

GUESS INC  
Form 10-Q  
December 09, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended November 1, 2014

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: 1-11893

GUESS?, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-3679695

(State or other jurisdiction of incorporation or organization)

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

1444 South Alameda Street

Los Angeles, California

90021

(Address of principal executive offices)

(Zip Code)

(213) 765-3100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of December 4, 2014 the registrant had 85,229,533 shares of Common Stock, \$.01 par value per share, outstanding.



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GUESS?, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements.

## GUESS?, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	Nov 1, 2014 (unaudited)	Feb 1, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$374,875	\$502,945
Short-term investments	—	5,123
Accounts receivable, net	236,053	276,565
Inventories	412,573	350,899
Other current assets	114,928	80,554
Total current assets	1,138,429	1,216,086
Property and equipment, net	290,434	324,606
Goodwill	36,757	38,992
Other intangible assets, net	11,114	13,143
Long-term deferred tax assets	55,531	54,973
Other assets	121,831	116,631
	\$1,654,096	\$1,764,431
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$1,707	\$4,160
Accounts payable	174,557	191,532
Accrued expenses	140,410	174,333
Total current liabilities	316,674	370,025
Capital lease obligations and other long-term debt	6,738	7,580
Deferred rent and lease incentives	88,003	90,492
Other long-term liabilities	110,847	120,518
	522,262	588,615
Redeemable noncontrolling interests	4,895	5,830
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, \$.01 par value. Authorized 150,000,000 shares; issued 139,471,241 and 139,245,729 shares, outstanding 85,224,872 and 84,962,345 shares, at November 1, 2014 and February 1, 2014, respectively		850
Paid-in capital	451,097	439,742
Retained earnings	1,230,804	1,247,180
Accumulated other comprehensive loss	(52,776)	(13,801)
Treasury stock, 54,246,369 and 54,283,384 shares at November 1, 2014 and February 1, 2014, respectively	(519,103)	(519,457)
Guess?, Inc. stockholders' equity	1,110,875	1,154,514
Nonredeemable noncontrolling interests	16,064	15,472

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Total stockholders' equity	1,126,939	1,169,986
	\$1,654,096	\$1,764,431

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013
Product sales	\$557,862	\$581,081	\$1,636,569	\$1,711,639
Net royalties	31,972	32,416	84,377	89,784
Net revenue	589,834	613,497	1,720,946	1,801,423
Cost of product sales	375,876	385,270	1,113,980	1,127,238
Gross profit	213,958	228,227	606,966	674,185
Selling, general and administrative expenses	189,093	178,379	554,220	543,766
Restructuring charges	—	1,889	—	10,355
Earnings from operations	24,865	47,959	52,746	120,064
Other income (expense):				
Interest expense	(596	) (428	) (1,893	) (1,342
Interest income	351	803	1,076	1,612
Other income, net	7,484	3,624	11,131	8,942
	7,239	3,999	10,314	9,212
Earnings before income tax expense	32,104	51,958	63,060	129,276
Income tax expense	10,594	17,147	21,465	42,662
Net earnings	21,510	34,811	41,595	86,614
Net earnings attributable to noncontrolling interests	722	791	954	2,812
Net earnings attributable to Guess?, Inc.	\$20,788	\$34,020	\$40,641	\$83,802
Net earnings per common share attributable to common stockholders (Note 2):				
Basic	\$0.24	\$0.40	\$0.48	\$0.99
Diluted	\$0.24	\$0.40	\$0.47	\$0.98
Weighted average common shares outstanding attributable to common stockholders (Note 2):				
Basic	84,624	84,149	84,565	84,270
Diluted	84,832	84,417	84,789	84,512
Dividends declared per common share	\$0.225	\$0.200	\$0.675	\$0.600

See accompanying notes to condensed consolidated financial statements.

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## GUESS?, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013
Net earnings	\$21,510	\$34,811	\$41,595	\$86,614
Other comprehensive income (loss) ("OCI"):				
Foreign currency translation adjustment				
Gains (losses) arising during the period	(47,100 )	11,409	(44,558 )	(10,615 )
Reclassification to net earnings for losses realized	—	180	—	180
Derivative financial instruments designated as cash flow hedges				
Gains (losses) arising during the period	4,356	(711 )	3,544	4,186
Less income tax effect	(551 )	54	(445 )	(691 )
Reclassification to net earnings for (gains) losses realized	800	(1,348 )	1,615	(2,314 )
Less income tax effect	(87 )	262	283	416
Marketable securities				
Gains (losses) arising during the period	(13 )	41	(79 )	8
Less income tax effect	5	(16 )	30	(5 )
Reclassification to net earnings for gains realized	—	—	(87 )	—
Less income tax effect	—	—	33	—
Supplemental Executive Retirement Plan ("SERP")				
Plan amendment	—	—	—	4,529
Less income tax effect	—	—	—	(1,733 )
Actuarial loss amortization	234	277	703	831
Prior service (credit) cost amortization	(58 )	(58 )	(174 )	253
Less income tax effect	(67 )	(84 )	(202 )	(414 )
Total comprehensive income (loss)	(20,971 )	44,817	2,258	81,245
Less comprehensive income attributable to noncontrolling interests:				
Net earnings	722	791	954	2,812
Foreign currency translation adjustment	(479 )	(317 )	(362 )	(526 )
Amounts attributable to noncontrolling interests	243	474	592	2,286
Comprehensive income (loss) attributable to Guess?, Inc.	\$(21,214 )	\$44,343	\$1,666	\$78,959

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013
Cash flows from operating activities:		
Net earnings	\$41,595	\$86,614
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	61,870	63,684
Amortization of intangible assets	2,332	1,893
Share-based compensation expense	11,374	9,844
Unrealized forward contract (gains) losses	(5,267	) 257
Net loss on disposition of property and equipment and long-term assets	16,825	8,353
Other items, net	384	(1,519
Changes in operating assets and liabilities:		)
Accounts receivable	30,000	55,684
Inventories	(73,709	) (57,797
Prepaid expenses and other assets	(6,822	) 7,529
Accounts payable and accrued expenses	(72,154	) (32,600
Deferred rent and lease incentives	(1,827	) (2,804
Other long-term liabilities	(9,485	) (1,849
Net cash provided by (used in) operating activities	(4,884	) 137,289
Cash flows from investing activities:		
Purchases of property and equipment	(53,208	) (55,432
Changes in other assets	261	6,638
Proceeds from maturity and sale of investments	5,598	1,826
Acquisition of businesses, net of cash acquired	(887	) (653
Net cash settlement of forward contracts	181	1,838
Net cash used in investing activities	(48,055	) (45,783
Cash flows from financing activities:		
Proceeds from borrowings	1,256	2,466
Repayment of borrowings and capital lease obligations	(4,022	) (1,040
Dividends paid	(57,652	) (51,109
Noncontrolling interest capital contributions	—	521
Issuance of common stock, net of nonvested award repurchases	703	3,960
Excess tax benefits from share-based compensation	181	339
Purchase of treasury stock	—	(22,099
Net cash used in financing activities	(59,534	) (66,962
Effect of exchange rates on cash and cash equivalents	(15,597	) (3,433
Net change in cash and cash equivalents	(128,070	) 21,111
Cash and cash equivalents at beginning of period	502,945	329,021
Cash and cash equivalents at end of period	\$374,875	\$350,132
Supplemental cash flow data:		
Interest paid	\$1,205	\$876
Income taxes paid	\$62,000	\$71,971



See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

November 1, 2014

(unaudited)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Guess?, Inc. and its subsidiaries (the “Company”) contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated balance sheets as of November 1, 2014 and February 1, 2014, the condensed consolidated statements of income and comprehensive income (loss) for the three and nine months ended November 1, 2014 and November 2, 2013, and the condensed consolidated statements of cash flows for the nine months ended November 1, 2014 and November 2, 2013. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the “SEC”). Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three and nine months ended November 1, 2014 are not necessarily indicative of the results of operations to be expected for the full fiscal year. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended February 1, 2014.

The three and nine months ended November 1, 2014 had the same number of days as the three and nine months ended November 2, 2013. All references herein to “fiscal 2015,” “fiscal 2014” and “fiscal 2013” represent the results of the 52-week fiscal year ending January 31, 2015, the 52-week fiscal year ended February 1, 2014 and the 53-week fiscal year ended February 2, 2013, respectively.

New Accounting Guidance

In July 2013, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance which requires that an unrecognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar loss or a tax credit carryforward, if specific criteria are met. The Company adopted this guidance effective February 2, 2014. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In April 2014, the FASB issued authoritative guidance which raises the threshold for disposals to qualify as discontinued operations. Under this new guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity’s operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date. This guidance also requires expanded or new disclosures for discontinued operations, individually material disposals that do not meet the definition of a discontinued operation, an entity’s continuing involvement with a discontinued operation following disposal and retained equity method investments in a discontinued operation. This guidance is effective for fiscal periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective

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adoption. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In August 2014, the FASB issued authoritative guidance that requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and requires additional disclosures if certain criteria are met. This guidance is effective for fiscal periods ending after December 15, 2016, with early adoption permitted. The adoption of this guidance is not expected to impact the Company's consolidated financial statements or related disclosures.

(2) Earnings Per Share

Basic earnings per share represents net earnings attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share represents net earnings attributable to common stockholders divided by the weighted average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method since the nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, earnings attributable to nonvested restricted stockholders are excluded from net earnings attributable to common stockholders for purposes of calculating basic and diluted earnings per common share. However, net losses are not allocated to nonvested restricted stockholders since they are not contractually obligated to share in the losses of the Company. The computation of basic and diluted net earnings per common share attributable to common stockholders is as follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013
Net earnings attributable to Guess?, Inc.	\$20,788	\$34,020	\$40,641	\$83,802
Less net earnings attributable to nonvested restricted stockholders	135	290	415	696
Net earnings attributable to common stockholders	\$20,653	\$33,730	\$40,226	\$83,106
Weighted average common shares used in basic computations	84,624	84,149	84,565	84,270
Effect of dilutive securities:				
Stock options and restricted stock units	208	268	224	242
Weighted average common shares used in diluted computations	84,832	84,417	84,789	84,512
Net earnings per common share attributable to common stockholders:				
Basic	\$0.24	\$0.40	\$0.48	\$0.99
Diluted	\$0.24	\$0.40	\$0.47	\$0.98

For the three months ended November 1, 2014 and November 2, 2013, equity awards granted for 1,633,245 and 1,037,751, respectively, of the Company's common shares and for the nine months ended November 1, 2014 and November 2, 2013, equity awards granted for 1,558,532 and 1,421,685, respectively, of the Company's common shares were outstanding but were excluded from the computation of diluted weighted average common shares and common share equivalents outstanding because the assumed proceeds, as calculated under the treasury stock method, resulted in these awards being antidilutive. For the three and nine months ended November 1, 2014, the Company also excluded 259,700 nonvested stock units which are subject to the achievement of performance-based vesting conditions from the computation of diluted weighted average common shares and common share equivalents outstanding because the performance condition had not yet been achieved as of November 1, 2014. For the three and nine months ended November 2, 2013, the Company excluded 243,700 nonvested stock units which were subject to the achievement of performance-based vesting conditions from the computation of diluted



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weighted average common shares and common share equivalents outstanding because the performance condition had not yet been achieved as of November 2, 2013.

On March 14, 2011, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$250 million of the Company's common stock (the "2011 Share Repurchase Program"). On June 26, 2012, the Company's Board of Directors authorized a new program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock (the "2012 Share Repurchase Program"). The 2012 Share Repurchase Program was in addition to the 2011 Share Repurchase Program. Repurchases under programs may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under programs and programs may be discontinued at any time, without prior notice. There were no share repurchases under the 2012 Share Repurchase Program during the three and nine months ended November 1, 2014. During the nine months ended November 2, 2013, the Company repurchased a total of 882,551 shares under the 2011 and 2012 Share Repurchase Programs at an aggregate cost of \$22.1 million. All such share repurchases were made during the three months ended May 4, 2013. As of November 1, 2014, the Company had remaining authority under the 2012 Share Repurchase Program to purchase \$495.8 million of its common stock and no remaining authority to purchase shares under the 2011 Share Repurchase Program.

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## (3) Stockholders' Equity and Redeemable Noncontrolling Interests

A reconciliation of the total carrying amount of total stockholders' equity, Guess?, Inc. stockholders' equity and stockholders' equity attributable to nonredeemable and redeemable noncontrolling interests for the fiscal year ended February 1, 2014 and nine months ended November 1, 2014 is as follows (in thousands):

	Stockholders' Equity			Redeemable Noncontrolling Interests
	Guess?, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total	
Balance at February 2, 2013	\$1,086,992	\$ 13,876	\$1,100,868	\$ 3,144
Net earnings	153,434	4,277	157,711	—
Foreign currency translation adjustment	(17,621	) (804	) (18,425	) (104
Gain on derivative financial instruments designated as cash flow hedges, net of income tax of (\$237)	1,669	—	1,669	—
Loss on marketable securities, net of income tax of \$4	(7	) —	(7	) —
SERP plan amendment, prior service cost amortization and actuarial valuation gain (loss) and related amortization, net of income tax of (\$2,963)	4,619	—	4,619	—
Issuance of common stock under stock compensation plans, net of tax effect	2,404	—	2,404	—
Issuance of stock under Employee Stock Purchase Plan	980	—	980	—
Share-based compensation	13,949	—	13,949	—
Dividends	(68,215	) —	(68,215	) —
Share repurchases	(22,099	) —	(22,099	) —
Noncontrolling interest capital contribution	—	—	—	1,199
Noncontrolling interest capital distribution	—	(1,877	) (1,877	) —
Redeemable noncontrolling interest redemption value adjustment	(1,591	) —	(1,591	) 1,591
Balance at February 1, 2014	\$1,154,514	\$ 15,472	\$1,169,986	\$ 5,830
Net earnings	40,641	954	41,595	—
Foreign currency translation adjustment	(44,196	) (362	) (44,558	) (330
Gain on derivative financial instruments designated as cash flow hedges, net of income tax of (\$162)	4,997	—	4,997	—
Loss on marketable securities, net of income tax of \$63	(103	) —	(103	) —
SERP prior service credit and actuarial valuation amortization, net of income tax of (\$202)	327	—	327	—
Issuance of common stock under stock compensation plans, net of tax effect	(385	) —	(385	) —
Issuance of stock under Employee Stock Purchase Plan	826	—	826	—
Share-based compensation	11,374	—	11,374	—
Dividends	(57,725	) —	(57,725	) —
Redeemable noncontrolling interest redemption value adjustment	605	—	605	(605
Balance at November 1, 2014	\$1,110,875	\$ 16,064	\$1,126,939	\$ 4,895

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## Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), net of related income taxes, for the three and nine months ended November 1, 2014 and November 2, 2013 are as follows (in thousands):

