

G III APPAREL GROUP LTD /DE/

Form 10-Q

December 09, 2011

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

(Mark One)

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

**For the quarterly period ended October 31, 2011**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-18183  
G-III APPAREL GROUP, LTD.**

(Exact name of registrant as specified in its charter)

Delaware

41-1590959

(State or other jurisdiction of incorporation or organization)

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

512 Seventh Avenue, New York, New York

10018

(Address of Principal Executive Offices)

(Zip Code)

(212) 403-0500

(Registrant's telephone number, including area code)

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

As of December 1, 2011, there were 19,767,697 shares of our common stock, par value \$0.01 per share, outstanding.

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

	October 31, 2011 (Unaudited)	October 31, 2010 (Unaudited)	January 31, 2011
	(In thousands, except share and per share amounts)		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 16,083	\$ 16,586	\$ 10,045
Accounts receivable, net of allowance for doubtful accounts and sales discounts of \$36,129, \$39,942 and \$32,174, respectively	368,087	297,101	138,341
Inventories	273,161	208,507	204,995
Deferred income taxes	12,016	15,315	12,016
Prepaid expenses and other current assets	12,556	6,540	13,390
Total current assets	681,903	544,049	378,787
INVESTMENT IN JOINT VENTURE	2,578	100	40
PROPERTY AND EQUIPMENT, NET	30,904	19,020	22,556
DEFERRED INCOME TAXES	8,304	10,672	8,304
OTHER ASSETS	1,851	2,175	2,133
INTANGIBLES, NET	17,821	18,793	18,483
GOODWILL	26,100	26,100	26,100
	\$ 769,461	\$ 620,909	\$ 456,403
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Notes payable	\$ 245,058	\$ 166,739	\$
Income taxes payable	24,072	28,232	41
Accounts payable	90,225	85,638	103,012
Accrued expenses	40,194	40,511	34,259
Deferred income taxes	1,981	1,529	1,981
Total current liabilities	401,530	322,649	139,293
DEFERRED INCOME TAXES	6,501	6,495	6,501
OTHER NON-CURRENT LIABILITIES	9,508	6,105	7,115
TOTAL LIABILITIES	417,539	335,249	152,909

**STOCKHOLDERS EQUITY**

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Preferred stock; 1,000,000 shares authorized; No shares issued and outstanding			
Common stock \$.01 par value; 80,000,000 shares authorized; 20,259,922, 19,666,072 and 20,056,132 shares issued	203	197	201
Additional paid-in capital	159,173	146,866	152,340
Accumulated other comprehensive loss	(97)	(43)	(19)
Retained earnings	196,542	139,610	151,942
Common stock held in treasury, at cost 492,225, 367,225 and 367,225 shares	(3,899)	(970)	(970)
	351,922	285,660	303,494
	\$ 769,461	\$ 620,909	\$ 456,403

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

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

	Three Months Ended October 31,	
	2011	2010
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	\$ 510,009	\$ 450,002
Cost of goods sold	347,734	296,055
Gross profit	162,275	153,947
Selling, general and administrative expenses	86,958	80,140
Depreciation and amortization	1,875	1,508
Operating profit	73,442	72,299
Equity in loss of joint venture	337	
Interest and financing charges, net	2,297	1,706
Income before income taxes	70,808	70,593
Income tax expense	27,253	27,871
Net income	\$ 43,555	\$ 42,722
<b>NET INCOME PER COMMON SHARE:</b>		
Basic:		
Net income per common share	\$ 2.19	\$ 2.22
Weighted average number of shares outstanding	19,845	19,227
Diluted:		
Net income per common share	\$ 2.16	\$ 2.16
Weighted average number of shares outstanding	20,172	19,764

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

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

	Nine Months Ended October 31,	
	2011	2010
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	\$ 936,855	\$ 793,239
Cost of goods sold	649,554	529,502
Gross profit	287,301	263,737
Selling, general and administrative expenses	204,708	183,665
Depreciation and amortization	5,251	4,065
Operating profit	77,342	76,007
Equity in loss of joint venture	812	
Interest and financing charges, net	4,009	2,702
Income before income taxes	72,521	73,305
Income tax expense	27,921	28,955
Net income	\$ 44,600	\$ 44,350
<b>NET INCOME PER COMMON SHARE:</b>		
Basic:		
Net income per common share	\$ 2.25	\$ 2.32
Weighted average number of shares outstanding	19,804	19,087
Diluted:		
Net income per common share	\$ 2.21	\$ 2.26
Weighted average number of shares outstanding	20,209	19,606

