PERRY ELLIS INTERNATIONAL, INC
Form 10-Q
August 31, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended July 29, 2017

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	**59-1162998**
(State or other jurisdiction of	**(I.R.S. Employer**

Incorporation or Organization)	Identification No.)

3000 N.W. 107 Avenue

Miami, Florida	**33172**
(Address of Principal Executive Offices)	**(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 smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

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 15,712,678 (as of August 23, 2017).

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(amounts in thousands, except share data)

	July 29, 2017	January 28, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 23,812	$ 30,695
Investments, at fair value	28,870	10,921
Accounts receivable, net	131,455	140,240
Inventories	131,197	151,251
Prepaid income taxes		1,647
Prepaid expenses and other current assets	6,819	6,462
Total current assets	322,153	341,216
Property and equipment, net	59,272	61,835
Other intangible assets, net	186,633	187,051
Deferred income tax	462	334
Other assets	2,226	2,269
TOTAL	$ 570,746	$ 592,705
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 69,358	$ 92,843
Accrued expenses and other liabilities	25,906	20,861
Accrued interest payable	1,407	1,450
Accrued income taxes payable	1,334	
Unearned revenues	3,579	2,710
Total current liabilities	101,584	117,864
Senior subordinated notes payable, net	49,744	49,673
Senior credit facility		22,504
Real estate mortgages	33,153	33,591
Other long-term liabilities	19,358	18,271
Deferred income taxes	36,572	37,115
Total long-term liabilities	138,827	161,154
Total liabilities	240,411	279,018

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; 15,762,678 shares issued and outstanding as of July 29, 2017 and 15,530,273 shares issued and outstanding as of January 28, 2017	158	155
Additional paid-in-capital	149,992	147,300
Retained earnings	190,077	176,327
Accumulated other comprehensive loss	(8,955)	(10,095)
Total	331,272	313,687
Treasury stock at cost; 50,000 as of July 29, 2017 and no shares as of January 28, 2017	(937)	
Total equity	330,335	313,687
TOTAL	$ 570,746	$ 592,705

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Revenues:				
Net sales	$ 198,394	$ 193,341	$ 432,217	$ 444,216
Royalty income	8,215	8,312	16,482	18,731
Total revenues	206,609	201,653	448,699	462,947
Cost of sales	130,129	127,822	281,131	294,032
Gross profit	76,480	73,831	167,568	168,915
Operating expenses:				
Selling, general and administrative expenses	68,412	72,654	139,611	142,588
Depreciation and amortization	3,496	3,716	6,964	7,183
Total operating expenses	71,908	76,370	146,575	149,771
Operating income (loss)	4,572	(2,539)	20,993	19,144
Interest expense	1,869	1,889	3,825	3,914
Net income (loss) before income taxes	2,703	(4,428)	17,168	15,230
Income tax provision (benefit)	1,724	(863)	3,418	4,545
Net income (loss)	$ 979	$ (3,565)	$ 13,750	$ 10,685
Net income (loss) per share:				
Basic	$ 0.06	$ (0.24)	$ 0.91	$ 0.72
Diluted	$ 0.06	$ (0.24)	$ 0.90	$ 0.71
Weighted average number of shares outstanding				
Basic	15,075	14,953	15,042	14,882
Diluted	15,289	14,953	15,296	15,139

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(amounts in thousands)

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net income (loss)	$ 979	$ (3,565)	$ 13,750	$ 10,685
Other Comprehensive income:				
Foreign currency translation adjustments, net	1,273	(3,093)	1,552	(1,430)
Unrealized gain on pension liability, net of tax		155		310
Unrealized loss on forward contract	(50)		(412)	
Unrealized (loss) gain on investments	(6)	10		17
Total other comprehensive income (loss)	1,217	(2,928)	1,140	(1,103)
Comprehensive income (loss)	$ 2,196	$ (6,493)	$ 14,890	$ 9,582

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	Six Months Ended	
	July 29, 2017	**July 30, 2016**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,750	$ 10,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,130	7,382
Provision for bad debts	1,686	478
Amortization of debt issue cost	202	205
Amortization of premiums and discounts	53	28
Amortization of unrealized (gain) loss on pension liability		310
Deferred income taxes	(671)	1,042
Share-based compensation	3,425	3,786
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable, net	8,527	10,087
Inventories	21,342	47,604
Prepaid income taxes	1,611	1,874
Prepaid expenses and other current assets	(300)	110
Other assets	(85)	37
Accounts payable and accrued expenses	(19,746)	(51,626)
Accrued interest payable	(43)	(34)
Income taxes payable	1,418	344
Unearned revenues and other liabilities	2,021	3,469
Deferred pension obligation		99
Net cash provided by operating activities	40,320	35,880
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,901)	(6,609)
Purchases of investments	(28,124)	(9,039)
Proceeds from investment maturities	10,136	5,205
Net cash used in investing activities	(21,889)	(10,443)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from senior credit facility	141,588	179,380
Payments on senior credit facility	(164,092)	(207,273)
Payments on real estate mortgages	(435)	(423)
Purchase of treasury shares	(937)	

Payments for employee taxes on shares withheld	(753)	(946)
Payments on capital leases	(140)	(129)
Proceeds from exercise of stock options	23	5
Net cash used in financing activities	(24,746)	(29,386)
Effect of exchange rate changes on cash and cash equivalents	(568)	(71)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,883)	(4,020)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,695	31,902
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 23,812	$ 27,882

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	Six Months Ended	
	July 29, 2017	**July 30, 2016**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 3,613	$ 3,715
Income taxes	$ 771	$ 700
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Accrued purchases of property and equipment	$ 138	$ 407

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 28, 2017, filed with the Securities and Exchange Commission on April 10, 2017.

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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 adoption of this ASU is not expected to have a material impact on the Company s results of operations or the Company s financial position.