	Three Months Ended Nov 1, 2014				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	SERP	Total
Balance at August 2, 2014	\$ (4,578 )	\$ 366	\$ 8	\$ (6,570 )	\$ (10,774 )
Gains (losses) arising during the period	(46,621 )	3,805	(8 )	—	(42,824 )
Reclassification to net earnings for losses realized	—	713	—	109	822
Net other comprehensive income (loss)	(46,621 )	4,518	(8 )	109	(42,002 )
Balance at November 1, 2014	\$ (51,199 )	\$ 4,884	\$ —	\$ (6,461 )	\$ (52,776 )
	Nine Months Ended Nov 1, 2014				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	SERP	Total
Balance at February 1, 2014	\$ (7,003 )	\$ (113 )	\$ 103	\$ (6,788 )	\$ (13,801 )
Gains (losses) arising during the period	(44,196 )	3,099	(49 )	—	(41,146 )
Reclassification to net earnings for (gains) losses realized	—	1,898	(54 )	327	2,171
Net other comprehensive income (loss)	(44,196 )	4,997	(103 )	327	(38,975 )
Balance at November 1, 2014	\$ (51,199 )	\$ 4,884	\$ —	\$ (6,461 )	\$ (52,776 )
	Three Months Ended Nov 2, 2013				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	SERP	Total
Balance at August 3, 2013	\$ (11,197 )	\$ 1,558	\$ 88	\$ (8,076 )	\$ (17,627 )
Gains (losses) arising during the period	11,726	(657 )	25	—	11,094
Reclassification to net earnings for (gains) losses realized	180	(1,086 )	—	135	(771 )
Net other comprehensive income (loss)	11,906	(1,743 )	25	135	10,323
Balance at November 2, 2013	\$ 709	\$ (185 )	\$ 113	\$ (7,941 )	\$ (7,304 )
	Nine Months Ended Nov 2, 2013				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated	Marketable Securities	SERP	Total

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		as Cash				
		Flow				
		Hedges				
Balance at February 2, 2013	\$10,618	\$(1,782	) \$110		\$(11,407	) \$(2,461
Gains (losses) arising during the period	(10,089	) 3,495	3		2,796	(3,795
Reclassification to net earnings for (gains) losses realized	180	(1,898	) —		670	(1,048
Net other comprehensive income (loss)	(9,909	) 1,597	3		3,466	(4,843
Balance at November 2, 2013	\$709	\$(185	) \$113		\$(7,941	) \$(7,304

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Details on reclassifications out of accumulated other comprehensive income (loss) to net earnings during the three and nine months ended November 1, 2014 and November 2, 2013 are as follows (in thousands):

	Three Months Ended		Nine Months Ended		Location of (Gain) Loss Reclassified from Accumulated OCI into Earnings
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013	
Foreign currency translation adjustment:					
Liquidation of investment in a foreign entity	\$—	\$180	\$—	\$180	Restructuring charges
	—	180	—	180	
Derivative financial instruments designated as cash flow hedges:					
Foreign exchange currency contracts	800	(1,344 )	1,559	(2,216 )	Cost of sales
Foreign exchange currency contracts	—	(4 )	56	(98 )	Other income/expense
Less income tax effect	(87 )	262	283	416	Income tax expense
	713	(1,086 )	1,898	(1,898 )	
Marketable securities:					
Available-for-sale securities	—	—	(87 )	—	Other income/expense
Less income tax effect	—	—	33	—	Income tax expense
	—	—	(54 )	—	
SERP:					
Actuarial loss amortization	234	277	703	831	(1)
Prior service (credit) cost amortization	(58 )	(58 )	(174 )	253	(1)
Less income tax effect	(67 )	(84 )	(202 )	(414 )	Income tax expense
	109	135	327	670	
Total reclassifications during the period	\$822	\$(771 )	\$2,171	\$(1,048 )	

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. Refer to Note 13 for further information.

Redeemable Noncontrolling Interests

The Company is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest from the acquisition of its majority-owned subsidiary, Guess Sud SAS (“Guess Sud”). The put arrangement for Guess Sud, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holders by providing written notice to the Company any time after January 30, 2012. The put arrangement is recorded on the balance sheet at its expected redemption value based on a method which approximates fair value and classified as a redeemable noncontrolling interest outside of permanent equity. The redemption value of the Guess Sud redeemable put arrangement was \$3.8 million and \$4.7 million at November 1, 2014 and February 1, 2014, respectively.

During fiscal 2014, the Company entered into a majority-owned joint venture to establish Guess Brasil Comércio e Distribuição S.A. (“Guess Brazil”). The Company funded \$1.8 million to obtain a 60% interest in Guess Brazil and is subject to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest. The put arrangement may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company beginning in fiscal 2020, or sooner in certain limited circumstances, and every third anniversary thereafter subject to certain time restrictions. The redemption value of the Guess Brazil put arrangement is based on a multiple of Guess Brazil’s earnings before interest, taxes, depreciation and amortization subject to certain adjustments. The redemption value of the Guess Brazil redeemable put arrangement was \$1.1 million at November 1, 2014 and February 1, 2014.



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## (4)Accounts Receivable

Accounts receivable is summarized as follows (in thousands):

	Nov 1, 2014	Feb 1, 2014
Trade	\$240,046	\$291,411
Royalty	25,174	16,372
Other	5,793	8,174
	271,013	315,957
Less allowance for doubtful accounts	34,960	39,392
	\$236,053	\$276,565

Accounts receivable consists of trade receivables relating primarily to the Company's wholesale business in Europe, and to a lesser extent, to its wholesale businesses in North America and Asia, and royalty receivables relating to its licensing operations. The accounts receivable allowance includes allowances for doubtful accounts, wholesale sales returns and wholesale markdowns. Retail sales returns allowances are included in accrued expenses.

## (5)Inventories

Inventories consist of the following (in thousands):

	Nov 1, 2014	Feb 1, 2014
Raw materials	\$9,263	\$10,585
Work in progress	56	977
Finished goods	403,254	339,337
	\$412,573	\$350,899

As of November 1, 2014 and February 1, 2014, the Company had an allowance to write down inventories to the lower of cost or market of \$21.0 million and \$23.4 million, respectively.

## (6)Restructuring Charges

During the first quarter of fiscal 2014, the Company implemented plans to streamline its structure and reduce expenses in both Europe and North America. During the second quarter of fiscal 2014, the Company expanded these plans to include the consolidation and streamlining of certain operations in Europe and Asia. There were no restructuring charges incurred during the three and nine months ended November 1, 2014 as the actions under these plans were substantially completed during fiscal 2014. The Company does not expect significant future cash-related severance and lease termination charges related to these plans to be incurred during the remainder of fiscal 2015. During the three and nine months ended November 2, 2013, the Company incurred restructuring charges of \$1.9 million and \$10.4 million, respectively, related primarily to severance, impairment and lease termination costs. As of November 1, 2014, the Company had a balance of approximately \$1.2 million in accrued expenses for amounts expected to be paid during the remainder of fiscal 2015. At February 1, 2014, the Company had a balance of approximately \$4.6 million in accrued expenses related to these restructuring activities.

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The following table summarizes the components of the restructuring activities during the fiscal year ended February 1, 2014 and nine months ended November 1, 2014 (in thousands):

	Severance	Lease Impairment and Termination	Total
Balance at February 2, 2013	\$—	\$—	\$—
Charges to operations	9,206	3,236	12,442
Non-cash write-offs	—	(1,717)	(1,717)
Cash payments	(4,567)	(1,492)	(6,059)
Foreign currency and other adjustments	(61)	(27)	(88)
Balance at February 1, 2014	\$4,578	\$—	\$4,578
Cash payments	(2,194)	—	(2,194)
Foreign currency and other adjustments	(1,159)	—	(1,159)
Balance at November 1, 2014	\$1,225	\$—	\$1,225

(7) Income Taxes

Income tax expense for the interim periods was computed using the effective tax rate estimated to be applicable for the full fiscal year. The Company's effective income tax rate increased to 34.0% for the nine months ended November 1, 2014 from 33.0% for the nine months ended November 2, 2013.

The Company accrues an amount for its estimate of additional income tax liability which the Company, more likely than not, could incur as a result of the ultimate resolution of income tax audits ("uncertain tax positions"). The Company reviews and updates the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax audits, upon expiration of statutes of limitation, or upon occurrence of other events.

The Company had aggregate accruals for uncertain tax positions, including penalties and interest, of \$12.4 million and \$11.4 million as of November 1, 2014 and February 1, 2014, respectively. The change in the accrual balance from February 1, 2014 to November 1, 2014 resulted from additional accruals and the impact of interest during the nine months ended November 1, 2014.

(8) Segment Information

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: North American Retail, Europe, Asia, North American Wholesale and Licensing. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before restructuring charges, if any. The Company believes this segment reporting reflects how its five business segments are managed and each segment's performance is evaluated by the Company's chief operating decision maker to assess performance and make resource allocation decisions. The North American Retail segment includes the Company's retail and e-commerce operations in North America and its retail operations in Central and South America. The Europe segment includes the Company's wholesale, retail and e-commerce operations in Europe and the Middle East. The Asia segment includes the Company's wholesale, retail and e-commerce operations in Asia. The North American Wholesale segment includes the Company's wholesale operations in North America and Central and South America. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization, and restructuring charges. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: accounting and finance, executive compensation, facilities, global advertising and marketing, human resources, information technology and legal.

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Net revenue and earnings (loss) from operations are summarized as follows for the three and nine months ended November 1, 2014 and November 2, 2013 (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013
Net revenue:				
North American Retail	\$243,238	\$253,820	\$715,582	\$746,444
Europe	189,852	200,943	584,270	616,707
Asia	71,271	72,727	205,656	209,711
North American Wholesale	53,501	53,591	131,061	138,777
Licensing	31,972	32,416	84,377	89,784
Total net revenue	\$589,834	\$613,497	\$1,720,946	\$1,801,423
Earnings (loss) from operations:				
North American Retail	\$(10,517 )	\$6,206	\$(23,578 )	\$12,363
Europe	7,660	13,538	25,541	47,595
Asia	2,126	5,894	7,743	17,897
North American Wholesale	13,940	12,102	26,860	29,229
Licensing	28,157	29,171	75,787	80,476
Corporate Overhead	(16,501 )	(17,063 )	(59,607 )	(57,141 )
Restructuring Charges	—	(1,889 )	—	(10,355 )
Total earnings from operations	\$24,865	\$47,959	\$52,746	\$120,064

Due to the seasonal nature of the Company's business segments, the above net revenue and operating results are not necessarily indicative of the results that may be expected for the full fiscal year. Restructuring charges incurred during the three and nine months ended November 2, 2013 related to plans to streamline and consolidate the Company's operations and reduce expenses in Europe, North America and Asia. Refer to Note 6 for more information regarding these restructuring charges.

**(9) Borrowings and Capital Lease Obligations**

Borrowings and capital lease obligations are summarized as follows (in thousands):

	Nov 1, 2014	Feb 1, 2014
European capital lease, maturing quarterly through 2016	\$6,798	\$8,637
Other	1,647	3,103
	8,445	11,740
Less current installments	1,707	4,160
Long-term capital lease obligations and other debt	\$6,738	\$7,580

**Capital Lease**

The Company entered into a capital lease in December 2005 for a building in Florence, Italy. As of November 1, 2014, the capital lease obligation was \$6.8 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument that resulted in a swap fixed rate of 3.55%. This interest rate swap agreement matures in calendar year 2016 and converts the nature of the capital lease obligation from Euribor floating-rate debt to fixed-rate debt. The fair value of the interest rate swap liability as of November 1, 2014 was approximately \$0.4 million.

**Credit Facilities**

On July 6, 2011, the Company entered into a five-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A., Bank of America, N.A. and the other lenders party thereto (the "Credit Facility") which provided for a \$200 million revolving multicurrency line of credit. The Credit Facility is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. It may be used for working capital and other general corporate purposes.



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On August 31, 2012, the Company increased its borrowing capacity under the Credit Facility from \$200 million to \$300 million by exercising the accordion feature in the Credit Facility pursuant to a Lender Joinder Agreement with the lenders party thereto. Also on August 31, 2012, the Company entered into an Amendment to the Credit Facility with the lenders party thereto to provide for (i) greater flexibility in certain of the Company's covenants under the Credit Facility and (ii) access to a new \$100 million accordion feature, subject to certain conditions and the willingness of existing or new lenders to assume such increased amount. As of November 1, 2014, the Company had \$1.7 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Company, through its European subsidiaries, maintains short-term uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. The majority of the borrowings under these agreements are secured by specific accounts receivable balances. Based on the applicable accounts receivable balances as of November 1, 2014, the Company could have borrowed up to \$98.2 million under these agreements. As of November 1, 2014, the Company had no outstanding borrowings and \$1.6 million in outstanding documentary letters of credit under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 0.5% to 2.9%. The maturities of any short-term borrowings under these arrangements are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings. With the exception of one facility for up to \$43.8 million that has a minimum net equity requirement, there are no other financial ratio covenants.

**Other**

From time-to-time, the Company will obtain other financing in foreign countries for working capital to finance its local operations.

**(10) Share-Based Compensation**

The following table summarizes the share-based compensation expense recognized under all of the Company's stock plans during the three and nine months ended November 1, 2014 and November 2, 2013 (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013
Stock options	\$542	\$530	\$1,618	\$1,787
Nonvested stock awards/units	3,187	3,272	9,564	7,871
Employee Stock Purchase Plan	32	43	192	186
Total share-based compensation expense	\$3,761	\$3,845	\$11,374	\$9,844

Unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options and nonvested stock awards/units totaled approximately \$3.6 million and \$19.8 million, respectively, as of November 1, 2014. This cost is expected to be recognized over a weighted average period of 1.6 years. The weighted average fair values of stock options granted during the nine months ended November 1, 2014 and November 2, 2013 were \$6.23 and \$6.21, respectively.

**Grants**

On April 2, 2014, the Company made an annual grant of 365,600 stock options and 301,200 nonvested stock awards/units to its employees. On April 3, 2013, the Company made an annual grant of 416,500 stock options and 408,400 nonvested stock awards/units to its employees.

**Performance Awards**

On July 11, 2013, the Company granted 100,000 nonvested stock units to Paul Marciano, the Company's Chief Executive Officer and Vice Chairman of the Board, in connection with an employment agreement entered into between the Company and Mr. Marciano. The nonvested stock units had an initial vesting period of seven months followed by two annual vesting periods, which were subject to the achievement of performance-based vesting conditions for the last three quarters of fiscal 2014 and continued service vesting conditions through the

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vesting periods. The Company also granted a target of 143,700 nonvested stock units to Mr. Marciano, of which approximately 84% are expected to vest based on the achievement of performance-based conditions for the last three quarters of fiscal 2014 subject to continued service vesting conditions through the vesting date. Such shares are scheduled to vest on February 1, 2016.

On April 8, 2014, the Company granted 100,000 nonvested stock units to Mr. Marciano which have an initial vesting period of ten months followed by two annual vesting periods, subject to the achievement of performance-based vesting conditions for fiscal 2015 and continued service vesting conditions through the vesting periods. The Company also granted a target of 159,700 nonvested stock units to Mr. Marciano on April 8, 2014. The number of shares that may ultimately vest will equal 0% to 150% of the target number of shares, subject to the achievement of performance-based vesting conditions for fiscal 2015 and continued service vesting conditions through the vesting date. Any shares ultimately issued are scheduled to vest on January 31, 2017.