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

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

	Nine Months Ended October 31,	
	2011	2010
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 44,600	\$ 44,350
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	5,251	4,065
Equity based compensation	3,616	2,423
Tax benefit from exercise/vesting of equity awards	746	
Deferred financing charges	365	664
Equity in loss of joint venture	812	
Changes in operating assets and liabilities:		
Accounts receivable, net	(229,746)	(223,645)
Inventories	(68,166)	(88,630)
Income taxes, net	24,031	17,358
Prepaid expenses and other current assets	648	4,022
Other assets, net	103	(1,084)
Accounts payable, accrued expenses and other liabilities	(4,459)	51,347
Net cash used in operating activities	(222,199)	(189,130)
Cash flows from investing activities		
Investment in equity of joint venture	(3,350)	
Capital expenditures	(12,937)	(14,513)
Net cash used in investing activities	(16,287)	(14,513)
Cash flows from financing activities		
Proceeds from notes payable, net	245,058	166,739
Proceeds from exercise of equity awards	516	2,518
Stock repurchase	(2,929)	
Excess tax benefit from exercise/vesting of equity awards	1,957	4,166
Net cash provided by financing activities	244,602	173,423
Effect of exchange rate changes	(78)	(7)
Net increase / (decrease) in cash and cash equivalents	6,038	(30,227)
Cash and cash equivalents at beginning of period	10,045	46,813

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Cash and cash equivalents at end of period	\$ 16,083	\$ 16,586
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,364	\$ 2,651
Income taxes	1,134	7,404

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

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

**Note 1 Basis of Presentation**

As used in these financial statements, the term Company refers to G-III Apparel Group, Ltd. and its wholly-owned subsidiaries. The results for the three and nine month periods ended October 31, 2011 are not necessarily indicative of the results expected for the entire fiscal year, given the seasonal nature of the Company's business. The accompanying financial statements included herein are unaudited. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented have been reflected.

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

The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2011 filed with the Securities and Exchange Commission.

**Note 2 Inventories**

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

	October 31, 2011	October 31, 2010	January 31, 2011
		(In thousands)	
Finished goods	\$ 265,224	\$ 204,987	\$ 199,292
Raw materials and work-in-process	7,937	3,520	5,703
	\$ 273,161	\$ 208,507	\$ 204,995

**Note 3 Net Income per Common Share**

Basic net income per common share has been computed using the weighted average number of common shares outstanding during each period. Diluted net income per share is computed using the weighted average number of common shares and potential dilutive common shares, consisting of stock options, stock purchase warrants and unvested restricted stock awards outstanding during the period. For the three and nine months ended October 31, 2011, approximately 327,400 and 405,300 shares, respectively, have been excluded from the diluted per share calculation as their inclusion would have been anti-dilutive. For the three and nine months ended October 31, 2010, there were no anti-dilutive shares excluded from the diluted per share calculation. For the nine months ended October 31, 2011 and 2010, 203,790 and 473,368 shares of common stock, respectively, were issued in connection with the exercise or vesting of equity awards.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Net income	\$ 43,555	\$ 42,722	\$ 44,600	\$ 44,350
Basic net income per share:				
Basic common shares	19,845	19,227	19,804	19,087

Basic net income per share	\$ 2.19	\$ 2.22	\$ 2.25	\$ 2.32
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	Three Months Ended October 31,		Nine Months Ended October 31,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Diluted net income per share:				
Basic common shares	19,845	19,227	19,804	19,087
Stock options, warrants and restricted stock awards	327	537	405	519
Diluted common shares	20,172	19,764	20,209	19,606
Diluted net income per share	\$ 2.16	\$ 2.16	\$ 2.21	\$ 2.26

**Note 4 Notes Payable**

The Company has a financing agreement with JPMorgan Chase Bank, N.A., as Agent for a consortium of banks. The Company's financing agreement, which extends through July 31, 2013, is a senior secured revolving credit facility providing for borrowings in the aggregate principal amount of up to \$300 million. Borrowings under this credit facility bear interest, at the Company's option, at the prime rate plus 0.50% or LIBOR plus 2.75%. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement. The financing agreement requires the Company, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined, and also limits payments for cash dividends and stock redemptions. As of October 31, 2011, the Company was in compliance with these covenants. The financing agreement is secured by all of the Company's assets. Amounts payable under the Company's revolving credit facility were \$245.1 million and \$166.7 million at October 31, 2011 and 2010, respectively.

