G III APPAREL GROUP LTD /DE/
Form 10-Q
September 09, 2010

Table of Contents

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

(Mark One)

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

For the quarterly period ended July 31, 2010

OR

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

For the transition period from __________ to __________

Commission File Number 0-18183

G-III APPAREL GROUP, LTD.

(Exact name of registrant as specified in its charter)

Delaware	41-1590959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
512 Seventh Avenue, New York, New York	10018
(Address of Principal Executive Offices)	(Zip Code)

(212) 403-0500

(Registrant s telephone number, including area code)

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

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

Yes þ No o

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 o No o

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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

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

Yes o No þ

As of September 1, 2010, there were 19,177,547 shares of our common stock, par value $0.01 per share, outstanding.

TABLE OF CONTENTS

	Page No.
Part I FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets July 31, 2010, July 31, 2009 and January 31, 2010	3
Condensed Consolidated Statements of Operations For the Three Months Ended July 31, 2010 and 2009	4
Condensed Consolidated Statements of Operations For the Six Months Ended July 31, 2010 and 2009	5
Condensed Consolidated Statements of Cash Flows For the Six Months Ended July 31, 2010 and 2009	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	17
Item 4. Controls and Procedures	17
Part II OTHER INFORMATION	
Item 1A. Risk Factors	18
Item 6. Exhibits	18

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2010 (Unaudited)	July 31, 2009 (Unaudited)	January 31, 2010
	(In thousands, except share and per share amounts)		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 6,147	$ 5,682	$ 46,813
Accounts receivable, net of allowance for doubtful accounts and sales discounts of $27,111, $17,199 and $29,092, respectively	119,662	90,897	73,456
Inventories	223,543	172,439	119,877
Prepaid income taxes		7,418	
Deferred income taxes	15,315	11,565	15,315
Prepaid expenses and other current assets	18,046	16,554	10,694
Total current assets	382,713	304,555	266,155
PROPERTY AND EQUIPMENT, NET	16,367	9,146	7,539
DEFERRED INCOME TAXES	10,672	11,640	10,672
OTHER ASSETS	2,340	1,530	1,723
INTANGIBLES, NET	19,137	20,515	19,826
GOODWILL	26,100	25,713	26,100
	$ 457,329	$ 373,099	$ 332,015
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Notes payable	$ 77,411	$ 111,336	$
Income taxes payable	1,363		10,874
Accounts payable	107,521	83,165	50,337
Accrued expenses	19,012	15,777	29,333
Deferred income taxes	1,529	1,578	1,529
Total current liabilities	206,836	211,856	92,073
DEFERRED INCOME TAXES	6,495	6,648	6,495
OTHER NON-CURRENT LIABILITIES	4,289	700	1,237
TOTAL LIABILITIES	217,620	219,204	99,805
STOCKHOLDERS EQUITY			

Preferred stock; 1,000,000 shares authorized; No shares issued and outstanding			
Common stock $.01 par value; 40,000,000 shares authorized; 19,540,272, 17,115,044 and 19,192,704 shares issued	195	171	192
Additional paid-in capital	143,638	100,747	137,764
Accumulated other comprehensive loss	(41)		(36)
Retained earnings	96,887	53,947	95,260
Common stock held in treasury 367,225 shares at cost	(970)	(970)	(970)
	239,709	153,895	232,210
	$ 457,329	$ 373,099	$ 332,015

The accompanying notes are an integral part of these statements.

3

Table of Contents

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

	Three Months Ended July 31,	
	2010	2009
	(Unaudited) (In thousands, except per share amounts)	
Net sales	$ 188,960	$ 135,926
Cost of goods sold	128,206	95,111
Gross profit	60,754	40,815
Selling, general and administrative expenses	53,844	43,195
Depreciation and amortization	1,277	1,384
Operating profit / (loss)	5,633	(3,764)
Interest and financing charges, net	634	1,022
Income / (loss) before income taxes	4,999	(4,786)
Income tax expense / (benefit)	2,000	(2,010)
Net income / (loss)	$ 2,999	$ (2,776)
NET INCOME / (LOSS) PER COMMON SHARE:		
Basic:		
Net income / (loss) per common share	$ 0.16	$ (0.17)
Weighted average number of shares outstanding	19,126	16,726
Diluted:		
Net income / (loss) per common share	$ 0.15	$ (0.17)
Weighted average number of shares outstanding	19,652	16,726

