
Selling, general and administrative expenses	68,254	66,858	137,862	136,568
Depreciation and amortization	3,446	2,988	6,768	5,968
Total operating expenses	71,700	69,846	144,630	142,536
Gain (loss) on sale of long-lived assets		885	(697)	885
Operating income	4,242	1,503	20,715	16,478
Costs of early extinguishment of debt	5,121		5,121	
Interest expense	1,943	3,605	5,570	7,321
Net (loss) income before income taxes	(2,822)	(2,102)	10,024	9,157
Income tax (benefit) provision	(1,541)	(486)	1,894	2,998
Net (loss) income	\$ (1,281)	\$ (1,616)	\$ 8,130	\$ 6,159
Net (loss) income per share:				
Basic	\$ (0.09)	\$ (0.11)	\$ 0.55	\$ 0.41
Diluted	\$ (0.09)	\$ (0.11)	\$ 0.53	\$ 0.41
Weighted average number of shares outstanding				
Basic	15,048	14,906	14,849	14,844
Diluted	15,048	14,906	15,283	15,142

See Notes to Unaudited Condensed Consolidated Financial Statements



Table of Contents**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****(UNAUDITED)****(amounts in thousands)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 1, 2015</b>	<b>August 2, 2014</b>	<b>August 1, 2015</b>	<b>August 2, 2014</b>
Net (loss) income	\$ (1,281)	\$ (1,616)	\$ 8,130	\$ 6,159
Other Comprehensive income:				
Foreign currency translation adjustments, net	153	2	1,091	638
Unrealized gain on pension liability, net of tax <sup>(1)</sup>	135	79	270	159
Unrealized (loss) gain on investments		(23)	(7)	15
Total other comprehensive income	288	58	1,354	812
Comprehensive (loss) income	\$ (993)	\$ (1,558)	\$ 9,484	\$ 6,971

- <sup>(1)</sup> Unrealized gain on pension liability for the three months ended August 1, 2015 and August 2, 2014 is net of tax in the amount of \$0 and \$51, respectively. Unrealized gain on pension liability for the six months ended August 1, 2015 and August 2, 2014 is net of tax in the amount of \$0 and \$101, respectively. See footnote 12 to the consolidated financial statements for further information.

See Notes to Unaudited Condensed Consolidated Financial Statements



Table of Contents**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(amounts in thousands)

	<b>Six Months Ended</b>	
	<b>August 1, 2015</b>	<b>August 2, 2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 8,130	\$ 6,159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,087	6,280
Provision for bad debts	279	253
Amortization of debt issue cost	266	320
Amortization of premiums and discounts	94	223
Amortization of unrealized loss on pension liability	270	260
Costs on early extinguishment of debt	1,158	
Deferred income taxes	1,613	2,523
Share-based compensation	2,286	3,114
Loss (gain) on sale of long-lived assets	697	(885)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable, net	13,199	36,277
Inventories	30,149	32,603
Prepaid income taxes	190	245
Prepaid expenses and other current assets	(759)	(2,166)
Other assets	107	(150)
Accounts payable and accrued expenses	(41,175)	(38,636)
Accrued interest payable	(2,534)	(105)
Unearned revenues and other liabilities	(666)	1,835
Deferred pension obligation	85	(1,172)
Net cash provided by operating activities	20,476	46,978
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(7,345)	(7,323)
Purchase of investments	(2,641)	(22,897)
Proceeds from investment maturities	11,860	14,160
Proceeds on sale of intangible assets	2,500	
Net cash provided by (used in) investing activities	4,374	(16,060)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings from senior credit facility	255,065	159,402
Payments on senior credit facility	(196,854)	(167,564)
Payments on senior subordinated notes	(100,000)	

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Payments on real estate mortgages	(410)	(396)
Payments on capital leases	(77)	(150)
Deferred financing fees	(569)	
Proceeds from exercise of stock options	1,339	197
Tax benefit from exercise of equity instruments	(201)	(144)
Net cash used in financing activities	(41,707)	(8,655)
Effect of exchange rate changes on cash and cash equivalents	575	(34)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(16,282)	22,229
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	43,547	26,989
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 27,265	\$ 49,218

**Continued**

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**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(amounts in thousands)

	<b>Six Months Ended</b>	
	<b>August 1,</b>	<b>August 2,</b>
	<b>2015</b>	<b>2014</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 7,746	\$ 6,883
Income taxes	\$ 366	\$ 464
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES:</b>		
Accrued purchases of property and equipment	\$	\$ 168
Note receivable on sale of intangible asset	\$	\$ 1,250

See Notes to Unaudited Condensed Consolidated Financial Statements

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**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. GENERAL**

The accompanying unaudited condensed consolidated financial statements of Perry Ellis International, Inc. and subsidiaries (Perry Ellis or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the requirements of the Securities and Exchange Commission on Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and changes in cash flows required by GAAP for annual financial statements. These condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2015, filed with the Securities and Exchange Commission on April 14, 2015.

The information presented reflects all adjustments, which are in the opinion of management of a normal and recurring nature, necessary for a fair presentation of the interim periods. Results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire fiscal year.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU No. 2014-08 amends the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The amendments require expanded disclosures for discontinued operations that would provide users of financial statements with more information about the assets, liabilities, revenues, and expenses of discontinued operations and disclosure of the pretax profit or loss of individually significant components of an entity that do not qualify for discontinued operations reporting. ASU No. 2014-08 is to be applied prospectively to all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within fiscal years, and interim periods within those years, beginning after December 15, 2014. The adoption of ASU No. 2014-08 did not have a material impact on the Company's results of operations or the Company's financial position.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards (IFRS) that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. ASU No. 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Companies can choose to apply the ASU using either the full retrospective approach or a modified retrospective approach. The Company is currently evaluating both methods of adoption and the impact, if any, that the adoption of this ASU will have on the Company's results of operations or the Company's financial position.

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (a consensus of the FASB Emerging Issues Task Force). ASU No. 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU No. 2014-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Earlier adoption is permitted. The amendments can be applied either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards. The Company is currently evaluating both methods of adoption and the impact, if any, that the adoption of this ASU will have on the Company's results of operations or the Company's financial position.

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In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which changes the guidance for evaluating whether to consolidate certain legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ( VIEs ) or voting interest entities. Additionally, the amendments eliminate the presumption that a general partner should consolidate a limited partnership, as well as affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for periods beginning after December 15, 2015 and early adoption is permitted, including adoption during an interim period. Companies have an option of using either a full retrospective or modified retrospective adoption approach. The Company is currently evaluating the impact that the adoption of ASU 2015-02 will have on its consolidated financial statements.

In March 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30)*, which is simplifying the Presentation of Debt Issuance Costs. The standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for interim periods beginning after December 15, 2015. The Company expects the adoption of the standard will result in the presentation of debt issuance costs, which are currently included in other assets, in the condensed consolidated balance sheets, as a direct deduction from the carrying amount of the related debt instrument.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which requires inventory measured using any method other than last-in, first out ( LIFO ) or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. Early application is permitted. The Company is currently evaluating the impact that the adoption of ASU 2015-11 will have on its consolidated financial statements.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following as of:

	<b>August 1, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
Trade accounts	\$ 139,901	\$ 150,515
Royalties	5,923	6,662
Other receivables	960	1,034
Total	146,784	158,211
Less: allowances	(22,509)	(20,779)
Total	\$ 124,275	\$ 137,432

**4. INVENTORIES**

Inventories are stated at the lower of cost (weighted moving average cost) or market. Cost principally consists of the purchase price, customs, duties, freight, and commissions to buying agents.

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Inventories consisted of the following as of:

	<b>August 1, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
Finished goods	\$ 153,681	\$ 183,468
Raw materials and in process	297	266
<b>Total</b>	<b>\$ 153,978</b>	<b>\$ 183,734</b>

**5. INVESTMENTS**

The Company's investments include marketable securities and certificates of deposit at August 1, 2015 and January 31, 2015. Marketable securities are classified as available-for-sale and consist of corporate bonds with maturity dates less than two years. Certificates of deposit are classified as available-for-sale with \$4.5 million with maturity dates within one year. Investments are stated at fair value. The estimated fair value of the marketable securities is based on quoted prices in an active market (Level 1 fair value measures).

Investments consisted of the following as of August 1, 2015:

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
	(in thousands)			
Marketable securities	\$ 6,182	\$ 1	\$ (1)	\$ 6,182
Certificates of deposit	4,522	1	(1)	4,522
<b>Total investments</b>	<b>\$ 10,704</b>	<b>\$ 2</b>	<b>\$ (2)</b>	<b>\$ 10,704</b>

Investments consisted of the following as of January 31, 2015:

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
	(in thousands)			
Marketable securities	\$ 12,247	\$ 9	\$	\$ 12,256
Certificates of deposit	7,742	1	(3)	7,740
<b>Total investments</b>	<b>\$ 19,989</b>	<b>\$ 10</b>	<b>\$ (3)</b>	<b>\$ 19,996</b>

**6. PROPERTY AND EQUIPMENT**



Property and equipment consisted of the following as of:

	<b>August 1, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
Furniture, fixtures and equipment	\$ 83,037	\$ 79,225
Buildings and building improvements	19,881	19,719
Vehicles	560	569
Leasehold improvements	50,511	47,807
Land	9,488	9,488
 Total	 163,477	 156,808
Less: accumulated depreciation and amortization	(97,258)	(92,175)
 Total	 \$ 66,219	 \$ 64,633

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The above table of property and equipment includes assets held under capital leases as of:

	<b>August 1, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
Furniture, fixtures and equipment	\$ 810	\$ 888
Less: accumulated depreciation and amortization	(47)	(791)
<b>Total</b>	<b>\$ 763</b>	<b>\$ 97</b>

For the three months ended August 1, 2015 and August 2, 2014, depreciation and amortization expense relating to property and equipment amounted to \$3.3 million and \$2.9 million, respectively. For the six months ended August 1, 2015 and August 2, 2014, depreciation and amortization expense relating to property and equipment amounted to \$6.6 million and \$5.8 million, respectively. These amounts include amortization expense for leased property under capital leases.