**Note 5 Segments**

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

	Three Months Ended October 31,					
	2011			2010		
	Wholesale Licensed	Wholesale Non-Licensed	Retail	Wholesale Licensed	Wholesale Non-Licensed	Retail
Net sales <sup>(1)</sup>	\$ 374,171	\$ 109,915	\$ 36,880	\$ 319,853	\$ 106,805	\$ 32,046
Cost of goods sold <sup>(1)</sup>	262,483	77,171	19,037	216,987	71,289	16,481
Gross profit	111,688	32,744	17,843	102,866	35,516	15,565
Selling, general and administrative	55,774	13,419	17,765	50,650	14,101	15,389
Depreciation and amortization	344	1,000	531	187	1,002	319

Operating profit (loss)	\$ 55,570	\$ 18,325	\$ (453)	\$ 52,029	\$ 20,413	\$ (143)
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	Nine Months Ended October 31,					
	2011			2010		
	Wholesale Licensed	Wholesale Non-Licensed	Retail	Wholesale Licensed	Wholesale Non-Licensed	Retail
Net sales <sup>(2)</sup>	\$ 659,985	\$ 207,433	\$ 97,721	\$ 541,940	\$ 189,324	\$ 84,363
Cost of goods sold <sup>(2)</sup>	475,029	150,291	52,518	375,545	131,241	45,104
Gross profit	184,956	57,142	45,203	166,395	58,083	39,259
Selling, general and administrative	122,941	32,112	49,655	108,091	32,414	43,160
Depreciation and amortization	916	2,950	1,385	513	2,585	967
Operating profit (loss)	\$ 61,099	\$ 22,080	\$ (5,837)	\$ 57,791	\$ 23,084	\$ (4,868)

(1) Net sales and cost of goods sold for the wholesale licensed and wholesale non-licensed segments include an aggregate of \$11.0 million and \$8.7 million of intersegment sales to the Company's retail operations for the three months ended October 31, 2011 and 2010, respectively.

(2) Net sales and cost of goods sold for the wholesale licensed and wholesale non-licensed segments include an aggregate of \$28.3 million and \$22.4 million of intersegment sales to the Company's retail operations for the nine months ended October 31, 2011 and 2010, respectively.

Included in finished goods inventory at October 31, 2011 are approximately \$175.6 million, \$37.3 million and \$52.3 million of inventories for wholesale licensed, wholesale non-licensed and retail operations, respectively. Included in finished goods inventory at October 31, 2010 are approximately \$140.1 million, \$26.4 million and \$38.5 million of inventories for wholesale licensed, wholesale non-licensed and retail operations, respectively. Substantially all of the Company's other assets are commingled.

**Note 6 Fair Value Measurements**

FASB ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820) establishes a common definition for fair value to be applied to United States generally accepted accounting principles (GAAP), provides guidance requiring the use of fair value, establishes a framework for measuring fair value, and expands the disclosure about such fair value measurements. ASC 820 establishes a three-level fair value hierarchy that requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data and require the reporting entity to develop its own assumptions.

The Company's financial instruments consist of cash and cash equivalents, short-term trade receivables, accounts payable and notes payable under the Company's credit facility. The carrying values on the balance sheet for cash and cash equivalents, short-term trade receivables, and accounts payable approximate their fair values due to the short-term maturities of such items and are classified as level 1. The carrying value on the balance sheet for the

Company's notes payable approximate their fair value due to the variable interest rate, and as such is classified within level 2 of the fair value hierarchy.

The Company evaluates long-lived assets for recoverability in accordance with ASC 360, Property Plant and Equipment whenever events or changes in circumstances indicate that an asset may have been impaired. In evaluating an asset for recoverability, the Company estimates the future cash flow expected to result from the use of the asset and eventual disposition and market data assumptions. If the sum of the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized.

**Table of Contents****Note 7 Investment in Joint Venture**

In August 2010, AM Retail Group, Inc. ( AM Retail ), a wholly owned subsidiary, formed a joint venture with VCS Group LLC to open and operate footwear and accessory outlet stores under the name Vince Camuto. Each company owns a 50% share in the joint venture and provides 50% of the capital costs of the joint venture. The Company accounts for AM Retail's investment in the joint venture using the equity method of accounting. Accordingly, the Company's share of the loss from the joint venture in the nine months ended October 31, 2011 was recorded in the consolidated statements of operations.

**Note 8 Share Repurchase Program**

In September 2011, the Company's board of directors authorized a program to repurchase up to two million shares of its common stock. The timing and actual number of shares repurchased will depend upon a number of factors, including market conditions and prevailing stock prices. Share repurchases may take place on the open market, in privately negotiated transactions or by other means, and would be made in accordance with applicable securities laws. Pursuant to the share repurchase program, during the quarter ended October 31, 2011, the Company repurchased 125,000 shares of our common stock for an aggregate purchase price of approximately \$2.9 million. Repurchased shares are accounted for as treasury stock at cost and will be held in treasury for future use.

**Note 9 Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued an Accounting Standards Update ( ASU ) ASU 2011-05, Presentation of Comprehensive Income. Under the amendments to Topic 220, Comprehensive Income, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance in ASU 2011-05 is effective for public companies for fiscal years, and interim periods within those years beginning after December 15, 2011. The Company expects that ASU 2011-05 will not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 simplifies how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of ASU 2011-08 is not expected to have a material impact on the Company's consolidated financial statements.

**Note 10 Subsequent Events**

The Company has considered subsequent events up to the filing date and does not believe there are any occurrences that would have a material impact on the Company's results of operations.