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Six Months Ended July 31, 2010	Six Months Ended July 31, 2009
	(Unaudited) (In thousands, except per share amounts)	
Net sales	$ 343,237	$ 243,489
Cost of goods sold	233,447	171,459
Gross profit	109,790	72,030
Selling, general and administrative expenses	103,525	84,078
Depreciation and amortization	2,557	2,788
Operating profit / (loss)	3,708	(14,836)
Interest and financing charges, net	996	1,707
Income / (loss) before income taxes	2,712	(16,543)
Income tax expense / (benefit)	1,085	(6,948)
Net income / (loss)	$ 1,627	$ (9,595)
NET INCOME / (LOSS) PER COMMON SHARE:		
Basic:		
Net income / (loss) per common share	$ 0.09	$ (0.57)
Weighted average number of shares outstanding	19,016	16,711
Diluted:		
Net income / (loss) per common share	$ 0.08	$ (0.57)
Weighted average number of shares outstanding	19,540	16,711

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Six Months Ended July 31, 2010	Six Months Ended July 31, 2009
	(Unaudited) (In thousands)	
Cash flows from operating activities		
Net income / (loss)	$ 1,627	$ (9,595)
Adjustments to reconcile net income / (loss) to net cash used in operating activities:		
Depreciation and amortization	2,557	2,788
Stock based compensation	1,534	900
Deferred financing charges	498	377
Changes in operating assets and liabilities:		
Accounts receivable, net	(46,206)	(21,202)
Inventories	(103,666)	(55,827)
Income taxes, net	(9,511)	(12,640)
Prepaid expenses and other current assets	(7,376)	(6,235)
Other assets, net	(1,091)	(49)
Accounts payable, accrued expenses and other liabilities	49,915	28,342
Net cash used in operating activities	(111,719)	(73,141)
Cash flows from investing activities		
Capital expenditures	(10,696)	(1,180)
Contingent purchase price paid		(5,154)
Net cash used in investing activities	(10,696)	(6,334)
Cash flows from financing activities		
Proceeds from notes payable, net	77,411	82,288
Proceeds from exercise of stock options	1,161	65
Tax benefit from exercise/vesting of equity awards	3,182	296
Net cash provided by financing activities	81,754	82,649
Effect of exchange rate changes	(5)	
Net increase / (decrease) in cash and cash equivalents	(40,666)	3,174
Cash and cash equivalents at beginning of period	46,813	2,508
Cash and cash equivalents at end of period	$ 6,147	$ 5,682

Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	1,304	$	1,667
Income taxes		7,404		5,394

The accompanying notes are an integral part of these statements.

Table of Contents

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

Note 1 Basis of Presentation

As used in these financial statements, the term Company refers to G-III Apparel Group, Ltd. and its wholly-owned subsidiaries. The results for the three and six month periods ended July 31, 2010 are not necessarily indicative of the results expected for the entire fiscal year, given the seasonal nature of the Company s business. The accompanying financial statements included herein are unaudited. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented have been reflected.

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

The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2010 filed with the Securities and Exchange Commission.

Note 2 Inventories

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

	July 31, 2010	July 31, 2009	January 31, 2010
		(In thousands)	
Finished goods	$ 215,392	$ 168,006	$ 116,627
Raw materials and work-in-process	8,151	4,433	3,250
	$ 223,543	$ 172,439	$ 119,877

Note 3 Net Income / (Loss) per Common Share

Basic net income / (loss) per common share has been computed using the weighted average number of common shares outstanding during each period. Diluted net income per share, when applicable, is computed using the weighted average number of common shares and potential dilutive common shares, consisting of stock options, stock purchase warrants and unvested restricted stock awards outstanding during the period. For the three and six months ended July 31, 2010, 0 and 18,000 shares have been excluded from the diluted per share calculation as their inclusion would be anti-dilutive. For the six months ended July 31, 2010 and 2009, 347,568 and 52,042 shares of common stock, respectively, were issued in connection with the exercise or vesting of equity awards.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Net income / (loss)	$ 2,999	$ (2,776)	$ 1,627	$ (9,595)
Basic net income (loss) per share:				
Basic common shares	19,126	16,726	19,016	16,711
Basic net income (loss) per share	$ 0.16	$ (0.17)	$ 0.09	$ (0.57)
Diluted net income (loss) per share:				
Basic common shares	19,126	16,726	19,016	16,711
Stock options, warrants and restricted stock awards	526		524	
Diluted common shares	19,652	16,726	19,540	16,711
Diluted net income (loss) per share	$ 0.15	$ (0.17)	$ 0.08	$ (0.57)