(11) Related Party Transactions

The Company and its subsidiaries periodically enter into transactions with other entities or individuals that are considered related parties, including certain transactions with entities affiliated with trusts for the respective benefit of Paul Marciano, who is an executive of the Company, Maurice Marciano, Chairman of the Board, Armand Marciano, their brother and former executive of the Company, and certain of their children (the “Marciano Trusts”).

Leases

The Company leases warehouse and administrative facilities, including the Company’s corporate headquarters in Los Angeles, California, from partnerships affiliated with the Marciano Trusts and certain of their affiliates. There were four of these leases in effect at November 1, 2014 with expiration dates ranging from 2015 to 2020.

Aggregate rent, common area maintenance charges and property tax expense recorded under these related party leases for the nine months ended November 1, 2014 and November 2, 2013 was \$4.6 million and \$4.9 million, respectively. The Company believes the related party lease terms have not been significantly affected by the fact that the Company and the lessors are related.

Aircraft Arrangements

The Company periodically charters aircraft owned by MPM Financial, LLC (“MPM Financial”), an entity affiliated with the Marciano Trusts, through MPM Financial and independent third party management companies contracted by MPM Financial to manage its aircraft. Under an informal arrangement with MPM Financial and the third party management companies, the Company has chartered, and may from time-to-time continue to charter, aircraft owned by MPM Financial at a discount from the third party management companies’ preferred customer hourly charter rates. The total fees paid under these arrangements for the nine months ended November 1, 2014 and November 2, 2013 were approximately \$1.2 million and \$0.5 million, respectively.

Consulting Arrangement

After serving for over 30 years as an executive and leader for Guess?, Inc., co-founder Maurice Marciano elected to retire from his position as executive Chairman of the Board and as an employee of the Company upon the expiration of his employment agreement on January 28, 2012. Mr. Marciano continues to serve the Company as its non-executive Chairman of the Board. In addition, under the terms of his previously existing employment agreement, the Company and Mr. Marciano entered into a two-year consulting agreement (the “Marciano Consulting Agreement”) under which Mr. Marciano provided certain consulting services to the Company, including advice and counsel to the Company’s Chief Executive Officer and other senior executives. The Marciano Consulting Agreement, which had a two-year term that commenced on January 28, 2012, provided for consulting fees of \$500,000 per year and continued automobile use in a manner consistent with past practice. In January 2014, the Company extended the Marciano Consulting Agreement for an additional one-year period. Total expenses incurred with respect to the Marciano Consulting Agreement were approximately \$0.4 million for each of the nine months ended November 1, 2014 and November 2, 2013.



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Other Transactions

From time-to-time, the Company utilizes a third-party agent named Harmony Collection, LLC to produce specific apparel products on behalf of the Company. Armand Marciano, brother of Maurice and Paul Marciano, is part owner and an executive of the parent company of Harmony Collection, LLC. The total payments made by the Company under this arrangement for the nine months ended November 1, 2014 and November 2, 2013 were approximately \$1.0 million and \$1.6 million, respectively. The Company believes that the price and transaction terms have not been significantly affected by the relationship between the parties.

These related party disclosures should be read in conjunction with the disclosure concerning related party transactions in the Company's Annual Report on Form 10-K for the year ended February 1, 2014.

(12) Commitments and Contingencies

Leases

The Company leases its showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facilities and retail and factory outlet store locations under operating lease agreements expiring on various dates through September 2031. Some of these leases require the Company to make periodic payments for property taxes, utilities and common area operating expenses. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 2% to 12%, when specific sales volumes are exceeded. Some leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the initial lease term on a straight-line basis. The Company also leases some of its equipment under operating lease agreements expiring at various dates through December 2018. As discussed in further detail in Note 9, the Company leases a building in Florence, Italy under a capital lease.

In March 2014, the Company amended its lease with respect to its primary U.S. distribution center based in Louisville, Kentucky to extend the term for an additional ten years, to 2024. The amendment also provides for two extension options for an additional period of five years each.

Litigation

On May 6, 2009, Gucci America, Inc. filed a complaint in the U.S. District Court for the Southern District of New York against Guess?, Inc. and certain third-party licensees for the Company asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint sought injunctive relief, compensatory damages, including treble damages, and certain other relief. Complaints similar to those in the above action have also been filed by Gucci entities against the Company and certain of its subsidiaries in the Court of Milan, Italy, the Intermediate People's Court of Nanjing, China and the Court of Paris, France. The three-week bench trial in the U.S. matter concluded on April 19, 2012, with the court issuing a preliminary ruling on May 21, 2012 and a final ruling on July 19, 2012. Although the plaintiff was seeking compensation in the U.S. matter in the form of damages of \$26 million and an accounting of profits of \$99 million, the final ruling provided for monetary damages of \$2.3 million against the Company and \$2.3 million against certain of its licensees. The court also granted narrow injunctions in favor of the plaintiff for certain of the claimed infringements. On August 20, 2012, the appeal period expired without any party having filed an appeal, rendering the judgment final. On May 2, 2013, the Court of Milan ruled in favor of the Company in the Milan, Italy matter. In the ruling, the Court rejected all of the plaintiff's claims and ordered the cancellation of three of the plaintiff's Italian and four of the plaintiff's European Community trademark registrations. On June 10, 2013, the plaintiff appealed the Court's ruling in the Milan matter. On September 15, 2014, the Court of Appeal of Milan affirmed the majority of the lower Court's ruling in favor of the Company, but overturned the lower Court's finding with respect to an unfair competition claim. The matter has now entered into a damages phase based on the ruling. In the China matter, the Intermediate People's Court of Nanjing, China issued a ruling on November 8, 2013 granting an injunction in favor of the plaintiff for certain of the claimed infringements on handbags and small leather goods and awarding the plaintiff statutory damages in the amount of approximately \$80,000. The Company strongly disagrees with the Court's decision and has appealed the ruling. The judgment in the China matter is stayed

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pending the appeal, which was heard in May 2014. The hearings in the France matter concluded in September 2014 and the matter is currently under submission with the Court of Paris.

On August 25, 2006, Franchez Isaguirre, a former employee of the Company, filed a complaint in the Superior Court of California, County of Los Angeles alleging violations by the Company of California wage and hour laws. The complaint was subsequently amended, adding a second former employee as an additional named party. The plaintiffs purport to represent a class of similarly situated employees in California who allegedly had been injured by not being provided adequate meal and rest breaks. The complaint seeks unspecified compensatory damages, statutory penalties, attorney's fees and injunctive and declaratory relief. On June 9, 2009, the Court certified the class but immediately stayed the case pending the resolution of a separate California Supreme Court case on the standards of class treatment for meal and rest break claims. Following the Supreme Court ruling, the Superior Court denied the Company's motions to decertify the class and to narrow the class in January 2013 and June 2013, respectively. The Company subsequently petitioned to have the Court's decision not to narrow the class definition reviewed. That petition was ultimately denied by the California Supreme Court in April 2014. No trial date has been set.

Although the Company believes that it has a strong position and will continue to vigorously defend each of these remaining matters, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcomes will have a material impact on the Company's financial position or results of operations.

The Company is also involved in various other claims and other matters incidental to the Company's business, the resolution of which is not expected to have a material adverse effect on the Company's financial position or results of operations. No material amounts were accrued as of November 1, 2014 or February 1, 2014 related to any of the Company's legal proceedings.

**(13) Supplemental Executive Retirement Plan**

The components of net periodic pension cost for the three and nine months ended November 1, 2014 and November 2, 2013 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013
Interest cost	\$573	\$586	\$1,717	\$1,758
Net amortization of unrecognized prior service (credit) cost	(58)	(58)	(174)	253
Net amortization of actuarial losses	234	277	703	831
Net periodic defined benefit pension cost	\$749	\$805	\$2,246	\$2,842

In July 2013, the Company amended the SERP to limit the amount of eligible wages under the plan that count toward the SERP benefit for the active participant. As a result, the projected benefit obligation and unrecognized prior service cost were reduced by \$4.5 million during fiscal 2014.

As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has made, and may continue to make, periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The amount of any future payments into the insurance policies may vary, depending on any changes to the estimates of final annual compensation levels and investment performance of the trust. The cash surrender values of the insurance policies were \$54.4 million and \$51.4 million as of November 1, 2014 and February 1, 2014, respectively, and were included in other assets in the Company's condensed consolidated balance sheets. As a result of changes in the value of the insurance policy investments, the Company recorded unrealized gains of \$0.8 million and \$3.0 million in other income during the three and nine months ended November 1, 2014, respectively, and unrealized gains of \$1.3 million and \$3.8 million in other income during the three and nine months ended November 2, 2013, respectively. The projected benefit obligation was \$55.6 million and \$54.7 million as of November 1, 2014 and February 1, 2014, respectively, and was included in accrued expenses and other long-term liabilities in the Company's condensed consolidated balance sheets depending on the expected timing of payments. SERP benefit payments of \$0.6 million and \$0.8 million were made during the three and nine months ended November 1, 2014, respectively.

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## (14) Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e. interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company's own data.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of November 1, 2014 and February 1, 2014 (in thousands):

Recurring Fair Value Measures	Fair Value Measurements at Nov 1, 2014				Fair Value Measurements at Feb 1, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Foreign exchange currency contracts	\$—	\$11,469	\$—	\$11,469	\$—	\$2,116	\$—	\$2,116
Available-for-sale securities	40	—	—	40	5,732	—	—	5,732
<b>Total</b>	<b>\$40</b>	<b>\$11,469</b>	<b>\$—</b>	<b>\$11,509</b>	<b>\$5,732</b>	<b>\$2,116</b>	<b>\$—</b>	<b>\$7,848</b>
<b>Liabilities:</b>								
Foreign exchange currency contracts	\$—	\$—	\$—	\$—	\$—	\$1,712	\$—	\$1,712
Interest rate swap	—	358	—	358	—	581	—	581
Deferred compensation obligations	—	8,993	—	8,993	—	7,498	—	7,498
<b>Total</b>	<b>\$—</b>	<b>\$9,351</b>	<b>\$—</b>	<b>\$9,351</b>	<b>\$—</b>	<b>\$9,791</b>	<b>\$—</b>	<b>\$9,791</b>

There were no transfers of financial instruments between the three levels of fair value hierarchy during the nine months ended November 1, 2014 or during the year ended February 1, 2014.

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the interest rate swaps are based upon inputs corroborated by observable market data. Foreign exchange forward contracts are entered into by the Company principally to hedge the future payment of inventory and intercompany transactions by non-U.S. subsidiaries. Periodically, the Company may also use foreign currency forward contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries. The fair values of the Company's foreign exchange forward contracts are based on quoted foreign exchange forward rates at the reporting date. Deferred compensation obligations to employees are adjusted based on changes in the fair value of the underlying employee-directed investments. Fair value of these obligations is based upon inputs corroborated by observable market data.

Available-for-sale securities are recorded at fair value and are included in short-term investments and other assets in the accompanying condensed consolidated balance sheets depending on their respective maturity dates. At November 1, 2014, available-for-sale securities consisting of marketable equity securities were minimal. During the nine months ended November 1, 2014, the Company received proceeds of \$0.6 million from the sale of marketable equity securities which were classified as available-for-sale securities. The sale of marketable equity securities was made during the three months ended May 4, 2013. The cost of securities sold was based on the specific identification method. Gains recognized during the nine months ended November 1, 2014 were \$0.1 million as a result of this sale and were included in other income. Unrealized gains (losses), net of taxes, are included as a component of stockholders' equity and comprehensive income (loss). There were no accumulated



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unrealized gains (losses) included in accumulated other comprehensive income (loss) related to available-for-sale securities owned by the Company at November 1, 2014.

At February 1, 2014, available-for-sale securities consisted of \$5.1 million of corporate bonds and \$0.6 million of marketable equity securities. The accumulated unrealized gains, net of taxes, included in accumulated other comprehensive income (loss) related to available-for-sale securities owned by the Company at February 1, 2014 were \$0.1 million.

The carrying amount of the Company's remaining financial instruments, which principally include cash and cash equivalents, trade receivables, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments. The fair values of the Company's debt instruments (see Note 9) are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. At November 1, 2014 and February 1, 2014, the carrying value of all financial instruments was not materially different from fair value, as the interest rates on variable-rate debt including the capital lease obligation approximated rates currently available to the Company.

Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment quarterly or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company considers each individual store as an asset group for impairment testing, which is the lowest level at which individual cash flows can be identified. The asset group includes store leasehold improvements, furniture, fixtures and equipment, computer hardware and software and certain long-term security deposits and lease acquisition costs. The Company reviews retail stores for impairment risk once the locations have been opened for at least one year, or sooner as changes in circumstances require. The Company believes that waiting one year allows a store to reach a maturity level where a more comprehensive analysis of financial performance can be performed.

An asset is considered to be impaired if the Company determines that the carrying value may not be recoverable based upon its assessment of the asset's ability to continue to generate earnings from operations and positive cash flow in future periods or if significant changes in the Company's strategic business objectives and utilization of the assets occurred. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value, which is determined based on discounted future cash flows. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows. Future expected cash flows for store assets are based on management's estimates of future cash flows over the remaining lease period or expected life, if shorter. The Company considers historical trends, expected future business trends and other factors when estimating each store's future cash flow. The Company also considers factors such as: the local environment for each store location, including mall traffic and competition; the Company's ability to successfully implement strategic initiatives; and the ability to control variable costs such as cost of sales and payroll and, in some cases, renegotiate lease costs. The estimated cash flows used for this nonrecurring fair value measurement are considered a Level 3 input as defined above. If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, there may be additional exposure to future impairment losses that could be material to the Company's results of operations.

The Company recorded impairment charges of \$9.8 million and \$14.6 million during the three and nine months ended November 1, 2014, respectively, and \$0.8 million and \$3.9 million during the three and nine months ended November 2, 2013, respectively, related primarily to the full impairment of certain under-performing retail stores in North America and Europe. These impairment charges, which exclude impairment charges incurred during the three and nine months ended November 2, 2013 related to restructuring activities, were included in selling, general and administrative expenses in the Company's condensed consolidated statements of income for each of the respective periods. Refer to Note 6 for more information regarding impairment charges related to restructuring activities.

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(15) Derivative Financial Instruments

Hedging Strategy

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. The Company has entered into certain forward contracts to hedge the risk of foreign currency rate fluctuations. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these hedges.

The Company's primary objective is to hedge the variability in forecasted cash flows due to the foreign currency risk. Various transactions that occur primarily in Europe, Canada and South Korea are denominated in U.S. dollars and British pounds and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar denominated purchases of merchandise and U.S. dollar and British pound denominated intercompany liabilities. In addition, certain operating expenses and tax liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company enters into derivative financial instruments, including forward exchange contracts, to offset some but not all of the exchange risk on certain of these anticipated foreign currency transactions.