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

Unless the context otherwise requires, "G-III", "us", "we" and "our" refer to G-III Apparel Group, Ltd. and its wholly-owned subsidiaries. References to fiscal years refer to the year ended or ending on January 31 of that year. For example, our fiscal year ending January 31, 2012 is referred to as "fiscal 2012".

Various statements contained in this Form 10-Q, in future filings by us with the Securities and Exchange Commission (the "SEC"), in our press releases and in oral statements made from time to time by us or on our behalf constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate", "estimate", "expect", "project", "we believe", "is or remains optimistic", "currently envisions", "forecasts" words or phrases and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from the future results, performance or achievements expressed in or implied by such forward-looking statements. Forward-looking statements also include representations of our expectations or beliefs concerning future events that involve risks and uncertainties, including:

- our dependence on licensed product;
- costs and uncertainties with respect to expansion of our product offerings;
- customer concentration;
- the impact of the current economic and credit environment on our customers, suppliers and vendors;
- the impact of the downturn in the global economy on consumer purchases of products that we offer for sale;
- the performance of our products within the prevailing retail environment;
- customer acceptance of new products;
- our ability to make strategic acquisitions;
- possible disruption from acquisitions;
- consolidation of our retail customers;
- price, availability and quality of materials used in our products;
- highly seasonal nature of our business;
- dependence on existing management;
- the effects of competition in the markets in which we operate;
- risks of operating a retail business;
- need for additional financing;
- our ability to import products in a timely and cost effective manner;
- our reliance on foreign manufacturers;

our intention to introduce new products or enter into new alliances;

fluctuations in the price of our common stock; and

potential effect on the price of our common stock if actual results are worse than financial forecasts.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is described under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended January 31, 2011. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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### **Overview**

G-III designs, manufactures and markets an extensive range of apparel, including outerwear, dresses, sportswear, women's suits and women's performance wear, as well as luggage and women's handbags, small leather goods and cold weather accessories. We sell our products under our own proprietary brands, which include Andrew Marc, Marc New York and Marc Moto, licensed brands and private retail labels. G-III also operates outlet stores under the Wilsons Leather and Andrew Marc names and is a party to a joint venture that operates outlet stores under the Vince Camuto name. While our products are sold at a variety of price points through a broad mix of retail partners and our own outlet stores, a majority of our sales are concentrated with our ten largest customers.

Our business is dependent on, among other things, retailer and consumer demand for our products. We believe that economic uncertainty and a slowdown in the global macroeconomic environment could continue to negatively impact the level of consumer spending for discretionary items. The current uncertain economic environment has been characterized by high unemployment which could result in a decline in consumer discretionary spending that may affect retailers and sellers of consumer goods, particularly those whose goods are viewed as discretionary purchases, such as fashion apparel and related products, such as ours. We cannot predict the direction in which the current economic environment will move. Uncertain macroeconomic conditions have had and may continue to have a negative impact on our results for fiscal 2012.

We operate in fashion markets that are intensely competitive. Our ability to continuously evaluate and respond to changing consumer demands and tastes, across multiple market segments, distribution channels and geographies, is critical to our success. Although our portfolio of brands is aimed at diversifying our risks in this regard, misjudging shifts in consumer preferences could have a negative effect on our business. Our success in the future will depend on our ability to design products that are accepted in the marketplace, source the manufacture of our products on a competitive basis, and continue to diversify our product portfolio and the markets we serve.

We operate our business in three segments: wholesale licensed products, wholesale non-licensed products and retail operations. The wholesale licensed products segment includes sales of products under brands licensed by us from third parties. The wholesale non-licensed products segment includes sales of products under our own brands and private label brands. The retail operations segment consists almost entirely of the operations of our Wilsons outlet stores and, beginning in the second half of fiscal 2012, a limited number of our Andrew Marc outlet stores.

We have expanded our portfolio of proprietary and licensed brands for more than 15 years through acquisitions and by entering into license agreements for new brands or for additional products under previously licensed brands. We have made five acquisitions since July 2005 that have helped to broaden our product offerings, expand our ability to serve different tiers of distribution and add a retail component to our business.

Our acquisitions are part of our strategy to expand our product offerings and increase the portfolio of proprietary and licensed brands that we offer through different tiers of retail distribution and at a variety of price points. We believe that both Andrew Marc and the Wilsons outlet business leverage our core strength in outerwear and provide us with new avenues for growth. We also believe that these acquisitions complement our other licensed brands, G-III owned labels and private label programs.