Note 4 Notes Payable

The Company has a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The financing agreement is a senior secured revolving credit facility. The financing agreement was amended in May 2010 to (a) increase the maximum line of credit from $250 million to $300 million; (b) reduce the interest rate on borrowings by 0.25% to, at the Company s option, the prime rate plus 0.50% or LIBOR plus 2.75%, (c) extend the maturity of the loan from July 11, 2011 to July 31, 2013, and (d) revise the maximum senior leverage ratio that must be maintained. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires the Company, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined, and also limits payments for cash dividends and stock redemptions. As of July 31, 2010, the Company was in compliance with these covenants. The financing agreement is secured by all of the Company s assets.

Table of Contents

Note 5 Segments

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

	Three Months Ended July 31,					
	2010			2009		
	Wholesale Licensed	Wholesale Non-Licensed	Retail	Wholesale Licensed	Wholesale Non-Licensed	Retail
Net sales [1]	$ 129,656	$ 40,732	$ 23,833	$ 90,875	$ 28,816	$ 20,968
Cost of goods sold [1]	90,288	29,951	13,228	66,400	21,479	11,965
Gross profit	39,368	10,781	10,605	24,475	7,337	9,003
Selling, general and administrative	30,775	9,235	13,834	22,488	7,054	13,653
Depreciation and amortization	172	768	337	210	872	302
Operating profit (loss)	$ 8,421	$ 778	$ (3,566)	$ 1,777	$ (589)	$ (4,952)

	Six Months Ended July 31,					
	2010			2009		
	Wholesale Licensed	Wholesale Non-Licensed	Retail	Wholesale Licensed	Wholesale Non-Licensed	Retail
Net sales [2]	$ 222,087	$ 80,998	$ 53,838	$ 150,873	$ 57,595	$ 48,124
Cost of goods sold [2]	158,559	58,538	30,036	111,630	44,315	28,617
Gross profit	63,528	22,460	23,802	39,243	13,280	19,507
Selling, general and administrative	57,440	18,313	27,772	41,734	14,460	27,884
Depreciation and amortization	326	1,584	647	418	1,790	580
Operating profit (loss)	$ 5,762	$ 2,563	$ (4,617)	$ (2,909)	$ (2,970)	$ (8,957)

(1) Net sales and cost of goods sold for the wholesale licensed apparel and wholesale non-licensed apparel segments include an aggregate of $5.3 million and $4.8 million of intersegment sales to the Company s retail operations for the three months ended July 31, 2010 and 2009, respectively.

(2) Net sales and cost of goods sold for the wholesale licensed apparel and wholesale non-licensed apparel segments include an aggregate of $13.7 million and $13.1 million of intersegment sales to the Company s retail operations for the six months ended July 31, 2010 and 2009, respectively.

Table of Contents

Included in finished goods inventory at July 31, 2010 are approximately $157.7 million, $30.1 million and $27.6 million of inventories for wholesale licensed apparel, wholesale non-licensed apparel and retail operations, respectively. Included in finished goods inventory at July 31, 2009 are approximately $108.3 million, $36.5 million and $23.2 million of inventories for wholesale licensed apparel, wholesale non-licensed apparel and retail operations, respectively. All other assets are commingled.

Note 6 Fair Value Measurements

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

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

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

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

The Company s financial instruments consist of cash and cash equivalents, short-term trade receivables, accounts payable and a note payable under the Company s credit facility. The carrying values on the balance sheet for cash and cash equivalents, short-term trade receivables, and accounts payable approximate their fair values due to the short-term maturities of such items. The carrying value on the balance sheet for the Company s notes payable approximates its fair value due to the variable interest rate it carries, and as such it is classified within level 2 of the fair value hierarchy.