Periodically, the Company may also use foreign currency forward contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries.

The impact of the credit risk of the counterparties to the derivative contracts is considered in determining the fair value of the foreign currency forward contracts. As of November 1, 2014, credit risk has not had a significant effect on the fair value of the Company's foreign currency contracts.

The Company also has interest rate swap agreements, which are not designated as hedges for accounting purposes, to effectively convert its floating-rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with the Company's variable-rate capital lease obligation, thus reducing the impact of interest rate changes on future interest payment cash flows. Refer to Note 9 for further information.

Hedge Accounting Policy

U.S. dollar forward contracts are used to hedge forecasted merchandise purchases over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as cash flow hedges, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in cost of product sales in the period which approximates the time the hedged merchandise inventory is sold. The Company also hedges forecasted intercompany royalties over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as cash flow hedges, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in other income and expense in the period in which the royalty expense is incurred.

U.S. dollar forward contracts are also used to hedge the net investments of certain of the Company's international subsidiaries over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as net investment hedges, are recorded in foreign currency translation adjustment as a component of accumulated other comprehensive income (loss) within stockholders' equity and are not recognized in earnings until the sale or liquidation of the hedged net investment.

The Company also has foreign currency contracts that are not designated as hedging instruments for accounting purposes. Changes in fair value of foreign currency contracts not designated as hedging instruments are reported in net earnings as part of other income and expense.

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## Summary of Derivative Instruments

The fair value of derivative instruments in the condensed consolidated balance sheets as of November 1, 2014 and February 1, 2014 was as follows (in thousands):

	Derivative Balance Sheet Location	Fair Value at Nov 1, 2014	Fair Value at Feb 1, 2014
<b>ASSETS:</b>			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts:			
Cash flow hedges	Other current assets	\$4,781	\$977
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Other current assets	6,688	1,139
Total		\$11,469	\$2,116
<b>LIABILITIES:</b>			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts:			
Cash flow hedges	Accrued expenses	\$—	\$672
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Accrued expenses	—	1,040
Interest rate swaps	Other long-term liabilities	358	581
Total derivatives not designated as hedging instruments		358	1,621
Total		\$358	\$2,293

## Derivatives Designated as Hedging Instruments

## Cash Flow Hedges

During the nine months ended November 1, 2014, the Company purchased U.S. dollar forward contracts in Canada and Europe totaling US\$40.4 million and US\$38.2 million, respectively, to hedge forecasted merchandise purchases and intercompany royalties that were designated as cash flow hedges. As of November 1, 2014, the Company had forward contracts outstanding for its European and Canadian operations of US\$51.9 million and US\$11.5 million, respectively, which are expected to mature over the next ten months.

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The following table summarizes the gains (losses) before taxes recognized on the derivative instruments designated as cash flow hedges in OCI and net earnings for the three and nine months ended November 1, 2014 and November 2, 2013 (in thousands):

	Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings(1)	Gain (Loss) Reclassified from Accumulated OCI into Earnings	
	Three Months Ended Nov 1, 2014	Three Months Ended Nov 2, 2013		Three Months Ended Nov 1, 2014	Three Months Ended Nov 2, 2013
Derivatives designated as cash flow hedges:					
Foreign exchange currency contracts	\$3,869	\$ (694 )	Cost of sales	\$(800 )	\$ 1,344
Foreign exchange currency contracts	\$487	\$ (17 )	Other income/expense	\$—	\$ 4
Derivatives designated as cash flow hedges:					
	Gain Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings(1)	Gain (Loss) Reclassified from Accumulated OCI into Earnings	
	Nine Months Ended Nov 1, 2014	Nine Months Ended Nov 2, 2013		Nine Months Ended Nov 1, 2014	Nine Months Ended Nov 2, 2013
Foreign exchange currency contracts	\$3,163	\$3,785	Cost of sales	\$(1,559 )	\$2,216
Foreign exchange currency contracts	\$381	\$401	Other income/expense	\$(56 )	\$98

(1) The ineffective portion was immaterial during the three and nine months ended November 1, 2014 and November 2, 2013 and was recorded in net earnings and included in interest income/expense.

As of November 1, 2014, accumulated other comprehensive income (loss) included a net unrealized gain of approximately \$4.9 million, net of tax, which will be recognized in cost of product sales or other income over the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values.

The following table summarizes net after-tax derivative activity recorded in accumulated other comprehensive income (loss) (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 1, 2014	Nov 2, 2013	Nov 1, 2014	Nov 2, 2013
Beginning balance gain (loss)	\$366	\$1,558	\$(113 )	\$(1,782 )
Net gains (losses) from changes in cash flow hedges	3,805	(657 )	3,099	3,495
Net (gains) losses reclassified to earnings	713	(1,086 )	1,898	(1,898 )
Ending balance gain (loss)	\$4,884	\$(185 )	\$4,884	\$(185 )

At February 1, 2014, the Company had forward contracts outstanding for its European and Canadian operations of US\$87.1 million and US\$15.2 million, respectively, that were designated as cash flow hedges.

#### Derivatives Not Designated as Hedging Instruments

As of November 1, 2014, the Company had euro foreign currency contracts to purchase US\$72.2 million expected to mature over the next ten months and Canadian dollar foreign currency contracts to purchase US\$5.0 million expected



to mature over the next one month.

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The following table summarizes the gains (losses) before taxes recognized on the derivative instruments not designated as hedging instruments in other income and expense for the three and nine months ended November 1, 2014 and November 2, 2013 (in thousands):

	Location of Gain (Loss) Recognized in Earnings	Gain (Loss) Recognized in Earnings		Gain Recognized in Earnings	
		Three Months Ended Nov 1, 2014	Three Months Ended Nov 2, 2013	Nine Months Ended Nov 1, 2014	Nine Months Ended Nov 2, 2013
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	Other income/expense	\$6,262	\$ (1,916 )	\$7,457	\$1,133
Interest rate swaps	Other income/expense	\$54	\$ (22 )	\$186	\$174

At February 1, 2014, the Company had euro foreign currency contracts to purchase US\$111.8 million and Canadian dollar foreign currency contracts to purchase US\$13.8 million.

## (16) Subsequent Events

On December 3, 2014, the Company announced a regular quarterly cash dividend of \$0.225 per share on the Company's common stock. The cash dividend will be paid on January 2, 2015 to shareholders of record as of the close of business on December 17, 2014.

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

General

Unless the context indicates otherwise, when we refer to "we," "us," "our" or the "Company" in this Form 10-Q, we are referring to Guess?, Inc. ("GUESS?") and its subsidiaries on a consolidated basis.

Important Factors Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including documents incorporated by reference herein, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements may also be contained in the Company's other reports filed under the Securities Exchange Act of 1934, as amended, in its press releases and in other documents. In addition, from time-to-time, the Company through its management may make oral forward-looking statements. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our goals, future prospects and proposed new products, services, developments or business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "goal," "intend," "may," "outlook," "pending," "plan," "predict," "project," "strategy," "will," and similar terms and phrases, including references to assumptions.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. These forward-looking statements may include, among other things, statements relating to our expected results of operations, the accuracy of data relating to, and anticipated levels of, future inventory and gross margins, anticipated cash requirements and sources, cost containment efforts, restructuring charges, estimated charges, plans regarding store openings, closings and remodels, plans regarding business growth and international expansion, plans regarding supply chain efficiencies and global planning and allocation, e-commerce and omni-channel initiatives, business seasonality, results of litigation, industry trends, consumer demands and preferences, competition, currency fluctuations, estimated tax rates, results of tax audits and other regulatory proceedings, raw material and other inflationary cost pressures, consumer confidence and general economic conditions. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. Important factors that could cause or contribute to such difference include those discussed under "Part I, Item 1A. Risk Factors" contained in the Company's most recent Annual Report on Form 10-K for the fiscal year ended February 1, 2014 and in our other filings made from time-to-time with the Securities and Exchange Commission ("SEC") after the date of this report.

Business Segments

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: North American Retail, Europe, Asia, North American Wholesale and Licensing. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before restructuring charges, if any. The Company believes this segment reporting reflects how its five business segments are managed and each segment's performance is evaluated by the Company's chief operating decision maker to assess performance and make resource allocation decisions. The North American Retail segment includes the Company's retail and e-commerce operations in North America and its retail operations in Central and South America. The Europe segment includes the Company's wholesale, retail and e-commerce operations in Europe and the Middle East. The Asia segment includes the Company's wholesale, retail and e-commerce operations in Asia. The North American Wholesale segment includes the Company's wholesale operations in North America and Central and South America. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization, and restructuring charges. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: accounting and finance, executive compensation, facilities, global advertising and marketing, human resources, information technology and legal. Information relating to these segments is summarized in Note 8 to the Condensed Consolidated Financial Statements.



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Products

We derive our net revenue from the sale of GUESS?, G by GUESS, GUESS Kids and MARCIANO apparel and our licensees' products through our worldwide network of retail stores, wholesale customers and distributors, as well as our on-line sites. We also derive royalty revenue from worldwide licensing activities.

Global Economic Conditions

Economic and market conditions have continued to be volatile and uncertain in many markets around the world and consumer behavior remains cautious. In North America, highly promotional conditions among retailers and softer mall traffic may persist. In Europe, government austerity programs and bank credit issues have impacted the capital markets of numerous European countries, resulting in reduced consumer confidence and lower discretionary spending in those countries. These circumstances have had, and could in the future have, a negative impact on our business, particularly in our more mature markets in Southern Europe. When these conditions occur, the impact is greater in our multi-brand wholesale channel, particularly in Italy, where many customers are relatively small and are not well capitalized. While the economic environment in Southern Europe has shown signs of improvement, the recovery is still vulnerable. In addition, the geopolitical tension in Russia and Ukraine has impacted economic sentiment and could continue to negatively impact our business. We are also seeing evidence of a more cautious consumer in China and South Korea due to the macro-economic conditions in these countries.

Foreign Currency Volatility

Since the majority of our international operations are conducted in currencies other than the U.S. dollar (primarily the euro, Canadian dollar and Korean won), currency fluctuations can have a significant impact on the translation of our international revenues and earnings into U.S. dollar amounts.

During the first half of fiscal 2015, the average U.S. dollar rate was weaker against the euro and the Korean won and stronger against the Canadian dollar compared to the average rate in the same prior-year period. This resulted in an overall positive impact on the translation of our international revenues and earnings from operations during the first half of fiscal 2015 compared to the same prior-year period. During the third quarter of fiscal 2015, the average U.S. dollar rate strengthened against the euro compared to the average rate in the same prior-year period, driving an overall negative impact on the translation of our international revenues compared to the same prior-year period. These exchange rate fluctuations had an overall positive impact on the translation of our international revenues and earnings from operations for the nine months ended November 1, 2014 compared to the same prior-year period.

In addition, some of our transactions that occur primarily in Europe, Canada and South Korea are denominated in U.S. dollars, Swiss francs and British pounds, exposing them to exchange rate fluctuations when converted to their functional currencies. Fluctuations in exchange rates can impact the operating margins of our foreign operations and reported earnings and are largely dependent on the transaction timing and magnitude during the period that the currency fluctuates. If the exchange rate for the euro, Canadian dollar or Korean won weakens versus the U.S. dollar at the time U.S. dollar denominated inventory is purchased relative to the purchases of the comparable period, our product margins could be unfavorably impacted. Our product margins in Canada for the nine months ended November 1, 2014 were negatively impacted as a result of exchange rate fluctuations compared to the same prior-year period.

There was a positive impact on our product margins in Europe for the nine months ended November 1, 2014 as a result of exchange rate fluctuations compared to the same prior-year period.

The Company enters into derivative financial instruments to offset some but not all of the exchange risk on foreign currency transactions. For additional discussion regarding our exposure to foreign currency risk, forward contracts designated as hedging instruments and forward contracts not designated as hedging instruments, refer to "Item 3. Quantitative and Qualitative Disclosures About Market Risk."

Strategy

Omni-Channel Strategy. We continue to emphasize our e-commerce channel as we execute our omni-channel strategy that allows customers to shop seamlessly in retail stores, online and through mobile devices. We

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have already deployed certain initiatives in the U.S. including “reserve online, pick-up in stores” as well as mobile optimized commerce sites and smartphone applications. We have also developed our in-store fulfillment capabilities which optimize inventory located in our U.S. retail stores. U.S. e-commerce orders may be fulfilled from our e-commerce distribution center, or from our retail stores, or both, and U.S. retail store sales may be fulfilled from one of our numerous retail store locations or from our e-commerce distribution center. We expect to deploy similar omni-channel strategies in Canada in the coming year, leveraging our existing technology and experience.

**Productivity Improvements.** One of our goals is to drive increased profitability by enhancing the productivity of our existing operations. We will continue to regularly assess and implement initiatives (including supply chain and global planning/allocation efficiencies) that we believe will build brand equity, grow our business and enhance long-term profitability in each region. In addition, we continue to be opportunistic with our store openings, remodels, and lease renewals to optimize our existing store portfolio.

**North American Retail.** In North American Retail, we plan to increase the profitability for our brick-and-mortar locations over the long-term by improving the productivity and performance of our existing stores. In light of the changing retail landscape in North America and the shifting of consumer purchases towards e-commerce, we have conducted an analysis of our existing store portfolio and have identified under-performing stores that we plan to exit before the end of fiscal 2016 through a combination of lease expirations and kick-outs. This provides us with the opportunity to streamline our North American Retail organization and reduce our fixed costs. In addition, roughly half of our retail store leases in the U.S. and Canada will come up for renewal in the next three and a half years, providing us with the flexibility to further optimize our retail footprint as needed in the coming years. We are also focused on improving our future product offering and have seen promising results from the addition of our MARCIANO product line to select GUESS? stores and e-commerce site and we plan to integrate our G by GUESS brand into our Factory stores. This will allow us to gain additional synergies across all brands by leveraging support functions and expertise.

**International Growth.** Global expansion continues to be a key component of our long-term growth strategy. We expect to continue to expand in our existing international markets as conditions permit, particularly in less penetrated markets like Germany, the Middle East and Russia. At the same time, we continue to invest in newer key markets such as Brazil and Japan.

**Europe.** In Europe, over the long-term, we will continue to focus on cautiously developing new markets in Northern and Eastern Europe where our brand is well known but still under-penetrated. We have flagship stores in key cities such as Barcelona, Dusseldorf, London, Milan, Munich and Paris. We and our partners plan to continue our retail store expansion primarily in Northern and Eastern Europe as well as the Middle East, but we expect this to be partially offset by the closure of certain under-performing stores mainly in Southern Europe, as lease terms permit.

**Asia.** We see significant long-term market opportunities in Asia and we have dedicated capital and human resources to support the region’s growth and development. We and our partners have opened flagship stores in key cities such as Beijing, Hong Kong, Seoul and Shanghai, and we have partnered with licensees to develop our business in the second-tier and third-tier cities in this region. In China, where the economy has shown some signs of slowing, we see evidence of a more cautious consumer. Our strategy in South Korea, with a combined 437 stores and concessions at November 1, 2014, is to improve productivity and expand distribution for our GUESS? branded locations. We also continue to invest in our direct operations in Japan where we had three stores and one concession as of November 1, 2014.

