PERRY ELLIS INTERNATIONAL, INC
Form 10-Q
December 01, 2017

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 October 28, 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 Incorporation or Organization)	**(I.R.S. Employer 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 15,668,000 (as of November 24, 2017).

PERRY ELLIS INTERNATIONAL, INC.

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(amounts in thousands, except share data)

	October 28, 2017	January 28, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26,524	$ 30,695
Investments, at fair value	25,596	10,921
Accounts receivable, net	133,843	140,240
Inventories	129,293	151,251
Prepaid income taxes		1,647
Prepaid expenses and other current assets	5,718	6,462
Total current assets	320,974	341,216
Property and equipment, net	57,511	61,835
Other intangible assets, net	186,425	187,051
Deferred income tax	446	334
Other assets	1,942	2,269
TOTAL	$ 567,298	$ 592,705
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 51,440	$ 92,843
Accrued expenses and other liabilities	34,563	20,861
Accrued interest payable	400	1,450
Accrued income taxes payable	1,055	
Unearned revenues	2,591	2,710
Total current liabilities	90,049	117,864
Senior subordinated notes payable, net	49,780	49,673
Senior credit facility	7,917	22,504
Real estate mortgages	32,937	33,591
Other long-term liabilities	15,327	18,271
Deferred income taxes	36,759	37,115
Total long-term liabilities	142,720	161,154
Total liabilities	232,769	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; 15,688,189 shares issued and outstanding as of October 28, 2017 and 15,530,273 shares issued and outstanding as of January 28, 2017		157		155
Additional paid-in-capital		150,173		147,300
Retained earnings		193,292		176,327
Accumulated other comprehensive loss		(9,093)		(10,095)
Total equity		334,529		313,687
TOTAL	$	567,298	$	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		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Revenues:				
Net sales	$ 190,389	$ 185,298	$ 622,606	$ 629,514
Royalty income	8,449	8,661	24,931	27,392
Total revenues	198,838	193,959	647,537	656,906
Cost of sales	124,760	122,856	405,891	416,888
Gross profit	74,078	71,103	241,646	240,018
Operating expenses:				
Selling, general and administrative expenses	65,172	72,846	204,783	215,434
Depreciation and amortization	3,586	3,534	10,550	10,717
Total operating expenses	68,758	76,380	215,333	226,151
Operating income (loss)	5,320	(5,277)	26,313	13,867
Interest expense	1,613	1,738	5,438	5,652
Net income (loss) before income taxes	3,707	(7,015)	20,875	8,215
Income tax provision (benefit)	492	(1,850)	3,910	2,695
Net income (loss)	$ 3,215	$ (5,165)	$ 16,965	$ 5,520
Net income (loss) per share:				
Basic	$ 0.21	$ (0.34)	$ 1.13	$ 0.37
Diluted	$ 0.21	$ (0.34)	$ 1.11	$ 0.36
Weighted average number of shares outstanding				
Basic	15,115	14,991	15,066	14,920
Diluted	15,413	14,991	15,335	15,169

See Notes to Unaudited Condensed Consolidated Financial Statements

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(amounts in thousands)

	Three Months Ended		**Nine Months Ended**	
	October 28, 2017	**October 29, 2016**	**October 28, 2017**	**October 29, 2016**
Net income (loss)	$ 3,215	$ (5,165)	$ 16,965	$ 5,520
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net	(276)	(2,342)	1,276	(3,772)
Unrealized gain on pension liability, net of tax		8,142		8,452
Unrealized gain (loss) on forward contract	47	255	(357)	255
Unrealized gain (loss) on investments	5	(10)	5	7
Reclassification adjustment, net of tax	86		78	
Total other comprehensive (loss) income	(138)	6,045	1,002	4,942
Comprehensive income	$ 3,077	$ 880	$ 17,967	$ 10,462

See Notes to Unaudited Condensed Consolidated Financial Statements

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	Nine Months Ended	
	October 28, 2017	October 29, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,965	$ 5,520
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,793	11,013
Provision for bad debts	1,794	680
Amortization of debt issue cost	303	309
Amortization of premiums and discounts	78	42
Amortization of unrealized loss on pension liability		465
Pension settlement charge		8,300
Deferred income taxes	(468)	1,221
Share-based compensation	4,768	5,104
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable, net	5,485	506
Inventories	22,959	69,012
Prepaid income taxes	1,684	17
Prepaid expenses and other current assets	792	402
Other assets	(118)	121
Deferred pension obligation		(5,516)
Accounts payable and accrued expenses	(28,675)	(61,656)
Accrued interest payable	(1,050)	(993)
Income taxes payable	1,043	
Unearned revenues and other liabilities	(2,998)	3,640
Net cash provided by operating activities	33,355	38,187
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,571)	(9,334)
Purchases of investments	(36,972)	(12,467)
Proceeds from investment maturities	22,246	9,341
Proceeds from note receivable	250	250
Net cash used in investing activities	(20,047)	(12,210)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from senior credit facility	201,888	250,012
Payments on senior credit facility	(216,475)	(273,933)
Purchase of treasury stock	(937)	(2,151)
Payments for employee taxes on shares withheld	(980)	(946)
Payments on real estate mortgages	(650)	(634)

Payments on capital leases	(212)	(196)
Proceeds from exercise of stock options	24	5
Net cash used in financing activities	(17,342)	(27,843)
Effect of exchange rate changes on cash and cash equivalents	(137)	(212)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,171)	(2,078)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,695	31,902
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 26,524	$ 29,824