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

Note 7 New Accounting Pronouncements

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that an SEC filer disclose the date through which subsequent events have been evaluated. ASC 2010-09 was effective upon issuance. The adoption of this standard had no effect on the Company s results of operation or financial position.

Table of Contents

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

Unless the context otherwise requires, G-III , us , we and our refer to G-III Apparel Group, Ltd. and its subsidiar
References to fiscal years refer to the year ended or ending on January 31 of that year. For example, our fiscal year ending January 31, 2011 is referred to as fiscal 2011 .

Statements in this Quarterly Report on Form 10-Q concerning our business outlook or future economic performance; anticipated revenues, expenses or other financial items; product introductions and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matter, are forward-looking statements as that term is defined under the Federal securities laws. Forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those stated in such statements. Such risks, uncertainties and factors include, but are not limited to, reliance on licensed product, reliance on foreign manufacturers, risks of doing business abroad, the current economic and credit environment, the nature of the apparel industry, including changing consumer demand and tastes, customer concentration, seasonality, risks of operating a retail business, customer acceptance of new products, the impact of competitive products and pricing, dependence on existing management, possible disruption from acquisitions and general economic conditions, as well as other risks detailed in the Company s filings with the Securities and Exchange Commission, including this Quarterly Report on Form 10-Q.

Overview

G-III designs, manufactures, and markets an extensive range of outerwear, sportswear and dresses, including coats, jackets, pants and women s suits. We sell our products under our own proprietary brands, which include the Andrew Marc, Marc New York and Marc Moto labels, licensed brands and private retail labels. G-III also operates retail stores, almost all of which are outlet stores operated under the Wilsons Leather name. While our products are sold at a variety of price points through a broad mix of retail partners and our own outlet stores, a majority of our sales are concentrated with our ten largest customers.

Our business is dependent on, among other things, retailer and consumer demand for our products. We believe that significant economic uncertainty and a slowdown in the global macroeconomic environment continue to negatively impact the level of consumer spending for discretionary items. The current uncertain economic environment has been characterized by a decline in consumer discretionary spending that has affected retailers and sellers of consumer goods, particularly those whose goods are viewed as discretionary purchases, such as fashion apparel and related products, such as ours. We cannot predict the direction in which the current economic environment will move. Continued uncertain macroeconomic conditions and concerns about the access of retailers and consumers to credit may have a negative impact on our results for fiscal 2011.

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

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

In February 2008, we acquired Andrew Marc, a supplier of fine outerwear for both men and women to upscale specialty and department stores. As a result of this acquisition, we added Andrew Marc and Marc New York as additional company-owned brands and Levi s and Dockers as additional licensed brands. We believe that the Andrew Marc brand can be leveraged into a variety of new categories to become a meaningful lifestyle brand for us. Since we acquired Andrew Marc, we have entered into agreements to license the Andrew Marc and Marc New York brands for eyewear, women s footwear, men s accessories, women s handbags and men s cold weather accessories. In May 2010, we entered into a license agreement with the Jones Jeanswear Division of Jones Apparel Group for the design, marketing and distribution of Andrew Marc, Marc New York and Marc Moto men s denim and related sportswear. The

initial launch of these products under our Marc Moto label is expected to commence in the fourth quarter of fiscal 2011. We also launched Andrew Marc and Marc New York dress lines utilizing our own in-house designers and our manufacturing sources.

In July 2008, we acquired certain assets of Wilsons The Leather Experts, which had been a national retailer of outerwear and accessories. The assets acquired included 116 outlet store leases, inventory, distribution center operations and the Wilsons name and other related trademarks and trade names. Our retail operations segment, which consists almost entirely of our Wilsons retail outlet store business, had an operating loss during fiscal 2009 and fiscal 2010, as well as during the first six months of fiscal 2011. During fiscal 2010, we undertook the following initiatives to improve the performance of our retail outlet business:

- Improve the merchandise mix of outerwear at our stores, with increased emphasis on leather outerwear and a stronger assortment of private label product;
- Emphasize presentation of product in our stores and training of our sales associates;
- Incorporate an improved mix of private label and branded accessories; and
- Reduce overhead costs at the distribution center for our retail operations by reducing our leased space by one-half at that distribution center.