**7. OTHER INTANGIBLE ASSETS***Trademarks*

Trademarks included in other intangible assets, net, are considered indefinite-lived assets and totaled \$202.3 million at August 1, 2015 and \$205.5 million at January 31, 2015.

On March 19, 2015, the Company entered into an agreement to sell the intellectual property of its C&C California brand to a third party. The sales price was \$2.5 million, which was collected during the first quarter of fiscal 2016. In connection with this transaction, the Company recorded a loss of (\$0.7) million in the licensing segment.

On August 1, 2014, the Company entered into a sales agreement, in the amount of \$1.3 million, for the sale of Australian, Fiji and New Zealand trademark rights with respect to Jantzen. Payments on the purchase price were due in five installments of \$250,000 over a five year period. Interest on the purchase price that remains unpaid will accrue at a rate of 3.5% per annum calculated on an annual basis. The first two payments have been received. The remaining three payments are to be paid annually commencing on August 1, 2016 with the final payment to be made on August 1, 2018. As a result of this transaction, the Company recorded a gain of \$0.9 million in the licensing segment

*Other*

Other intangible assets consisted of the following as of:

	<b>August 1, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
Customer lists	\$ 8,450	\$ 8,450
Less: accumulated amortization	(4,230)	(3,782)

Total	\$ 4,220	\$ 4,668
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For the three months ended August 1, 2015 and August 2, 2014, amortization expense relating to customer lists amounted to approximately \$0.2 million and \$0.3 million, respectively. For the six months ended August 1, 2015 and August 2, 2014, amortization expense relating to customer lists amounted to \$0.4 million and \$0.5 million, respectively. Other intangible assets are amortized over their estimated useful lives of 10 years. Assuming no impairment, the estimated amortization expense for future periods based on recorded amounts as of August 1, 2015, will be approximately \$0.9 million a year from fiscal 2016 through fiscal 2017, approximately \$0.8 million a year from fiscal 2018 through fiscal 2019, approximately \$0.7 million for fiscal 2020 and approximately \$0.5 million for fiscal 2021.

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Borrowings and availability under letter of credit facilities consisted of the following as of:

	<b>August 1, 2015</b>	<b>January 31, 2015</b>
	(in thousands)	
Total letter of credit facilities	\$ 30,312	\$ 45,301
Outstanding letters of credit	(11,595)	(11,595)
<b>Total credit available</b>	<b>\$ 18,717</b>	<b>\$ 33,706</b>

During the first quarter of fiscal 2016, a \$15 million line of credit expired and was not renewed.

**9. ADVERTISING AND RELATED COSTS**

The Company's accounting policy relating to advertising and related costs is to expense these costs in the period incurred. Advertising and related costs were approximately \$3.2 million and \$3.1 million for the three months ended August 1, 2015 and August 2, 2014, respectively, and \$7.0 million and \$7.8 million for the six months ended August 1, 2015 and August 2, 2014, respectively, and are included in selling, general and administrative expenses.

**10. NET (LOSS) INCOME PER SHARE**

Basic net (loss) income per share is computed by dividing net income by the weighted average shares of outstanding common stock. The calculation of diluted net (loss) income per share is similar to basic net (loss) income per share except that the denominator includes potentially dilutive common stock. The potentially dilutive common stock included in the Company's computation of diluted net income per share includes the effects of stock options, stock appreciation rights (SARS), and unvested restricted shares as determined using the treasury stock method.

The following table sets forth the computation of basic and diluted (loss) income per share:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 1, 2015</b>	<b>August 2, 2014</b>	<b>August 1, 2015</b>	<b>August 2, 2014</b>
	(in thousands, except per share data)			
<b>Numerator:</b>				
Net (loss) income	\$ (1,281)	\$ (1,616)	\$ 8,130	\$ 6,159
<b>Denominator:</b>				
Basic-weighted average shares	15,048	14,906	14,849	14,844
Dilutive effect: equity awards			434	298
Diluted-weighted average shares	15,048	14,906	15,283	15,142
<b>Basic (loss) income per share</b>	<b>\$ (0.09)</b>	<b>\$ (0.11)</b>	<b>\$ 0.55</b>	<b>\$ 0.41</b>

Diluted (loss) income per share	\$ (0.09)	\$ (0.11)	\$ 0.53	\$ 0.41
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Antidilutive effect: <sup>(1)</sup>	1,220	1,825	517	1,109
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- <sup>(1)</sup> Represents weighted average of stock options to purchase shares of common stock, SARS and restricted stock that were not included in computing diluted income per share because their effects were antidilutive for the respective periods.

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The following table reflects the changes in equity:

	<b>Changes in Equity</b> (in thousands)
Equity at January 31, 2015	\$ 302,017
Comprehensive income	9,484
Share transactions under employee equity compensation plans	2,199
Equity at August 1, 2015	\$ 313,700
Equity at February 1, 2014	\$ 347,533
Comprehensive income	6,971
Share transactions under employee equity compensation plans	2,892
Equity at August 2, 2014	\$ 357,396

During the second quarter of fiscal 2016, the Company retired 770,753 shares of treasury stock recorded at a cost of approximately \$15.7 million. Accordingly, during the second quarter of fiscal 2016, the Company reduced common stock and additional paid in capital by \$7,000 and \$15.7 million, respectively.

**12. ACCUMULATED OTHER COMPREHENSIVE LOSS**

Changes in accumulated other comprehensive loss by component, net of tax:

	<b>Unrealized (Loss) Gain on Pension Liability</b>	<b>Foreign Currency Translation Adjustments, Net</b>	<b>Unrealized Gain (Loss) on Investments</b>	<b>Total</b>
	(in thousands)			
Balance, January 31, 2015	\$ (8,085)	\$ (4,774)	\$ 7	\$ (12,852)
Other comprehensive income before reclassifications		1,091	(7)	1,084
Amounts reclassified from accumulated other comprehensive income	270			270
Balance, August 1, 2015	\$ (7,815)	\$ (3,683)	\$	\$ (11,498)

A summary of the impact on the condensed consolidated statements of operations line items is as follows:

<b>Three Months Ended August 1, August 2, 2015 2014</b> (in thousands)			
Amortization of defined benefit pension items			
Actuarial gains	\$ 135	\$ 130	Selling, general and administrative expenses
Tax provision		51	Income tax provision
Total, net of tax	\$ 135	\$ 79	

<b>Six Months Ended August 1, August 2, 2015 2014</b> (in thousands)			
Amortization of defined benefit pension items			
Actuarial gains	\$ 270	\$ 260	Selling, general and administrative expenses
Tax provision		101	Income tax provision
Total, net of tax	\$ 270	\$ 159	

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**13. INCOME TAXES**

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company's U.S. federal income tax returns for fiscal 2011 through fiscal 2015 are open tax years. The Company's state tax filings are subject to varying statutes of limitations. The Company's unrecognized state tax benefits are related to open tax years from fiscal 2005 through fiscal 2016, depending on each state's particular statute of limitation. As of August 1, 2015, the fiscal 2011, 2012 and 2013 U.S. federal income tax returns are under examination as well as various state, local, and foreign income tax returns by various taxing authorities.

The Company has a \$1.0 million liability recorded for unrecognized tax benefits as of January 31, 2015, which includes interest and penalties of \$0.2 million. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. All of the unrecognized tax benefits, if recognized, would affect the Company's effective tax rate. During the three months and six months ended August 1, 2015, the total amount of unrecognized tax benefits increased by approximately \$118,000 and \$110,000, respectively. The change to the total amount of the unrecognized tax benefits for the three and six months ended August 1, 2015 included an increase in interest and penalties of approximately \$20,000 and \$27,000, respectively.

The Company resolved the ongoing examination with the state of New York during the three months ended August 1, 2015. The Company does not currently anticipate a resolution within the next twelve months for any of the remaining unrecognized tax benefits as of August 1, 2015. The statute of limitations related to the Company's fiscal 2011 and 2012 U.S. federal tax years has been extended as part of the examination and will not be expected to lapse within the next twelve months.

During the fourth quarter of fiscal 2015, the Company recognized a valuation allowance of \$42.4 million against the remaining deferred tax assets, whose utilization is not restricted by factors beyond the Company's control. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. While the Company recognized pretax earnings through the six months ended August 1, 2015, by itself that does not represent sufficient positive evidence of deferred tax asset realizability to warrant removing the valuation allowances established against the U.S. deferred tax assets. Deferred tax assets without valuation allowances remain in certain foreign tax jurisdictions, where supported by the evidence.

**14. STOCK OPTIONS, STOCK APPRECIATION RIGHTS AND RESTRICTED SHARES**

In 2002, the Company adopted the 2002 Stock Option Plan (the "2002 Plan"). The 2002 Plan was amended in 2003 to increase the number of shares reserved for issuance thereunder, among other changes. As amended, the 2002 Plan allowed the Company to grant Options to purchase up to an aggregate of 1,500,000 shares of the Company's common stock. In 2005, the Company adopted the 2005 Long-Term Incentive Compensation Plan (the "2005 Plan"). The 2005 Plan allowed the Company to grant Options and other awards to purchase or receive up to an aggregate of 2,250,000 shares of the Company's common stock, reduced by any awards outstanding under the 2002 Plan. On March 13, 2008, the Board of Directors unanimously adopted an amendment and restatement of the 2005 Plan that increased the number of shares available for grants by an additional 2,250,000 shares to an aggregate of 4,750,000 shares of common stock. On March 17, 2011, the Board of Directors unanimously adopted, the second amendment and restatement of the 2005 Plan, which increased the number of shares available for grants by an additional 500,000 shares to an aggregate of 5,250,000 shares of common stock. On May 20, 2015, the Board of Directors unanimously adopted, subject to shareholder approval at the annual meeting, the Perry Ellis International, Inc. 2015 Long Term Incentive Compensation Plan, which is an amendment and restatement of the 2005 Plan (the "2015 Plan," and



collectively with the 2002 and 2005 Plans, as amended, the Stock Plan ). The amendment was approved by the shareholders at the Company's 2015 annual meeting.