**Capital Allocation**

The Company’s investments in capital for the full fiscal year 2015 are planned between \$70 million and \$80 million (after deducting estimated lease incentives of approximately \$5 million). The planned investments in capital are primarily for store remodeling programs in North American Retail, expansion of our retail business in Europe, investments in information systems and new store openings in North America.

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## Comparable Store Sales

As a result of our omni-channel strategy, our e-commerce business has become strongly intertwined with our brick-and-mortar retail store business. Therefore, we believe that the inclusion of e-commerce sales in our comparable store sales metric provides a more meaningful representation of our retail results. In the first quarter of fiscal 2015, the Company began including the results of our e-commerce sites in our quarterly comparable store sales results for our stores in the U.S. and Canada. We also continue to separately report the impact of e-commerce sales on our comparable store sales metric.

Sales from our brick-and-mortar retail stores include purchases that are initiated, paid for and fulfilled at our retail stores as well as merchandise that is reserved online but paid for and picked-up at our retail stores. Sales from our e-commerce sites include purchases that are initiated and paid for online and shipped from either our e-commerce distribution center or our retail stores as well as purchases that are initiated in a retail store, but due to inventory availability at the retail store, are ordered and paid for online and shipped from our e-commerce distribution center or a different retail store.

Store sales are considered comparable after the store has been open for 13 full months. If a store remodel results in a square footage change of more than 15%, or involves a relocation or a change in store concept, the store sales are removed from the comparable store base until the store has been opened at its new size, in its new location or under its new concept for 13 full months. E-commerce sales are considered comparable after the online site has been operational in a country for 13 full months and exclude any related revenue from shipping fees.

Definitions and calculations of comparable store sales used by the Company may differ from similarly titled measures reported by other companies.

## Other

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. The three and nine months ended November 1, 2014 had the same number of days as the three and nine months ended November 2, 2013.

## Executive Summary

## Overview

Net earnings attributable to Guess?, Inc. decreased 38.9% to \$20.8 million, or diluted earnings of \$0.24 per common share, for the quarter ended November 1, 2014, compared to net earnings attributable to Guess?, Inc. of \$34.0 million, or diluted earnings of \$0.40 per common share, for the quarter ended November 2, 2013. During the first quarter of fiscal 2014, the Company implemented plans to streamline its structure and reduce expenses in both Europe and North America. During the second quarter of fiscal 2014, the Company expanded these plans to include the consolidation and streamlining of certain operations in Europe and Asia. These actions resulted in restructuring charges for the quarter ended November 2, 2013 of \$1.9 million (or \$1.4 million after considering the \$0.5 million reduction to income tax expense as a result of the charge), or an unfavorable after-tax impact of \$0.02 per share. Excluding the impact of the restructuring charges and the related tax impact, adjusted net earnings attributable to Guess?, Inc. was \$35.4 million and adjusted diluted earnings was \$0.42 per common share for the quarter ended November 2, 2013. References to financial results excluding the impact of the restructuring charges are non-GAAP measures and are addressed below under “Non-GAAP Measures.”

Highlights of the Company’s performance for the quarter ended November 1, 2014 compared to the same prior-year period are presented below, followed by a more comprehensive discussion under “Results of Operations”:

## Operations

- Total net revenue decreased 3.9% to \$589.8 million for the quarter ended November 1, 2014, compared to \$613.5 million in the same prior-year period. In constant currency, net revenue decreased by 2.6%.
- Gross margin (gross profit as a percentage of total net revenue) decreased 90 basis points to 36.3% for the quarter ended November 1, 2014, compared to 37.2% in the same prior-year period.

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Selling, general and administrative (“SG&A”) expenses increased 6.0% to \$189.1 million for the quarter ended November 1, 2014, compared to \$178.4 million in the same prior-year period. SG&A expenses as a percentage of revenue (“SG&A rate”) increased by 300 basis points to 32.1% for the quarter ended November 1, 2014, compared to 29.1% in the same prior-year period.

The Company incurred \$1.9 million in restructuring charges during the quarter ended November 2, 2013.

Earnings from operations decreased 48.2% to \$24.9 million for the quarter ended November 1, 2014, compared to \$48.0 million in the same prior-year period. Operating margin decreased by 360 basis points to 4.2% for the quarter ended November 1, 2014, compared to 7.8% in the same prior-year period.

Other income, net (including interest income and expense), totaled \$7.2 million for the quarter ended November 1, 2014, compared to \$4.0 million in the same prior-year period.

The effective income tax rate was 33.0% for each of the quarters ended November 1, 2014 and November 2, 2013.

**Key Balance Sheet Accounts**

The Company had \$374.9 million in cash and cash equivalents as of November 1, 2014. There were no short-term investments as of November 1, 2014. This compares to cash and cash equivalents and short-term investments of \$360.3 million at November 2, 2013.

Accounts receivable, which relates primarily to the Company’s wholesale business in Europe, and to a lesser extent, to its wholesale businesses in North America and Asia and its international licensing business, decreased by \$22.8 million, or 8.8%, to \$236.1 million as of November 1, 2014, compared to \$258.9 million at November 2, 2013. On a constant currency basis, accounts receivable decreased \$10.5 million, or 4.1%.

Inventory decreased by \$14.3 million, or 3.4%, to \$412.6 million as of November 1, 2014, compared to \$426.9 million at November 2, 2013. When measured in terms of finished goods units, inventory volumes decreased by 1.7% as of November 1, 2014, when compared to November 2, 2013.

**Global Store Count**

In the third quarter of fiscal 2015, together with our partners, we opened 29 new stores worldwide, consisting of ten stores in Europe and the Middle East, ten stores in Asia, eight stores in the U.S. and Canada and one store in South America. Together with our partners, we closed 38 stores worldwide, consisting of 20 stores in Europe and the Middle East, 14 stores in Asia and four stores in the U.S.

We ended the third quarter of fiscal 2015 with 1,676 stores worldwide, comprised as follows:

Region	Total Stores	Directly Operated Stores	Licensee Stores
United States and Canada	492	492	—
Europe and the Middle East	605	265	340
Asia	491	48	443
Central and South America	88	39	49
Total	1,676	844	832

This store count does not include 506 concessions located primarily in South Korea and Greater China, which have been excluded because of their smaller store size in relation to our standard international store size. Of the total 1,676 stores, 1,233 were GUESS? stores, 257 were GUESS? Accessories stores, 101 were G by GUESS stores and 85 were MARCIANO stores.



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## Results of Operations

Three Months Ended November 1, 2014 and November 2, 2013

## Consolidated Results

**Net Revenue.** Net revenue decreased by \$23.7 million, or 3.9%, to \$589.8 million for the quarter ended November 1, 2014, from \$613.5 million for the quarter ended November 2, 2013. In constant currency, net revenue decreased by 2.6% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue by \$7.8 million compared to the same prior-year period. The decrease in revenue was driven primarily by negative comparable store sales in North American Retail and Europe.

**Gross Profit.** Gross profit decreased by \$14.2 million, or 6.3%, to \$214.0 million for the quarter ended November 1, 2014, from \$228.2 million in the same prior-year period, due primarily to the unfavorable impact from negative comparable store sales in North American Retail and Europe.

Gross margin decreased 90 basis points to 36.3% for the quarter ended November 1, 2014, from 37.2% in the same prior-year period, due to a higher occupancy rate and lower overall product margins. The higher occupancy rate was driven by negative comparable store sales in North American Retail and Europe. Product margins declined due primarily to more retail markdowns in North America.

The Company's gross margin may not be comparable to that of other entities since some entities include all of the costs related to their distribution in cost of product sales and others, like the Company, generally exclude wholesale-related distribution costs from gross margin, including them instead in SG&A expenses. Additionally, some entities include retail store occupancy costs in SG&A expenses and others, like the Company, include retail store occupancy costs, including rent and depreciation, in cost of product sales.

**Selling, General and Administrative Expenses.** SG&A expenses increased by \$10.7 million, or 6.0%, to \$189.1 million for the quarter ended November 1, 2014, from \$178.4 million in the same prior-year period. The increase in SG&A expenses, which included the favorable impact of currency translation, was due primarily to higher asset impairment charges related to certain under-performing retail stores in North America and Europe.

The Company's SG&A rate increased by 300 basis points to 32.1% for the quarter ended November 1, 2014, from 29.1% in the same prior-year period, due primarily to higher asset impairment charges related to certain under-performing retail stores and the negative impact on the Company's fixed cost structure resulting from negative comparable store sales in North American Retail and Europe.

**Restructuring Charges.** There were no restructuring charges incurred during the quarter ended November 1, 2014. During the quarter ended November 2, 2013, the Company incurred restructuring charges of \$1.9 million.

**Earnings from Operations.** Earnings from operations decreased by \$23.1 million, or 48.2%, to \$24.9 million for the quarter ended November 1, 2014, from \$48.0 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations favorably impacted earnings from operations by \$0.1 million.

Operating margin decreased 360 basis points to 4.2% for the quarter ended November 1, 2014, from 7.8% in the same prior-year period. Operating margin was negatively impacted by a higher SG&A rate and lower overall gross margins, partially offset by restructuring charges incurred during the same prior-year period.

**Interest Income (Expense), Net.** Interest expense, net was \$0.2 million for the quarter ended November 1, 2014, compared to interest income, net of \$0.4 million for the quarter ended November 2, 2013, and includes the impact of hedge ineffectiveness of foreign currency forward contracts designated as cash flow hedges. The change in interest expense, net for the quarter ended November 1, 2014 compared to the same prior-year period was due primarily to higher interest on value-added tax payments in Europe.

**Other Income, Net.** Other income, net was \$7.5 million for the quarter ended November 1, 2014, compared to \$3.6 million in the same prior-year period. Other income, net in the quarter ended November 1, 2014 consisted primarily of net unrealized and realized mark-to-market revaluation gains on foreign currency contracts and net unrealized gains on non-operating assets. Other income, net in the quarter ended November 2, 2013 consisted primarily of net unrealized and realized gains on non-operating assets.

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**Income Tax Expense.** Income tax expense for the quarter ended November 1, 2014 was \$10.6 million, or a 33.0% effective tax rate, compared to \$17.1 million, or a 33.0% effective tax rate, in the same prior-year period. Generally, income taxes for the interim periods are computed using the effective tax rate estimated to be applicable for the full fiscal year which is subject to ongoing review and evaluation by management.

**Net Earnings Attributable to Noncontrolling Interests.** Net earnings attributable to noncontrolling interests for the quarter ended November 1, 2014 was \$0.7 million, net of taxes, compared to \$0.8 million, net of taxes, in the same prior-year period.

**Net Earnings Attributable to Guess?, Inc.** Net earnings attributable to Guess?, Inc. decreased by \$13.2 million, or 38.9%, to \$20.8 million for the quarter ended November 1, 2014, from \$34.0 million in the same prior-year period. Diluted earnings per share decreased to \$0.24 per share for the quarter ended November 1, 2014, compared to \$0.40 for the quarter ended November 2, 2013. The results for the quarter ended November 2, 2013 included the unfavorable \$0.02 per share after-tax impact of the restructuring charges. Excluding the impact of the restructuring charges and the related tax impact, adjusted net earnings attributable to Guess?, Inc. was \$35.4 million and adjusted diluted earnings was \$0.42 per common share for the quarter ended November 2, 2013. References to financial results excluding the impact of the restructuring charges are non-GAAP measures and are addressed below under "Non-GAAP Measures."

**Information by Business Segment**

The following table presents our net revenue and earnings (loss) from operations by segment for the three months ended November 1, 2014 and November 2, 2013 (dollars in thousands):

	Three Months Ended		Change	% Change
	Nov 1, 2014	Nov 2, 2013		
Net revenue:				
North American Retail	\$243,238	\$253,820	\$(10,582 )	(4.2 %)
Europe	189,852	200,943	(11,091 )	(5.5 %)
Asia	71,271	72,727	(1,456 )	(2.0 %)
North American Wholesale	53,501	53,591	(90 )	(0.2 %)
Licensing	31,972	32,416	(444 )	(1.4 %)
Total net revenue	\$589,834	\$613,497	\$(23,663 )	(3.9 %)
Earnings (loss) from operations:				
North American Retail	\$(10,517 )	\$6,206	\$(16,723 )	(269.5 %)
Europe	7,660	13,538	(5,878 )	(43.4 %)
Asia	2,126	5,894	(3,768 )	(63.9 %)
North American Wholesale	13,940	12,102	1,838	15.2 %
Licensing	28,157	29,171	(1,014 )	(3.5 %)
Corporate Overhead	(16,501 )	(17,063 )	562	(3.3 %)
Restructuring Charges	—	(1,889 )	1,889	
Total earnings from operations	\$24,865	\$47,959	\$(23,094 )	(48.2 %)
Operating margins:				
North American Retail	(4.3 %)	2.4 %		
Europe	4.0 %	6.7 %		
Asia	3.0 %	8.1 %		
North American Wholesale	26.1 %	22.6 %		
Licensing	88.1 %	90.0 %		
Total Company	4.2 %	7.8 %		

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## North American Retail

Net revenue from our North American Retail operations decreased by \$10.6 million, or 4.2%, to \$243.2 million for the quarter ended November 1, 2014, from \$253.8 million in the same prior-year period. The decrease in revenue was driven by negative comparable store sales (including e-commerce) of 4.8% in the U.S. and Canada and negative 3.5% in constant currency, which also excludes the unfavorable translation impact of currency fluctuations relating to our Canadian retail stores and e-commerce sites. E-commerce sales increased by \$4.7 million, or 38.4%, to \$17.0 million for the quarter ended November 1, 2014, from \$12.3 million in the same prior-year period. The inclusion of our e-commerce sales improved the comparable store sale percentage by 2.2% in U.S. dollars and 2.3% in constant currency. The store base for the U.S. and Canada decreased by an average of 14 net stores during the quarter ended November 1, 2014 compared to the same prior-year period, resulting in a 0.9% net decrease in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores unfavorably impacted net revenue by \$3.1 million.

Loss from operations for the North American Retail segment was \$10.5 million for the quarter ended November 1, 2014, compared to earnings from operations of \$6.2 million in the same prior-year period. The decrease reflects the impact on earnings from higher asset impairment charges related to certain under-performing retail stores, negative comparable store sales and lower product margins.

Operating margin decreased 670 basis points to negative 4.3% for the quarter ended November 1, 2014, compared to 2.4% in the same prior-year period. The decrease was driven by higher asset impairment charges related to certain under-performing retail stores, the negative impact on the fixed cost structure resulting from negative comparable store sales and lower product margins due primarily to more markdowns.