Continued

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	Nine Months Ended	
	October 28, 2017	**October 29, 2016**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 6,107	$ 6,294
Income taxes	$ 1,133	$ 904
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Accrued purchases of property and equipment	$ 173	$ 1,172

See Notes to Unaudited Condensed Consolidated Financial Statements

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 in the opinion of management are 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 Company has begun its initial assessment of the guidance. While the Company has not completed its evaluation, it expects that the adoption of this ASU will not 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, was 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.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,* which simplifies the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the update. 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:

	October 28, 2017	January 28, 2017
	(in thousands)	
Trade accounts	$ 145,547	$ 151,370
Royalties	6,509	6,659
Other receivables	1,181	712
Total	153,237	158,741
Less: allowances	(19,394)	(18,501)
Total	$ 133,843	$ 140,240

4. INVENTORIES

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

Inventories consisted of the following as of:

	October 28, 2017	January 28, 2017
	(in thousands)	
Finished goods	$ 129,293	$ 151,251

5. INVESTMENTS

The Company s investments at October 28, 2017 and January 28, 2017 include marketable securities and certificates of deposit with maturity dates of 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 October 28, 2017:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Marketable securities	$ 16,907	$	$ (8)	$ 16,899
Certificates of deposit	8,696	2	(1)	8,697
Total investments	$ 25,603	$ 2	$ (9)	$ 25,596

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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:

	October 28, 2017	January 28, 2017
	(in thousands)	
Furniture, fixtures and equipment	$ 95,534	$ 91,639
Buildings and building improvements	21,882	21,359
Vehicles	537	523
Leasehold improvements	47,633	48,799
Land	9,430	9,430
Total	175,016	171,750
Less: accumulated depreciation and amortization	(117,505)	(109,915)
Total	$ 57,511	$ 61,835

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

	October 28, 2017	January 28, 2017
	(in thousands)	
Furniture, fixtures and equipment	$ 810	$ 810
Less: accumulated depreciation and amortization	(655)	(452)
Total	$ 155	$ 358

For the three months ended October 28, 2017 and October 29, 2016, depreciation and amortization expense relating to property and equipment amounted to $3.5 million. For the nine months ended October 28, 2017 and October 29, 2016, depreciation and amortization expense relating to property and equipment amounted to $10.2 million and $10.4 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 October 28, 2017 and January 28, 2017.

Other

Other intangible assets represent as of:

	October 28, 2017	**January 28, 2017**
	(in thousands)	
Customer lists	$ 8,450	$ 8,450
Less: accumulated amortization	(6,171)	(5,545)
Total	$ 2,279	$ 2,905

For the three months ended October 28, 2017 and October 29, 2016, amortization expense relating to customer lists amounted to $0.2 million and $0.3 million, respectively. For the nine months ended October 28, 2017 and October 29, 2016, amortization expense relating to customer lists amounted to $0.6 million and $0.7 million, respectively. Other intangible assets are amortized over their estimated useful lives of 10 years. Assuming no impairment, the following 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

8. LETTER OF CREDIT FACILITIES

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

	October 28, 2017	**January 28, 2017**
	(in thousands)	
Total letter of credit facilities	$ 30,000	$ 30,000
Outstanding letters of credit	(10,568)	(10,788)
Total credit available	$ 19,432	$ 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 $4.2 million for the three months ended October 28, 2017 and October 29, 2016 and $12.0 million and $12.2 million for the nine months ended October 28, 2017 and October 29, 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 (loss) 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		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(in thousands, except per share data)			
Numerator:				
Net income (loss)	$ 3,215	$ (5,165)	$ 16,965	$ 5,520
Denominator:				
Basic-weighted average shares	15,115	14,991	15,066	14,920
Dilutive effect: equity awards	298		269	249
Diluted-weighted average shares	15,413	14,991	15,335	15,169
Basic income (loss) per share	$ 0.21	$ (0.34)	$ 1.13	$ 0.37
Diluted income (loss) per share	$ 0.21	$ (0.34)	$ 1.11	$ 0.36
Antidilutive effect:[1]	165	1,015	265	532

[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 (loss) per share because their effects were antidilutive for the respective periods.

11. EQUITY

The following table reflects the changes in equity:

	Changes in Equity (in thousands)
Equity at January 28, 2017	$ 313,687
Comprehensive income	17,967
Share transactions under employee equity compensation plans	3,812
Purchase of treasury stock	(937)
Equity at October 28, 2017	$ 334,529
Equity at January 30, 2016	$ 291,481
Comprehensive income	10,462
Share transactions under employee equity compensation plans	4,163
Purchase of treasury stock	(2,151)
Equity at October 29, 2016	$ 303,955

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, 2018. 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. During the third quarter of fiscal 2018, the Company retired the 50,000 shares of treasury stock recorded at a cost of approximately $0.9 million. Accordingly, during the third quarter of fiscal 2018, the Company reduced additional paid in capital by $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 loss (income) before reclassifications		1,276	5	(357)	924
Amounts reclassified from accumulated other comprehensive loss				78	78
Balance, October 28, 2017	$	$ (8,626)	$ (7)	$ (460)	$ (9,093)

	Unrealized (Loss) Gain on Pension Liability	Foreign Currency Translation Adjustments, Net	Unrealized (Loss) Gain on Investments	Unrealized Gain on Forward Contract	Total
	(in thousands)				
Balance, January 30, 2016	$ (7,368)	$ (7,131)	$ (9)		$ (14,508)
Other comprehensive loss (income) before reclassifications	(313)	(3,772)	7	255	(3,823)
Amounts reclassified from accumulated other comprehensive loss	8,765				8,765
Balance, October 29, 2016	$ 1,084	$ (10,903)	$ (2)	$ 255	$ (9,566)