When we acquired Andrew Marc in February 2008, Andrew Marc was a supplier of fine outerwear and handbags for both men and women to upscale specialty and department stores. We have since expanded our product categories for Andrew Marc both in house and through licensing arrangements. We have expanded the distribution of outerwear by penetrating additional doors and selling through new channels of distribution. We enhanced our website for Andrew Marc ([www.andrewmarc.com](http://www.andrewmarc.com)) to expand our online product offerings. We launched Andrew Marc and Marc New York dress lines which began shipping in Fall 2009, leveraging our G-III dress capabilities and our manufacturing sources. We added to the Andrew Marc family of brands by creating the Marc Moto brand. The Marc Moto offering contains vintage inspired product that embraces legendary style. It is a denim lifestyle collection targeted toward young, independent men.

We have a program to license our Andrew Marc and Marc New York brands and have entered into agreements to license these brands for women's footwear, men's accessories, women's handbags, men's cold weather accessories and men's denim and related sportswear, eyewear, men's dress shirts, men's tailored clothing, watches, neckwear and sweaters. We have entered into agreements to terminate the license agreements with respect to women's handbags and

men's denim and related sportswear, and are pursuing these initiatives in house.

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We acquired the outlet store business of Wilsons The Leather Experts in July 2008. Our retail operations segment, which consists almost entirely of our Wilsons outlet store business, had an operating loss during fiscal 2009 and fiscal 2010. In fiscal 2011, the retail operations segment achieved an operating profit and we expect that it will also achieve an operating profit in fiscal 2012. We continue to believe that operation of the Wilsons outlet stores is part of our core competency, as outerwear comprised about one-half of our net sales at Wilsons in fiscal 2011. We expect to continue to implement and refine these initiatives with a view to creating a store concept that is capable of building growth and profitability over the long-term. As of November 30, 2011, we have increased our number of Wilsons outlet stores by fourteen and opened four new Andrew Marc outlet stores during fiscal 2012.

During the third quarter of fiscal 2011, we formed a joint venture with The Camuto Group to operate footwear and accessory outlet stores under the name Vince Camuto. The Camuto Group provides product and merchandises the stores. Through our Wilsons team, we provide the infrastructure and expertise for operation of the stores, including real estate, distribution, information systems, finance and administration. Both companies share equally in the capital costs of the joint venture. The joint venture opened the first Vince Camuto outlet store in April 2011 and, as of November 30, 2011, eleven of these stores were in operation. We are accounting for our investment in this joint venture under the equity method.

The sale of licensed product has been a key element of our business strategy for many years. As part of this strategy, we continue to add new fashion and sports apparel licenses. Our most significant licensor is Calvin Klein with whom we have eight different product license agreements. In May 2010, we added licenses for Calvin Klein luggage and for Calvin Klein women's handbags and small leather goods. The first shipment of these products in the United States commenced for the Spring 2011 season. We have also entered into distribution agreements with respect to Calvin Klein luggage in a limited number of countries in Asia, Europe and North America. In November 2011, we entered into an agreement granting us the retail rights to distribute and market Calvin Klein women's performance apparel in the United States and China. This license is in addition to our existing women's wholesale Calvin Klein performance license. We expect to open our first Calvin Klein women's performance apparel store in the United States by the end of 2012.

In September 2010, we entered into an extended and expanded license agreement with the National Football League to manufacture and market men's and women's outerwear, sportswear, and swimwear products in the United States under a variety of NFL trademarks. This license agreement is for five additional years and commences April 1, 2012. In October 2010, we expanded our relationship with Guess pursuant to a new license agreement for dresses. First shipments of our Guess dresses began for the Spring 2011 season.

In May 2011, we entered into two new license agreements with the Camuto Group, expanding our product offerings with Camuto to include dresses and men's outerwear. Dresses under the Camuto label are expected to begin shipping for Spring 2012 and men's outerwear is expected to begin shipping for the Fall 2012 season. In June 2011, we also expanded our product categories with Tommy Hilfiger to include luggage which began shipping in August 2011. In November 2011, we entered into a license agreement to develop sportswear, dresses, tailored clothing, activewear and sweaters under the Kensie brand for the U.S. and Canadian markets. We expect to begin shipping Kensie sportswear in the first quarter of 2012 and to follow with the launch of additional categories. In December 2011, we entered into a license agreement that expanded our Jessica Simpson products to include women's outerwear. We expect to begin shipping Jessica Simpson outerwear for the Fall 2012 season.

We believe that consumers prefer to buy brands they know and we have continually sought licenses that would increase the portfolio of name brands we offer through different tiers of retail distribution, for a wide array of products at a variety of price points. We believe that brand owners will look to consolidate the number of licensees they engage to develop product and they will seek licensees with a successful track record of expanding brands into new categories. We continually discuss new licensing opportunities with brand owners.

**Trends**

Significant trends that affect the apparel industry include increases in raw material, manufacturing and transportation costs, the continued consolidation of retail chains, the desire on the part of retailers to consolidate vendors supplying them and a shift in consumer shopping preferences away from traditional department stores to other retail venues.