In the third quarter of fiscal 2015, we opened eight new stores and closed four stores in the U.S. and Canada. At November 1, 2014, we directly operated 492 stores in the U.S. and Canada, comprised of 175 full-priced GUESS? retail stores, 145 GUESS? factory outlet stores, 77 G by GUESS stores, 48 GUESS? Accessories stores and 47 MARCIANO stores. This compares to 502 stores as of November 2, 2013.

## Europe

Net revenue from our Europe operations decreased by \$11.1 million, or 5.5%, to \$189.9 million for the quarter ended November 1, 2014, from \$200.9 million in the same prior-year period. In local currency, net revenue decreased by 2.5% compared to the same prior-year period. The decrease in revenue was driven primarily by a percentage decrease in the mid-single digits for comparable store sales in our directly operated retail stores versus the same prior-year period and lower shipments in our European wholesale business. These decreases were partially offset by the favorable impact on revenue from the expansion of our directly operated retail business. As of November 1, 2014, we directly operated 265 stores in Europe compared to 261 stores at November 2, 2013, excluding concessions, which represents a 1.5% increase over the prior-year third quarter end. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue by \$6.1 million.

Earnings from operations from our Europe segment decreased by \$5.9 million, or 43.4%, to \$7.7 million for the quarter ended November 1, 2014, from \$13.5 million in the same prior-year period. The decrease resulted primarily from the unfavorable impact on earnings from negative comparable store sales and higher asset impairment charges related to certain under-performing retail stores.

Operating margin decreased 270 basis points to 4.0% for the quarter ended November 1, 2014, compared to 6.7% in the same prior-year period. The decrease in operating margin was driven primarily by the negative impact on the fixed cost structure resulting from negative comparable store sales and higher asset impairment charges related to certain under-performing retail stores.

## Asia

Net revenue from our Asia operations decreased by \$1.5 million, or 2.0%, to \$71.3 million for the quarter ended November 1, 2014, from \$72.7 million in the same prior-year period. In constant currency, net revenue decreased by 5.1% compared to the same prior-year period, driven primarily by negative comparable store sales in our directly operated retail stores in South Korea and China versus the same prior-year period. We expanded



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our operations in Asia, where we and our partners operated 491 stores and 500 concessions at November 1, 2014, compared to 480 stores and 428 concessions as of November 2, 2013. Currency translation fluctuations relating to our Asia operations favorably impacted net revenue by \$2.4 million.

Earnings from operations for the Asia segment decreased by \$3.8 million, or 63.9%, to \$2.1 million for the quarter ended November 1, 2014, from \$5.9 million in the same prior-year period. The decrease was driven primarily by the unfavorable impact on earnings from lower product margins and higher store selling expenses.

Operating margin decreased 510 basis points to 3.0% for the quarter ended November 1, 2014, compared to 8.1% in the same prior-year period. The decrease in operating margin was driven by lower overall gross margins due primarily to more promotions in South Korea and higher SG&A expenses resulting primarily from an increase in store selling expenses.

**North American Wholesale**

Net revenue from our North American Wholesale operations was relatively flat at \$53.5 million for the quarter ended November 1, 2014, compared to \$53.6 million in the same prior-year period. In constant currency, net revenue increased by 1.6% compared to the same prior-year period. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted net revenue in our North American Wholesale segment by \$1.0 million.

Earnings from operations from our North American Wholesale segment increased by \$1.8 million, or 15.2%, to \$13.9 million for the quarter ended November 1, 2014, from \$12.1 million in the same prior-year period. The increase was due primarily to the favorable impact on earnings from higher overall gross margins.

Operating margin increased 350 basis points to 26.1% for the quarter ended November 1, 2014, compared to 22.6% in the same prior-year period. The increase in operating margin was driven by higher product margins due primarily to lower product costs.

**Licensing**

Net royalty revenue from our Licensing operations decreased by \$0.4 million, or 1.4%, to \$32.0 million for the quarter ended November 1, 2014, from \$32.4 million in the same prior-year period. The decrease was driven primarily by lower sales in our watch category.

Earnings from operations from our Licensing segment decreased by \$1.0 million, or 3.5%, to \$28.2 million for the quarter ended November 1, 2014, from \$29.2 million in the same prior-year period. The decrease was driven primarily by the unfavorable impact to earnings from lower revenue and higher advertising expenses.

**Corporate Overhead**

Unallocated corporate overhead decreased by \$0.6 million to \$16.5 million for the quarter ended November 1, 2014, from \$17.1 million in the same prior-year period. The decrease was driven primarily by lower performance-based compensation.

**Nine Months Ended November 1, 2014 and November 2, 2013****Consolidated Results**

**Net Revenue.** Net revenue decreased by \$80.5 million, or 4.5%, to \$1.72 billion for the nine months ended November 1, 2014, from \$1.80 billion for the nine months ended November 2, 2013. In constant currency, net revenue decreased by 4.8% as currency translation fluctuations relating to our foreign operations favorably impacted net revenue by \$6.0 million compared to the same prior-year period. The decrease in revenue was driven primarily by lower European wholesale shipments and negative comparable store sales in North American Retail.

**Gross Profit.** Gross profit decreased by \$67.2 million, or 10.0%, to \$607.0 million for the nine months ended November 1, 2014, from \$674.2 million in the same prior-year period, due primarily to the unfavorable impact from lower wholesale sales in Europe, negative comparable store sales in North American Retail and lower overall product margins.

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Gross margin decreased 210 basis points to 35.3% for the nine months ended November 1, 2014, from 37.4% in the same prior-year period, due to a higher occupancy rate and lower overall product margins. The higher occupancy rate was driven by negative comparable store sales in North American Retail and lower wholesale shipments in Europe. Product margins declined due primarily to more retail markdowns in North America.

**Selling, General and Administrative Expenses.** SG&A expenses increased by \$10.4 million, or 1.9%, to \$554.2 million for the nine months ended November 1, 2014, from \$543.8 million in the same prior-year period. The increase in SG&A expenses, which included the unfavorable impact of currency translation, was driven primarily by higher asset impairment charges related to certain under-performing retail stores in North America and Europe.

The Company's SG&A rate increased by 200 basis points to 32.2% for the nine months ended November 1, 2014, from 30.2% in the same prior-year period, due primarily to higher asset impairment charges related to certain under-performing retail stores and the negative impact on the Company's fixed cost structure resulting from negative comparable store sales in North American Retail and lower wholesale shipments in Europe.

**Restructuring Charges.** There were no restructuring charges incurred during the nine months ended November 1, 2014. During the nine months ended November 2, 2013, the Company incurred restructuring charges of \$10.4 million.

**Earnings from Operations.** Earnings from operations decreased by \$67.3 million, or 56.1%, to \$52.7 million for the nine months ended November 1, 2014, from \$120.1 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations favorably impacted earnings from operations by \$0.7 million.

Operating margin decreased 360 basis points to 3.1% for the nine months ended November 1, 2014, compared to 6.7% in the same prior-year period. Operating margin was negatively impacted by lower overall gross margins and a higher SG&A rate, partially offset by restructuring charges incurred during the same prior-year period.

**Interest Income (Expense), Net.** Interest expense, net was \$0.8 million for the nine months ended November 1, 2014, compared to interest income, net of \$0.3 million for the nine months ended November 2, 2013, and includes the impact of hedge ineffectiveness of foreign currency forward contracts designated as cash flow hedges. The change in interest expense, net for the nine months ended November 1, 2014 compared to the same prior-year period was due primarily to higher interest on value-added tax payments in Europe.

**Other Income, Net.** Other income, net was \$11.1 million for the nine months ended November 1, 2014, compared to \$8.9 million in the same prior-year period. Other income, net in the nine months ended November 1, 2014 consisted primarily of net unrealized and realized mark-to-market revaluation gains on foreign currency contracts and net unrealized gains on non-operating assets. Other income, net in the nine months ended November 2, 2013 consisted primarily of net unrealized and realized gains on non-operating assets and net realized and unrealized mark-to-market revaluation gains on foreign currency contracts and other foreign currency balances.

**Income Tax Expense.** Income tax expense for the nine months ended November 1, 2014 was \$21.5 million, or a 34.0% effective tax rate, compared to \$42.7 million, or a 33.0% effective tax rate, in the same prior-year period. Generally, income taxes for the interim periods are computed using the effective tax rate estimated to be applicable for the full fiscal year which is subject to ongoing review and evaluation by management. The increase in effective tax rate compared to the same prior-year period was driven by a shift in the distribution of earnings among the Company's tax jurisdictions within the quarters of the current fiscal year. The full-year tax rate for fiscal 2015 is expected to be 32.0%.

**Net Earnings Attributable to Noncontrolling Interests.** Net earnings attributable to noncontrolling interests for the nine months ended November 1, 2014 was \$1.0 million, net of taxes, compared to \$2.8 million, net of taxes, in the same prior-year period.

**Net Earnings Attributable to Guess?, Inc.** Net earnings attributable to Guess?, Inc. decreased by \$43.2 million, or 51.5%, to \$40.6 million for the nine months ended November 1, 2014, from \$83.8 million in the same prior-year period. Diluted earnings per share decreased to \$0.47 per share for the nine months ended November 1, 2014, compared to \$0.98 for the nine months ended November 2, 2013. The results for the nine months ended

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November 2, 2013 included the unfavorable \$0.09 per share after-tax impact of the restructuring charges. Excluding the impact of the restructuring charges and the related tax impact, adjusted net earnings attributable to Guess?, Inc. was \$91.4 million and adjusted diluted earnings was \$1.07 per common share for the nine months ended November 2, 2013. References to financial results excluding the impact of the restructuring charges are non-GAAP measures and are addressed below under “Non-GAAP Measures.”

## Information by Business Segment

The following table presents our net revenue and earnings (loss) from operations by segment for the nine months ended November 1, 2014 and November 2, 2013 (dollars in thousands):

	Nine Months Ended		Change	% Change
	Nov 1, 2014	Nov 2, 2013		
Net revenue:				
North American Retail	\$715,582	\$746,444	\$(30,862 )	(4.1 %)
Europe	584,270	616,707	(32,437 )	(5.3 %)
Asia	205,656	209,711	(4,055 )	(1.9 %)
North American Wholesale	131,061	138,777	(7,716 )	(5.6 %)
Licensing	84,377	89,784	(5,407 )	(6.0 %)
Total net revenue	\$1,720,946	\$1,801,423	\$(80,477 )	(4.5 %)
Earnings (loss) from operations:				
North American Retail	\$(23,578 )	\$12,363	\$(35,941 )	(290.7 %)
Europe	25,541	47,595	(22,054 )	(46.3 %)
Asia	7,743	17,897	(10,154 )	(56.7 %)
North American Wholesale	26,860	29,229	(2,369 )	(8.1 %)
Licensing	75,787	80,476	(4,689 )	(5.8 %)
Corporate Overhead	(59,607 )	(57,141 )	(2,466 )	4.3 %
Restructuring Charges	—	(10,355 )	10,355	
Total earnings from operations	\$52,746	\$120,064	\$(67,318 )	(56.1 %)
Operating margins:				
North American Retail	(3.3 %)	1.7 %		
Europe	4.4 %	7.7 %		
Asia	3.8 %	8.5 %		
North American Wholesale	20.5 %	21.1 %		
Licensing	89.8 %	89.6 %		
Total Company	3.1 %	6.7 %		

## North American Retail

Net revenue from our North American Retail operations decreased by \$30.9 million, or 4.1%, to \$715.6 million for the nine months ended November 1, 2014, from \$746.4 million in the same prior-year period. The decrease in revenue was driven by negative comparable store sales (including e-commerce) of 4.9% in the U.S. and Canada and negative 3.7% in constant currency, which also excludes the unfavorable translation impact of currency fluctuations relating to our Canadian retail stores and e-commerce sites. E-commerce sales increased by \$14.9 million, or 44.8%, to \$48.2 million for the nine months ended November 1, 2014, from \$33.3 million in the same prior-year period. The inclusion of our e-commerce sales improved the comparable store sale percentage by 2.5% in U.S. dollars and 2.4% in constant currency. The store base for the U.S. and Canada decreased by an average of 16 net stores during the nine months ended November 1, 2014 compared to the same prior-year period, resulting in a 1.4% net decrease in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores unfavorably impacted net revenue by \$9.5 million.

Loss from operations for the North American Retail segment was \$23.6 million for the nine months ended November 1, 2014, compared to earnings from operations of \$12.4 million in the same prior-year period. The decrease reflects the impact on earnings from negative comparable store sales, lower product margins and higher asset impairment charges related to certain under-performing retail stores.





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Operating margin decreased 500 basis points to negative 3.3% for the nine months ended November 1, 2014, compared to 1.7% in the same prior-year period. The decrease was driven by the negative impact on the fixed cost structure resulting from negative comparable store sales, lower product margins due primarily to more markdowns and higher asset impairment charges related to certain under-performing retail stores.

## Europe

Net revenue from our Europe operations decreased by \$32.4 million, or 5.3%, to \$584.3 million for the nine months ended November 1, 2014, from \$616.7 million in the same prior-year period. In local currency, net revenue decreased by 6.9% compared to the same prior-year period. The decrease in revenue was driven primarily by lower shipments in our European wholesale business, partially offset by the favorable impact on revenue from the expansion of our directly operated retail business. Currency translation fluctuations relating to our European operations favorably impacted net revenue by \$9.7 million.

Earnings from operations from our Europe segment decreased by \$22.1 million, or 46.3%, to \$25.5 million for the nine months ended November 1, 2014, from \$47.6 million in the same prior-year period. The decrease resulted primarily from the negative impact on earnings from lower wholesale shipments, partially offset by lower selling and merchandising expenses due to lower wholesale commissions.

Operating margin decreased 330 basis points to 4.4% for the nine months ended November 1, 2014, compared to 7.7% in the same prior-year period. The decrease in operating margin was driven primarily by the negative impact on the fixed cost structure resulting from lower wholesale shipments.

## Asia

Net revenue from our Asia operations decreased by \$4.1 million, or 1.9%, to \$205.7 million for the nine months ended November 1, 2014, from \$209.7 million in the same prior-year period. In constant currency, net revenue decreased by 6.0% compared to the same prior-year period. The decrease was driven primarily by negative comparable store sales in our directly operated retail stores in South Korea and China versus the same prior-year period. Currency translation fluctuations relating to our Asia operations favorably impacted net revenue by \$8.4 million.

Earnings from operations for the Asia segment decreased by \$10.2 million, or 56.7%, to \$7.7 million for the nine months ended November 1, 2014, from \$17.9 million in the same prior-year period. The decrease was driven by the unfavorable impact on earnings from lower product margins and lower revenue.

Operating margin decreased 470 basis points to 3.8% for the nine months ended November 1, 2014, compared to 8.5% in the same prior-year period. The decrease in operating margin was driven by lower overall gross margins due primarily to more promotions in South Korea and higher SG&A expenses resulting primarily from an increase in store selling expenses.

## North American Wholesale

Net revenue from our North American Wholesale operations decreased by \$7.7 million, or 5.6%, to \$131.1 million for the nine months ended November 1, 2014, from \$138.8 million in the same prior-year period. In constant currency, net revenue decreased by 3.7% compared to the same prior-year period. The decrease was driven by lower off-price shipments in the U.S. and Canada. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted net revenue in our North American Wholesale segment by \$2.6 million.