The 2015 Plan extends the existing term until July 17, 2025 as well as increases the number of shares of common stock reserved for issuance by an additional 1,000,000 shares to an aggregate of 6,250,000 shares.

The Stock Plan is designed to serve as an incentive for attracting and retaining qualified and competent employees, officers, directors, consultants, and other persons who provide services to the Company.

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The 2015 Plan provides for the grants of Incentive Stock Options and Nonstatutory Stock Options. An Incentive Stock Option is an option to purchase common stock, which meets the requirements set forth under Section 422 of the Internal Revenue Code of 1986, as amended ( Section 422 ). A Nonstatutory Stock Option is an option to purchase common stock, which meets the requirements of the 2015 Plan, but does not meet the definition of an incentive stock option under Section 422.

The 2015 Plan is administered by the Compensation Committee of the Board of Directors (the Committee ), which is comprised of two or more non-employee directors. Subject to the terms of the 2015 Plan the Committee determines the participants, the allotment of shares to participants, and the term of the options. The Committee also determines the exercise price and certain other terms of the options; provided, however that the per share exercise price of options granted under the 2015 Plan may not be less than the fair market value of the common stock on the date of grant, and in the case of an Incentive Stock Option granted to a 10% shareholder, the per share exercise price will not be less than 110% of the fair market value of the common stock on the date of grant.

Under the 2015 Plan, restricted stock awards are granted subject to restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, or as otherwise provided in the 2015 Plan, covering a period of time specified by the Committee. The terms of any restricted stock awards granted under the 2015 Plan are set forth in a written award agreement, which contains provisions determined by the Committee that are not inconsistent with the 2015 Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the 2015 Plan and any award agreement relating to a restricted stock award, a participant granted restricted stock shall have all of the rights of a shareholder, including the right to vote the restricted stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee). During the Restriction Period (as defined in the 2015 Plan), the restricted stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the participant.

During the second quarter of fiscal 2016, the Company granted an aggregate of 8,130 SARs, to be settled in shares of common stock to two new directors. The SARs have an exercise price of \$23.38 and generally vest over a three-year period and have a seven-year term, at an estimated value, based on the Black-Scholes Option Pricing Model, of approximately \$0.1 million. This value is being recorded as compensation expense on a straight-line basis over the vesting period of the restricted stock.

During the first and second quarters of fiscal 2016, the Company granted an aggregate of 73,489 and 141,613 shares of restricted stock to certain key employees, which vest primarily over a three-year period, at an estimated value of \$1.8 million and \$3.5 million, respectively. This value is being recorded as compensation expense on a straight-line basis over the vesting period of the restricted stock.

Also, during the second quarter of fiscal 2016, the Company awarded to five directors an aggregate of 12,840 shares of restricted stock. The restricted stock awarded vests primarily over a three-year period, at an estimated value of \$0.3 million. This value is being recorded as compensation expense on a straight-line basis over the vesting period of the restricted stock.

In April 2015, a total of 91,083 shares of restricted stock vested, of which 27,325 shares were withheld to cover the employees' statutory income tax requirements. The estimated value of the withheld shares was \$0.7 million.

## **15. SEGMENT INFORMATION**

The Company has four reportable segments: Men's Sportswear and Swim, Women's Sportswear, Direct-to-Consumer and Licensing. The Men's Sportswear and Swim and Women's Sportswear segments derive revenues from the design, import and distribution of apparel to department stores and other retail outlets, principally throughout the United States. The Direct-to-Consumer segment derives its revenues from the sale of the Company's branded and licensed products through its retail stores and e-commerce platform. The Licensing segment derives its revenues from royalties associated with the use of the Company's brand names, principally Perry Ellis, Jantzen, John Henry, Original Penguin, Gotcha, Farah, Savane, Pro Player, Laundry, Manhattan and Munsingwear.

The Company allocates certain corporate selling, general and administrative expenses based primarily on the revenues generated by each segment.

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	Three Months Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
	(in thousands)			
Revenues:				
Men's Sportswear and Swim	\$ 150,488	\$ 147,175	\$ 348,941	\$ 342,174
Women's Sportswear	29,882	26,240	68,705	60,727
Direct-to-Consumer	24,268	22,595	45,249	43,025
Licensing	8,661	7,522	16,818	14,920
Total revenues	\$ 213,299	\$ 203,532	\$ 479,713	\$ 460,846
Depreciation and amortization:				
Men's Sportswear and Swim	\$ 1,863	\$ 1,564	\$ 3,738	\$ 3,198
Women's Sportswear	566	496	1,066	957
Direct-to-Consumer	971	889	1,875	1,735
Licensing	46	39	89	78
Total depreciation and amortization	\$ 3,446	\$ 2,988	\$ 6,768	\$ 5,968
Operating income :				
Men's Sportswear and Swim	\$ 822	\$ (1,779)	\$ 12,152	\$ 9,254
Women's Sportswear	(1,051)	(1,970)	331	(1,573)
Direct-to-Consumer	(2,147)	(1,126)	(4,013)	(2,978)
Licensing <sup>(1)</sup>	6,618	6,378	12,245	11,775
Total operating income	\$ 4,242	\$ 1,503	\$ 20,715	\$ 16,478
Costs on early extinguishment of debt	5,121		5,121	
Total interest expense	1,943	3,605	5,570	7,321
Total net (loss) income before income taxes	\$ (2,822)	\$ (2,102)	\$ 10,024	\$ 9,157

- <sup>(1)</sup> Operating income for the licensing segment for the six months ended August 1, 2015, includes a loss on sale of long-lived assets in the amount of \$0.7 million. Operating income for the licensing segment for the three and six months ended August 2, 2014 includes a gain on sale of long-lived assets in the amount of \$0.9 million and \$0.9 million, respectively. See footnote 7 to the consolidated financial statements for further information.

**16. BENEFIT PLAN**

The Company sponsors a qualified pension plan. The following table provides the components of net benefit cost for the plan during the three and six months of fiscal 2016 and 2015:

<b>Three Months Ended</b>	<b>Six Months Ended</b>
-------------------------------	-------------------------

	<b>August 1, 2015</b>	<b>August 2, 2014</b>	<b>August 1, 2015</b>	<b>August 2, 2014</b>
	(in thousands)			
Service cost	\$ 63	\$ 63	\$ 126	\$ 126
Interest cost	337	433	674	866
Expected return on plan assets	(658)	(508)	(1,316)	(1,016)
Amortization of net gain	135	130	270	260
Net periodic benefit cost	\$ (123)	\$ 118	\$ (246)	\$ 236

**Table of Contents****17. SENIOR CREDIT FACILITY**

On April 22, 2015, the Company amended and restated its existing senior credit facility (the Credit Facility), with Wells Fargo Bank, National Association, as agent for the lenders, and Bank of America, N.A., as syndication agent. The Credit Facility provides a revolving credit facility of up to an aggregate amount of \$200 million. The Credit Facility has been extended through April 30, 2020 (Maturity Date). In connection with this amendment and restatement, the Company paid fees in the amount of \$0.6 million. These fees will be amortized over the term of the credit facility as interest expense. At August 1, 2015, we had outstanding borrowings of \$58.2 million under the Credit Facility. At January 31, 2015, the Company had no outstanding borrowings under the Credit Facility.

*Certain Covenants.* The Credit Facility contains certain financial and other covenants, which, among other things, require the Company to maintain a minimum fixed charge coverage ratio if availability falls below certain thresholds. The Company is not aware of any non-compliance with any of its covenants in this Credit Facility. These covenants may restrict its ability and the ability of its subsidiaries to, among other things, incur additional indebtedness and liens in certain circumstances, redeem or repurchase capital stock, make certain investments or sell assets. The Company may pay cash dividends subject to certain restrictions set forth in the covenants including, but not limited to, meeting a minimum excess availability threshold and no occurrence of a default. The Company could be materially harmed if it violates any covenants, as the lenders under the Credit Facility could declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If the Company is unable to repay those amounts, the lenders could proceed against its assets and the assets of its subsidiaries that are borrowers or guarantors. In addition, a covenant violation that is not cured or waived by the lenders could also constitute a cross-default under certain of its other outstanding indebtedness, such as the indenture relating to its 7<sup>7</sup>/<sub>8</sub>% senior subordinated notes due April 1, 2019, its letter of credit facilities, or its real estate mortgage loans. Such a cross-default could result in all of its debt obligations becoming immediately due and payable, which it may not be able to satisfy.

*Borrowing Base.* Borrowings under the Credit Facility are limited to a borrowing base calculation, which generally restricts the outstanding balance to the sum of (a) 87.5% of eligible receivables plus (b) 87.5% of eligible foreign accounts up to \$1.5 million plus (c) the lesser of (i) the inventory loan limit, which equals 80% of the maximum credit under the Credit Facility at the time, (ii) a maximum of 70.0% of eligible finished goods inventory with an inventory limit not to exceed \$125 million, or 90.0% of the net recovery percentage (as defined in the Credit Facility) of eligible inventory.

*Interest.* Interest on the outstanding principal balance drawn under the Credit Facility accrues at the prime rate and at the rate quoted by the agent for Eurodollar loans. The margin adjusts quarterly, in a range of 0.50% to 1.00% for prime rate loans and 1.50% to 2.00% for Eurodollar loans, based on the previous quarterly average of excess availability plus excess cash on the last day of the previous quarter.

*Security.* As security for the indebtedness under the Credit Facility, the Company granted to the lenders a first priority security interest (subject to liens permitted under the Credit Facility to be senior thereto) in substantially all of its existing and future assets, including, without limitation, accounts receivable, inventory, deposit accounts, general intangibles, equipment and capital stock or membership interests, as the case may be, of certain subsidiaries, and real estate but excluding its non-U.S. subsidiaries and all of its trademark portfolio.