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We and other apparel manufacturers have experienced increases in raw material prices and other costs. We may be limited in our ability to increase our selling prices to offset rising costs. Should the consumer not accept higher retail prices for our products, these rising costs could continue to have a negative effect on our business.

Retailers are seeking to expand the differentiation of their offerings by devoting more resources to the development of exclusive products, whether by focusing on their own private label products or on products produced exclusively for a retailer by a national brand manufacturer. Retailers are placing more emphasis on building strong images for their private label merchandise. Exclusive brands are only made available to a specific retailer, and thus customers loyal to their brands can only find them in the stores of that retailer.

A number of retailers are experiencing financial difficulties, which in some cases has resulted in bankruptcies, liquidations and/or store closings. The financial difficulties of a retail customer of ours could result in reduced business with that customer. We may also assume higher credit risk relating to receivables of a retail customer experiencing financial difficulty that could result in higher reserves for doubtful accounts or increased write-offs of accounts receivable. We attempt to lower credit risk from our customers by closely monitoring accounts receivable balances and shipping levels, as well as the ongoing financial performance and credit standing of customers.

We have attempted to respond to these trends by continuing to focus on selling products with recognized brand equity, by attention to design, quality and value and by improving our sourcing capabilities. We have also responded with the strategic acquisitions made by us and new license agreements entered into by us that have added additional licensed and proprietary brands and helped diversify our business by adding new product lines, additional distribution channels and a retail component to our business. We believe that our broad distribution capabilities help us to respond to the various shifts by consumers between distribution channels and that our operational capabilities will enable us to continue to be a vendor of choice for our retail partners.

**Results of Operations*****Three months ended October 31, 2011 compared to three months ended October 31, 2010***

Net sales for the three months ended October 31, 2011 increased to \$510.0 million from \$450.0 million in the same period last year. Net sales of wholesale licensed products increased to \$374.2 million from \$319.9 million primarily as a result of an increase of \$38.8 million in net sales of Calvin Klein licensed product, mainly due to the introduction of Calvin Klein handbag, accessory and luggage lines, a \$4.8 million increase in net sales of Guess outerwear and dresses and a \$4.7 million increase in net sales of licensed sports apparel. Net sales of wholesale non-licensed products in the three months ended October 31, 2011 increased to \$109.9 million from \$106.8 million in the same period last year primarily due to an increase of \$3.4 million in sales of private label outerwear. Net sales of our retail operations were \$36.9 million for the three months ended October 31, 2011 compared to \$32.0 million in the same period last year, as a result of an increase in the number of stores, as well as a 4.2% increase in comparable store sales. Gross profit increased to \$162.3 million, or 31.8% of net sales, for the three months ended October 31, 2011, from \$153.9 million, or 34.2% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed products segment was 29.8% in the three months ended October 31, 2011 compared to 32.2% in the same period last year. Gross profit for the wholesale licensed segment was impacted by greater promotional activity which resulted in lower initial selling prices, as well as higher allowance support by us to our retailers. The gross profit percentage in our wholesale non-licensed products segment was 29.8% in the three month period ended October 31, 2011 compared to 33.3% in the same period last year. Gross profit for the wholesale non-licensed segment was impacted by lower initial selling prices, as well as the sale of a higher proportion of lower margin product. The gross profit percentage for our retail operations segment was 48.4% for the three months ended October 31, 2011 compared to 48.6% for the comparable period last year.

Selling, general and administrative expenses increased to \$87.0 million in the three months ended October 31, 2011 from \$80.1 million in the same period last year. This increase is primarily a result of increases in personnel costs (\$2.7 million), third party warehousing (\$2.1 million) and facility costs (\$832,000). Personnel costs increased primarily due to the growth in the staffing of our Calvin Klein division, mainly as a result of the addition of new product categories, as well as an increase in personnel to staff additional outlet stores in our retail division. Third party warehousing costs increased due to higher shipping volume as well as higher inventory balances. Facility costs increased as a result of rent expense associated with new leases entered into for additional showroom and office space

to accommodate sales growth, as well as rent for additional retail stores.

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Depreciation and amortization increased to \$1.9 million in the three months ended October 31, 2011 from \$1.5 million in the same period last year primarily as a result of leasehold improvements and fixtures added during fiscal 2011 for the additional showroom and office space we leased.

Equity in loss of joint venture of \$337,000 in the three months ended October 31, 2011 represents our share of the loss in the joint venture relating to the operation of Vince Camuto outlet stores. As this joint venture commenced operations in the fourth quarter of fiscal 2011, there is no amount for this item in the prior year's comparable period. Interest and financing charges, net for the three months ended October 31, 2011, were \$2.3 million compared to \$1.7 million for the same period last year. Our interest charges were higher because of higher average borrowings under our credit facility during the third quarter primarily as a result of higher inventory levels.