Earnings from operations from our North American Wholesale segment decreased by \$2.4 million, or 8.1%, to \$26.9 million for the nine months ended November 1, 2014, from \$29.2 million in the same prior-year period. The decrease was due primarily to the unfavorable impact to earnings from lower revenue and higher SG&A expenses, partially offset by the favorable impact to earnings from higher overall gross margins.

Operating margin decreased 60 basis points to 20.5% for the nine months ended November 1, 2014, compared to 21.1% in the same prior-year period. The decrease in operating margin was due to deleveraging of SG&A expenses, partially offset by higher product margins due primarily to lower product costs.

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## Licensing

Net royalty revenue from our Licensing operations decreased by \$5.4 million, or 6.0%, to \$84.4 million for the nine months ended November 1, 2014, from \$89.8 million in the same prior-year period. The decrease was driven primarily by lower sales in our handbag and watch categories.

Earnings from operations from our Licensing segment decreased by \$4.7 million, or 5.8%, to \$75.8 million for the nine months ended November 1, 2014, from \$80.5 million in the same prior-year period. The decrease was driven primarily by the unfavorable impact to earnings from lower revenue.

## Corporate Overhead

Unallocated corporate overhead increased by \$2.5 million to \$59.6 million for the nine months ended November 1, 2014, from \$57.1 million in the same prior-year period. The increase was driven primarily by higher general and administrative expenses.

## Non-GAAP Measures

The Company's reported financial results are presented in accordance with GAAP. The reported net earnings attributable to Guess?, Inc. and diluted earnings per share for the three and nine months ended November 2, 2013 reflect the impact of restructuring charges which affects the comparability of those reported results. Those financial results are also presented on a non-GAAP basis, as defined in Section 10(e) of Regulation S-K of the SEC, to exclude the effect of this item. The Company has excluded these restructuring charges, and related tax impact, from its adjusted financial measures primarily because it does not believe such charges reflect the Company's ongoing operating results or future outlook. The Company believes that these "non-GAAP" or "adjusted" financial measures are useful as an additional means for investors to evaluate the comparability of the Company's operating results when reviewed in conjunction with the Company's GAAP financial statements. The non-GAAP measures are provided in addition to, and not as alternatives for, the Company's reported GAAP results.

The adjusted measures for the three and nine months ended November 2, 2013 exclude the impact of restructuring charges. During the first quarter of fiscal 2014, the Company implemented plans to streamline its structure and reduce expenses in both Europe and North America. During the second quarter of fiscal 2014, the Company expanded these plans to include the consolidation and streamlining of certain operations in Europe and Asia. These actions resulted in restructuring charges incurred during the three and nine months ended November 2, 2013. During the three months ended November 2, 2013, the Company recognized charges of \$1.9 million (or \$1.4 million after considering a \$0.5 million reduction to income tax expense as a result of the charges), or an unfavorable after-tax impact of \$0.02 per share. During the nine months ended November 2, 2013, the Company recognized restructuring charges of \$10.4 million (or \$7.6 million after considering a \$2.8 million reduction to income tax expense as a result of the charges), or an unfavorable after-tax impact of \$0.09 per share. Net earnings attributable to Guess?, Inc. for the three and nine months ended November 2, 2013 was \$34.0 million and \$83.8 million, respectively, and diluted earnings per common share for the three and nine months ended November 2, 2013 was \$0.40 and \$0.98, respectively. Excluding the impact of the restructuring charges and the related tax impacts, adjusted net earnings attributable to Guess?, Inc. for the three and nine months ended November 2, 2013 was \$35.4 million and \$91.4 million, respectively, and adjusted diluted earnings per common share for the three and nine months ended November 2, 2013 was \$0.42 and \$1.07, respectively. Our discussion and analysis herein also includes certain constant currency financial information. Foreign currency exchange rate fluctuations affect the amount reported from translating the Company's foreign revenues and expenses into U.S. dollars. These rate fluctuations can have a significant effect on reported operating results under GAAP. The Company provides constant currency information to enhance the visibility of underlying business trends, excluding the effects of changes in foreign currency translation rates. To calculate revenues and earnings from operations on a constant currency basis, operating results for the current-year period are translated into U.S. dollars at the average exchange rates in effect during the comparable period of the prior year. The constant currency calculations do not adjust for the impact of revaluing specific transactions denominated in a currency that is different to the functional currency of that entity when exchange rates fluctuate. The constant currency information presented may not be comparable to similarly titled measures reported by other companies.



Table of Contents**Liquidity and Capital Resources**

We need liquidity primarily to fund our working capital, the expansion and remodeling of our retail stores, shop-in-shop programs, concessions, systems, infrastructure, other existing operations, international growth, potential acquisitions, potential share repurchases and payment of dividends to our stockholders. During the nine months ended November 1, 2014, the Company relied primarily on trade credit, available cash, real estate leases, short-term lines of credit and internally generated funds to finance our operations and expansion. The Company anticipates that we will be able to satisfy our ongoing cash requirements during the next twelve months for working capital, capital expenditures, interest and principal payments on our debt, potential acquisitions, potential share repurchases and any dividend payments to stockholders, primarily with cash flow from operations and existing cash balances supplemented by borrowings, as necessary, under our existing Credit Facility and bank facilities in Europe, as described below under “—Credit Facilities.”

As of November 1, 2014, the Company had cash and cash equivalents of \$374.9 million. There were no short-term investments as of November 1, 2014. Approximately 75% of the Company’s cash and cash equivalents were held outside of the U.S. As of November 1, 2014, we have not provided for U.S. federal and state income taxes on the undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the United States. If in the future we decide to repatriate such earnings, we would incur incremental U.S. federal and state income taxes, reduced by allowable foreign tax credits. However, our intent is to keep these funds indefinitely reinvested outside of the United States and our current plans do not indicate a need to repatriate them to fund our U.S. operations. Due to the complexities associated with the hypothetical calculation, including the availability of foreign tax credits, it is not practicable to determine the unrecognized deferred tax liability related to the undistributed earnings.

Excess cash and cash equivalents, which represent the majority of our outstanding cash and cash equivalents balance, are held primarily in overnight deposit and short-term time deposit accounts and three diversified money market funds. The money market funds are AAA rated by national credit rating agencies and are generally comprised of high-quality, liquid investments. Please see “—Important Factors Regarding Forward-Looking Statements” and “Part I, Item 1A. Risk Factors” contained in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended February 1, 2014 for a discussion of risk factors which could reasonably be likely to result in a decrease of internally generated funds available to finance capital expenditures and working capital requirements.

The Company has presented below the cash flow performance comparison of the nine months ended November 1, 2014, versus the nine months ended November 2, 2013.

**Operating Activities**

Net cash used in operating activities was \$4.9 million for the nine months ended November 1, 2014, compared to net cash provided by operating activities of \$137.3 million for the nine months ended November 2, 2013, or a decrease of \$142.2 million. The decrease was driven primarily by the unfavorable impact of usage and timing changes in working capital and lower net earnings for the nine months ended November 1, 2014 versus the same prior-year period.

**Investing Activities**

Net cash used in investing activities was \$48.1 million for the nine months ended November 1, 2014, compared to \$45.8 million for the nine months ended November 2, 2013. Cash used in investing activities related primarily to capital expenditures incurred on existing store remodeling programs in North American Retail and Europe. In addition, the cost of any business acquisitions, proceeds from the maturity and sale of investments and the settlement of forward currency contracts designated as hedging instruments are also included in cash flows used in investing activities.

The increase in cash used in investing activities was driven primarily by cash receipts from other assets during the same prior-year period, partially offset by higher proceeds from the maturity and sale of investments

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during the nine months ended November 1, 2014 compared to the same prior-year period. During the nine months ended November 1, 2014, the Company opened 34 directly operated stores compared to 46 directly operated stores that were opened in the comparable prior-year period. During the nine months ended November 1, 2014, the Company also acquired five stores from certain of its European licensees compared to four stores from one of its European licensees in the comparable prior-year period.

**Financing Activities**

Net cash used in financing activities was \$59.5 million for the nine months ended November 1, 2014, compared to \$67.0 million for the nine months ended November 2, 2013. The decrease in net cash used in financing activities was due primarily to repurchases of shares of the Company's common stock during the nine months ended November 2, 2013.

**Effect of Exchange Rates on Cash**

During the nine months ended November 1, 2014, changes in foreign currency translation rates decreased our reported cash and cash equivalents balance by \$15.6 million. This compares to a decrease of \$3.4 million in cash and cash equivalents driven by changes in foreign currency translation rates during the nine months ended November 2, 2013.

**Working Capital**

As of November 1, 2014, the Company had net working capital (including cash and cash equivalents) of \$821.8 million compared to \$846.1 million at February 1, 2014 and \$787.3 million at November 2, 2013. The Company's primary working capital needs are for accounts receivable and inventory. Accounts receivable as of November 1, 2014 amounted to \$236.1 million, down \$22.8 million, compared to \$258.9 million at November 2, 2013. The accounts receivable balance relates primarily to the Company's wholesale business in Europe, and to a lesser extent, to its wholesale businesses in North America and Asia and its international licensing business. On a constant currency basis, accounts receivable decreased by \$10.5 million, or 4.1%, when compared to November 2, 2013. The decrease was driven primarily by lower European wholesale shipments, partially offset by timing of collections during the nine months ended November 1, 2014 compared to the same prior-year period. As of November 1, 2014, approximately 57% of our total net trade receivables and 80% of our European net trade receivables were subject to credit insurance coverage, certain bank guarantees or letters of credit for collection purposes. Our credit insurance coverage contains certain terms and conditions specifying deductibles and annual claim limits. Inventory as of November 1, 2014 decreased to \$412.6 million, or 3.4%, compared to \$426.9 million at November 2, 2013. When measured in terms of finished goods units, inventory volumes decreased by 1.7% as of November 1, 2014, when compared to November 2, 2013. The decrease was driven by lower inventory levels in our European operations, partially offset by a build-up of excess inventory in North America.

**Dividends**

During the first quarter of fiscal 2008, the Company announced the initiation of a quarterly cash dividend of \$0.06 per share of the Company's common stock. Since that time, the Company has continued to pay a quarterly cash dividend, which has subsequently increased to \$0.225 per common share.

On December 3, 2014, the Company announced a regular quarterly cash dividend of \$0.225 per share on the Company's common stock. The cash dividend will be paid on January 2, 2015 to shareholders of record as of the close of business on December 17, 2014.

The payment of cash dividends in the future will be at the discretion of our Board of Directors and will be based upon a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and liquidity.

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## Capital Expenditures

Gross capital expenditures totaled \$53.2 million, before deducting lease incentives of \$5.3 million, for the nine months ended November 1, 2014. This compares to gross capital expenditures of \$55.4 million, before deducting lease incentives of \$3.0 million, for the nine months ended November 2, 2013. The Company's investments in capital for the full fiscal year 2015 are planned between \$70 million and \$80 million (after deducting estimated lease incentives of approximately \$5 million). The planned investments in capital are primarily for store remodeling programs in North American Retail, expansion of our retail business in Europe, investments in information systems and new store openings in North America.

In addition, we periodically evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives.

## Credit Facilities

On July 6, 2011, the Company entered into a five-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A., Bank of America, N.A. and the other lenders party thereto (the "Credit Facility") which provided for a \$200 million revolving multicurrency line of credit. The Credit Facility is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. It may be used for working capital and other general corporate purposes.

On August 31, 2012, the Company increased its borrowing capacity under the Credit Facility from \$200 million to \$300 million by exercising the accordion feature in the Credit Facility pursuant to a Lender Joinder Agreement with the lenders party thereto. Also on August 31, 2012, the Company entered into an Amendment to the Credit Facility with the lenders party thereto to provide for (i) greater flexibility in certain of the Company's covenants under the Credit Facility and (ii) access to a new \$100 million accordion feature, subject to certain conditions and the willingness of existing or new lenders to assume such increased amount. As of November 1, 2014, the Company had \$1.7 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Credit Facility requires the Company to comply with a leverage ratio and a fixed charge coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to: incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. The Credit Facility also limits the Company's ability to pay dividends unless immediately after giving effect thereto the aggregate amount of unrestricted cash and cash equivalents held by Guess?, Inc. and its domestic subsidiaries is at least \$50 million. The Company may need to borrow against this facility periodically to ensure it will continue to meet the requirements of this covenant. Upon the occurrence of an event of default under the Credit Facility, the lenders may cease making loans, terminate the Credit Facility and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Credit Facility allows for both secured and unsecured borrowings outside of the Credit Facility up to specified amounts.

The Company, through its European subsidiaries, maintains short-term uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. The majority of the borrowings under these agreements are secured by specific accounts receivable balances. Based on the applicable accounts receivable balances as of November 1, 2014, the Company could have borrowed up to \$98.2 million under these agreements. As of November 1, 2014, the Company had no outstanding borrowings and \$1.6 million in outstanding documentary letters of credit under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 0.5% to 2.9%. The maturities of any short-term borrowings under these arrangements are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings. With the exception of one facility for up to \$43.8 million that has a minimum net equity requirement, there are no other financial ratio covenants.



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The Company entered into a capital lease in December 2005 for a building in Florence, Italy. As of November 1, 2014, the capital lease obligation was \$6.8 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument that resulted in a swap fixed rate of 3.55%. This interest rate swap agreement matures in calendar year 2016 and converts the nature of the capital lease obligation from Euribor floating-rate debt to fixed-rate debt. The fair value of the interest rate swap liability as of November 1, 2014 was approximately \$0.4 million.

From time-to-time, the Company will obtain other financing in foreign countries for working capital to finance its local operations.

Share Repurchases

On March 14, 2011, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$250 million of the Company's common stock (the "2011 Share Repurchase Program"). On June 26, 2012, the Company's Board of Directors authorized a new program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock (the "2012 Share Repurchase Program"). The 2012 Share Repurchase Program was in addition to the 2011 Share Repurchase Program. Repurchases under programs may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under programs and programs may be discontinued at any time, without prior notice. There were no share repurchases under the 2012 Share Repurchase Program during the nine months ended November 1, 2014. During the nine months ended November 2, 2013, the Company repurchased a total of 882,551 shares under the 2011 and 2012 Share Repurchase Programs at an aggregate cost of \$22.1 million. All such share repurchases were made during the three months ended May 4, 2013. As of November 1, 2014, the Company had remaining authority under the 2012 Share Repurchase Program to purchase \$495.8 million of its common stock and no remaining authority to purchase shares under the 2011 Share Repurchase Program.

Supplemental Executive Retirement Plan

On August 23, 2005, the Board of Directors of the Company adopted a Supplemental Executive Retirement Plan ("SERP") which became effective January 1, 2006. The SERP provides select employees who satisfy certain eligibility requirements with certain benefits upon retirement, termination of employment, death, disability or a change in control of the Company, in certain prescribed circumstances. Paul Marciano, Chief Executive Officer and Vice Chairman of the Board, is the only active employee participating in the SERP.