**18. Senior Subordinated Notes Payable**

In March 2011, the Company issued \$150 million 7<sup>7</sup>/<sub>8</sub>% senior subordinated notes, due April 1, 2019. The proceeds of this offering were used to retire the \$150 million 8<sup>7</sup>/<sub>8</sub>% senior subordinated notes due September 15, 2013 and to repay a portion of the outstanding balance on the senior credit facility. The proceeds to the Company were \$146.5

million yielding an effective interest rate of 8.0%.

On April 6, 2015, the Company elected to call for the partial redemption of \$100 million of its \$150 million  $7\frac{7}{8}\%$  senior subordinated notes due 2019 and a notice of redemption was sent to all registered holders of the senior subordinated notes. The redemption terms provided for the payment of a redemption premium of 103.938% of the principal amount redeemed. On May 6, 2015, the Company completed the redemption of the \$100 million of its senior subordinated notes. The Company incurred debt extinguishment costs of approximately \$5.1 million in connection with the redemption, including the redemption premium as well as the write-off of note issuance costs.

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*Certain Covenants.* The indenture governing the senior subordinated notes contains certain covenants which restrict the Company's ability and the ability of its subsidiaries to, among other things, incur additional indebtedness in certain circumstances, pay dividends or make other distributions on, redeem or repurchase capital stock, make investments or other restricted payments, create liens on assets to secure debt, engage in transactions with affiliates, and effect a consolidation or merger. The Company is not aware of any non-compliance with any of its covenants in this indenture. The Company could be materially harmed if it violated any covenants because the indenture's trustee could declare the outstanding notes, together with accrued interest, to be immediately due and payable, which the Company may not be able to satisfy. In addition, a violation could also constitute a cross-default under the senior credit facility, the letter of credit facilities and the real estate mortgages resulting in all of the Company's debt obligations becoming immediately due and payable, which it may not be able to satisfy.

## **19. FAIR VALUE MEASUREMENTS**

*Accounts receivable, accounts payable, accrued interest payable and accrued expenses.* The carrying amounts reported in the consolidated balance sheets approximate fair value due to the short-term nature of these instruments.

*Investments.* (classified within Level 1 of the valuation hierarchy) The carrying amounts of the available-for-sale investments are measured at fair value on a recurring basis in the consolidated balance sheets.

*Real estate mortgages.* (classified within Level 2 of the valuation hierarchy) The carrying amounts of the real estate mortgages were approximately \$23.0 million at August 1, 2015 and January 31, 2015, respectively. The carrying values of the real estate mortgages at August 1, 2015 and January 31, 2015, approximate their fair values since the interest rates approximate market.

*Senior credit facility.* The carrying amount of the senior credit facility approximates fair value due to the frequent resets of its floating interest rate.

*Senior subordinated notes payable.* (classified within Level 1 of the valuation hierarchy) The carrying amounts of the 7<sup>7</sup>/<sub>8</sub> % senior subordinated notes payable were approximately \$50.0 million and \$150.0 million at August 1, 2015 and January 31, 2015. The fair value of the 7<sup>7</sup>/<sub>8</sub> % senior subordinated notes payable was approximately \$51.0 million and \$157.0 million as of August 1, 2015 and January 31, 2015, respectively, based on quoted market prices.

These estimated fair value amounts have been determined using available market information and appropriate valuation methods.

## **20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

The Company and several of its subsidiaries (the Guarantors) have fully and unconditionally guaranteed the senior subordinated notes payable on a joint and several basis. These guarantees are subject to release in limited circumstances (only upon the occurrence of certain customary conditions). The following are condensed consolidating financial statements, which present, in separate columns: Perry Ellis International, Inc., (Parent Only), the Guarantors on a combined, or where appropriate, consolidated basis, and the Non-Guarantors on a combined, or where appropriate, consolidated basis. Additional columns present eliminating adjustments and consolidated totals as of August 1, 2015 and January 31, 2015 and for the three and six months ended August 1, 2015 and August 2, 2014. The combined Guarantors are 100% owned subsidiaries of Perry Ellis International, Inc., and have fully and unconditionally guaranteed the senior subordinated notes payable on a joint and several basis.





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**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)**

**AS OF AUGUST 1, 2015**

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>ASSETS</b>					
Current Assets:					
Cash and cash equivalents	\$	\$ 4,301	\$ 22,964	\$	\$ 27,265
Accounts receivable, net		97,938	26,337		124,275
Intercompany receivable, net	76,028			(76,028)	
Inventories		129,583	24,395		153,978
Investment, at fair value			10,704		10,704
Deferred income taxes			701		701
Prepaid income taxes	5,836			338	6,174
Prepaid expenses and other current assets		7,005	893		7,898
Total current assets	81,864	238,827	85,994	(75,690)	330,995
Property and equipment, net		61,855	4,364		66,219
Other intangible assets, net		172,919	33,638		206,557
Goodwill		6,022			6,022
Investment in subsidiaries	282,844			(282,844)	
Other assets	503	2,366	1,362		4,231
<b>TOTAL</b>	<b>\$ 365,211</b>	<b>\$ 481,989</b>	<b>\$ 125,358</b>	<b>\$ (358,534)</b>	<b>\$ 614,024</b>

**LIABILITIES AND EQUITY**

Current Liabilities:					
Accounts payable	\$	\$ 64,062	\$ 10,455	\$	\$ 74,517
Accrued expenses and other liabilities		21,059	5,095		26,154
Accrued interest payable	1,511				1,511
Income taxes payable		452	906	(1,358)	
Unearned revenues		2,912	1,527		4,439
Deferred pension obligation		8,943	72		9,015
Deferred income taxes		82			82
Intercompany payable, net		59,528	20,794	(80,322)	
Total current liabilities	1,511	157,038	38,849	(81,680)	115,718

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Senior subordinated notes payable, net	50,000				50,000
Senior credit facility		58,211			58,211
Real estate mortgages		21,684			21,684
Unearned revenues and other long-term liabilities		14,567	758		15,325
Deferred income taxes		37,687	3	1,696	39,386
Total long-term liabilities	50,000	132,149	761	1,696	184,606
Total liabilities	51,511	289,187	39,610	(79,984)	300,324
Total equity	313,700	192,802	85,748	(278,550)	313,700
TOTAL	\$ 365,211	\$ 481,989	\$ 125,358	\$ (358,534)	\$ 614,024

**Table of Contents****PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF JANUARY 31, 2015****(amounts in thousands)**

	<b>Parent Only</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Current Assets:					
Cash and cash equivalents	\$	\$ 30,055	\$ 13,492	\$	\$ 43,547
Accounts receivable, net		114,325	23,107		137,432
Intercompany receivable, net	174,264			(174,264)	
Inventories		156,107	27,627		183,734
Investments, at fair value			19,996		19,996
Deferred income taxes			725		725
Prepaid income taxes	5,275		314	795	6,384
Prepaid expenses and other current assets		6,159	965		7,124
Total current assets	179,539	306,646	86,226	(173,469)	398,942
Property and equipment, net		60,216	4,417		64,633
Other intangible assets, net		176,563	33,638		210,201
Goodwill		6,022			6,022
Investment in subsidiaries	274,714			(274,714)	
Other assets	1,809	1,926	1,456		5,191
<b>TOTAL</b>	<b>\$ 456,062</b>	<b>\$ 551,373</b>	<b>\$ 125,737</b>	<b>\$ (448,183)</b>	<b>\$ 684,989</b>

**LIABILITIES AND EQUITY**

Current Liabilities:					
Accounts payable	\$	\$ 105,046	\$ 12,743	\$	\$ 117,789
Accrued expenses and other liabilities		17,945	4,410		22,355
Accrued interest payable	4,045				4,045
Income taxes payable		901		(901)	
Unearned revenues		3,023	1,833		4,856
Deferred pension obligation		8,878	52		8,930
Deferred income taxes		797			797
Intercompany payable, net		156,438	23,211	(179,649)	
Total current liabilities	4,045	293,028	42,249	(180,550)	158,772

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Senior subordinated notes payable, net	150,000				150,000
Real estate mortgages		22,109			22,109
Unearned revenues and other long-term liabilities		13,620	1,389		15,009
Deferred income taxes		35,383	3	1,696	37,082
Total long-term liabilities	150,000	71,112	1,392	1,696	224,200
Total liabilities	154,045	364,140	43,641	(178,854)	382,972
Total equity	302,017	187,233	82,096	(269,329)	302,017
TOTAL	\$ 456,062	\$ 551,373	\$ 125,737	\$ (448,183)	\$ 684,989

**Table of Contents****PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS ) INCOME  
(UNAUDITED)****FOR THE THREE MONTHS ENDED AUGUST 1, 2015****(amounts in thousands)**

	<b>Parent Only</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues:					
Net sales	\$	\$ 179,921	\$ 24,717	\$	\$ 204,638
Royalty income		5,286	3,375		8,661
Total revenues		185,207	28,092		213,299
Cost of sales		121,408	15,949		137,357
Gross profit		63,799	12,143		75,942
Operating expenses:					
Selling, general and administrative expenses		57,275	10,979		68,254
Depreciation and amortization		3,138	308		3,446
Total operating expenses		60,413	11,287		71,700
Operating income		3,386	856		4,242
Costs on early extinguishment of debt		5,121			5,121
Interest expense		1,939	4		1,943
Net (loss) income before income taxes		(3,674)	852		(2,822)
Income tax (benefit) provision		(2,517)	976		(1,541)
Equity in earnings of subsidiaries, net	(1,281)			1,281	
Net (loss) income	(1,281)	(1,157)	(124)	1,281	(1,281)
Other comprehensive income	288	135	153	(288)	288
Comprehensive (loss) income	\$ (993)	\$ (1,022)	\$ 29	\$ 993	\$ (993)

**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)****FOR THE THREE MONTHS ENDED AUGUST 2, 2014**

(amounts in thousands)