As a result, the amount of the operating loss in our retail segment was reduced in fiscal 2010, as well as in the first six months of fiscal 2011 compared to the first six months of fiscal 2010. We continue to believe that operation of the Wilsons retail stores is part of our core competency, as outerwear comprised about one-half of our net sales at Wilsons in fiscal 2010, the first full year of operation for us. We expect to continue to implement and refine these initiatives with a view to creating a store concept that is capable of building growth and profitability.

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

We market our products to department, specialty and mass merchant retail stores in the United States. We also supply our outerwear to our Wilsons outlet stores and to our Wilsons e-commerce business.

We operate our business in three segments, wholesale licensed apparel, wholesale non-licensed apparel and retail operations. The wholesale licensed apparel segment includes sales of apparel brands licensed by us from third parties. The wholesale non-licensed apparel segment includes sales of apparel under our own brands and private label brands. The retail operations segment consists almost entirely of the Wilsons retail outlet stores we acquired in July 2008, now operating as AM Retail Group, Inc.

The sale of licensed product has been a key element of our business strategy for many years. As part of this strategy, we continue to add new fashion and sports apparel licenses. In May 2010, we added licenses for Calvin Klein luggage and for Calvin Klein women s handbags and small leather goods. First shipment of these products is expected to commence in 2011. In April 2010, we expanded our existing license with the National Football League to include a new active wear product category.

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

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

Table of Contents

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

The weakness in the economy and financial markets has reduced consumer confidence and consumer spending. There has also been significant downward pressure on average retail prices for many categories of apparel, in large part as a result of the weakness of the economy.

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

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

Results of Operations

Three months ended July 31, 2010 compared to three months ended July 31, 2009

Net sales for the three months ended July 31, 2010 increased to $189.0 million from $135.9 million in the same period last year. Net sales of wholesale licensed apparel increased to $129.7 million from $90.9 million primarily as a result of an increase of $34.2 million in net sales of Calvin Klein licensed product, primarily due to increased sales of women s dresses and sportswear. Net sales of wholesale non-licensed apparel in the three months ended July 31, 2010 increased to $40.7 million from $28.8 million primarily due to increases in net sales by our Jessica Howard dress division ($3.5 million) and our Andrew Marc division ($2.7 million). The balance of the increase is attributable to net sales of private label outerwear, which include intersegment sales to our Wilsons retail outlet stores. Net sales of our retail operations were $23.8 million for the three months ended July 31, 2010 compared to $21.0 million in the same period last year primarily as a result of an increase in outerwear sales.

Gross profit increased to $60.8 million, or 32.2% of net sales, for the three month period ended July 31, 2010, from $40.8 million, or 30.0% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed apparel segment was 30.4% in the three month period ended July 31, 2010 compared to 26.9% in the same period last year primarily as a result of improved margins on increased sales volume for our Calvin Klein dresses, which also typically have a higher gross margin percentage than other products sold by us, and improved margins on increased sales volume of our Calvin Klein women s suits. The gross profit percentage in our wholesale non-licensed apparel segment increased to 26.5% in the three month period ended July 31, 2010 from 25.5% in the same period last year primarily as a result of improved margins on increased sales volume of our Andrew Marc division. The gross profit percentage for our retail operations segment was 44.5% for the three months ended July 31, 2010 compared to 42.9% for the comparable period last year as a result of higher initial margins and less markdown activity across substantially all product categories.

Selling, general and administrative expenses increased to $53.8 million in the three month period ended July 31, 2010 from $43.2 million in the same period last year. This increase is primarily a result of increases in personnel costs ($4.2 million), facility costs ($2.7 million) and advertising and promotion expenses ($2.4 million). Personnel costs increased due to an increase in accrued bonuses as a result of expected profitability for the year and as a result of salaries in the prior comparable period having been reduced as part of cost cutting measures taken by us last year that were in effect for the first six months of fiscal 2010. Facility costs increased as a result of increased third party

warehousing costs due to increased shipping volume. Facility costs also increased as a result of rent expense associated with new leases entered into for additional warehouse, showroom and office space. Advertising costs increased because sales of licensed product, primarily Calvin Klein, increased and we typically pay an advertising fee under our license agreements based on a percentage of sales of licensed product.

Depreciation and amortization decreased to $1.3 million in the three months ended July 31, 2010 from $1.4 million in the same period last year primarily as a result of certain intangible assets that became fully amortized during fiscal 2010.