Income tax expense for the three months ended October 31, 2011 was \$27.3 million compared to \$27.9 million for the same period last year. The effective tax rate for the three months ended October 31, 2011 was 38.5% compared to 39.5% in the same period last year. The effective tax rate is lower primarily due to foreign tax savings realized during the current period.

***Nine months ended October 31, 2011 compared to nine months ended October 31, 2010***

Net sales for the nine months ended October 31, 2011 increased to \$936.9 million from \$793.2 million in the same period last year. Net sales of wholesale licensed products increased to \$660.0 million from \$541.9 million primarily as a result of an increase of \$72.7 million in net sales of Calvin Klein licensed product, mainly due to the introduction of Calvin Klein handbag, accessory and luggage lines, a \$12.4 million increase in net sales of licensed sports apparel and an \$8.5 million increase in net sales of Kenneth Cole outerwear. Net sales of wholesale non-licensed products in the nine months ended October 31, 2011 increased to \$207.4 million from \$189.3 million in the same period last year primarily due to an increase of \$13.3 million in sales of private label outerwear. Net sales of our retail operations were \$97.7 million for the nine months ended October 31, 2011 compared to \$84.4 million in the same period last year as a result of an increase in the number of stores, as well as an increase of 7.8% in comparable store sales.

Gross profit increased to \$287.3 million, or 30.7% of net sales, for the nine months ended October 31, 2011, from \$263.7 million, or 33.2% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed products segment was 28.0% in the nine months ended October 31, 2011 compared to 30.7% in the same period last year. Gross profit for the wholesale licensed segment was impacted by greater promotional activity which resulted in lower initial selling prices, as well as higher allowance support by us to our retailers. The gross profit percentage in our wholesale non-licensed products segment was 27.5% in the nine month period ended October 31, 2011 compared to 30.7% in the same period last year. Gross profit for the wholesale non-licensed segment was impacted by lower initial selling prices, as well as the sale of a higher proportion of lower margin product. The gross profit percentage for our retail operations segment was 46.3% for the nine months ended October 31, 2011 compared to 46.5% for the comparable period last year.

Selling, general and administrative expenses increased to \$204.7 million in the nine months ended October 31, 2011 from \$183.7 million in the same period last year. This increase is primarily a result of increases in personnel costs (\$7.8 million), outside warehousing expenses (\$4.3 million) and facility costs (\$3.6 million). Personnel costs increased primarily due to the growth in the staffing of our Calvin Klein division, mainly as a result of the addition of new product categories, as well as an increase in personnel to staff additional outlet stores in our retail division. Outside warehousing costs increased because of the increased sales volume as well as higher inventory balances compared to last year. Facility costs increased as a result of rent expense associated with new leases entered into for additional showroom and office space to accommodate sales growth, as well as rent for additional retail stores.

Depreciation and amortization increased to \$5.3 million in the nine months ended October 31, 2011 from \$4.1 million in the same period last year primarily as a result of leasehold improvements and fixtures added during fiscal 2011 for the additional showroom and office space we leased.

Equity in loss of joint venture of \$812,000 in the nine months ended October 31, 2011 represents our share of the loss in the joint venture relating to the operation of Vince Camuto outlet stores. As this joint venture commenced operations in the fourth quarter of fiscal 2011, there is no amount for this item in the prior year's

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comparable period.

Interest and financing charges, net for the nine months ended October 31, 2011, were \$4.0 million compared to \$2.7 million for the same period last year. Our interest charges were higher because of higher average borrowings under our credit facility primarily as a result of higher inventory levels.

Income tax expense for the nine months ended October 31, 2011 was \$27.9 million compared to \$29.0 million for the same period last year. The effective tax rate for the nine months ended October 31, 2011 was 38.5% compared to 39.5% in the same period last year. The effective tax rate is lower primarily due to foreign tax savings realized during the current period.

**Liquidity and Capital Resources**

Our primary cash requirements are to fund our seasonal buildup in inventories and accounts receivable, primarily during our second and third fiscal quarters each year. Due to the seasonality of our business, we generally utilize a significant portion of our asset-based credit facility during our third fiscal quarter. The primary sources to meet our cash requirements have been borrowings under our credit facility, cash generated from operations and proceeds from offerings of our common stock.

At October 31, 2011, we had cash and cash equivalents of \$16.1 million and outstanding borrowings of \$245.1 million. At October 31, 2010, we had cash and cash equivalents of \$16.6 million and outstanding borrowings of \$166.7 million.

Our contingent liability under open letters of credit was approximately \$18.1 million as of October 31, 2011 compared to \$17.1 million as of October 31, 2010.