	Parent Only	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	\$	\$ 173,789	\$ 22,221	\$	\$ 196,010
Royalty income		4,570	2,952		7,522
Total revenues		178,359	25,173		203,532
Cost of sales		118,314	14,754		133,068
Gross profit		60,045	10,419		70,464
Operating expenses:					
Selling, general and administrative expenses		56,876	9,982		66,858
Depreciation and amortization		2,752	236		2,988
Total operating expenses		59,628	10,218		69,846
Gain on sale of long-lived assets			885		885
Operating income		417	1,086		1,503
Interest expense		3,615	(10)		3,605
Net (loss) income before income taxes		(3,198)	1,096		(2,102)
Income tax (benefit) provision		381	(867)		(486)
Equity in earnings of subsidiaries, net	(1,616)			1,616	
Net (loss) income	(1,616)	(3,579)	1,963	1,616	(1,616)
Other comprehensive income (loss)	58	79	(21)	(58)	58
Comprehensive (loss) income	\$ (1,558)	\$ (3,500)	\$ 1,942	\$ 1,558	\$ (1,558)

**Table of Contents****PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)****FOR THE SIX MONTHS ENDED AUGUST 1, 2015****(amounts in thousands)**

	<b>Parent Only</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues:					
Net sales	\$	\$ 412,200	\$ 50,695	\$	\$ 462,895
Royalty income		10,198	6,620		16,818
Total revenues		422,398	57,315		479,713
Cost of sales		281,659	32,012		313,671
Gross profit		140,739	25,303		166,042
Operating expenses:					
Selling, general and administrative expenses		117,120	20,742		137,862
Depreciation and amortization		6,162	606		6,768
Total operating expenses		123,282	21,348		144,630
Loss on sale of long-lived assets		(697)			(697)
Operating income		16,760	3,955		20,715
Costs on early extinguishment of debt		5,121			5,121
Interest expense		5,506	64		5,570
Net income before income taxes		6,133	3,891		10,024
Income tax provision		564	1,330		1,894
Equity in earnings of subsidiaries, net	8,130			(8,130)	
Net income	8,130	5,569	2,561	(8,130)	8,130
Other comprehensive income	1,354	270	1,084	(1,354)	1,354
Comprehensive income	\$ 9,484	\$ 5,839	\$ 3,645	\$ (9,484)	\$ 9,484

**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)****FOR THE SIX MONTHS ENDED AUGUST 2, 2014**



(amounts in thousands)

	Parent Only	Guarantors	Non- Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	\$	\$ 399,120	\$ 46,806	\$	\$ 445,926
Royalty income		9,090	5,830		14,920
Total revenues		408,210	52,636		460,846
Cost of sales		272,559	30,158		302,717
Gross profit		135,651	22,478		158,129
Operating expenses:					
Selling, general and administrative expenses		117,430	19,138		136,568
Depreciation and amortization		5,521	447		5,968
Total operating expenses		122,951	19,585		142,536
Gain on sale of long-lived assets			885		885
Operating income		12,700	3,778		16,478
Interest expense		7,300	21		7,321
Net income before income taxes		5,400	3,757		9,157
Income tax provision		2,601	397		2,998
Equity in earnings of subsidiaries, net	6,159			(6,159)	
Net income	6,159	2,799	3,360	(6,159)	6,159
Other comprehensive income	812	159	653	(812)	812
Comprehensive income	\$ 6,971	\$ 2,958	\$ 4,013	\$ (6,971)	\$ 6,971

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**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED AUGUST 1, 2015**

(amounts in thousands)

	Parent Only	Guarantors	Non- Guarantors	Eliminations	Consolidated
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:	\$ (1,789)	\$ 19,293	\$ 2,972	\$	\$ 20,476
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		(6,734)	(611)		(7,345)
Purchase of investments			(2,641)		(2,641)
Proceeds from investment maturities			11,860		11,860
Proceeds on sale of intangible assets		2,500			2,500
Intercompany transactions	100,076			(100,076)	
Net cash provided by (used in) investing activities	100,076	(4,234)	8,608	(100,076)	4,374
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments on senior subordinated notes	(100,000)				(100,000)
Borrowings from senior credit facility		255,065			255,065
Payments on senior credit facility		(196,854)			(196,854)
Payments on real estate mortgages		(410)			(410)
Payments on capital leases		(77)			(77)
Deferred financing fees		(569)			(569)
Proceeds from exercise of stock options	1,339				1,339
Tax benefit from exercise of equity instruments	(201)				(201)
Intercompany transactions		(97,968)	(2,683)	100,651	
Net cash (used in) provided by financing activities	(98,862)	(40,813)	(2,683)	100,651	(41,707)
Effect of exchange rate changes on cash and cash equivalents	575		575	(575)	575
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(25,754)	9,472		(16,282)
		30,055	13,492		43,547

CASH AND CASH EQUIVALENTS  
AT BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	\$	4,301	\$	22,964	\$	\$	27,265
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**Table of Contents****PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)****FOR THE SIX MONTHS ENDED AUGUST 2, 2014****(amounts in thousands)**

	<b>Parent Only</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:</b>	<b>\$ (182)</b>	<b>\$ 39,319</b>	<b>\$ 4,842</b>	<b>\$ 2,999</b>	<b>\$ 46,978</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of property and equipment		(6,895)	(428)		(7,323)
Purchase of investments			(22,897)		(22,897)
Proceeds from investment maturities			14,160		14,160
Intercompany transactions	163			(163)	
<b>Net cash provided by (used in) investing activities</b>	<b>163</b>	<b>(6,895)</b>	<b>(9,165)</b>	<b>(163)</b>	<b>(16,060)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Borrowings from senior credit facility		159,402			159,402
Payments on senior credit facility		(167,564)			(167,564)
Payments on real estate mortgages		(396)			(396)
Payments on capital leases		(150)			(150)
Proceeds from exercise of stock options	197				197
Tax benefit from exercise of equity instruments	(144)				(144)
Intercompany transactions		(2,307)	2,178	129	
<b>Net cash provided by (used in) financing activities</b>	<b>53</b>	<b>(11,015)</b>	<b>2,178</b>	<b>129</b>	<b>(8,655)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(34)</b>		<b>(34)</b>	<b>34</b>	<b>(34)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>21,409</b>	<b>(2,179)</b>	<b>2,999</b>	<b>22,229</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>			<b>29,988</b>	<b>(2,999)</b>	<b>26,989</b>
	<b>\$</b>	<b>\$ 21,409</b>	<b>\$ 27,809</b>	<b>\$</b>	<b>\$ 49,218</b>

CASH AND CASH EQUIVALENTS AT  
END OF PERIOD

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### **Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

Unless the context otherwise requires, all references to Perry Ellis, the Company, we, us or our include Perry Ellis International, Inc. and its subsidiaries. This management's discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended January 31, 2015, filed with the Securities and Exchange Commission on April 14, 2015.

#### **Forward Looking Statements**

We caution readers that this report includes forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations rather than historical facts and they are indicated by words or phrases such as anticipate, believe, budget, contemplate, continue, envision, estimate, expect, guidance, indicate, intend, may, might, plan, possibly, potential, project, pro-forma, seek, should, target, or will or the negative thereof or other variations thereon and similar phrases or comparable terminology. Such forward-looking statements include, but are not limited to, statements regarding Perry Ellis' strategic operating review, growth initiatives and internal operating improvements intended to drive revenues and enhance profitability, the implementation of Perry Ellis' profitability improvement plan and Perry Ellis' plans to exit underperforming, low growth brands and businesses. We have based such forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the factors that could affect our financial performance, cause actual results to differ from our estimates, or underlie such forward-looking statements, are as set forth below and in various places in this report. These factors include, but are not limited to:

general economic conditions,

a significant decrease in business from or loss of any of our major customers or programs,

anticipated and unanticipated trends and conditions in our industry, including the impact of recent or future retail and wholesale consolidation,

recent and future economic conditions, including turmoil in the financial and credit markets,

the effectiveness of our planned advertising, marketing and promotional campaigns,

our ability to contain costs,

disruptions in the supply chain, including, but not limited to those caused by port disruptions,

our future capital needs and our ability to obtain financing,

our ability to protect our trademarks,

our ability to integrate acquired businesses, trademarks, tradenames, and licenses,

our ability to predict consumer preferences and changes in fashion trends and consumer acceptance of both new designs and newly introduced products,

the termination or non-renewal of any material license agreements to which we are a party,

changes in the costs of raw materials, labor and advertising,

our ability to carry out growth strategies including expansion in international and direct-to-consumer retail markets,

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our plans, strategies, objectives, expectations and intentions, which are subject to change at any time at our discretion,

potential cyber risk and technology failures that could disrupt operations or result in a data breach,

the level of consumer spending for apparel and other merchandise,

our ability to compete,

exposure to foreign currency risk and interest rate risk,

possible disruption in commercial activities due to terrorist activity and armed conflict,

actions of activist investors and the cost and disruption of responding to those actions, and

other factors set forth in this report and in our other Securities and Exchange Commission ( SEC ) filings. You are cautioned that all forward-looking statements involve risks and uncertainties detailed in our filings with the SEC. You are cautioned not to place undue reliance on these forward-looking statements, which are valid only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise.

## **Critical Accounting Policies**

Included in the footnotes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended January 31, 2015 is a summary of all significant accounting policies used in the preparation of our consolidated financial statements. We follow the accounting methods and practices as required by accounting principles generally accepted in the United States of America ( GAAP ). In particular, our critical accounting policies and areas in which we use judgment are in the areas of revenue recognition, the estimated collectability of accounts receivable, the recoverability of obsolete or overstocked inventory, the impairment of long-lived assets that are our trademarks and goodwill, the recoverability of deferred tax assets and the measurement of retirement related benefits. We believe that there have been no significant changes to our critical accounting policies during the three and six months ended August 1, 2015 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended January 31, 2015.