Interest and finance charges, net for the three months ended July 31, 2010 were approximately $634,000 compared to $1.0 million for the comparable period last year. Our charges were lower because of reduced borrowings against our credit facility during the second quarter due to application of the proceeds from our public offering in December 2009 to temporarily pay down debt under the facility.

Income tax expense for the three months ended July 31, 2010 was $2.0 million compared to a benefit of $2.0 million for the same period last year. Income taxes shifted from a benefit to an expense because of our net income for the three months ended July 31, 2010 compared to a net loss in the prior year. The effective tax rate for the three month period ended July 31, 2010 was 40.0% compared to an effective tax rate of 42.0% in the same period last year. The effective tax rate in the prior comparable period is higher primarily because we were not able to recognize the benefit of certain state losses incurred by our AM Retail Group, Inc. subsidiary that operates our Wilsons retail outlet stores.

Six months ended July 31, 2010 compared to six months ended July 31, 2009

Net sales for the six months ended July 31, 2010 increased to $343.2 million from $243.5 million in the same period last year. Net sales of wholesale licensed apparel increased to $222.1 million from $150.9 million primarily as a result of an increase of $65.9 million in net sales of Calvin Klein licensed product, primarily due to increased sales of women s dresses and sportswear. Net sales of wholesale non-licensed apparel in the six months ended July 31, 2010 increased to $81.0 million from $57.6 million primarily due to an increase in net sales by our Jessica Howard dress division ($10.0 million) and an increase in net sales of our Andrew Marc division ($3.7 million). The balance of the increase is attributable to net sales of private label outerwear, which include intersegment sales to our Wilsons retail outlet stores. Net sales of our retail operations were $53.8 million for the six months ended July 31, 2010 compared to $48.1 million in the same period last year primarily as a result of an increase in outerwear sales.

Gross profit increased to $109.8 million, or 32.0% of net sales, for the six month period ended July 31, 2010, from $72.0 million, or 29.6% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed apparel segment was 28.6% in the six month period ended July 31, 2010 compared to 26.0% in the same period last year primarily as a result of improved margins on increased sales volume for our Calvin Klein dresses, which also typically have a higher gross margin percentage than other products sold by us, and improved margins on increased sales volume of our Calvin Klein women s suits.. The gross profit percentage in our wholesale non-licensed apparel segment increased to 27.7% in the six month period ended July 31, 2010 from 23.1% in the same period last year primarily as a result of improved margins on increased sales volume of our Jessica Howard dress division and of our Andrew Marc division. The gross profit percentage for our retail operations segment was 44.2% for the six months ended July 31, 2010 compared to 40.5% for the comparable period last year as a result of higher initial margins and less markdown activity across substantially all product categories.

Selling, general and administrative expenses increased to $103.5 million in the six month period ended July 31, 2010 from $84.1 million in the same period last year. This increase is primarily a result of increases in personnel costs ($8.7 million), advertising and promotion expenses ($4.3 million) and facility costs ($3.6 million). Personnel costs increased due to an increase in accrued bonuses as a result of expected profitability for the year and as a result of salaries in the prior comparable period having been reduced as part of cost cutting measures taken by us last year that were in effect for the first six months of fiscal 2010. Advertising costs increased because sales of licensed product, primarily Calvin Klein, increased and we typically pay an advertising fee under our license agreements based on a percentage of sales of licensed product. Facility costs increased as a result of increased third party warehousing costs due to increased shipping volume. Facility costs also increased as a result of rent expense associated with new leases entered into for additional warehouse, showroom and office space.

Depreciation and amortization decreased to $2.6 million in the six months ended July 31, 2010 from $2.8 million in the same period last year primarily as a result of certain intangible assets that became fully amortized during fiscal 2010.

Interest and finance charges, net for the six months ended July 31, 2010 were approximately $1.0 million compared to $1.7 million for the comparable period last year. Our charges were lower because we did not draw on our credit facility in the first fiscal quarter due to application of the proceeds from our public offering in December 2009 to temporarily pay down debt under the facility.