As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has made, and may continue to make, periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The amount of any future payments into the insurance policies may vary, depending on any changes to the estimates of final annual compensation levels and investment performance of the trust. The cash surrender values of the insurance policies were \$54.4 million and \$51.4 million as of November 1, 2014 and February 1, 2014, respectively, and were included in other assets in the Company's condensed consolidated balance sheets. As a result of changes in the value of the insurance policy investments, the Company recorded unrealized gains of \$0.8 million and \$3.0 million in other income during the three and nine months ended November 1, 2014, respectively, and unrealized gains of \$1.3 million and \$3.8 million in other income during the three and nine months ended November 2, 2013, respectively. The projected benefit obligation was \$55.6 million and \$54.7 million as of November 1, 2014 and February 1, 2014, respectively, and was included in accrued expenses and other long-term liabilities in the Company's condensed consolidated balance sheets depending on the expected timing of payments. SERP benefit payments of \$0.6 million and \$0.8 million were made during the three and nine months ended November 1, 2014, respectively.

Inflation

The Company does not believe that inflation trends in the U.S. and internationally over the last three years have had a significant effect on net revenue or profitability.



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## Seasonality

The Company's business is impacted by the general seasonal trends characteristic of the apparel and retail industries. The U.S., European and Canadian retail operations are generally stronger during the second half of the fiscal year, and the North American wholesale operations generally experience stronger performance from July through November. The European wholesale businesses operate with two primary selling seasons: the Spring/Summer season, which ships from November to April and the Fall/Winter season, which ships from May to October. The Company's goal in the European wholesale business is to take advantage of early-season demand and potential reorders by offering a pre-collection assortment which ships at the beginning of each season. Customers retain the ability to request early shipment of backlog orders or delay shipment of orders depending on their needs.

## Wholesale Backlog

We generally receive orders for fashion apparel three to six months prior to the time the products are delivered to our customers' stores. The backlog of wholesale orders at any given time is affected by various factors, including seasonality, cancellations, the scheduling of market weeks, the timing of the receipt of orders and the timing of the shipment of orders and may include orders for multiple seasons. Accordingly, a comparison of backlogs of wholesale orders from period-to-period is not necessarily meaningful and may not be indicative of eventual actual shipments.

**U.S. and Canada Backlog.** Our U.S. and Canadian wholesale backlog as of November 29, 2014, consisting primarily of orders for fashion apparel, was \$53.5 million, compared to \$49.7 million in constant currency at November 30, 2013, an increase of 7.7%. We estimate that if we were to normalize the orders for the scheduling of market weeks the current backlog would have decreased by 6.0% compared to the prior year.

**Europe Backlog.** As of November 30, 2014, the European wholesale backlog was €224.1 million, compared to €223.5 million at December 1, 2013, an increase of 0.3%. The backlog as of November 30, 2014 is comprised of sales orders for the Fall/Winter 2014, Spring/Summer 2015 and Fall/Winter 2015 seasons.

## Application of Critical Accounting Policies

Our critical accounting policies reflecting our estimates and judgments are described in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended February 1, 2014 filed with the SEC on March 28, 2014. There have been no significant changes to our critical accounting policies during the nine months ended November 1, 2014.

## Recently Issued Accounting Guidance

In April 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance which raises the threshold for disposals to qualify as discontinued operations. Under this new guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity's operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date. This guidance also requires expanded or new disclosures for discontinued operations, individually material disposals that do not meet the definition of a discontinued operation, an entity's continuing involvement with a discontinued operation following disposal and retained equity method investments in a discontinued operation. This guidance is effective for fiscal periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The

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standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In August 2014, the FASB issued authoritative guidance that requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and requires additional disclosures if certain criteria are met. This guidance is effective for fiscal periods ending after December 15, 2016, with early adoption permitted. The adoption of this guidance is not expected to impact the Company's consolidated financial statements or related disclosures.

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

#### Exchange Rate Risk

More than half of product sales and licensing revenue recorded for the nine months ended November 1, 2014 were denominated in currencies other than the U.S. dollar. The Company's primary exchange rate risk relates to operations in Europe, Canada and South Korea. Changes in currencies affect our earnings in various ways. For further discussion on currency related risk, please refer to our risk factors under "Part 1, Item 1A. Risk Factors" contained in the Company's most recent Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

Various transactions that occur primarily in Europe, Canada and South Korea are denominated in U.S. dollars and British pounds and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar denominated purchases of merchandise and U.S. dollar and British pound denominated intercompany liabilities. In addition, certain operating expenses and tax liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company is also subject to certain translation and economic exposures related to its net investment in certain of its international subsidiaries. The Company enters into derivative financial instruments to offset some but not all of its exchange risk. In addition, some of the derivative contracts in place will create volatility during the fiscal year as they are marked-to-market according to the accounting rules and may result in revaluation gains or losses in different periods from when the currency impact on the underlying transactions are realized.

#### Derivatives Designated as Hedging Instruments

##### Cash Flow Hedges

During the nine months ended November 1, 2014, the Company purchased U.S. dollar forward contracts in Canada and Europe totaling US\$40.4 million and US\$38.2 million, respectively, to hedge forecasted merchandise purchases and intercompany royalties that were designated as cash flow hedges. As of November 1, 2014, the Company had forward contracts outstanding for its European and Canadian operations of US\$51.9 million and US\$11.5 million, respectively, which are expected to mature over the next ten months. The Company's derivative financial instruments are recorded in its condensed consolidated balance sheet at fair value based on quoted market rates. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted merchandise purchases, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in cost of product sales in the period which approximates the time the hedged merchandise inventory is sold. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted intercompany royalties, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in other income and expense in the period in which the royalty expense is incurred.

As of November 1, 2014, accumulated other comprehensive income (loss) included a net unrealized gain of approximately \$4.9 million, net of tax, which will be recognized in cost of product sales or other income over the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values. As of November 1, 2014, the net unrealized gain of the remaining open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$4.8 million.



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At February 1, 2014, the Company had forward contracts outstanding for its European and Canadian operations of US\$87.1 million and US\$15.2 million, respectively, that were designated as cash flow hedges. At February 1, 2014, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$0.3 million.

**Derivatives Not Designated as Hedging Instruments**

The Company also has foreign currency contracts that are not designated as hedging instruments for accounting purposes. Changes in fair value of foreign currency contracts not designated as hedging instruments are reported in net earnings as part of other income and expense. For the nine months ended November 1, 2014, the Company recorded a net gain of \$7.5 million for its euro foreign currency contracts not designated as hedges, which has been included in other income. As of November 1, 2014, the Company had euro foreign currency contracts to purchase US\$72.2 million expected to mature over the next ten months and Canadian dollar foreign currency contracts to purchase US\$5.0 million expected to mature over the next one month. As of November 1, 2014, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$6.7 million.

At February 1, 2014, the Company had euro foreign currency contracts to purchase US\$111.8 million and Canadian dollar foreign currency contracts to purchase US\$13.8 million. At February 1, 2014, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$0.1 million.

**Sensitivity Analysis**

As of November 1, 2014, a sensitivity analysis of changes in foreign currencies when measured against the U.S. dollar indicates that, if the U.S. dollar had uniformly weakened by 10% against all of the U.S. dollar denominated foreign exchange derivatives totaling US\$140.6 million, the fair value of the instruments would have decreased by \$15.6 million. Conversely, if the U.S. dollar uniformly strengthened by 10% against all of the U.S. dollar denominated foreign exchange derivatives, the fair value of these instruments would have increased by \$12.8 million. Any resulting changes in the fair value of the hedged instruments may be partially offset by changes in the fair value of certain balance sheet positions (primarily U.S. dollar denominated liabilities in our foreign operations) impacted by the change in the foreign currency rate. The ability to reduce the exposure of currencies on earnings depends on the magnitude of the derivatives compared to the balance sheet positions during each reporting cycle.

**Interest Rate Risk**

As of November 1, 2014, approximately 80% of the Company's total indebtedness related to a capital lease obligation, which is covered by a separate interest rate swap agreement with a swap fixed interest rate of 3.55% that matures in 2016. Changes in the related interest rate that result in an unrealized gain or loss on the fair value of the swap are reported in other income or expense. The change in the unrealized fair value of the interest swap increased other income, net by \$0.2 million during the nine months ended November 1, 2014. The majority of the Company's remaining indebtedness is at variable rates of interest. Accordingly, changes in interest rates would impact the Company's results of operations in future periods. A 100 basis point increase in interest rates would have had an insignificant effect on interest expense for the nine months ended November 1, 2014.

The fair value of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. As of November 1, 2014 and February 1, 2014, the carrying value of all financial instruments was not materially different from fair value, as the interest rate on the Company's debt approximates rates currently available to the Company.

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## ITEM 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the quarterly period covered by this report. There was no change in our internal control over financial reporting during the third quarter of fiscal 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) issued an updated version of its Internal Control-Integrated Framework (“2013 framework”). The originally issued framework (“1992 framework”) remains available during the transition period, which extends to December 15, 2014, after which time the COSO will consider it superseded by the 2013 framework. As of November 1, 2014, the Company continued to utilize the 1992 framework and plans to transition to the 2013 framework during the fourth quarter of fiscal 2015. The Company does not expect significant changes to its overall internal control structure over financial reporting to result from the transition to the 2013 framework.

## PART II. OTHER INFORMATION

## ITEM 1. Legal Proceedings.

## Litigation

On May 6, 2009, Gucci America, Inc. filed a complaint in the U.S. District Court for the Southern District of New York against Guess?, Inc. and certain third-party licensees for the Company asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint sought injunctive relief, compensatory damages, including treble damages, and certain other relief. Complaints similar to those in the above action have also been filed by Gucci entities against the Company and certain of its subsidiaries in the Court of Milan, Italy, the Intermediate People’s Court of Nanjing, China and the Court of Paris, France. The three-week bench trial in the U.S. matter concluded on April 19, 2012, with the court issuing a preliminary ruling on May 21, 2012 and a final ruling on July 19, 2012. Although the plaintiff was seeking compensation in the U.S. matter in the form of damages of \$26 million and an accounting of profits of \$99 million, the final ruling provided for monetary damages of \$2.3 million against the Company and \$2.3 million against certain of its licensees. The court also granted narrow injunctions in favor of the plaintiff for certain of the claimed infringements. On August 20, 2012, the appeal period expired without any party having filed an appeal, rendering the judgment final. On May 2, 2013, the Court of Milan ruled in favor of the Company in the Milan, Italy matter. In the ruling, the Court rejected all of the plaintiff’s claims and ordered the cancellation of three of the plaintiff’s Italian and four of the plaintiff’s European Community trademark registrations. On June 10, 2013, the plaintiff appealed the Court’s ruling in the Milan matter. On September 15, 2014, the Court of Appeal of Milan affirmed the majority of the lower Court’s ruling in favor of the Company, but overturned the lower Court’s finding with respect to an unfair competition claim. The matter has now entered into a damages phase based on the ruling. In the China matter, the Intermediate People’s Court of Nanjing, China issued a ruling on November 8, 2013 granting an injunction in favor of the plaintiff for certain of the claimed infringements on handbags and small leather goods and awarding the plaintiff statutory damages in the amount of approximately \$80,000. The Company strongly disagrees with the Court’s decision and has appealed the ruling. The judgment in the China matter is stayed pending the appeal, which was heard in May 2014. The hearings in the France matter concluded in September 2014 and the matter is currently under submission with the Court of Paris.

On August 25, 2006, Franchez Isaguirre, a former employee of the Company, filed a complaint in the Superior Court of California, County of Los Angeles alleging violations by the Company of California wage and hour laws. The complaint was subsequently amended, adding a second former employee as an additional named party. The plaintiffs purport to represent a class of similarly situated employees in California who allegedly had been injured by not being provided adequate meal and rest breaks. The complaint seeks unspecified compensatory

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damages, statutory penalties, attorney's fees and injunctive and declaratory relief. On June 9, 2009, the Court certified the class but immediately stayed the case pending the resolution of a separate California Supreme Court case on the standards of class treatment for meal and rest break claims. Following the Supreme Court ruling, the Superior Court denied the Company's motions to decertify the class and to narrow the class in January 2013 and June 2013, respectively. The Company subsequently petitioned to have the Court's decision not to narrow the class definition reviewed. That petition was ultimately denied by the California Supreme Court in April 2014. No trial date has been set.

Although the Company believes that it has a strong position and will continue to vigorously defend each of these remaining matters, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcomes will have a material impact on the Company's financial position or results of operations. The Company is also involved in various other claims and other matters incidental to the Company's business, the resolution of which is not expected to have a material adverse effect on the Company's financial position or results of operations. No material amounts were accrued as of November 1, 2014 or February 1, 2014 related to any of the Company's legal proceedings.

## ITEM 1A. Risk Factors.

There have not been any material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended February 1, 2014, filed with the SEC on March 28, 2014.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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

## Item (c). Issuer Purchases of Equity Securities

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 Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
August 3, 2014 to August 30, 2014				
Repurchase program(1)	—	—	—	\$ 495,786,484
Employee transactions(2)	3,614	\$25.59	—	—
August 31, 2014 to October 4, 2014				
Repurchase program(1)	—	—	—	\$ 495,786,484
Employee transactions(2)	887	\$23.21	—	—
October 5, 2014 to November 1, 2014				
Repurchase program(1)	—	—	—	\$ 495,786,484
Employee transactions(2)	—	—	—	—
Total				
Repurchase program(1)	—	—	—	
Employee transactions(2)	4,501	\$25.12	—	

On June 26, 2012, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock. Repurchases under (1) the program may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program, which may be discontinued at any time, without prior notice.

Consists of shares surrendered to, or withheld by, the Company in satisfaction of employee tax withholding (2) obligations that occur upon vesting of restricted stock awards/units granted under the Company's 2004 Equity Incentive Plan, as amended.



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ITEM 6. Exhibits.

Exhibit Number	Description
3.1.	Restated Certificate of Incorporation of the Registrant (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed July 30, 1996).
3.2.	Second Amended and Restated Bylaws of the Registrant (incorporated by reference from the Registrant's Current Report on Form 8-K filed December 4, 2007).
4.1.	Specimen Stock Certificate (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed July 30, 1996).
†31.1.	Certification of Chief Executive Officer and Vice Chairman of the Board pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2.	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†32.1.	Certification of Chief Executive Officer and Vice Chairman of the Board pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.2.	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†101.INS	XBRL Instance Document
†101.SCH	XBRL Taxonomy Extension Schema Document
†101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
†101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
†101.LAB	XBRL Taxonomy Extension Label Linkbase Document
†101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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† Filed herewith



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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.

Guess?, Inc.

Date: December 8, 2014

By: /s/ PAUL MARCIANO  
Paul Marciano  
Chief Executive Officer and Vice Chairman of the Board

Date: December 8, 2014

By: /s/ SANDEEP REDDY  
Sandeep Reddy  
Chief Financial Officer  
(Principal Financial Officer)