## **Results of Operations**

The following table sets forth, for the periods indicated, selected financial data expressed by segments and includes a reconciliation of EBITDA to operating income by segment, the most directly comparable GAAP financial measure:





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	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 1, 2015</b>	<b>August 2, 2014</b>	<b>August 1, 2015</b>	<b>August 2, 2014</b>
	(in thousands)			
Revenues by segment:				
Men's Sportswear and Swim	\$ 150,488	\$ 147,175	\$ 348,941	\$ 342,174
Women's Sportswear	29,882	26,240	68,705	60,727
Direct-to-Consumer	24,268	22,595	45,249	43,025
Licensing	8,661	7,522	16,818	14,920
Total revenues	\$ 213,299	\$ 203,532	\$ 479,713	\$ 460,846

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 1, 2015</b>	<b>August 2, 2014</b>	<b>August 1, 2015</b>	<b>August 2, 2014</b>
	(in thousands)			
Reconciliation of operating income to EBITDA				
Operating income by segment:				
Men's Sportswear and Swim	\$ 822	\$ (1,779)	\$ 12,152	\$ 9,254
Women's Sportswear	(1,051)	(1,970)	331	(1,573)
Direct-to-Consumer	(2,147)	(1,126)	(4,013)	(2,978)
Licensing	6,618	6,378	12,245	11,775
Total operating income	\$ 4,242	\$ 1,503	\$ 20,715	\$ 16,478

Add:				
Depreciation and amortization				
Men's Sportswear and Swim	\$ 1,863	\$ 1,564	\$ 3,738	\$ 3,198
Women's Sportswear	566	496	1,066	957
Direct-to-Consumer	971	889	1,875	1,735
Licensing	46	39	89	78
Total depreciation and amortization	\$ 3,446	\$ 2,988	\$ 6,768	\$ 5,968

EBITDA by segment:				
Men's Sportswear and Swim	\$ 2,685	\$ (215)	\$ 15,890	\$ 12,452
Women's Sportswear	(485)	(1,474)	1,397	(616)
Direct-to-Consumer	(1,176)	(237)	(2,138)	(1,243)
Licensing	6,664	6,417	12,334	11,853
Total EBITDA	\$ 7,688	\$ 4,491	\$ 27,483	\$ 22,446

EBITDA margin by segment				
Men's Sportswear and Swim	1.8%	(0.1%)	4.6%	3.6%
Women's Sportswear	(1.6%)	(5.6%)	2.0%	(1.0%)
Direct-to-Consumer	(4.8%)	(1.0%)	(4.7%)	(2.9%)
Licensing	76.9%	85.3%	73.3%	79.4%

Total EBITDA margin	3.6%	2.2%	5.7%	4.9%
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EBITDA consists of earnings before interest, depreciation and amortization, costs on early extinguishment of debt and income taxes. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States of America, and does not represent cash flow from operations. The most directly comparable GAAP financial measure, presented above, is operating income. EBITDA and EBITDA margin are presented solely as a supplemental disclosure because management believes that they are a common measure of operating performance in the apparel industry.

The following is a discussion of the results of operations for the three and six month ended August 1, 2015 of the fiscal year ending January 30, 2016 ( fiscal 2016 ) compared with the three and six month ended August 2, 2014 of the fiscal year ended January 31, 2015 ( fiscal 2015 ).

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### ***Results of Operations three and six months ended August 1, 2015 compared to the three and six months ended August 2, 2014.***

*Net sales.* Men's Sportswear and Swim net sales for the three months ended August 1, 2015 were \$150.5 million, an increase of \$3.3 million, or 2.2%, from \$147.2 million for the three months ended August 2, 2014. The net sales increase was attributed primarily to Perry Ellis as well as strength in Original Penguin across the globe.

Men's Sportswear and Swim net sales for the six months ended August 1, 2015 were \$348.9 million, an increase of \$6.7 million, or 2.0%, from \$342.2 million for the six months ended August 2, 2014. The net sales increase was attributed primarily to increases in the Perry Ellis and Original Penguin collections and golf lifestyle apparel, partially offset by decreases in our mid-tier sportswear as we reduced penetration of our proprietary brands.

Women's Sportswear net sales for the three months ended August 1, 2015 were \$29.9 million, an increase of \$3.7 million, or 14.1%, from \$26.2 million for the three months ended August 2, 2014. The net sales increase was attributed to contemporary Laundry by Shelli Segal dresses and Rafaella, which were partially offset by the exit of C&C California, which we sold during the first quarter.

Women's Sportswear net sales for the six months ended August 1, 2015 were \$68.7 million, an increase of \$8.0 million, or 13.2%, from \$60.7 million for the six months ended August 2, 2014. The net sales increase was primarily due to increases in our contemporary Laundry by Shelli Segal dresses and Rafaella sportswear, driven by strong performance at retail. These increases were partially offset by the exit of C&C California, which was sold during the first quarter.

Direct-to-Consumer net sales for the three months ended August 1, 2015 were \$24.3 million, an increase of \$1.7 million, or 7.5%, from \$22.6 million for the three months ended August 2, 2014. The net sales increase was attributed to a 2.1% comparable same store sales increase driven by a higher average dollar per transaction in both Perry Ellis and Original Penguin stores. We also experienced increases in ecommerce comparable sales of 33% over last year.

Direct-to-Consumer net sales for the six months ended August 1, 2015 were \$45.2 million, an increase of \$2.2 million, or 5.1%, from \$43.0 million for the six months ended August 2, 2014. The increase was driven by e-commerce, which posted a 38% increase in comparable sales, as well as a 1% increase in comparable same store sales.

*Royalty income.* Royalty income for the three months ended August 1, 2015 was \$8.7 million, an increase of \$1.2 million, or 16.0%, from \$7.5 million for the three months ended August 2, 2014. The net sales increase was attributed to new licenses signed last year and through the first part of fiscal 2016 as well as strong performance in existing licenses for our core brands.

Royalty income for the six months ended August 1, 2015 was \$16.8 million, an increase of \$1.9 million, or 12.8%, from \$14.9 million for the six months ended August 2, 2014. Royalty income increases were attributed to increases in our Perry Ellis, Original Penguin and Laundry businesses as well as the new licenses signed last year and through the first part of fiscal 2016.

*Gross profit.* Gross profit was \$75.9 million for the three months ended August 1, 2015, an increase of \$5.4 million, or 7.7 %, from \$70.5 million for the three months ended August 2, 2014. The increase is attributed to growth in the Perry Ellis and Rafaella collection businesses, as well as in licensing and direct-to-consumer.

Gross profit was \$166.0 million for the six months ended August 1, 2015, an increase of \$7.9 million, or 5.0%, from \$158.1 million for the six months ended August 2, 2014. This increase is attributed to the sales mix composition

described above and the factors described within the gross profit margin section below.

*Gross profit margin.* As a percentage of total revenue, gross profit margins were 35.6% for the three months ended August 1, 2015, as compared to 34.6% for the three months ended August 2, 2014, an expansion of 100 basis

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points. The increase was primarily attributed to the factors outlined in gross profit section above which were, partially offset by costs associated with the consolidation of our foreign sourcing offices.

For the six months ended August 1, 2015, gross profit margins were 34.6% as a percentage of total revenue as compared to 34.3% for the six months ended August 2, 2014, an increase of 30 basis points. This increase is primarily associated with the expansion across our licensing and core domestic collections, partially offset by the exit of the Elite component of our Nike licensed business, the inventory liquidation of divested C&C California, as well as the consolidation of our foreign sourcing offices.

*Selling, general and administrative expenses.* Selling, general and administrative expenses for the three months ended August 1, 2015 were \$68.3 million, an increase of \$1.4 million, or 2.1%, from \$66.9 million for the three months ended August 2, 2014. The increase reflects costs primarily related to the activist campaign as well as costs associated with streamlining and restructuring. This increase was partially offset by cost reductions this quarter as a result of the initiatives we implemented during fiscal 2014.

Selling, general and administrative expenses for the six months ended August 1, 2015 were \$137.9 million, an increase of \$1.3 million, or 1.0%, from \$136.6 million for the six months ended August 2, 2014. The increase reflects costs primarily related to the activist campaign as well as restructuring costs related to exited businesses and exit costs associated with the consolidation of our N.Y. corporate office space. We realized favorability from reduced headcount and tighter expense control across our infrastructure.

*EBITDA.* Men's Sportswear and Swim EBITDA margin for the three months ended August 1, 2015 increased 190 basis points to 1.8% from (0.1%) for the three months ended August 2, 2014. Men's Sportswear and Swim EBITDA margin for the six months ended August 1, 2015 increased 100 basis points to 4.6%, from 3.6% for the six months ended August 2, 2014. The EBITDA margin was driven principally by the expansion in gross margin in our Perry Ellis and Original Penguin collection businesses. We also realized favorable leverage in selling, general and administrative expenses, most notably in employee related expenses, which was partially offset by the increased infrastructure expenditures planned in this segment, as well as exit costs associated with the Elite component of our licensed Nike business.

Women's Sportswear EBITDA margin for the three months ended August 1, 2015 increased 400 basis points to (1.6%) from (5.6%) for the three months ended August 2, 2014. Women's Sportswear EBITDA margin for the six months ended August 1, 2015 increased 300 basis points to 2.0% from (1.0%) for the six months ended August 2, 2014. The EBITDA margin was favorably impacted by the expansion in the Rafaella collection business coupled with favorable leverage in selling, general and administrative expenses, most notably in employee expenses and other overhead. This was partially offset by exit costs associated with C&C California.

Direct-to-Consumer EBITDA margin for the three months ended August 1, 2015 decreased 380 basis points to (4.8%) from (1.0%) for the three months ended August 2, 2014. Direct-to-Consumer EBITDA margin for the six months ended August 1, 2015 decreased 180 basis points to (4.7%), from (2.9%) for the six months ended August 2, 2014. The decrease was primarily attributable to an increase in occupancy costs attributable to renewal contracts coupled with additional costs associated with freight and professional fees.

Licensing EBITDA margin for the three months ended August 1, 2015 decreased 840 basis points to 76.9%, from 85.3% for the three months ended August 2, 2014. The decrease is attributable to a gain on the sale of certain rights of Jantzen in Australia, Fiji and New Zealand realized during fiscal 2015. This was partially offset by the increase in royalty income attributed to Original Penguin partnerships for footwear and international licensed retail stores, as well as eight new licensing agreements. Licensing EBITDA margin for the six months ended August 1, 2015 decreased to

73.3%, from 79.4% for the six months ended August 2, 2014. During the first three months ended May 2, 2015, we realized a loss on the sale of the C&C California brand while in the prior year we realized a gain in the first six months from the sale of Jantzen rights described above.