Income tax expense for the six months ended July 31, 2010 was $1.1 million compared to a tax benefit of $6.9 million for the same period last year. Income taxes shifted from a benefit to an expense because of our net income for the six months ended July 31, 2010 compared to a net loss in the prior year. The effective tax rate for the six month period ended July 31, 2010 was 40.0% compared to an effective tax rate of 42.0% in the same period last year. The effective tax rate in the prior comparable period is higher primarily because we were not able to recognize the benefit of certain state losses incurred by our AM Retail Group, Inc. subsidiary that operates our Wilsons retail outlet stores.

Liquidity and Capital Resources

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

The amount borrowed under our line of credit varies based on our seasonal requirements. At July 31, 2010, we had cash and cash equivalents of $6.1 million and outstanding borrowings of $77.4 million. At July 31, 2009, we had cash and cash equivalents of $5.7 million and outstanding borrowings of $111.3 million. The primary reason for our improved net cash position compared to last year was the receipt of $34.7 million in net proceeds from our public offering of common stock in December 2009.

Our contingent liability under open letters of credit was approximately $25.4 million as of July 31, 2010 compared to $16.8 million as of July 31, 2009.

Financing Agreement

We have a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The financing agreement is a senior secured revolving credit facility. The financing agreement was amended in May 2010 to (a) increase the maximum line of credit from $250 million to $300 million, (b) reduce the interest rate on borrowings by 0.25% to, at our option, the prime rate plus 0.50% or LIBOR plus 2.75%, (c) extend the maturity of the loan from July 11, 2011 to July 31, 2013, and (d) revise the maximum senior leverage ratio that we must maintain. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires us, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined, and also limits payments for cash dividends and stock redemptions. As of July 31, 2010, we were in compliance with these covenants. The financing agreement is secured by all of our assets.

Cash from Operating Activities

We used $111.7 million of cash in operating activities during the six months ended July 31, 2010, primarily as a result of increases in inventory of $103.7 million and accounts receivable of $46.2 million, offset, in part, by an increase in accounts payable and accrued expenses of $49.9 million.

The changes in these operating cash flow items are consistent with our seasonal pattern of building up inventory for the fall shipping season resulting in the increase in inventory and accounts payable. The fall shipping season begins during our second quarter resulting in the increase in accounts receivable.

Cash from Investing Activities

We used $10.7 million of cash in investing activities in the six months ended July 31, 2010 for capital expenditures. These capital expenditures related primarily to build out and renovation costs with respect to our new warehouse facility that we leased in December 2009 and with respect to the amended leases we entered into in March 2010 relating to our existing corporate showrooms and offices to extend the leases and add additional office space. We expect our capital expenditures for fiscal 2011 to aggregate approximately $22.5 million for the build out and renovation of the additional warehouse facility, showroom and office space, as well as to add approximately 5-10 retail outlet stores.

Cash from Financing Activities

Cash from financing activities provided $81.8 million in the six months ended July 31, 2010, primarily as a result of $77.4 million of borrowings under our line of credit and $3.2 million in tax benefits recognized from equity compensation.

Financing Needs

We believe that our cash on hand and cash generated from operations, together with funds available from our line of credit, are sufficient to meet our expected operating and capital expenditure requirements. We may seek to acquire other businesses in order to expand our product offerings. We may need additional financing in order to complete one or more acquisitions. We cannot be certain that we will be able to obtain additional financing, if required, on acceptable terms or at all.

Critical Accounting Policies

Our discussion of results of operations and financial condition relies on our consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. We believe that investors need to be aware of these policies and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While we believe that these accounting policies are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts. The accounting policies and related estimates described in our Annual Report on Form 10-K for the year ended January 31, 2010 are those that depend most heavily on these judgments and estimates. As of July 31, 2010, there have been no material changes to our critical accounting policies.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There are no material changes to the disclosure made with respect to these matters in our Annual Report on Form 10-K for the year ended January 31, 2010.

Item 4. Controls and Procedures.

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

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

Table of Contents

PART II OTHER INFORMATION

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 31, 2010, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits.

31.1	Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2010.
31.2	Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2010.
32.1	Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2010.
32.2	Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2010.

Table of Contents

SIGNATURES

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

G-III APPAREL GROUP, LTD.
(Registrant)

Date: September 9, 2010	By: /s/ Morris Goldfarb Morris Goldfarb Chief Executive Officer
Date: September 9, 2010	By: /s/ Neal S. Nackman Neal S. Nackman Chief Financial Officer