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 adoption, during the first quarter of fiscal 2018, of ASU No. 2015-11 did not have a material impact on the Company s results of operations or the Company s financial position.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which requires an entity that is a lessee to recognize the assets and liabilities arising from leases on the balance sheet. This guidance also requires disclosures about the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, using a modified retrospective approach, and early adoption is permitted. The Company is currently evaluating the effect that the adoption will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which is part of the FASB s Simplification Initiative. The updated guidance simplifies the accounting for share-based payment transactions. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted the provisions of ASU 2016-09 in the first quarter of fiscal 2018 using a modified retrospective approach. For the three months ended April 29, 2017, the Company recognized all excess tax benefits and tax deficiencies as income tax expense or benefit as a discrete item. Given the Company s valuation allowance position, there was no net tax expense or benefit recognized as a result of the adoption of ASU 2016-09. Furthermore, there was no change to retained earnings with respect to excess tax benefits due to the Company s valuation allowance position. The effect on the condensed consolidating statement of cash flows for the six months ended July 30, 2016, as a result of this adoption, is an increase of approximately $0.9 million in cash provided by operating activities, with a corresponding increase of approximately $0.9 million in cash used in financing activities from the previously reported amounts.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* , which amends certain aspects of the FASB s new revenue standard, ASU 2014-09, *Revenue from Contracts with Customers* , specifically the standard s guidance on identifying performance obligations and the implementation guidance on licensing. The amendments clarify when promised goods or services are separately identifiable (i.e., distinct within the context of a contract), an important step in determining whether goods and services should be accounted for as separate performance obligations. In addition, the amendments allow entities to disregard goods or services that are immaterial in the context of a contract and provide an accounting policy election for accounting for certain shipping and handling activities. The amendments also clarify how an entity should evaluate the nature of its promise in granting a license of intellectual property (IP), which will determine whether the entity recognizes revenue over time or at a point in time. The amendments revise the guidance to address how entities should apply the exception for sales- and usage-based royalties to licenses of IP, recognize revenue for licenses that are not separate performance obligations and evaluate different types of license restrictions (e.g., time-based, geography-based). The new guidance s effective date and transition provisions are aligned with the requirements in the new revenue standard, which is not yet effective. The adoption of this ASU is not expected to have a material impact on the Company s results of operations or the Company s financial position.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the new revenue standard, ASU 2014-09, *Revenue from Contracts with Customers* . The amendments are intended to provide clarifying guidance in a few narrow areas such as collectability, contract modifications, completed contracts at transition, and non-cash considerations. The new guidance s effective date and transition provisions are aligned with the requirements in the new revenue standard, which is not yet effective. The adoption of this ASU is not expected to have a material impact on the Company s results of operations or the Company s financial position.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which provides guidance for the accounting for credit losses on instruments within its scope. The amendments guide on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The amendments require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments also require that credit losses on available-for-sale debt securities be presented as an allowance. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force),* which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this update are effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact of the future adoption of this standard on its consolidated Statements of Cash Flows.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This update removes the current exception in GAAP prohibiting entities from recognizing current and deferred income tax expenses or benefits related to transfer of assets, other than inventory, within the consolidated entity. The current exception to defer the recognition of any tax impact on the transfer of inventory within the consolidated entity until it is sold to a third party remains unaffected. The amendments in this update are effective for public entities for annual reporting periods beginning after December 15, 2017. Early adoption is permitted and should be in the first interim period if an entity issues interim financial statements. The Company has chosen to early adopt the provisions of ASU 2016-16 in the first quarter of fiscal 2018. The adoption of ASU 2016-16 resulted in a decrease to prepaid income taxes of $1.7 million and a decrease to deferred tax liabilities of $1.7 million.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation Stock Compensation (Topic718): Scope of Modification Accounting*, which amends the scope of modification accounting for share-based payment arrangements. This update provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The guidance is required to be applied prospectively to an award modified on or after the adoption date. The Company will apply this guidance to any future changes made to the terms or conditions, of share-based payment awards, after adoption. The adoption of this ASU is not expected to have a material impact on the Company s results of operations or the Company s financial position.

In July 2017, the FASB issued ASU No. 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception,* which is intended to reduce the complexity of accounting for certain financial instruments with down round features and address the difficulty of accounting for certain financial instruments with characteristics of liabilities and equity. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of:

	July 29, 2017	**January 28, 2017**
	(in thousands)	
Trade accounts	$ 144,757	$ 151,370
Royalties	5,293	6,659
Other receivables	1,153	712
Total	151,203	158,741
Less: allowances	(19,748)	(18,501)

Total	$ 131,455	$ 140,240

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:

	July 29, 2017	January 28, 2017
	(in thousands)	
Finished goods	$ 131,197	$ 151,251

5. INVESTMENTS

The Company s investments at July 29, 2017 and January 28, 2017 include marketable securities and certificates of deposit with maturity dates less than one year. Marketable securities consist of corporate and government bonds. Investments are stated at fair value. The estimated fair value of the marketable securities is based on quoted prices in an active market.

Investments consisted of the following as of July 29, 2017:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Marketable securities	$ 22,752	$	$ (11)	$ 22,741
Certificates of deposit	6,130		(1)	6,129
Total investments	$ 28,882	$	$ (12)	$ 28,870

Investments consisted of the following as of January 28, 2017:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Marketable securities	$ 3,258	$	$ (8)	$ 3,250
Certificates of deposit	7,675		(4)	7,671
Total investments	$ 10,933	$	$ (12)	$ 10,921

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of:

July 29, 2017	January 28, 2017
(in thousands)	

Furniture, fixtures and equipment	$ 94,973	$ 91,639
Buildings and building improvements	21,295	21,359
Vehicles	537	523
Leasehold improvements	48,215	48,799
Land	9,430	9,430
Total	174,450	171,750
Less: accumulated depreciation and amortization	(115,178)	(109,915)
Total	$ 59,272	$ 61,835

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

	July 29, 2017	**January 28, 2017**
	(in thousands)	
Furniture, fixtures and equipment	$ 810	$ 810
Less: accumulated depreciation and amortization	(587)	(452)
Total	$ 223	$ 358

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For the three months ended July 29, 2017 and July 30, 2016, depreciation and amortization expense relating to property and equipment amounted to $3.4 million and $3.6 million, respectively. For the six months ended July 29, 2017 and July 30, 2016, depreciation and amortization expense relating to property and equipment amounted to $6.7 million and $6.9 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 $184.1 million at July 29, 2017 and January 28, 2017.

Other

Other intangible assets represent customer lists as of:

	July 29, 2017	January 28, 2017
	(in thousands)	
Customer lists	$ 8,450	$ 8,450
Less: accumulated amortization	(5,962)	(5,545)
Total	$ 2,488	$ 2,905

For the three months ended July 29, 2017 and July 30, 2016, amortization expense relating to customer lists amounted to approximately $0.2 million for each of the periods. For the six months ended July 29, 2017 and July 30, 2016, amortization expense relating to customer lists amounted to $0.4 million for each of the periods. Other intangible assets are amortized over their estimated useful lives of 10 years. Assuming no impairment, the table sets forth the estimated amortization expense for future periods based on recorded amounts as of January 28, 2017:

	(in thousands)
2018	$ 835
2019	$ 793
2020	$ 734
2021	$ 543

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8. LETTER OF CREDIT FACILITIES

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

	July 29, 2017	January 28, 2017
	(in thousands)	
Total letter of credit facilities	$ 30,000	$ 30,000
Outstanding letters of credit	(10,727)	(10,788)
Total credit available	$ 19,273	$ 19,212

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 $3.8 million and $3.7 million for the three months ended July 29, 2017 and July 30, 2016, respectively, and $7.8 million and $8.0 million for the six months ended July 29, 2017 and July 30, 2016, respectively, and are included in selling, general and administrative expenses.

10. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average shares of outstanding common stock. The calculation of diluted net income (loss) per share is similar to basic earnings 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 income (loss) per share:

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	(in thousands, except per share data)			
Numerator:				
Net income (loss)	$ 979	$ (3,565)	$ 13,750	$ 10,685
Denominator:				
Basic-weighted average shares	15,075	14,953	15,042	14,882
Dilutive effect: equity awards	214		254	257
Diluted-weighted average shares	15,289	14,953	15,296	15,139
Basic income (loss) per share	$ 0.06	$ (0.24)	$ 0.91	$ 0.72

Diluted income (loss) per share	$ 0.06	$ (0.24)	$ 0.90	$ 0.71
Antidilutive effect:[(1)]	404	1,103	398	604

(1) 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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11. EQUITY

The following table reflects the changes in equity:

	Changes in Equity (in thousands)
Equity at January 28, 2017	$ 313,687
Comprehensive income	14,890
Share transactions under employee equity compensation plans	2,695
Purchase of treasury stock	(937)
Equity at July 29, 2017	$ 330,335
Equity at January 30, 2016	$ 291,481
Comprehensive income	9,582
Share transactions under employee equity compensation plans	2,845
Equity at July 30, 2016	$ 303,908

The Board of Directors has authorized the Company to purchase, from time to time and as market and business conditions warrant, up to $70 million of our common stock for cash in the open market or in privately negotiated transactions through October 31, 2017. Although The Board of Directors allocated a maximum of $70 million to carry out the program, the Company is not obligated to purchase any specific number of outstanding shares and reevaluates the program on an ongoing basis.

During the second quarter of fiscal 2018, the Company repurchased 50,000 shares of common stock at a cost of $0.9 million. There were no treasury shares outstanding as of January 28, 2017. Total purchases under the plan to date amount to approximately $61.7 million.

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Unrealized (Loss) Gain on Pension Liability	Foreign Currency Translation Adjustments, Net	Unrealized (Loss) Gain on Investments	Unrealized (Loss) Gain on Forward Contract	Total
			(in thousands)		
Balance, January 28, 2017	$	$ (9,902)	$ (12)	$ (181)	$ (10,095)
Other comprehensive income (loss) before reclassifications		1,552		(404)	1,148
				(8)	(8)

Amounts reclassified from accumulated other comprehensive loss					
Balance, July 29, 2017	$	$ (8,350)	$ (12)	$ (593)	$ (8,955)

	Unrealized (Loss) Gain on Pension Liability	Foreign Currency Translation Adjustments, Net	Unrealized (Loss) Gain on Investments	Total
		(in thousands)		
Balance, January 30, 2016	$ (7,368)	$ (7,131)	$ (9)	$ (14,508)
Other comprehensive (loss) income before reclassifications		(1,430)	17	(1,413)
Amounts reclassified from accumulated other comprehensive loss	310			310
Balance, July 30, 2016	$ (7,058)	$ (8,561)	$ 8	$ (15,611)

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

	Statement of Operations Location	Three Months Ended July 29, 2017	Three Months Ended July 30, 2016
Amortization of defined benefit pension items actuarial gains	Selling, general and administrative expenses	$	$ 155
Forward contract loss reclassified from accumulated other comprehensive loss to income	Cost of goods sold	33	
Total, net of tax		$ 33	$ 155

	Statement of Operations Location	Six Months Ended July 29, 2017	Six Months Ended July 30, 2016
Amortization of defined benefit pension items actuarial gains	Selling, general and administrative expenses	$	$ 310
Forward contract gain reclassified from accumulated other comprehensive loss to income	Cost of goods sold	(8)	
Total, net of tax		$ (8)	$ 310

13. DERIVATIVE FINANCIAL INSTRUMENT   Cash Flow Hedges

The Company has a risk management policy to manage foreign currency risk relating to inventory purchases by its subsidiaries that are denominated in foreign currencies. As such, the Company may employ hedging and derivative strategies to limit the effects of changes in foreign currency on its operating income and cash flows. The financial impact of these hedging instruments is primarily offset by corresponding changes in the underlying exposures being hedged. The Company achieves this by closely matching the notional amount, term and conditions of the derivative instrument with the underlying risk being hedged. The Company does not use derivative instruments for trading or speculative purposes.

For derivatives that will be accounted for as hedging instruments, the Company formally designates and documents at inception the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, the Company will formally assess at least quarterly whether the financial instruments used in hedging are highly effective at offsetting changes in cash flows of the related underlying exposures. For purposes of assessing hedge effectiveness, the Company uses the forward method, and assesses effectiveness based on the changes in both spot and forward points of the hedging instrument. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued and hedge ineffectiveness, if any, is included in current period earnings. As of July 29, 2017, there was no hedge ineffectiveness.

The Company s United Kingdom subsidiary is exposed to foreign currency risk from inventory purchases. In order to mitigate the financial risk of settlement of inventory at various prices based on movement of the U.S. dollar against the British pound, the Company entered into foreign currency forward exchange contracts (the Hedging Instruments). These are formally designated and highly effective as cash flow hedges. The Company will hedge approximately 45% of its U.S. dollar denominated purchases. All changes in the Hedging Instruments fair value associated with inventory purchases are recorded in equity as a component of accumulated other comprehensive income until the underlying hedged item is reclassified to earnings. The Company records the foreign currency forward exchange contracts at fair value in its Consolidated Balance Sheets. The cash flows from derivative instruments that are designated as cash flow hedges are classified in the same category as the cash flows from the underlying hedged items. In the event that hedge accounting is discontinued, cash flows subsequent to the date of discontinuance are classified within investing activities. The Company considers the classification of the underlying hedged item s cash flows in determining the classification for the designated derivative instrument s cash flows. The Company classifies derivative instrument cash flows from hedges of foreign currency risk on the settlement of inventory as operating activities.

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The Company s Hedging Instruments were classified within Level 2 of the fair value hierarchy. The following table summarizes the effects, fair value and balance sheet classification of the Company s Hedging Instruments.

Derivatives Designated As Hedging Instruments	Balance sheet location	July 29, 2017	January 28, 2017
		(in thousands)	
Foreign currency forward exchange contract (inventory purchases)	Accounts Payable	$ 593	$ 181
Total		$ 593	$ 181

The following table summarizes the effect and classification of the Company s Hedging Instruments.

Derivatives Designated As Hedging Instruments	Statement of Operations Location	Three Months Ended July 29, 2017	Three Months Ended July 30, 2016	Six Months Ended July 29, 2017	Six Months Ended July 30, 2016
		(in thousands)		(in thousands)	
Foreign currency forward exchange contract (inventory purchases):					
Loss (gain) reclassified from accumulated other comprehensive loss to income	Cost of goods sold	$ 33	$	$ (8)	$
		$ 33		$ (8)	

The notional amounts outstanding of foreign exchange forward contracts were $15.1 million and $15.0 million at July 29, 2017 and January 28, 2017, respectively. Such contracts expire through July 2018.

Accumulated other comprehensive loss included a net deferred loss for Hedging Instruments in the amount of $0.6 million and $0.2 million at July 29, 2017 and January 28, 2017, respectively. The net deferred loss will be reclassified from accumulated other comprehensive loss to costs of goods sold during the next twelve months when the inventory is sold.

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14. 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 2018 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 2006 through fiscal 2017, depending on each state s particular statute of limitation. As of July 29, 2017, the examination by the Internal Revenue Service for the Company s 2011, 2012, and 2013 U.S. federal tax years is still ongoing. During fiscal 2017, the Company received a Notice of Proposed Adjustment from the Internal Revenue Service, which proposed adjustments to taxable income for fiscal 2011, 2012 and 2013 of $6.1 million, $5.3 million and $6.8 million, respectively. During the three months ended July 29, 2017, the Company engaged in further conversations with the Internal Revenue Service concerning the proposed adjustments. Based upon those conversations, the Company has established a reserve of $1 million for the amount it would be willing to pay to settle the issue. While the Company still believes its position would be sustained upon appeal or, if necessary, through litigation, it has made this determination based upon the desire to reach an ultimate resolution and limit the costs associated with continuing the examination. Furthermore, various other state and local income tax returns are also under examination by taxing authorities.

The Company has a $1.2 million liability recorded for unrecognized tax benefits as of January 28, 2017, which includes interest and penalties of $0.3 million. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the three and six months ended July 29, 2017, the total amount of unrecognized tax benefits increased by approximately $5.0 million and $5.0 million, respectively. The change to the total amount of the unrecognized tax benefit for the three and six months ended July 29, 2017 included an increase in interest and penalties of approximately $171,000 and $187,000, respectively. The amount of the unrecognized tax benefits, if recognized, that would affect the Company s effective tax rate as of January 28, 2017 and July 29, 2017 is $1.2 million and $2.3 million, respectively.

The Company currently anticipates a resolution within the next twelve months for the unrecognized tax benefits relating to the Internal Revenue Service Proposed Adjustment, but does not currently anticipate a resolution for any of the remaining unrecognized tax benefits as of July 29, 2017. The statute of limitations related to the Company s fiscal 2011, 2012, 2013, and 2014 U.S. federal tax years has been extended as part of the examination and is expected to lapse within the next twelve months.

At the end of fiscal 2017, the Company maintained a $38.6 million valuation allowance against its remaining domestic deferred tax asset; including, but not limited to, the federal net operating loss carryforward and the U.S. state net operating loss carryforwards, 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. An accumulation of recent pretax losses is considered strong negative evidence in that evaluation. Although the Company recognized pretax earnings through the six months ended July 29, 2017, by itself that does not represent sufficient positive evidence that a deferred tax asset will be realized to warrant removing the valuation allowances established against the U.S. deferred tax assets. Additionally, the Company s cumulative domestic pretax results for the past 36 months still remain in a loss position. The Company would be able to remove the valuation allowances in future periods when positive evidence outweighs the negative evidence from the relevant look-back period. Deferred tax assets without valuation allowances remain in certain foreign tax jurisdictions, where supported by the evidence.

15. STOCK OPTIONS, STOCK APPRECIATION RIGHTS AND RESTRICTED SHARES

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

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The 2015 Plan extends the term of the 2005 Plan 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.

On March 16, 2017, the Board of Directors unanimously adopted an amendment and restatement of the 2015 Plan (as amended and restated, the Amended Plan). The Amended Plan increases the number of shares available for grants by an additional 1,400,000 shares to an aggregate of 7,650,000 shares of common stock and makes other clarifications and technical revisions designed primarily to improve administration and ensure compliance with recent changes in the law including Internal Revenue Code Section 409A. Other than the amendments noted above, the Amended Plan generally contains the same features, terms and conditions as the 2015 Plan. The amendment was approved by the shareholders at the Company s 2017 annual meeting.

During the first and second quarters of fiscal 2018, the Company granted an aggregate of 72,307 and 10,681 shares of restricted stock to certain key employees, which vest primarily over a three-year period, at an estimated value of $1.5 million and $0.2 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 2018, the Company awarded to five directors an aggregate of 28,995 shares of restricted stock. The restricted stock vests primarily over a one-year period, at an estimated value of $0.6 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 quarter of fiscal 2018, the Company granted performance based restricted stock to certain key employees. Such stock generally vests 100% in April 2020, provided that each employee is still an employee of the Company on such date, and the Company has met certain performance criteria. A total of 154,401 shares of performance-based restricted stock were issued at an estimated value of $3.3 million.

During the first quarter of fiscal 2018, the Company granted an aggregate of 10,953 shares of restricted stock units to a key employee, that vest primarily over a three-year period, at an estimated value of $0.2 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 2018, a total of 77,655 and 31,448 shares of restricted stock vested, of which 25,241 and 11,259 shares were withheld to cover the employees statutory income tax requirements, respectively. The estimated value of the withheld shares was $0.5 million and $0.2 million, respectively.

16. 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 the Company s retail stores and e-commerce platforms. The Licensing segment derives its revenues from royalties associated from the use of the Company s brand names, principally Perry Ellis, Original Penguin, Laundry, Gotcha, Pro Player, Farah, Ben Hogan, and John Henry.

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

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	(in thousands)			
Revenues:				
Men s Sportswear and Swim	$ 155,466	$ 145,148	$ 341,332	$ 343,073
Women s Sportswear	19,718	24,136	49,457	56,625
Direct-to-Consumer	23,210	24,057	41,428	44,518
Licensing	8,215	8,312	16,482	18,731
Total revenues	$ 206,609	$ 201,653	$ 448,699	$ 462,947
Depreciation and amortization:				
Men s Sportswear and Swim	$ 1,786	$ 2,006	$ 3,637	$ 3,903
Women s Sportswear	866	764	1,661	1,378
Direct-to-Consumer	784	889	1,550	1,785
Licensing	60	57	116	117
Total depreciation and amortization	$ 3,496	$ 3,716	$ 6,964	$ 7,183
Operating income (loss) :				
Men s Sportswear and Swim	$ 3,869	$ (2,425)	$ 19,384	$ 14,517
Women s Sportswear	(3,409)	(3,106)	(4,378)	(3,457)
Direct-to-Consumer	(1,960)	(2,933)	(6,061)	(6,305)
Licensing	6,072	5,925	12,048	14,389
Total operating income (loss)	$ 4,572	$ (2,539)	$ 20,993	$ 19,144
Total interest expense	1,869	1,889	3,825	3,914
Total net income (loss) before income taxes	$ 2,703	$ (4,428)	$ 17,168	$ 15,230

17. BENEFIT PLAN

The Company sponsored two qualified pension plans as a result of the Perry Ellis Menswear acquisition that occurred in June 2003. The plans were frozen and merged as of December 31, 2003.

During fiscal 2015, the Board of Directors resolved to terminate the pension plan. As of January 28, 2017, the Company satisfied the regulatory requirements prescribed by the Internal Revenue Service and the Pension Benefit Guaranty Corporation, and the distribution of plan assets was completed.

The following table provides the components of net benefit cost for the plan during the three and six months of fiscal 2018 and 2017:

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	(in thousands)			
Service cost	$	$ 63	$	$ 126
Interest cost		124		248
Expected return on plan assets		(87)		(174)
Amortization of net gain		155		310
Net periodic benefit cost	$	$ 255	$	$ 510

18. 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 2 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.

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Real estate mortgages. (classified within Level 2 of the valuation hierarchy) The carrying amounts of the real estate mortgages were approximately $34.0 million and $34.5 million at July 29, 2017 and January 28, 2017, respectively. The carrying values of the real estate mortgages at July 29, 2017 and January 28, 2017, 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 2 of the valuation hierarchy) The carrying amounts of the $7^7/_8$% senior subordinated notes payable were approximately $49.7 million at July 29, 2017 and January 28, 2017. The fair value of the $7^7/_8$% senior subordinated notes payable was approximately $50.2 million and $50.1 million as of July 29, 2017 and January 28, 2017, respectively, based on quoted market prices.

See footnote 13 to the consolidated financial statements for disclosure of the fair value and line item caption of derivative instruments recorded in the consolidated balance sheets.

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

19. 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 July 29, 2017 and January 28, 2017 and for the three and six months ended July 29, 2017 and July 30, 2016. 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.

The Company adopted the provisions of ASU 2016-09 in the first quarter of fiscal 2018 and the change was retrospectively applied to the condensed consolidating financial statements for all periods presented. The effect on the condensed consolidating statement of cash flows, as a result of the adoption, is an increase of approximately $0.9 million in cash provided by operating activities to the guarantor subsidiaries for the six months ended July 30, 2016, with a corresponding increase in cash used in financing activities to the guarantor for the respective periods from the previously reported amounts.

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)

AS OF JULY 29, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$	$ 8,229	$ 15,583	$	$ 23,812
Investment, at fair value			28,870		28,870
Accounts receivable, net		103,110	28,345		131,455
Intercompany receivable, net	89,162			(89,162)	
Inventories		107,531	23,666		131,197
Prepaid expenses and other current assets		5,978	841		6,819
Total current assets	89,162	224,848	97,305	(89,162)	322,153
Property and equipment, net		56,722	2,550		59,272
Other intangible assets, net		154,301	32,332		186,633
Deferred income taxes			462		462
Investment in subsidiaries	292,983			(292,983)	
Other assets		1,641	585		2,226
TOTAL	$ 382,145	$ 437,512	$ 133,234	$ (382,145)	$ 570,746
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts payable	$	$ 56,906	$ 12,452	$	$ 69,358
Accrued expenses and other liabilities		19,930	5,976		25,906
Accrued interest payable	1,407				1,407
Income taxes payable	659	583	92		1,334
Unearned revenues		3,074	505		3,579
Intercompany payable, net		76,594	18,999	(95,593)	
Total current liabilities	2,066	157,087	38,024	(95,593)	101,584
Senior subordinated notes payable, net	49,744				49,744
Real estate mortgages		33,153			33,153
Unearned revenues and other long-term liabilities		19,074	284		19,358
Deferred income taxes		36,572			36,572

Total long-term liabilities	49,744	88,799	284		138,827
Total liabilities	51,810	245,886	38,308	(95,593)	240,411
Total equity	330,335	191,626	94,926	(286,552)	330,335
TOTAL	$ 382,145	$ 437,512	$ 133,234	$ (382,145)	$ 570,746

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)

AS OF JANUARY 28, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$	$ 2,578	$ 28,117	$	$ 30,695
Investment, at fair value			10,921		10,921
Accounts receivable, net		116,874	23,366		140,240
Intercompany receivable, net	85,028			(85,028)	
Inventories		126,557	24,694		151,251
Prepaid income taxes	549		25	1,073	1,647
Prepaid expenses and other current assets		5,584	878		6,462
Total current assets	85,577	251,593	88,001	(83,955)	341,216
Property and equipment, net		59,651	2,184		61,835
Other intangible assets, net		154,719	32,332		187,051
Deferred income taxes			334		334
Investment in subsidiaries	279,233			(279,233)	
Other assets		1,797	472		2,269
TOTAL	$ 364,810	$ 467,760	$ 123,323	$ (363,188)	$ 592,705
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts payable	$	$ 79,600	$ 13,243	$	$ 92,843
Accrued expenses and other liabilities		15,543	5,318		20,861
Accrued interest payable	1,450				1,450
Income taxes payable		623		(623)	
Unearned revenues		2,353	357		2,710
Intercompany payable, net		77,398	15,614	(93,012)	
Total current liabilities	1,450	175,517	34,532	(93,635)	117,864
Senior subordinated notes payable, net	49,673				49,673
Senior credit facility		22,504			22,504

Real estate mortgages		33,591			33,591
Unearned revenues and other long-term liabilities		17,945	326		18,271
Deferred income taxes		35,419		1,696	37,115
Total long-term liabilities	49,673	109,459	326	1,696	161,154
Total liabilities	51,123	284,976	34,858	(91,939)	279,018
Total equity	313,687	182,784	88,465	(271,249)	313,687
TOTAL	$ 364,810	$ 467,760	$ 123,323	$ (363,188)	$ 592,705

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

FOR THE THREE MONTHS ENDED JULY 29, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 172,708	$ 25,686	$	$ 198,394
Royalty income		5,108	3,107		8,215
Total revenues		177,816	28,793		206,609
Cost of sales		113,243	16,886		130,129
Gross profit		64,573	11,907		76,480
Operating expenses:					
Selling, general and administrative expenses		59,259	9,153		68,412
Depreciation and amortization		3,252	244		3,496
Total operating expenses		62,511	9,397		71,908
Operating income		2,062	2,510		4,572
Interest expense (income)		1,920	(51)		1,869
Net income before income taxes		142	2,561		2,703
Income tax provision		1,322	402		1,724
Equity in earnings of subsidiaries, net	979			(979)	
Net income (loss)	979	(1,180)	2,159	(979)	979
Other comprehensive income	1,217		1,217	(1,217)	1,217
Comprehensive income (loss)	$ 2,196	$ (1,180)	$ 3,376	$ (2,196)	$ 2,196

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED JULY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 169,237	$ 24,104	$	$ 193,341
Royalty income		5,061	3,251		8,312
Total revenues		174,298	27,355		201,653
Cost of sales		111,729	16,093		127,822
Gross profit		62,569	11,262		73,831
Operating expenses:					
Selling, general and administrative expenses		62,361	10,293		72,654
Depreciation and amortization		3,276	440		3,716
Total operating expenses		65,637	10,733		76,370
Operating (loss) income		(3,068)	529		(2,539)
Interest expense (income)		1,901	(12)		1,889
Net (loss) income before income taxes		(4,969)	541		(4,428)
Income tax (benefit) provision		(1,441)	578		(863)
Equity in earnings of subsidiaries, net	(3,565)			3,565	
Net loss	(3,565)	(3,528)	(37)	3,565	(3,565)
Other comprehensive (loss) income	(2,928)	155	(3,083)	2,928	(2,928)
Comprehensive loss	$ (6,493)	$ (3,373)	$ (3,120)	$ 6,493	$ (6,493)

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED JULY 29, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 379,394	$ 52,823	$	$ 432,217
Royalty income		10,494	5,988		16,482
Total revenues		389,888	58,811		448,699
Cost of sales		247,170	33,961		281,131
Gross profit		142,718	24,850		167,568
Operating expenses:					
Selling, general and administrative expenses		120,858	18,753		139,611
Depreciation and amortization		6,462	502		6,964
Total operating expenses		127,320	19,255		146,575
Operating income		15,398	5,595		20,993
Interest expense (income)		3,909	(84)		3,825
Net income before income taxes		11,489	5,679		17,168
Income tax provision		2,647	771		3,418
Equity in earnings of subsidiaries, net	13,750			(13,750)	
Net income	13,750	8,842	4,908	(13,750)	13,750
Other comprehensive income	1,140		1,140	(1,140)	1,140
Comprehensive income	$ 14,890	$ 8,842	$ 6,048	$ (14,890)	$ 14,890

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED JULY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 394,142	$ 50,074	$	$ 444,216
Royalty income		12,275	6,456		18,731
Total revenues		406,417	56,530		462,947
Cost of sales		260,705	33,327		294,032
Gross profit		145,712	23,203		168,915
Operating expenses:					
Selling, general and administrative expenses		123,794	18,794		142,588
Depreciation and amortization		6,467	716		7,183
Total operating expenses		130,261	19,510		149,771
Operating income		15,451	3,693		19,144
Interest expense (income)		3,935	(21)		3,914
Net income before income taxes		11,516	3,714		15,230
Income tax provision		3,025	1,520		4,545
Equity in earnings of subsidiaries, net	10,685			(10,685)	
Net income	10,685	8,491	2,194	(10,685)	10,685
Other comprehensive (loss) income	(1,103)	310	(1,413)	1,103	(1,103)
Comprehensive income	$ 9,582	$ 8,801	$ 781	$ (9,582)	$ 9,582

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED JULY 29, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES:	$ 1,236	$ 35,631	$ 3,453	$	$ 40,320
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		(3,121)	(780)		(3,901)
Purchase of investments			(28,124)		(28,124)
Proceeds from investments maturities			10,136		10,136
Intercompany transactions	246			(246)	
Net cash provided by (used in) investing activities	246	(3,121)	(18,768)	(246)	(21,889)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings from senior credit facility		141,588			141,588
Payments on senior credit facility		(164,092)			(164,092)
Payments on real estate mortgages		(435)			(435)
Purchase of treasury shares	(937)				(937)
Payments for employee taxes on shares withheld		(753)			(753)
Payments on capital leases		(140)			(140)
Proceeds from exercise of stock options	23				23
Intercompany transactions		(3,027)	3,349	(322)	
Net cash (used in) provided by financing activities	(914)	(26,859)	3,349	(322)	(24,746)
Effect of exchange rate changes on cash and cash equivalents	(568)		(568)	568	(568)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		5,651	(12,534)		(6,883)
CASH AND CASH EQUIVALENTS AT BEGINNING		2,578	28,117		30,695

OF PERIOD										
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$		$	8,229	$	15,583	$		$	23,812

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED JULY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES:	$ 4,543	$ 29,241	$ 4,802	$ (2,706)	$ 35,880
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		(5,854)	(755)		(6,609)
Purchase of investments			(9,039)		(9,039)
Proceeds from investments maturities			5,205		5,205
Intercompany transactions	(4,477)			4,477	
Net cash used in investing activities	(4,477)	(5,854)	(4,589)	4,477	(10,443)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings from senior credit facility		179,380			179,380
Payments on senior credit facility		(207,273)			(207,273)
Payments on real estate mortgages		(423)			(423)
Payments for employee taxes on shares withheld		(946)			(946)
Payments on capital leases		(129)			(129)
Dividends paid to stockholder			(2,706)	2,706	
Proceeds from exercise of stock options	5				5
Intercompany transactions		9,178	(4,630)	(4,548)	
Net cash provided by (used in) financing activities	5	(20,213)	(7,336)	(1,842)	(29,386)
Effect of exchange rate changes on cash and cash equivalents	(71)		(71)	71	(71)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,174	(7,194)		(4,020)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		775	31,127		31,902
	$	$ 3,949	$ 23,933	$	$ 27,882

CASH AND CASH EQUIVALENTS
AT END OF PERIOD

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 Ell 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 28, 2017, filed with the Securities and Exchange Commission on April 10, 2017.

Forward Looking Statements

We caution readers that the forward-looking statements (statements which are not historical facts) in this release are made pursuant to the safe harbor provisions of 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, could, estimate, expect, guidance, indica might, plan, possibly, potential, predict, probably, proforma, project, seek, should, target, or thereof or other variations thereon and similar words or 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 factors include:

general economic conditions,

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

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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,

disruptions due to weather patterns,

our future capital needs and our ability to obtain financing,

our ability to protect our trademarks,

our ability to integrate acquired businesses, trademarks, trade names, 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,

the effectiveness of 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 rates risk,

the impact to our business resulting from the United Kingdom s referendum vote to exit the European Union and the uncertainty surrounding the terms and conditions of such a withdrawal, as well as the related impact to global stock markets and currency exchange rates,

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 Perry Ellis filings with the Securities and Exchange Commission.

Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those risks and uncertainties detailed in Perry Ellis 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 28, 2017 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, 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 July 29, 2017 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 28, 2017.

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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:

	Three Months Ended		Six Months Ended	
	July 29, 2017	**July 30, 2016**	**July 29, 2017**	**July 30, 2016**
	(in thousands)			
Revenues by segment:				
Men s Sportswear and Swim	$ 155,466	$ 145,148	$ 341,332	$ 343,073
Women s Sportswear	19,718	24,136	49,457	56,625
Direct-to-Consumer	23,210	24,057	41,428	44,518
Licensing	8,215	8,312	16,482	18,731
Total revenues	$ 206,609	$ 201,653	$ 448,699	$ 462,947

Reconciliation of operating income (loss) to EBITDA	Three Months Ended		Six Months Ended	
	July 29, 2017	**July 30, 2016**	**July 29, 2017**	**July 30, 2016**
Operating income (loss) by segment:	(in thousands)			
Men s Sportswear and Swim	$ 3,869	$ (2,425)	$ 19,384	$ 14,517
Women s Sportswear	(3,409)	(3,106)	(4,378)	(3,457)
Direct-to-Consumer	(1,960)	(2,933)	(6,061)	(6,305)
Licensing	6,072	5,925	12,048	14,389
Total operating income (loss)	$ 4,572	$ (2,539)	$ 20,993	$ 19,144
Add:				
Depreciation and amortization				
Men s Sportswear and Swim	$ 1,786	$ 2,006	$ 3,637	$ 3,903
Women s Sportswear	866	764	1,661	1,378
Direct-to-Consumer	784	889	1,550	1,785
Licensing	60	57	116	117
Total depreciation and amortization	$ 3,496	$ 3,716	$ 6,964	$ 7,183
EBITDA by segment:				
Men s Sportswear and Swim	$ 5,655	$ (419)	$ 23,021	$ 18,420
Women s Sportswear	(2,543)	(2,342)	(2,717)	(2,079)
Direct-to-Consumer	(1,176)	(2,044)	(4,511)	(4,520)
Licensing	6,132	5,982	12,164	14,506
Total EBITDA	$ 8,068	$ 1,177	$ 27,957	$ 26,327

EBITDA margin by segment				
Men s Sportswear and Swim	3.6%	(0.3%)	6.7%	5.4%
Women s Sportswear	(12.9%)	(9.7%)	(5.5%)	(3.7%)
Direct-to-Consumer	(5.1%)	(8.5%)	(10.9%)	(10.2%)
Licensing	74.6%	72.0%	73.8%	77.4%
Total EBITDA margin	3.9%	0.6%	6.2%	5.7%

EBITDA consists of earnings before interest, depreciation and amortization, 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 periods ended July 29, 2017 of the fiscal year ending February 3, 2018 (fiscal 2018) compared with the three and six month periods ended July 30, 2016 of the fiscal year ended January 28, 2017 (fiscal 2017).

Results of Operations three and six months ended July 29, 2017 compared to the three and six months ended July 30, 2016.

Net sales. Men s Sportswear and Swim net sales for the three months ended July 29, 2017 were $155.5 million, an increase of $10.4 million, or 7.2%, from $145.1 million for the three months ended July 30, 2016. The net sales increase was attributed to strong sell through rates throughout the spring season and some movement up in shipments that were originally anticipated for third quarter. Of particular strength were our core brands, specifically Perry Ellis, Original Penguin, Nike and golf apparel businesses.

Men s Sportswear and Swim net sales for the six months ended July 29, 2017 were $341.3 million, a decrease of $1.8 million, or 0.5%, from $343.1 million for the six months ended July 30, 2016. Although we had an increase in the second quarter, it was offset by our customer s preference to receive product closer to their needs resulting in a shift in sales from the first half of the year to the second half. The decrease was partially offset by increases in our Perry Ellis, Original Penguin, golf lifestyle apparel business, Nike swim, and other core global brands as described above.

Women s Sportswear net sales for the three months ended July 29, 2017 were $19.7 million, a decrease of $4.4 million, or 18.3%, from $24.1 million for the three months ended July 30, 2016. The net sales decrease was attributed primarily to planned reductions as we continue to focus on re-launching the Laundry brand, as well as, a shift in planned sales from the second quarter to the third quarter.

Women s Sportswear net sales for the six months ended July 29, 2017 were $49.5 million, a decrease of $7.1 million, or 12.5%, from $56.6 million for the six months ended July 30, 2016. The net sales decrease was primarily due to planned reductions in Laundry as we work on the re-launch of the brand. The decrease was partially offset by increases in Rafaella driven by the earlier timing of spring shipments.

Direct-to-Consumer net sales for the three months ended July 29, 2017 were $23.2 million, a decrease of $0.9 million, or 3.7%, from $24.1 million for the three months ended July 30, 2016. The decrease was driven by ten store closings since the second quarter of fiscal 2017, partially offset by a 5% increase in e-commerce. Comparable same store sales remained flat while comparable margins increased 4% due to strong consumer response to our product assortments.

Direct-to-Consumer net sales for the six months ended July 29, 2017 were $41.4 million, a decrease of $3.1 million, or 7.0%, from $44.5 million for the six months ended July 30, 2016. The decrease was driven by a retail stores sales decline of 1.9% in comparable same store sales for the direct-to-consumer business, coupled with ten fewer stores as compared to the prior period.

Royalty income. Royalty income for the three months ended July 29, 2017 was $8.2 million, a decrease of $0.1 million, or essentially flat, from $8.3 million for the three months ended July 30, 2016.

Royalty income for the six months ended July 29, 2017 was $16.5 million, a decrease of $2.2 million, or 11.8%, from $18.7 million for the six months ended July 30, 2016. Royalty income decreases were attributed to the transition of two of our licensed partners; one brought in-house and one to a new licensing partnership.

Gross profit. Gross profit was $76.5 million for the three months ended July 29, 2017, an increase of $2.7 million, or 3.7%, from $73.8 million for the three months ended July 30, 2016. This increase is attributed to a strong sales performance by our core brands coupled with strong inventory management.

Gross profit was $167.6 million for the six months ended July 29, 2017, a decrease of $1.3 million, or 0.8%, from $168.9 million for the six months ended July 30, 2016. This decrease is attributed to the sales reductions 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 37.0% for the three months ended July 29, 2017, as compared to 36.6% for the three months ended July 30, 2016, an expansion of 40 basis points. The expansion was driven by stronger product margins in our men s collection, golf apparel, Nike and direct-to-consumer businesses.

For the six months ended July 29, 2017, gross profit margins were 37.3% as a percentage of total revenue as compared to 36.5% for the six months ended July 30, 2016, an expansion of 80 basis points. The increase is attributed to the disciplined management of inventory across all channels, increased sales of higher margin core brands and efficiencies achieved within our supply chain infrastructure. Additionally, our direct-to-consumer gross profit margin increased due to improved pricing strategies and a move away from highly promotional events.

Selling, general and administrative expenses. Selling, general and administrative expenses for the three months ended July 29, 2017 were $68.4 million, a decrease of $4.3 million, or 5.9%, from $72.7 million for the three months ended July 30, 2016. The decrease was attributed primarily to reduced employee expenses resulting from our continued focus on our core infrastructure. Additionally, during three months ended July 30, 2016, we had a required acceleration of compensation costs relating to the new contract for our executive chairman, which was not repeated in the comparable period of 2017.

Selling, general and administrative expenses for the six months ended July 29, 2017 were $139.6 million, a decrease of $3.0 million, or 2.1%, from $142.6 million for the six months ended July 30, 2016. The decrease was attributed primarily to reduced employee expenses resulting from our continued focus on our core infrastructure, and during three months ended July 30, 2016, we had a required acceleration of compensation costs relating to the new contract for our executive chairman.

EBITDA. Men s Sportswear and Swim EBITDA margin for the three months ended July 29, 2017 increased 390 basis points to 3.6% from (0.3%) for the three months ended July 30, 2016. The EBITDA margin was favorably impacted by sourcing efficiencies and strong performance of our core brands, specifically Perry Ellis, Original Penguin, Nike and golf apparel businesses.

Men s Sportswear and Swim EBITDA margin for the six months ended July 29, 2017 increased 130 basis points to 6.7%, from 5.4% for the six months ended July 30, 2016. The EBITDA margin was favorably impacted by sourcing efficiencies and the strong sales performance of our core brands, specifically Perry Ellis, Original Penguin, Nike and golf apparel businesses.

Women s Sportswear EBITDA margin for the three months ended July 29, 2017 decreased 320 basis points to (12.9%) from (9.7%) for the three months ended July 30, 2016. The EBITDA margin was unfavorably impacted by planned reductions and shifts in sales as discussed above.

Women s Sportswear EBITDA margin for the six months ended July 29, 2017 decreased 180 basis points to (5.5%) from (3.7%) for the six months ended July 30, 2016. The EBITDA margin was unfavorably impacted by the decrease in net sales described above. As a result of this decrease in revenue, we were not able to realize favorable leverage in selling, general and administrative expenses.

Direct-to-Consumer EBITDA margin for the three months ended July 29, 2017 increased 340 basis points to (5.1%) from (8.5%) for the three months ended July 30, 2016. The EBITDA margin was favorably impacted by the product sales mix as we focus to be less dependent on everyday promotions.

Direct-to-Consumer EBITDA margin for the six months ended July 29, 2017 decreased 70 basis points to (10.9%), from (10.2%) for the six months ended July 30, 2016. The EBITDA margin was unfavorably impacted by the decrease in revenue from our stores, as described above.

Licensing EBITDA margin for the three months ended July 29, 2017 increased 260 basis points to 74.6%, from 72.0% for the three months ended July 30, 2016. The EBITDA margin was favorably impacted by reductions in selling, general and administrative expenses associated with the licensing segment.

Licensing EBITDA margin for the six months ended July 29, 2017 decreased 360 basis points to 73.8%, from 77.4% for the six months ended July 30, 2016**.** The EBITDA margin was unfavorably impacted by the decrease in royalty income described above.

Depreciation and amortization. Depreciation and amortization for the three months ended July 29, 2017, was $3.5 million, a decrease of $0.2 million, or 5.4% from $3.7 million for the three months ended July 30, 2016. The decrease is primarily reflected in the direct-to-consumer segment as a result of ten store closures since the second half of fiscal 2017.

Depreciation and amortization for the six months ended July 29, 2017, was $7.0 million, a decrease of $0.2 million, or 2.8%, from $7.2 million for the six months ended July 30, 2016. The decrease is primarily reflected in the direct-to-consumer segment as a result of ten store closures since the second half of fiscal 2017.

Interest expense. Interest expense for the three months ended July 29, 2017 and the three months ended July 30, 2016 remained flat at $1.9 million. Interest expense for the six months ended July 29, 2017 was $3.8 million, a decrease of $0.1 million, or 2.6%, from $3.9 million for the six months ended July 30, 2016. This decrease was attributed to the lower average amount borrowed on our credit facility as compared to the prior year period.

Income taxes. The income tax expense for the three months ended July 29, 2017, was $1.7 million, an increase of $2.6 million, as compared to a tax benefit of $0.9 million for the three months ended July 30, 2016. For the three months ended July 29, 2017, our effective tax rate was 63.8% as compared to 19.5% for the three months ended July 30, 2016. This increase is attributed to the net impact of the increase in the reserve for uncertain tax positions associated with our Internal Revenue Service examination in the amount of $1 million, as well as, 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. The income tax expense for the six months ended July 29, 2017, was $3.4 million, a decrease of $1.1 million, as compared to $4.5 million for the six months ended July 30, 2016. For the six months ended July 29, 2017, our effective tax rate was 19.9% as compared to 29.8% for the six months ended July 30, 2016. The overall change in the effective tax rate 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 income (loss). Net income for the three months ended July 29, 2017 was $1.0 million, an increase of $4.6 million, or 127.8%, as compared to a net loss of $3.6 million for the three months ended July 30, 2016. Net income for the six months ended July 29, 2017 was $13.8 million, an increase of $3.1 million, or 29.0%, as compared to $10.7 million for the six months ended July 30, 2016. 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, acquisitions, and capital expenditures. We believe that our working capital requirements will increase for next year as we continue to expand internationally. As of July 29, 2017, our total working capital was $220.6 million as compared to $223.4 million as of January 28, 2017 and $208.3 million as of July 30, 2016. We believe that our cash flows from operations, 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 consider the undistributed earnings of our foreign subsidiaries as of July 29, 2017, to be indefinitely reinvested and, accordingly, no United States income taxes have been provided thereon. As of July 29, 2017, the amount of cash associated with indefinitely reinvested foreign earnings was approximately $15.6 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.

Net cash provided by operating activities was $40.3 million for the six months ended July 29, 2017, as compared to cash provided by operating activities of $35.9 million for the six months ended July 30, 2016.

The cash provided by operating activities for the six months ended July 29, 2017, is primarily attributable to a decreased inventory of $21.3 million, due to improved inventory management, a decrease in accounts receivable of $8.5 million, an increased income taxes payable of $1.4 million and an increase in unearned revenues of $2.0 million, as well as a decrease in prepaid income taxes of $1.6 million. This was partially offset by a decrease in accounts payable and accrued expenses of $19.7 million. Our inventory turnover ratio increased to 4.0 as compared to 3.6 in the prior period because of our continued focus on inventory management.

The cash provided by operating activities for the six months ended July 30, 2016, is primarily attributable to a decrease in accounts receivable of $10.1 million, decreased inventory of $47.6 million due to improved inventory management, an increase in unearned revenues and other liabilities of $3.5 million, as well as a decrease in prepaid income taxes of $1.9 million. This was partially offset by a decrease in accounts payable and accrued expenses of $51.6 million.

Net cash used in investing activities was $21.9 million for the six months ended July 29, 2017 as compared to cash used in investing activities of $10.4 million for the six months ended July 30, 2016. The net cash used in investing activities during the first six months of fiscal 2018 primarily reflects the purchase of investments of $28.1 million and the purchase of property and equipment of $3.9 million primarily for leasehold improvements and store fixtures; offset by the proceeds from the maturities of investments in the amount of $10.1 million.

We anticipate capital expenditures during the remainder of fiscal 2018 of $8.0 million to $9.0 million in new office leasehold improvements, technology, systems, retail store leasehold improvements, and other expenditures.

Net cash used in investing activities was $10.4 million for the six months ended July 30, 2016. The net cash used in investing activities during the first six months of fiscal 2017 primarily reflects the purchase of investments of $9.0 million and the purchase of property and equipment of $6.6 million primarily for leasehold improvements and store fixtures; offset by the proceeds from the maturities of investments in the amount of $5.2 million.

Net cash used in financing activities was $24.7 million for the six months ended July 29, 2017 as compared to cash used in financing activities of $29.4 million for the six months ended July 30, 2016. The net cash used during the first six months of fiscal 2018 primarily reflects net payments on our senior credit facility of $22.5 million, purchase of treasury shares of $0.9 million, payments for employee taxes on shares withheld upon vesting of $0.8 million, payments of $0.4 million on our mortgage loans and payments on capital leases of $0.1 million.

Net cash used in financing activities was $29.4 million for the six months ended July 30, 2016. The net cash used during the first six months of fiscal 2017 primarily reflects net payments on our senior credit facility of $27.9 million, payments for employee taxes on shares withheld upon vesting of $0.9 million, payments of $0.4 million on our mortgage loans and payments on capital leases of $0.1 million.

Our Board of Directors has authorized us to purchase, from time to time and as market and business conditions warrant, up to $70 million of our common stock for cash in the open market or in privately negotiated transactions through October 31, 2017. Although our Board of Directors allocated a maximum of $70 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 2018, we repurchased 50,000 shares of common stock at a cost of $0.9 million. There were no treasury shares outstanding as of January 28, 2017. Total purchases under the plan to date amount to approximately $61.7 million.

Acquisitions

None.

7 ⅞% $150 Million Senior Subordinated Notes Payable

In March 2011, we issued \$150 million $7\frac{7}{8}\%$ senior subordinated notes, due April 1, 2019. The proceeds of this offering were used to retire the \$150 million $8\frac{7}{8}\%$ senior subordinated notes due September 15, 2013 and to repay a portion of the outstanding balance on the 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 the partial redemption of $100 million of our $150 million 7 ⅞% 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, we completed the redemption of the $100 million of our senior subordinated notes. We 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. At July 29, 2017 and January 28, 2017, the balance of the 7 ⅞% senior subordinated notes totaled $49.7 million, net of debt issuance costs in the amount of $0.3 million

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 July 29, 2017, we had no outstanding borrowings under the Credit Facility. At January 28, 2017, we had outstanding borrowings of $22.5 million 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 ⅞% senior subordinated notes due April 1, 2019, our letter of credit facilities, or our real estate mortgage loans. A cross-default could result in all of our debt obligations becoming immediately due and payable, which we may not be able to satisfy. Additionally, our Credit Facility includes a subjective acceleration clause if a material adverse change in our business occurs. We believe that the likelihood of the lender exercising this right is remote.

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, 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 July 29, 2017, we maintained one U.S. dollar letter of credit facility totaling $30.0 million. 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.

At July 29, 2017 and January 28, 2017, there was $19.3 million and $19.2 million, respectively, available under the existing letter of credit facilities.

Real Estate Mortgage Loans

In November 2016, we paid off our existing real estate mortgage loan and refinanced our main administrative office, warehouse and distribution facility in Miami with a $21.7 million mortgage loan. The loan is due on November 22, 2026. The interest rate is 3.715% per annum. Monthly payments of principal and interest approximate $112,000, based on a 25-year amortization with the outstanding principal due at maturity. At July 29, 2017, the balance of the real estate mortgage loan totaled $21.1 million, net of discount, of which $546,000 is due within one year.

In June 2006, we entered into a mortgage loan for $15 million secured by our Tampa facility. The loan was due on January 23, 2019. In January 2014, we 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.

In November 2016, we amended the mortgage to increase the amount to $13.2 million. The loan is due on November 22, 2026. The interest rate is 3.715% per annum. Monthly payments of principal and interest approximate $68,000, based on a 25-year amortization with the outstanding principal due at maturity. At July 29, 2017, the balance of the real estate mortgage loan totaled $12.9 million, net of discount, of which approximately $333,000 is due within one year.

We used the excess funds generated from the new mortgage loans described above to pay down our senior credit facility.

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 loans 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, our 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.

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 July 29, 2017.

Item 7A. 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 or foreign currency. 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 and foreign currency.

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Cash Flow Hedges

Our United Kingdom subsidiary is exposed to foreign currency risk from inventory purchases. In order to mitigate the financial risk of settlement of inventory at various prices based on movement of the U.S. dollar against the British pound, we entered into foreign currency forward exchange contracts (the Hedging Instruments). These contracts are formally designated and highly effective as cash flow hedges.

All changes in the Hedging Instruments fair value associated with inventory purchases are recorded in equity as a component of accumulated other comprehensive income until the underlying hedged item is reclassified to earnings. We record the hedging instruments at fair value in our Consolidated Balance Sheet. The cash flows from such hedges are presented in the same category in our Consolidated Statement of Cash Flows as the items being hedged.

The notional amounts outstanding of foreign exchange forward contracts were $15.1 million and $15.0 million at July 29, 2017 and January 28, 2017, respectively. Such contracts expire through July 2018.

Accumulated other comprehensive loss included a net deferred loss for Hedging Instruments in the amount of $0.6 million and $0.2 million at July 29, 2017 and January 28, 2017, respectively. The net deferred loss will be reclassified from accumulated other comprehensive loss to costs of goods sold during the next twelve months when the inventory is sold.

The total gain (loss) relating to hedging instruments reclassified to earnings during the first and second quarter of fiscal 2018 was $41,000 and ($33,000), respectively. There was no gain or loss relating to hedging instruments reclassified to earnings during the first and second quarter of fiscal 2017.

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

We have a risk management policy to manage foreign currency risk relating to inventory purchases by our subsidiaries which are denominated in foreign currencies. As such, we may employ hedging and derivative strategies to limit the effects of changes in foreign currency on our operating income and cash flows. However, we consider our current exposure to foreign exchange risk as not significant.

Item 4: 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 July 29, 2017 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.

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There were no changes in our internal control over financial reporting during the quarter ended July 29, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Approximate Dollar Value that May Yet Be Purchased under the Plans or Programs
April 30, 2017 to May 27, 2017	50,000	$ 18.74	50,000	$ 8,278,199
July 2, 2017 to July 29, 2017 [2]	11,259	$ 19.17		$ 8,278,199

(1) During fiscal 2017, our Board of Directors extended the stock repurchase program to authorize us to purchase, from time to time and as market and business conditions warrant, up to $70 million of our common stock for cash in the open market or in privately negotiated transactions through October 31, 2017. Although our Board of Directors allocated a maximum of $70 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. Total purchases under the plan to date amount to $61.7 million.

(2) Represents shares withheld to pay statutory income taxes resulting from vesting of restricted shares.

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Item 6. Exhibits

Index to Exhibits

Exhibit Number	Exhibit Description	Where Filed
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.

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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.
August 31, 2017	By: /S/ DAVID RATTNER David Rattner, Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

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