*Depreciation and amortization.* Depreciation and amortization for the three months ended August 1, 2015, was \$3.4 million, an increase of \$0.4 million, or 13.3% from \$3.0 million for the three months ended August 2,

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2014. Depreciation and amortization for the six months ended August 1, 2015, was \$6.8 million, an increase of \$0.8 million, or 13.3%, from \$6.0 million for the six months ended August 2, 2014. The increase is attributed to depreciation related to our capital expenditures and leaseholds, primarily in the men's sportswear and swim segment, as well as the direct-to-consumer segment.

*(Loss) gain on sale of long-lived assets.* During the first quarter of fiscal 2016, we entered into an agreement to sell the intellectual property of our C&C California brand to a third party. As a result of this transaction, we recorded a loss of (\$0.7) million in the licensing segment. During the second quarter of fiscal 2015, we entered into a sales agreement, in the amount of \$1.3 million, for the sale of the Australian, Fiji and New Zealand trademark rights with respect to Jantzen. As a result of this transaction, we recorded a gain of \$0.9 million in the licensing segment.

*Interest expense.* Interest expense for the three months ended August 1, 2015 was \$1.9 million, a decrease of \$1.7 million, or 47.2%, from \$3.6 million for the three months ended August 2, 2014. Interest expense for the six months ended August 1, 2015 was \$5.6 million, a decrease of \$1.7 million, or 23.3%, from \$7.3 million for the six months ended August 2, 2014. The decrease was primarily attributable to a decrease in interest resulting from the partial redemption of \$100 million of our senior subordinated notes. This decrease was partially offset by a higher average amount borrowed on our credit facility as compared to the comparable quarter of the prior year. The increase in the credit facility was due to its use for the redemption of the notes as discussed above.

*Income taxes.* The income tax benefit for the three months ended August 1, 2015, was \$1.5 million, an increase of \$1.0 million, as compared to \$0.5 million for the three months ended August 2, 2014. For the three months ended August 1, 2015, our effective tax rate was 54.7% as compared to 23.1% for the three months ended August 2, 2014. The income tax provision for the six months ended August 1, 2015, was \$1.9 million, a decrease of \$1.1 million, as compared to \$3.0 million for the six months ended August 2, 2014. For the six months ended August 1, 2015, our effective tax rate was 18.9% as compared to 32.7% for the six months ended August 2, 2014. The overall change in the effective tax rates is attributed to the current year impact of the valuation allowance on domestic taxes and a change in the ratio of income between domestic and foreign operations, of which the domestic operations are taxed at higher statutory tax rates.

*Net (loss) income.* Net loss for the three months ended August 1, 2015 was \$1.3 million, a decrease of \$0.3 million, or 18.8%, as compared to a loss of \$1.6 million for the three months ended August 2, 2014. Net income for the six months ended August 1, 2015 was \$8.1 million, an increase of \$1.9 million, or 30.6%, as compared to \$6.2 million for the six months ended August 2, 2014. The changes in operating results were due to the items described above.

## **Liquidity and Capital Resources**

We rely principally on cash flow from operations and borrowings under our senior credit facility to finance our operations, pension funding requirements, acquisitions, and capital expenditures. We believe that our working capital requirements will increase for next year as we continue to expand internationally. As of August 1, 2015, our total working capital was \$215.3 million as compared to \$240.2 million at January 31, 2015 and \$282.1 million as of August 2, 2014. We believe that our cash flows from operations and availability under our senior credit facility and remaining letter of credit facilities are sufficient to meet our working capital needs and capital expenditure needs over the next year. We also believe that our real estate assets, which had a net book value of \$22.6 million at August 1, 2015, have a higher market value. These real estate assets may provide us with additional capital resources. Additional borrowings against these real estate assets, however, would be subject to certain loan to value criteria established by lending institutions. As of August 1, 2015, we had mortgage loans on these properties totaling \$22.8 million.



We consider the undistributed earnings of our foreign subsidiaries as of August 1, 2015, to be indefinitely reinvested and, accordingly, no United States income taxes have been provided thereon. As of August 1, 2015, the amount of cash associated with indefinitely reinvested foreign earnings was approximately \$23.0 million. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

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Net cash provided by operating activities was \$20.5 million for the six months ended August 1, 2015, as compared to cash provided by operating activities of \$47.0 million for the six months ended August 2, 2014.

The cash provided by operating activities for the six months ended August 1, 2015, is primarily attributable to a decrease in accounts receivable of \$13.2 million due to the timing of shipments as compared to the prior year, as well as decreased inventory of \$30.1 million due to improved inventory management. This was partially offset by a decrease in accounts payable and accrued expenses of \$41.2 million as well as decreased accrued interest payable of \$2.5 million. For the six months ended August 1, 2015, our inventory turnover ratio increased to 3.7 as compared to 3.3 for the comparable period in fiscal 2015. Inventory levels declined as noted above resulting from tighter inventory management.

The cash provided by operating activities for the six months ended August 2, 2014, is primarily attributable to a decrease in accounts receivable of \$36.3 million due to the timing of shipments as compared to prior year as well as decreased inventory of \$32.6 million due to improved inventory management. This was partially offset by a decrease in accounts payable and accrued expenses of \$38.6 million. For the six months ended August 2, 2014, our inventory turnover ratio decreased slightly to 3.3 as compared to 3.8 for the comparable period in fiscal 2014. While the turnover decreased, inventory levels declined as noted above resulting from tighter inventory management.

Net cash provided by investing activities was \$4.4 million for the six months ended August 1, 2015, as compared to cash used in investing activities of \$16.1 million for the six months ended August 2, 2014. The net cash provided by investing activities during the first six months of fiscal 2016 primarily reflects the proceeds from the maturities of investments in the amount of \$11.9 million and proceeds on the sale of the C&C California brand in the amount of \$2.5 million; offset by the purchase of investments of \$2.6 million and the purchase of property and equipment of \$7.3 million primarily for leasehold improvements and store fixtures.

The net cash used during the first six months of fiscal 2015 primarily reflects the purchase of investments of \$22.9 million and the purchase of property and equipment of \$7.3 million, primarily for leaseholds; offset by the proceeds from the maturities of investments in the amount of \$14.2 million.

Net cash used in financing activities was \$41.7 million for the six months ended August 1, 2015, as compared to cash used in financing activities of \$8.7 million for the six months ended August 2, 2014. The net cash used during the first six months of fiscal 2016 primarily reflects payments for the partial redemption on our senior subordinated notes of \$100 million, payments of \$0.4 million on our mortgage loans, payments of deferred financing fees on the senior credit facility of \$0.6 million and payments on capital leases of \$0.07 million; partially offset by net borrowings on our senior credit facility of \$58.2 million, proceeds from the exercises of stock options of \$1.3 million and a tax benefit from exercise of equity instruments of \$0.2 million. We financed the redemption of the subordinated notes through our senior credit facility.

The net cash used during the first six months of fiscal 2015 primarily reflects net payments on our senior credit facility of \$8.2 million, payments of \$0.4 million on our mortgage loans and payments on capital leases of \$0.2 million; partially offset by proceeds from exercises of stock options of \$0.2 million.

Our Board of Directors has authorized us to purchase, from time to time and as market and business conditions warrant, up to \$60 million of our common stock for cash in the open market or in privately negotiated transactions through October 31, 2015. Although our Board of Directors allocated a maximum of \$60 million to carry out the program, we are not obligated to purchase any specific number of outstanding shares and will reevaluate the program on an ongoing basis.

During the second quarter of fiscal 2016, we retired 770,753 shares of treasury stock recorded at a cost of approximately \$15.7 million. Accordingly, during the second quarter of fiscal 2016 we reduced common stock and additional paid in capital by \$7,000 and \$15.7 million, respectively.

During fiscal 2015, we repurchased shares of our common stock at a cost of \$8.8 million. There have been no open market purchases during fiscal 2016. Total purchases under the plan to date amount to approximately \$51.7 million. As of August 1, 2015 there were no treasury shares outstanding and as of January 31, 2015, there were 770,753 shares of treasury stock outstanding at a cost of approximately \$15.7 million.

**Table of Contents*****Acquisitions***

None.

***7 <sup>7</sup>/<sub>8</sub>% \$150 Million Senior Subordinated Notes Payable***

In March 2011, we issued \$150 million 7 <sup>7</sup>/<sub>8</sub> % senior subordinated notes, due April 1, 2019. The proceeds of this offering were used to retire the \$150 million 8 <sup>7</sup>/<sub>8</sub> % senior subordinated notes due September 15, 2013 and to repay a portion of the outstanding balance on our senior credit facility. The proceeds to us were \$146.5 million yielding an effective interest rate of 8.0%.

On April 6, 2015, we elected to call for partial redemption \$100 million of our \$150 million outstanding 7 <sup>7</sup>/<sub>8</sub> % Senior Subordinated Notes due April 1, 2019 and a notice of redemption was sent to all registered holders of the notes. The redemption terms provided for the payment of a redemption premium of 103.938% of the principal amount redeemed. On May 6, 2015, we completed the redemption of \$100 million of our senior subordinated notes. We incurred debt extinguishment costs of approximately \$5.1 million in connection with the redemption premium and the write-off of note issuance costs.

*Certain Covenants.* The indenture governing the senior subordinated notes contains certain covenants which restrict our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness in certain circumstances, pay dividends or make other distributions on, redeem or repurchase capital stock, make investments or other restricted payments, create liens on assets to secure debt, engage in transactions with affiliates, and effect a consolidation or merger. We are not aware of any non-compliance with any of our covenants in this indenture. We could be materially harmed if we violate any covenants because the indenture's trustee could declare the outstanding notes, together with accrued interest, to be immediately due and payable, which we may not be able to satisfy. In addition, a violation could also constitute a cross-default under the senior credit facility, the letter of credit facilities and the real estate mortgages resulting in all of our debt obligations becoming immediately due and payable, which we may not be able to satisfy.