*Financing Agreement*

We have a financing agreement with JPMorgan Chase Bank, N.A., as Agent for a consortium of banks. The financing agreement, which extends through July 31, 2013, is a senior secured revolving credit facility providing for borrowings in the aggregate principal amount of up to \$300 million. Borrowings under this credit facility bear interest, at our option, at the prime rate plus 0.50% (3.75% at October 31, 2011) or LIBOR plus 2.75% (3.00% at October 31, 2011). Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires us, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined in the financing agreement, and also limits payments for cash dividends and stock redemptions. As of October 31, 2011, we were in compliance with these covenants. The financing agreement is secured by all of our assets.

*Share Repurchase Program*

In September 2011, our board of directors authorized a program to repurchase up to two million shares of our common stock. The timing and actual number of shares repurchased will depend upon a number of factors, including market conditions and prevailing stock prices. Share repurchases may take place on the open market, in privately negotiated transactions or by other means, and would be made in accordance with applicable securities laws. Pursuant to the share repurchase program, during the quarter ended October 31, 2011, we repurchased 125,000 shares of our common stock for an aggregate purchase price of approximately \$2.9 million. Repurchased shares are accounted for as treasury stock at cost and will be held in treasury for future use.

*Cash from Operating Activities*

We used \$222.2 million of cash in operating activities during the nine months ended October 31, 2011, primarily as a result of an increase of \$229.7 million in accounts receivable and \$68.2 million in inventory, offset in part by net income of \$44.6 million and an increase of \$24.0 million in income taxes payable.

The increases in accounts receivable and inventory are generally consistent with our seasonal pattern. Inventory levels compared to the prior year are higher primarily as a result of our replenishment programs in our suits and sportswear product lines, our purchase of inventory for our new luggage and handbag product lines and the

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seasonal build up of product for our fall outerwear shipping season. The increase in accounts receivable is associated with sales increases in the period. Income taxes payable increased as a result of our pretax income generated in the current period.

*Cash from Investing Activities*

We used \$16.3 million of cash in investing activities in the nine months ended October 31, 2011, of which \$12.9 million were for capital expenditures and \$3.4 million were for an investment in the joint venture relating to the Vince Camuto outlet stores. The capital expenditures related primarily to build out and renovation costs with respect to the amended and extended leases we entered into in March 2010 relating to our existing and additional showrooms and offices and the addition of 20 new outlet stores.

*Cash from Financing Activities*

Cash from financing activities provided \$244.6 million in the nine months ended October 31, 2011, primarily as a result of \$245.1 million of borrowings under our revolving credit facility offset in part by the use of approximately \$2.9 million to repurchase shares of our common stock. We increased our borrowings primarily to pay for purchases of inventory.

*Financing Needs*

We believe that our cash on hand and cash generated from operations, together with funds available from our revolving credit facility, will be sufficient to meet our expected operating and capital expenditure requirements, as well as to fund the cost of any shares that we may repurchase. We may seek to acquire other businesses in order to expand our product offerings or to otherwise add complementary businesses. We may need additional financing in order to complete one or more acquisitions. We cannot be certain that we will be able to obtain additional financing, if required, on acceptable terms or at all.

**Critical Accounting Policies**

Our discussion of results of operations and financial condition relies on our consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. We believe that investors need to be aware of these policies and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While we believe that these accounting policies are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts. The accounting policies and related estimates described in our Annual Report on Form 10-K for the year ended January 31, 2011 are those that depend most heavily on these judgments and estimates. As of October 31, 2011, there have been no material changes to our critical accounting policies.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There are no material changes to the disclosure made with respect to these matters in our Annual Report on Form 10-K for the year ended January 31, 2011.

**Item 4. Controls and Procedures.**

As of the end of the period covered by this report, our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and thus, are effective in making known to them material information relating to G-III required to be included in this report.

During our last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 31, 2011, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Items 2(a) and (b) are not applicable.

**(c) Stock Repurchases**

The following table sets forth the repurchases of shares of our common stock during the three months ended October 31, 2011.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share \$	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Program
September 22, 2011 to September 30, 2011	125,000	23.41	125,000	1,875,000
October 1, 2011 to October 31, 2011				1,875,000

(1) On September 22, 2011, we announced that that our board of directors had authorized a program to repurchase up to two million shares of our common stock. This program has no expiration date.

**Item 6. Exhibits.**

- 31.1 Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2011.
- 31.2 Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2011.
- 32.1 Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2011.
- 32.2 Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2011.



101.INS XBRL Instance Document.

101.SCH XBRL Schema Document.

101.CAL XBRL Calculation Linkbase Document.

101.LAB XBRL Label Linkbase Document.

101.PRE XBRL Presentation Linkbase Document.

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**SIGNATURES**

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.

G-III APPAREL GROUP, LTD.  
(Registrant)

Date: December 9, 2011

By: /s/ Morris Goldfarb  
Morris Goldfarb  
Chief Executive Officer

Date: December 9, 2011

By: /s/ Neal S. Nackman  
Neal S. Nackman  
Chief Financial Officer