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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 October 28, 2017	Three Months Ended October 29, 2016
		(in thousands)	
Amortization of defined benefit pension items actuarial gains	Selling, general and administrative expenses	$	$ 8,455
Forward contract loss reclassified from accumulated other comprehensive loss to income	Cost of goods sold	86	
Total, net of tax		$ 86	$ 8,455

	Statement of Operations Location	Nine Months Ended October 28, 2017	Nine Months Ended October 29, 2016
		(in thousands)	
Amortization of defined benefit pension items actuarial gains	Selling, general and administrative expenses	$	$ 8,765
Forward contract gain reclassified from accumulated other comprehensive loss to income	Cost of goods sold	78	
Total, net of tax		$ 78	$ 8,765

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 October 28, 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.

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	October 28, 2017	January 28, 2017
		(in thousands)	
Foreign currency forward exchange contract (inventory purchases)	Accounts Payable	$ 460	$ 181
Total		$ 460	$ 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 October 28, 2017	Three Months Ended October 29, 2016	Nine Months Ended October 28, 2017	Nine Months Ended October 29, 2016
		(in thousands)		(in thousands)	
Foreign currency forward exchange contract (inventory purchases):					
Loss reclassified from accumulated other comprehensive loss to income	Cost of goods sold	$ 86	$	$ 78	$
		$ 86	$	$ 78	$

The notional amounts outstanding of foreign exchange forward contracts were $11.8 million and $15.0 million at October 28, 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 $0.5 million and $0.2 million at October 28, 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.

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 limitations. As of October 28, 2017, the examination by the Internal Revenue Service for the Company s

fiscal 2011 through 2015 U.S. federal tax years is still ongoing. During the three months ended October 28, 2017, the Company received a revised Notice of Proposed Adjustment from the Internal Revenue Service, which proposed an adjustment to taxable income for fiscal 2013 of $12.6 million, to which the Company agreed. Additionally, the Company engaged in conversations with the Internal Revenue Service to extend the years under audit to include fiscal 2014 and 2015, to allow for the carryback of beneficial tax attributes. During fiscal 2017, the Company established a reserve of $1.1 million for this adjustment and associated interest. While the Company still believes its position would be sustained upon appeal or, if necessary, through litigation, it has agreed to this adjustment 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 had a $1.2 million liability recorded for unrecognized tax benefits as of January 28, 2017, which included 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 nine months ended October 28, 2017, the total amount of unrecognized tax benefits decreased by approximately $18,000 and increased by $5.0 million, respectively. The change to the total amount of the unrecognized tax benefit for the three months ended October 28, 2017 included a decrease in interest and penalties of approximately $11,000 and for the nine months ended October 28, 2017 included an increase in interest and penalties of approximately $176,000. The amount of the unrecognized tax benefits, if recognized, that would affect the Company s effective tax rate as of January 28, 2017 and October 28, 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 October 28, 2017. The statute of limitations related to the Company s fiscal 2011 through 2015 U.S. federal tax years has been extended as part of the examination and is not 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 nine months ended October 28, 2017, by itself that does not represent sufficient positive evidence that the deferred tax assets 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. The Company believes that there is a reasonable possibility that within the next twelve months, sufficient positive evidence may become available to allow it to reach the conclusion that a significant portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense in the period released. 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 Stock Option 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 prior 2005 Plan, as amended, the Stock Plans). The 2015 Plan was approved by the shareholders at the Company s 2015 annual meeting.

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.

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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 Amended Plan 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, second and third quarters of fiscal 2018, a total of 77,655, 31,448 and 26,672 shares of restricted stock vested, of which 25,241, 11,259 and 9,691 shares were withheld to cover the employees statutory income tax requirements, respectively. The estimated value of the withheld shares was $0.5 million, $0.2 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.

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

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(in thousands)			
Revenues:				
Men s Sportswear and Swim	$ 141,549	$ 135,717	$ 482,881	$ 478,790
Women s Sportswear	28,104	28,676	77,561	85,301
Direct-to-Consumer	20,736	20,905	62,164	65,423
Licensing	8,449	8,661	24,931	27,392
Total revenues	$ 198,838	$ 193,959	$ 647,537	$ 656,906
Depreciation and amortization:				
Men s Sportswear and Swim	$ 1,870	$ 1,814	$ 5,507	$ 5,717
Women s Sportswear	939	729	2,600	2,107
Direct-to-Consumer	716	932	2,266	2,717
Licensing	61	59	177	176
Total depreciation and amortization	$ 3,586	$ 3,534	$ 10,550	$ 10,717
Operating income (loss):				
Men s Sportswear and Swim[(1)]	$ 3,450	$ (7,683)	$ 22,834	$ 6,834
Women s Sportswear	(2,393)	(1,289)	(6,771)	(4,746)
Direct-to-Consumer	(2,543)	(3,370)	(8,604)	(9,675)
Licensing	6,806	7,065	18,854	21,454
Total operating income (loss)	$ 5,320	$ (5,277)	$ 26,313	$ 13,867
Total interest expense	1,613	1,738	5,438	5,652
Total net income (loss) before income taxes	$ 3,707	$ (7,015)	$ 20,875	$ 8,215

(1) Operating income (loss) for the Men s Sportswear and Swim segment for the three and nine months ended October 29, 2016, includes a settlement charge related to the pension plan in the amount of $8.3 million. See footnote 17 to the consolidated financial statements for further information.

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 nine months of fiscal 2018 and 2017:

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(in thousands)			
Service cost	$	$ 63	$	$ 189
Interest cost		124		372
Expected return on plan assets		(87)		(261)
Settlement		8,300		8,300
Amortization of net loss		155		465
Net periodic benefit cost	$	$ 8,555	$	$ 9,065

Settlement accounting, which accelerates recognition of a plan s unrecognized net gain or loss, is triggered if the lump sums paid during a year exceed the sum of the plan s service and interest cost. Since the lump sums paid in fiscal 2017 exceeded that threshold, the Company recognized a settlement charge of $8.3 million in anticipation of the plan s termination in fiscal 2017.

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.

Real estate mortgages. (classified within Level 2 of the valuation hierarchy) The carrying amounts of the real estate mortgages were approximately $33.8 million and $34.5 million at October 28, 2017 and January 28, 2017, respectively. The carrying values of the real estate mortgages at October 28, 2017 and January 28, 2017, approximate their fair values since the interest rates approximate market rates.

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 $49.8 million and $49.7 million at October 28, 2017 and January 28, 2017, respectively. The fair value of the $7^7/_8$% senior subordinated notes payable was approximately $50.1 million as of October 28, 2017 and January 28, 2017, 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 October 28, 2017 and January 28, 2017 and for the three and nine months ended October 28, 2017 and October 29, 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 Guarantors for the nine months ended October 29, 2016, with a corresponding increase in cash used in financing activities to the Guarantors for the respective periods from the previously reported amounts.

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)

AS OF OCTOBER 28, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$	$ 3,136	$ 23,388	$	$ 26,524
Investment, at fair value			25,596		25,596
Accounts receivable, net		108,209	25,634		133,843
Intercompany receivable, net	88,713			(88,713)	
Inventories		107,185	22,108		129,293
Prepaid expenses and other current assets		4,724	994		5,718
Total current assets	88,713	223,254	97,720	(88,713)	320,974
Property and equipment, net		55,241	2,270		57,511
Other intangible assets, net		154,093	32,332		186,425
Deferred income taxes			446		446
Investment in subsidiaries	296,198			(296,198)	
Other assets		1,549	393		1,942
TOTAL	$ 384,911	$ 434,137	$ 133,161	$ (384,911)	$ 567,298
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts payable	$	$ 44,261	$ 7,179	$	$ 51,440
Accrued expenses and other liabilities		26,265	8,298		34,563
Accrued interest payable	400				400
Income taxes payable	202	589	264		1,055
Unearned revenues		2,243	348		2,591
Intercompany payable, net		76,153	19,268	(95,421)	
Total current liabilities	602	149,511	35,357	(95,421)	90,049
Senior subordinated notes payable, net	49,780				49,780
Senior credit facility		7,917			7,917
Real estate mortgages		32,937			32,937
Unearned revenues and other long-term liabilities		15,201	126		15,327
Deferred income taxes		36,759			36,759
Total long-term liabilities	49,780	92,814	126		142,720

Total liabilities	50,382	242,325	35,483	(95,421)	232,769
Total equity	334,529	191,812	97,678	(289,490)	334,529
TOTAL	$ 384,911	$ 434,137	$ 133,161	$ (384,911)	$ 567,298

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

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

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

FOR THE THREE MONTHS ENDED OCTOBER 28, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 165,455	$ 24,934	$	$ 190,389
Royalty income		5,230	3,219		8,449
Total revenues		170,685	28,153		198,838
Cost of sales		109,470	15,290		124,760
Gross profit		61,215	12,863		74,078
Operating expenses:					
Selling, general and administrative expenses		56,007	9,165		65,172
Depreciation and amortization		3,279	307		3,586
Total operating expenses		59,286	9,472		68,758
Operating income		1,929	3,391		5,320
Interest expense (income)		1,700	(87)		1,613
Net income before income taxes		229	3,478		3,707
Income tax provision		43	449		492
Equity in earnings of subsidiaries, net	3,215			(3,215)	
Net income	3,215	186	3,029	(3,215)	3,215
Other comprehensive (loss) income	(138)		(138)	138	(138)
Comprehensive income (loss)	$ 3,077	$ 186	$ 2,891	$ (3,077)	$ 3,077

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

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

FOR THE THREE MONTHS ENDED OCTOBER 29, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 162,185	$ 23,113	$	$ 185,298
Royalty income		5,230	3,431		8,661
Total revenues		167,415	26,544		193,959
Cost of sales		107,489	15,367		122,856
Gross profit		59,926	11,177		71,103
Operating expenses:					
Selling, general and administrative expenses		63,475	9,371		72,846
Depreciation and amortization		3,220	314		3,534
Total operating expenses		66,695	9,685		76,380
Operating (loss) income		(6,769)	1,492		(5,277)
Interest expense (income)		1,756	(18)		1,738
Net (loss) income before income taxes		(8,525)	1,510		(7,015)
Income tax (benefit) provision		(2,189)	339		(1,850)
Equity in earnings of subsidiaries, net	(5,165)			5,165	
Net (loss) income	(5,165)	(6,336)	1,171	5,165	(5,165)
Other comprehensive income (loss)	6,045	8,142	(2,097)	(6,045)	6,045
Comprehensive income (loss)	$ 880	$ 1,806	$ (926)	$ (880)	$ 880

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE NINE MONTHS ENDED OCTOBER 28, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 544,849	$ 77,757	$	$ 622,606
Royalty income		15,724	9,207		24,931
Total revenues		560,573	86,964		647,537
Cost of sales		356,640	49,251		405,891
Gross profit		203,933	37,713		241,646
Operating expenses:					
Selling, general and administrative expenses		176,865	27,918		204,783
Depreciation and amortization		9,741	809		10,550
Total operating expenses		186,606	28,727		215,333
Operating income		17,327	8,986		26,313
Interest expense (income)		5,609	(171)		5,438
Net income before income taxes		11,718	9,157		20,875
Income tax provision		2,690	1,220		3,910
Equity in earnings of subsidiaries, net	16,965			(16,965)	
Net income	16,965	9,028	7,937	(16,965)	16,965
Other comprehensive income	1,002		1,002	(1,002)	1,002
Comprehensive income	$ 17,967	$ 9,028	$ 8,939	$ (17,967)	$ 17,967

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

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

FOR THE NINE MONTHS ENDED OCTOBER 29, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 556,327	$ 73,187	$	$ 629,514
Royalty income		17,505	9,887		27,392
Total revenues		573,832	83,074		656,906
Cost of sales		368,194	48,694		416,888
Gross profit		205,638	34,380		240,018
Operating expenses:					
Selling, general and administrative expenses		187,269	28,165		215,434
Depreciation and amortization		9,687	1,030		10,717
Total operating expenses		196,956	29,195		226,151
Operating income		8,682	5,185		13,867
Interest expense (income)		5,691	(39)		5,652
Net income before income taxes		2,991	5,224		8,215
Income tax provision		836	1,859		2,695
Equity in earnings of subsidiaries, net	5,520			(5,520)	
Net income	5,520	2,155	3,365	(5,520)	5,520
Other comprehensive income (loss)	4,942	8,452	(3,510)	(4,942)	4,942
Comprehensive income (loss)	$ 10,462	$ 10,607	$ (145)	$ (10,462)	$ 10,462

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE NINE MONTHS ENDED OCTOBER 28, 2017

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:	$ (192)	$ 26,124	$ 7,423	$	$ 33,355
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		(4,744)	(827)		(5,571)
Purchase of investments			(36,972)		(36,972)
Proceeds from investments maturities			22,246		22,246
Proceeds on note receivable			250		250
Intercompany transactions	1,242			(1,242)	
Net cash provided by (used in) investing activities	1,242	(4,744)	(15,303)	(1,242)	(20,047)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings from senior credit facility		201,888			201,888
Payments on senior credit facility		(216,475)			(216,475)
Payments on real estate mortgages		(650)			(650)
Purchase of treasury shares	(937)				(937)
Payments for employee taxes on shares withheld		(980)			(980)
Payments on capital leases		(212)			(212)
Proceeds from exercise of stock options	24				24
Intercompany transactions		(4,393)	3,288	1,105	
Net cash (used in) provided by financing activities	(913)	(20,822)	3,288	1,105	(17,342)
Effect of exchange rate changes on cash and cash equivalents	(137)		(137)	137	(137)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		558	(4,729)		(4,171)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		2,578	28,117		30,695
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	$ 3,136	$ 23,388	$	$ 26,524

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE NINE MONTHS ENDED OCTOBER 29, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES:	$ 1,155	$ 33,914	$ 5,824	$ (2,706)	$ 38,187
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		(8,292)	(1,042)		(9,334)
Purchase of investments			(12,467)		(12,467)
Proceeds from investment maturities			9,341		9,341
Proceeds from note receivable			250		250
Intercompany transactions	1,203			(1,203)	
Net cash provided by (used in) investing activities	1,203	(8,292)	(3,918)	(1,203)	(12,210)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings from senior credit facility		250,012			250,012
Payments on senior credit facility		(273,933)			(273,933)
Payments on real estate mortgages		(634)			(634)
Payments on capital leases		(196)			(196)
Dividends paid to stockholder			(2,706)	2,706	
Purchase of treasury stock	(2,151)				(2,151)
Payments for employee taxes on shares withheld		(946)			(946)
Proceeds from exercise of stock options	5				5
Intercompany transactions		3,539	(4,530)	991	
Net cash used in financing activities	(2,146)	(22,158)	(7,236)	3,697	(27,843)
Effect of exchange rate changes on cash and cash equivalents	(212)		(212)	212	(212)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,464	(5,542)		(2,078)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		775	31,127		31,902
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	$ 4,239	$ 25,585	$	$ 29,824

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 quarterly report 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, g indicate, intend, may, might, plan, possibly, potential, predict, probably, proforma, project, s or the negative 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,

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 nine months ended October 28, 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.

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		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(in thousands)			
Revenues by segment:				
Men s Sportswear and Swim	$ 141,549	$ 135,717	$ 482,881	$ 478,790
Women s Sportswear	28,104	28,676	77,561	85,301
Direct-to-Consumer	20,736	20,905	62,164	65,423
Licensing	8,449	8,661	24,931	27,392
Total revenues	$ 198,838	$ 193,959	$ 647,537	$ 656,906

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	(in thousands)			
Reconciliation of operating income (loss) to EBITDA				
Operating income (loss) by segment:				
Men s Sportswear and Swim	$ 3,450	$ (7,683)	$ 22,834	$ 6,834
Women s Sportswear	(2,393)	(1,289)	(6,771)	(4,746)
Direct-to-Consumer	(2,543)	(3,370)	(8,604)	(9,675)
Licensing	6,806	7,065	18,854	21,454
Total operating income (loss)	$ 5,320	$ (5,277)	$ 26,313	$ 13,867
Add:				
Depreciation and amortization				
Men s Sportswear and Swim	$ 1,870	$ 1,814	$ 5,507	$ 5,717
Women s Sportswear	939	729	2,600	2,107
Direct-to-Consumer	716	932	2,266	2,717
Licensing	61	59	177	176
Total depreciation and amortization	$ 3,586	$ 3,534	$ 10,550	$ 10,717
EBITDA by segment:				
Men s Sportswear and Swim	$ 5,320	$ (5,869)	$ 28,341	$ 12,551
Women s Sportswear	(1,454)	(560)	(4,171)	(2,639)
Direct-to-Consumer	(1,827)	(2,438)	(6,338)	(6,958)
Licensing	6,867	7,124	19,031	21,630
Total EBITDA	$ 8,906	$ (1,743)	$ 36,863	$ 24,584

EBITDA margin by segment				
Men s Sportswear and Swim	3.8%	(4.3%)	5.9%	2.6%
Women s Sportswear	(5.2%)	(2.0%)	(5.4%)	(3.1%)
Direct-to-Consumer	(8.8%)	(11.7%)	(10.2%)	(10.6%)
Licensing	81.3%	82.3%	76.3%	79.0%
Total EBITDA margin	4.5%	(0.9%)	5.7%	3.7%

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 common measures of operating performance in the apparel industry.

The following is a discussion of the results of operations for the three and nine month periods ended October 28, 2017 of the fiscal year ending February 3, 2018 (fiscal 2018) compared with the three and nine month periods ended October 29, 2016 of the fiscal year ended January 28, 2017 (fiscal 2017).

Results of Operations - three and nine months ended October 28, 2017 compared to the three and nine months ended October 29, 2016.

Net sales. Men s Sportswear and Swim net sales for the three months ended October 28, 2017 were $141.5 million, an increase of $5.8 million, or 4.3%, from $135.7 million for the three months ended October 29, 2016. The net sales increase was attributed to strong sell through rates throughout the fall seasons. Of particular strength were our core brands, specifically Perry Ellis, Original Penguin, Nike and golf lifestyle apparel businesses.

Men s Sportswear and Swim net sales for the nine months ended October 28, 2017 were $482.9 million, an increase of $4.1 million, or 0.9%, from $478.8 million for the nine months ended October 29, 2016. This increase was a result of our strong sell through rates during the spring and fall season. This increase was attributed to Perry Ellis, Original Penguin, golf lifestyle apparel business, Nike swim, and other core global brands.

Women s Sportswear net sales for the three months ended October 28, 2017 were $28.1 million, a decrease of $0.6 million, or 2.1%, from $28.7 million for the three months ended October 29, 2016. The net sales decrease was attributed primarily to planned reductions in the Laundry brand, offset by increases in Rafaella.

Women s Sportswear net sales for the nine months ended October 28, 2017 were $77.6 million, a decrease of $7.7 million, or 9.1%, from $85.3 million for the nine months ended October 29, 2016. The net sales decrease was primarily due to planned reductions in the Laundry brand as we work on the transition of the brand to a licensing partner. The decrease was partially offset by increases in the Rafaella brand.

Direct-to-Consumer net sales for the three months ended October 28, 2017 were $20.7 million, a decrease of $0.2 million, or 0.9%, from $20.9 million for the three months ended October 29, 2016. This decrease is attributed to the closure of ten stores, as well as the temporary closing of certain stores due to the effects of Hurricanes Harvey, Irma and Maria. This decrease was offset by a 3.7% increase in comparable same store sales.

Direct-to-Consumer net sales for the nine months ended October 28, 2017 were $62.2 million, a decrease of $3.2 million, or 4.9%, from $65.4 million for the nine months ended October 29, 2016. Comparable same store sales remained flat. The decrease was driven by ten fewer stores as compared to the prior period and the impact of the hurricanes as discussed above.

Royalty income. Royalty income for the three months ended October 28, 2017 was $8.4 million, a decrease of $0.3 million, or 3.4%, from $8.7 million for the three months ended October 29, 2016. Royalty income for the nine months ended October 28, 2017 was $24.9 million, a decrease of $2.5 million, or 9.1%, from $27.4 million for the nine months ended October 29, 2016. For the three and nine months ended October 28, 2017 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 $74.1 million for the three months ended October 28, 2017, an increase of $3.0 million, or 4.2%, from $71.1 million for the three months ended October 29, 2016. This increase was attributed to a strong sales performance by our core brands coupled with strong inventory management.

Gross profit was $241.6 million for the nine months ended October 28, 2017, an increase of $1.6 million, or 0.7%, from $240.0 million for the nine months ended October 29, 2016. This increase was attributed to the sales increases 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 37.3% for the three months ended October 28, 2017, as compared to 36.7% for the three months ended October 29, 2016 which represents an expansion of 60 basis points. The expansion was driven by stronger product margins in our Original Penguin and the Direct-to-Consumer businesses.

For the nine months ended October 28, 2017, gross profit margins were 37.3% as a percentage of total revenue, as compared to 36.5% for the nine months ended October 29, 2016, an increase of 80 basis points. The increase was 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 October 28, 2017 were $65.2 million, a decrease of $7.6 million, or 10.4%, from $72.8 million for the three months ended October 29, 2016. The decrease was attributed primarily to expenses of $8.3 million associated with the termination of our defined pension plan during the three months ended October 29, 2016, partially offset by an increase in certain unplanned legal fees of $0.5 million during the three months ended October 28, 2017.

Selling, general and administrative expenses for the nine months ended October 28, 2017 were $204.8 million, a decrease of $10.6 million, or 4.9%, from $215.4 million for the nine months ended October 29, 2016. The decrease was attributed primarily to reduced employee expenses resulting from our continued focus on our core infrastructure, the pension expense as explained above, and, a required acceleration of compensation costs relating to the new contract for our executive chairman during three months ended July 30, 2016.

EBITDA. Men s Sportswear and Swim EBITDA margin for the three months ended October 28, 2017, increased 810 basis points to 3.8%, from (4.3%) for the three months ended October 29, 2016. The EBITDA margin was unfavorably impacted by the settlement charge related to the termination of our defined benefit plan in the amount of $8.3 million during the three months ended October 29, 2016. Such expense did not occur during the three months ended October 28, 2017.

Men s Sportswear and Swim EBITDA margin for the nine months ended October 28, 2017, increased 330 basis points to 5.9%, from 2.6% for the nine months ended October 29, 2016. The EBITDA margin was favorably impacted by sourcing efficiencies and the strong sales performance of our core brands, specifically our Perry Ellis, Original Penguin, Nike and golf apparel businesses.

Women s Sportswear EBITDA margin for the three months ended October 28, 2017 decreased 320 basis points to (5.2%) from (2.0%) for the three months ended October 29, 2016. The EBITDA margin was unfavorably impacted by the decrease in net sales described above. As a result of this decrease in net sales, we were not able to realize favorable leverage in selling, general and administrative expenses.

Women s Sportswear EBITDA margin for the nine months ended October 28, 2017 decreased 230 basis points to (5.4%) from (3.1%) for the nine months ended October 29, 2016. The EBITDA margin was unfavorably impacted by the decrease in net sales described above. As a result of this decrease in net sales, we were not able to realize favorable leverage in selling, general and administrative expenses.

Direct-to-Consumer EBITDA margin for the three months ended October 28, 2017, increased 290 basis points to (8.8%), from (11.7%) for the three months ended October 29, 2016. The EBITDA margin was favorably impacted by the product sales mix as we focus on being less dependent on everyday promotions.

Direct-to-Consumer EBITDA margin for the nine months ended October 28, 2017 increased 40 basis points to (10.2)%, from (10.6%) for the nine months ended October 29, 2016. The EBITDA margin was favorably impacted by the product sales mix as we focus on being less dependent on everyday promotions and thus increased our gross profit margin and achieved favorable leverage in selling, general and administrative expenses.

Licensing EBITDA margin for the three months ended October 28, 2017, decreased 100 basis points to 81.3%, from 82.3% for the three months ended October 29, 2016. The EBITDA margin was unfavorably impacted by the decrease

in royalty income described above.

Licensing EBITDA margin for the nine months ended October 28, 2017, decreased 270 basis points to 76.3%, from 79.0% for the nine months ended October 29, 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 October 28, 2017, was $3.6 million, an increase of $0.1 million, or 2.9%, from $3.5 million for the three months ended October 29, 2016. The increase was attributed to depreciation related to our capital expenditures, primarily in fixtures, made during fiscal 2018.

Depreciation and amortization for the nine months ended October 28, 2017, was $10.6 million, a decrease of $0.1 million, or 0.9%, from $10.7 million for the nine months ended October 29, 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 October 28, 2017, was $1.6 million, a decrease of $0.1 million, or 5.9%, from $1.7 million for the three months ended October 29, 2016. Interest expense for the nine months ended October 28, 2017, was $5.4 million, a decrease of $0.3 million, or 5.3%, from $5.7 million for the nine months ended October 29, 2016. These decreases were attributed to the lower average amount borrowed on our credit facility as compared to the prior year periods.

Income taxes. The income tax expense for the three months ended October 28, 2017, was $0.5 million, an increase of $2.4 million, as compared to a tax benefit of $1.9 million for the three months ended October 29, 2016. For the three months ended October 28, 2017, our effective tax rate was 13.3% as compared to 26.4% for the three months ended October 29, 2016. The income tax expense for the nine months ended October 28, 2017, was $3.9 million, an increase of $1.2 million, as compared to $2.7 million for the nine months ended October 29, 2016. For the nine months ended October 28, 2017, our effective tax rate was 18.7% as compared to 32.8% for the nine months ended October 29, 2016. These increases in tax expense were 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. The overall change in the effective tax rate for both periods 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 (loss) for the three months ended October 28, 2017, was $3.2 million, an increase of $8.4 million, or 161.5%, as compared to ($5.2) million for the three months ended October 29, 2016. Net income for the nine months ended October 28, 2017, was $17.0 million, an increase of $11.5 million, or 209.1%, as compared to $5.5 million for the nine months ended October 29, 2016. These 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 October 28, 2017, our total working capital was $230.9 million as compared to $223.4 million at January 28, 2017 and $213.5 million as of October 29, 2016. We believe that our cash flows from operations and availability under our senior credit facility and remaining letter of credit facility 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 October 28, 2017, to be indefinitely reinvested and, accordingly, no United States income taxes have been provided thereon. As of October 28, 2017, the amount of cash associated with indefinitely reinvested foreign earnings was approximately $23.3 million. We have not, nor do we anticipate the need to, repatriate these funds to the United States to satisfy our 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 $33.4 million for the nine months ended October 28, 2017, as compared to cash provided by operating activities of $38.2 million for the nine months ended October 29, 2016.

The cash provided by operating activities for the nine months ended October 28, 2017, was primarily attributable to a decreased inventory of $23.0 million, due to improved inventory management, a decrease in accounts receivable of $5.5 million, as well as a decrease in prepaid income taxes, and prepaid expenses of $1.7 million and $0.8 million, respectively. Additionally, cash was provided by an increase in income taxes payable of $1.0 million. This was partially offset by a decrease in accounts payable and accrued expenses of $28.7 million, a decrease in unearned revenues of $3.0 million and a decrease in accrued interest payable of $1.1 million. Our inventory turnover ratio increased to 3.9 as compared to 3.8 in the prior period because of our continued focus on inventory management.

The cash provided by operating activities for the nine months ended October 29, 2016, was primarily attributable to decreased inventory of $69.0 million due to improved inventory management. This was partially offset by a decrease in accounts payable and accrued expenses of $61.7 million, as well as a reduction in deferred pension obligation of $5.5 million due to our funding of our pension in anticipation of its termination and a reduction in accrued interest of $1.0 million.

Net cash used in investing activities was $20.0 million for the nine months ended October 28, 2017, as compared to cash used in investing activities of $12.2 million for the nine months ended October 29, 2016. The net cash used in investing activities during the first nine months of fiscal 2018 primarily reflected the purchase of investments of $37.0 million and the purchase of property and equipment of $5.6 million primarily for leasehold improvements and store fixtures; offset by the proceeds from the maturities of investments in the amount of $22.2 million and proceeds from notes receivable of $0.3 million.

We anticipate capital expenditures during the remainder of fiscal 2018 of $4.0 million to $5.0 million in new leasehold improvements, technology, systems, retail stores, and other expenditures.

Net cash used in investing activities was $12.2 million for the nine months ended October 29, 2016. The net cash used in investing activities during the first nine months of fiscal 2017 primarily reflected the purchase of investments of $12.5 million and the purchase of property and equipment of $9.3 million primarily for leasehold improvements and store fixtures; partially offset by proceeds from the maturities of investments of $9.3 million.

Net cash used in financing activities was $17.3 million for the nine months ended October 28, 2017, as compared to $27.8 million for the nine months ended October 29, 2016. The net cash used during the first nine months of fiscal 2018 primarily reflected net payments on our senior credit facility of $14.6 million, purchases of treasury stock of $0.9 million, payments for employee taxes on shares withheld upon vesting of $1.0 million, payments of $0.7 million on our mortgage loans and payments on capital leases of $0.2 million; partially offset by the proceeds from exercises of stock options of $24,000.

Net cash used in financing activities was $27.8 million for the nine months ended October 29, 2016. The net cash used during the first nine months of fiscal 2017 primarily reflected net payments on our senior credit facility of $23.9 million, purchases of treasury stock of $2.2 million, payments for employee taxes on shares withheld upon vesting of $0.9 million, payments of $0.6 million on our mortgage loans and payments on capital leases of $0.2 million; partially offset by the proceeds from exercises of stock options of $5,000.

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, 2018. 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. During the third quarter of fiscal 2018, we retired 50,000 shares of treasury stock recorded at a cost of approximately $0.9 million. Accordingly, during the third quarter of fiscal 2018, we reduced additional paid in capital by $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.

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7 $^{7}/_{8}$% $150 Million Senior Subordinated Notes Payable

In March 2011, we issued $150 million 7 $^{7}/_{8}$ % senior subordinated notes, due April 1, 2019. The proceeds of this offering were used to retire the $150 million 8 $^{7}/_{8}$ % senior subordinated notes due September 15, 2013 and to repay a portion of the outstanding balance on the senior credit facility. The net 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 $^{7}/_{8}$ % senior subordinated notes due 2019 and a notice of redemption was sent to all registered holders of the senior subordinated notes. The redemption terms provided for the payment of a redemption premium of 103.938% of the principal amount redeemed. On May 6, 2015, we completed the redemption of $100 million of our senior subordinated notes. We incurred debt extinguishment costs of approximately $5.1 million in connection with the redemption, including the redemption premium as well as the write-off of note issuance costs. At October 28, 2017 and January 28, 2017, the balance of the 7 $^{7}/_{8}$ % senior subordinated notes totaled $49.8 million and $49.7 million, respectively, net of debt issuance costs in the amount of $0.2 million and $0.3 million, respectively.

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 our senior credit facility, letter of credit facilities and 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 October 28, 2017 and January 28, 2017, we had outstanding borrowings of $7.9 million and $22.5 million under the Credit Facility, respectively.

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 the 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 $^{7}/_{8}$ % 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, and (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 October 28, 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 October 28, 2017 and January 28, 2017, there was $19.4 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 October 28, 2017, the balance of the real estate mortgage loan totaled $21.0 million, net of discount, of which $552,000 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 loan 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 October 28, 2017, the balance of the real estate mortgage loan totaled $12.8 million, net of discount, of which approximately $336,000 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 nine months ended October 28, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The market risk inherent in our financial statements represents the potential changes in the fair value, earnings or cash flows arising from changes in interest rates 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.

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 $11.8 million and $15.0 million at October 28, 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 $0.5 million and $0.2 million at October 28, 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 loss relating to Hedging Instruments reclassified to earnings for the three and nine months ended October 28, 2017 was $86,000 and $78,000, respectively. There was no gain or loss relating to Hedging Instruments reclassified to earnings for the three and nine months ended October 29, 2016.

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 that 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 October 28, 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.

There were no changes in our internal control over financial reporting during the quarter ended October 28, 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	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
July 30, 2017 to August 26, 2017 [1]	71	$ 17.72		$ 8,278,199
August 27, 2017 to September 30, 2017 [1]	9,243	$ 21.97		$ 8,278,199
October 1, 2017 to October 28, 2017 [1]	377	$ 22.29		$ 8,278,199

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

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.

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.

December 1, 2017

By: /S/ JORGE NARINO
Jorge Narino, Interim Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)