***Senior Credit Facility***

On April 22, 2015, we amended and restated our existing senior credit facility (the "Credit Facility"), with Wells Fargo Bank, National Association, as agent for the lenders, and Bank of America, N.A., as syndication agent. The Credit Facility provides a revolving credit facility of up to an aggregate amount of \$200 million. The Credit Facility has been extended through April 30, 2020 ("Maturity Date"). In connection with this amendment and restatement, we paid fees in the amount of \$0.6 million. These fees will be amortized over the term of the credit facility as interest expense. At August 1, 2015, we had borrowings of \$58.2 million under the Credit Facility. At January 31, 2015, we had no outstanding borrowings under the Credit Facility.

*Certain Covenants.* The Credit Facility contains certain financial and other covenants, which, among other things, require us to maintain a minimum fixed charge coverage ratio if availability falls below certain thresholds. We are not aware of any non-compliance with any of our covenants in this Credit Facility. These covenants may restrict our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness and liens in certain circumstances, redeem or repurchase capital stock, make certain investments or sell assets. We may pay cash dividends subject to certain restrictions set forth in the covenants including, but not limited to, meeting a minimum excess availability threshold and no occurrence of a default. We could be materially harmed if we violate any covenants, as the lenders under the Credit Facility could declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If we are unable to repay those amounts, the lenders could proceed

against our assets and the assets of our subsidiaries that are borrowers or guarantors. In addition, a covenant violation that is not cured or waived by the lenders could also constitute a cross-default under certain of our other outstanding indebtedness, such as the indenture relating to our  $7\frac{7}{8}\%$  senior subordinated notes due April 1, 2019, our letter of credit facilities, or our real estate mortgage loans. Such a cross-default could result in all of our debt obligations becoming immediately due and payable, which we may not be able to satisfy.

*Borrowing Base.* Borrowings under the Credit Facility are limited to a borrowing base calculation, which generally restricts the outstanding balance to the sum of (a) 87.5% of eligible receivables plus (b) 87.5% of eligible foreign accounts up to \$1.5 million plus (c) the lesser of (i) the inventory loan limit, which equals 80% of the

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maximum credit under the Credit Facility at the time, (ii) a maximum of 70.0% of eligible finished goods inventory with an inventory limit not to exceed \$125 million, or 90.0% of the net recovery percentage (as defined in the Credit Facility) of eligible inventory.

*Interest.* Interest on the outstanding principal balance drawn under the Credit Facility accrues at the prime rate and at the rate quoted by the agent for Eurodollar loans. The margin adjusts quarterly, in a range of 0.50% to 1.00% for prime rate loans and 1.50% to 2.00% for Eurodollar loans, based on the previous quarterly average of excess availability plus excess cash on the last day of the previous quarter.

*Security.* As security for the indebtedness under the Credit Facility, we granted to the lenders a first priority security interest (subject to liens permitted under the Credit Facility to be senior thereto) in substantially all of our existing and future assets, including, without limitation, accounts receivable, inventory, deposit accounts, general intangibles, equipment and capital stock or membership interests, as the case may be, of certain subsidiaries, and real estate but excluding our non-U.S. subsidiaries and all of our trademark portfolio.

***Letter of Credit Facilities***

As of August 1, 2015, we maintained one U.S. dollar letter of credit facility totaling \$30.0 million and one letter of credit facility totaling \$0.3 million utilized by our United Kingdom subsidiary. Each documentary letter of credit is secured primarily by the consignment of merchandise in transit under that letter of credit and certain subordinated liens on our assets.

During the first quarter of fiscal 2016, a \$15 million line of credit expired and was not renewed. During fiscal 2014, we decreased the letter of credit sublimit in our Senior Credit Facility to \$30.0 million. At August 1, 2015 and January 31, 2015, there was \$18.7 million and \$33.7 million, respectively, available under the existing letter of credit facilities.

***Real Estate Mortgage Loans***

In July 2010, we paid off our then existing real estate mortgage loan and refinanced our main administrative office, warehouse and distribution facility in Miami with a \$13.0 million mortgage loan. The loan is due on August 1, 2020. The interest rate has been modified since the refinancing date. The interest rate was 4.25% per annum and monthly payments of principal and interest of \$71,000 were due, based on a 25-year amortization with the outstanding principal due at maturity. In July 2013, we amended the mortgage loan agreement to modify the interest rate. The interest rate was reduced to 3.9% per annum and the terms were restated to reflect new monthly payments of principal and interest of \$69,000, based on a 25-year amortization with the outstanding principal due at maturity. At August 1, 2015, the balance of the real estate mortgage loan totaled \$11.2 million, net of discount, of which \$382,000 is due within one year.

In June 2006, we entered into a mortgage loan for \$15 million secured by our Tampa facility. The loan is due on January 23, 2019. The mortgage loan has been refinanced and the interest rate has been modified since such date. The interest rate was 4.00% per annum and quarterly payments of principal and interest of approximately \$248,000 were due, based on a 20-year amortization with the outstanding principal due at maturity. In January 2014, we again amended the mortgage loan to modify the interest rate. The interest rate was reduced to 3.25% per annum and the terms were restated to reflect new monthly payments of principal and interest of approximately \$68,000, based on a 20-year amortization with the outstanding principal due at maturity. At August 1, 2015, the balance of the real estate mortgage loan totaled \$11.3 million, net of discount, of which approximately \$452,000 is due within one year.

The real estate mortgage loans contain certain covenants. We are not aware of any non-compliance with any of the covenants. If we violate any covenants, the lender under the real estate mortgage loan could declare all amounts outstanding thereunder to be immediately due and payable, which we may not be able to satisfy. A covenant violation could constitute a cross-default under our senior credit facility, the letter of credit facilities and the indenture relating to our senior subordinated notes resulting in all of our debt obligations becoming immediately due and payable, which we may not be able to satisfy.

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### ***Off-Balance Sheet Arrangements***

We are not a party to any off-balance sheet arrangements, as defined by applicable GAAP and SEC rules.

### ***Effects of Inflation and Foreign Currency Fluctuations***

We do not believe that inflation or foreign currency fluctuations significantly affected our results of operations for the three and six months ended August 1, 2015.

## **Item 3: Quantitative and Qualitative Disclosures about Market Risk**

The market risk inherent in our financial statements represents the potential changes in the fair value, earnings or cash flows arising from changes in interest rates. We manage this exposure through regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Our policy allows the use of derivative financial instruments for identifiable market risk exposure, including interest rate. We currently do not have any derivative financial instruments for identifiable market risk.

### ***Commodity Price Risk***

We are exposed to market risks for the pricing of cotton and other fibers, which may impact fabric prices. Fabric is a portion of the overall product cost, which includes various components. We manage our fabric prices by using a combination of different strategies including the utilization of sophisticated logistics and supply chain management systems, which allow us to maintain maximum flexibility in our global sourcing of products. This provides us with the ability to re-direct our sourcing of products to the most cost-effective jurisdictions. In addition, we may modify our product offerings to our customers based on the availability of new fibers, yield enhancement techniques and other technological advances that allow us to utilize more cost effective fibers. Finally, we also have the ability to adjust our price points of such products, to the extent market conditions allow. These factors, along with our foreign-based sourcing offices, allow us to procure product from lower cost countries or capitalize on certain tariff-free arrangements, which help mitigate any commodity price increases that may occur. We have not historically managed, and do not currently intend to manage, commodity price exposures by using derivative instruments.

### ***Other***

Our current exposure to foreign exchange risk is not significant and accordingly, we have not entered into any transactions to hedge against those risks.

## **Item 4: Controls and Procedures**

### **Evaluation of Disclosures Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) of the Securities Exchange Act. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of August 1, 2015 in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as



appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Controls Over Financial Reporting**

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f), during the quarter ended August 1, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II: OTHER INFORMATION**

**Item 1: Legal Proceedings**

We are a defendant in Humberto Ordaz v. Perry Ellis International, Inc., Case No. BC490485 (Cal. Sup. Ct. 2012), involving claims for unpaid wages, missed breaks and related claims, which was originally filed on August 17, 2012 by a former employee in our California administrative offices. The plaintiff sought an unspecified amount of damages. The lawsuit has been pleaded but not certified as a class action. Mediation was held during the third quarter of fiscal 2015. Currently, the parties reached a settlement on August 12, 2015. The settlement amount was provided for in the Company's results of operations for fiscal 2015.

**Table of Contents****Item 6. Exhibits****Index to Exhibits**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Where Filed</b>
10.68	Form of Performance-Based Restricted Stock Agreement pursuant to the 2015 Long-Term Incentive Compensation Plan <sup>(1)</sup>	Filed herewith.
10.69	Form of Performance Unit Agreement pursuant to the 2015 Long-Term Incentive Compensation Plan <sup>(1)</sup>	Filed herewith.
10.70	Form of Restricted Stock Agreement pursuant to the 2015 Long-Term Incentive Compensation Plan <sup>(1)</sup>	Filed herewith.
10.71	Form of Stock-Settled Stock Appreciation Right Agreement pursuant to the 2015 Long-Term Incentive Compensation Plan <sup>(1)</sup>	Filed herewith.
10.72	Form of Non-Qualified Stock Option Agreement pursuant to the 2015 Long-Term Incentive Compensation Plan <sup>(1)</sup>	Filed herewith.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)	Filed herewith.
32.1	Certification of Principal Executive Officer pursuant to Section 1350	Filed herewith.
32.2	Certification of Principal Financial Officer pursuant to Section 1350	Filed herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith.

<sup>(1)</sup> Management Contract or Compensation Plan.

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SIGNATURE

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

Perry Ellis International, Inc.

September 10, 2015

By: /S/ ANITA BRITT  
Anita Britt, Chief Financial Officer  
(Principal Financial Officer)

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Exhibit Index

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32.1	Certification of Principal Executive Officer pursuant to Section 1350
32.2	Certification of Principal Financial Officer pursuant to Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase