

GUESS INC  
Form 10-Q  
September 10, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(MARK ONE)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934**

**For the quarterly period ended August 2, 2008**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**95-3679695**  
(I.R.S. Employer  
Identification No.)

**1444 South Alameda Street**  
**Los Angeles, California, 90021**

(Address of principal executive offices)

**(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 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 | <input checked="" type="checkbox"/>                                    | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

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

Yes

No

As of September 5, 2008, the registrant had 94,105,173 shares of Common Stock, \$.01 par value per share, outstanding.



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**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements.**



**GUESS?, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**



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(in thousands, except share data)

|   | Aug. 2,<br>2008<br>(unaudited) | Feb. 2,<br>2008 |
|---|--------------------------------|-----------------|
| <b>ASSETS</b>   |                                |                 |
| Current assets:   |                                |                 |
| Cash and cash equivalents   | \$ 294,481                     | \$ 275,595      |
| Accounts receivable, net  | 288,173                        | 254,400         |
| Inventories   | 258,888                        | 232,159         |
| Prepaid expenses and other current assets   | 51,199                         | 31,411          |
| Deferred tax assets   | 20,108                         | 21,174          |
| Total current assets  | 912,849                        | 814,739         |
| Property and equipment, net   | 252,464                        | 229,917         |
| Goodwill  | 30,708                         | 29,431          |
| Other intangible assets, net  | 23,880                         | 23,708          |
| Long-term deferred tax assets   | 57,413                         | 57,726          |
| Other assets  | 39,976                         | 30,707          |
|   | \$ 1,317,290                   | \$ 1,186,228    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                |                 |
| Current liabilities:  |                                |                 |
| Current portion of borrowings and capital lease obligations   | \$ 40,703                      | \$ 35,254       |
| Accounts payable  | 240,615                        | 210,258         |
| Accrued expenses  | 154,569                        | 142,779         |
| Total current liabilities   | 435,887                        | 388,291         |
| Borrowings and capital lease obligations  | 18,173                         | 18,724          |
| Long-term deferred rent and lease incentives  | 46,024                         | 40,036          |
| Long-term deferred royalties  | 23,330                         | 27,062          |
| Other long-term liabilities   | 50,122                         | 49,152          |
|   | 573,536                        | 523,265         |
| Minority interests  | 8,465                          | 5,989           |
| Commitments and contingencies (Note 11)   |                                |                 |
| 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 135,756,144 and 135,051,396 shares, outstanding 94,126,185 and 94,337,674 shares, at August 2, 2008 and February 2, 2008, respectively | 941                            | 943             |
| Paid-in capital   | 270,650                        | 255,486         |
| Retained earnings   | 629,324                        | 542,856         |
| Accumulated other comprehensive income  | 19,135                         | 9,529           |
| Treasury stock, 41,629,959 and 40,713,722 shares at August 2, 2008 and February 2, 2008, respectively   | (184,761)                      | (151,840)       |
| Total stockholders' equity  | 735,289                        | 656,974         |
|   | \$ 1,317,290                   | \$ 1,186,228    |

See accompanying notes to condensed consolidated financial statements.

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**GUESS?, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

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(in thousands, except per share data)  
(unaudited)

|  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | Aug. 2,<br>2008    | Aug. 4,<br>2007 | Aug. 2,<br>2008  | Aug. 4,<br>2007 |
| <b>Net revenue:</b>  |                    |                 |                  |                 |
| Product sales  | \$ 488,956         | \$ 366,739      | \$ 954,691       | \$ 724,382      |
| Net royalties  | 26,216             | 21,548          | 49,701           | 41,854          |
|  | 515,172            | 388,287         | 1,004,392        | 766,236         |
| Cost of product sales  | 283,017            | 214,935         | 550,998          | 425,471         |
| Gross profit   | 232,155            | 173,352         | 453,394          | 340,765         |
| <b>Selling, general and administrative expenses</b>              |                    |                 |                  |                 |
|  | 147,145            | 113,991         | 292,459          | 223,470         |
| Earnings from operations   | 85,010             | 59,361          | 160,935          | 117,295         |
| <b>Other (income) expense:</b>                                   |                    |                 |                  |                 |
| Interest expense   | 799                | 387             | 1,824            | 1,311           |
| Interest income  | (1,553)            | (2,036)         | (3,086)          | (3,748)         |
| Other (income) expense   | 724                | (530)           | 1,632            | 361             |
|  | (30)               | (2,179)         | 370              | (2,076)         |
| <b>Earnings before income tax expense and minority interests</b> |                    |                 |                  |                 |
|  | 85,040             | 61,540          | 160,565          | 119,371         |
| Income tax expense   | 30,616             | 24,036          | 57,805           | 46,399          |
| Minority interests expense (income)                              | 592                | 22              | 1,127            | (37)            |
| Net earnings   | \$ 53,832          | \$ 37,482       | \$ 101,633       | \$ 73,009       |
| <b>Earnings per share:</b>                                       |                    |                 |                  |                 |
| Basic  | \$ 0.58            | \$ 0.41         | \$ 1.09          | \$ 0.79         |
| Diluted  | \$ 0.57            | \$ 0.40         | \$ 1.08          | \$ 0.78         |
| Dividends declared per share                                     | \$ 0.08            | \$ 0.06         | \$ 0.16          | \$ 0.12         |
| <b>Weighted average shares outstanding:</b>                      |                    |                 |                  |                 |
| Basic  | 93,008             | 92,180          | 92,979           | 92,033          |
| Diluted  | 93,893             | 93,507          | 93,966           | 93,373          |

See accompanying notes to condensed consolidated financial statements.







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**GUESS?, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

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(in thousands)  
(unaudited)

|  | Six Months Ended |                 |
|--|------------------|-----------------|
|  | Aug. 2,<br>2008  | Aug. 4,<br>2007 |
| <b>Cash flows from operating activities:</b>   |                  |                 |
| Net earnings   | \$ 101,633       | \$ 73,009       |
| <b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b> |                  |                 |
| Depreciation and amortization of property and equipment                                    | 25,480           | 21,834          |
| Amortization of intangible assets  | 3,898            | 2,724           |
| Share-based compensation expense   | 10,927           | 8,429           |
| Net loss on disposition of long-term assets and property and equipment                     | 3,008            | 783             |
| Other items, net   | 4,578            | (238)           |
| Minority interests   | 1,127            | (37)            |
| <b>Changes in operating assets and liabilities:</b>  |                  |                 |
| Accounts receivable  | (33,773)         | (44,246)        |
| Inventories  | (26,729)         | (52,709)        |
| Prepaid expenses and other assets  | (27,791)         | (13,539)        |
| Accounts payable and accrued expenses  | 42,828           | 62,846          |
| Long-term deferred rent and lease incentives   | 5,988            | 4,599           |
| Deferred royalties   | (3,732)          | (3,132)         |
| Other long-term liabilities  | 4,680            | 1,503           |
| Net cash provided by operating activities  | 112,122          | 61,826          |
| <b>Cash flows from investing activities:</b>   |                  |                 |
| Purchases of property and equipment  | (50,310)         | (44,096)        |
| Purchases of long-term investments and deposits on property and equipment                  | (5,701)          | (13,628)        |
| Net cash used in investing activities  | (56,011)         | (57,724)        |
| <b>Cash flows from financing activities:</b>   |                  |                 |
| Certain short-term borrowings, net   | 6,211            | (16,179)        |
| Repayment of borrowings and capital lease obligation                                       | (2,296)          | (742)           |
| Dividends paid   | (15,165)         | (11,209)        |
| Minority interest capital contributions  | 1,005            |                 |
| Issuance of common stock net of nonvested award repurchases                                | (95)             | 5,530           |
| Excess tax benefits from share-based compensation  | 4,628            | 8,966           |
| Purchase of treasury stock   | (33,051)         |                 |
| Net cash used in financing activities  | (38,763)         | (13,634)        |
| Effect of exchange rates on cash and cash equivalents                                      | 1,538            | 2,371           |
| Net increase (decrease) in cash and cash equivalents                                       | 18,886           | (7,161)         |
| Cash and cash equivalents at beginning of period   | 275,595          | 207,617         |
| Cash and cash equivalents at end of period   | \$ 294,481       | \$ 200,456      |
| <b>Supplemental cash flow data:</b>  |                  |                 |
| Interest paid  | \$ 1,608         | \$ 883          |
| Income taxes paid  | \$ 37,035        | \$ 39,309       |

See accompanying notes to condensed consolidated financial statements.

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

August 2, 2008

(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 August 2, 2008 and February 2, 2008, the condensed consolidated statements of income for the three and six months ended August 2, 2008 and August 4, 2007, and the condensed consolidated statements of cash flows for the six months ended August 2, 2008 and August 4, 2007. 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 six months ended August 2, 2008 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 2, 2008.

The three and six month periods ended August 2, 2008 had the same number of days as the three and six month periods ended August 4, 2007.

**(2) Earnings Per Share and Stockholders Equity**

Basic earnings per share represent net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share represent net earnings divided by the weighted-average number of shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period using the treasury stock method.

Weighted-average common shares outstanding (in thousands):

|  | Three Months Ended |                | Six Months Ended |                 |
|--|--------------------|----------------|------------------|-----------------|
|  | Aug. 2,<br>2008    | Aug 4,<br>2007 | Aug. 2,<br>2008  | Aug. 4,<br>2007 |
| Weighted average shares used in basic computations   | 93,008             | 92,180         | 92,979           | 92,033          |
| Dilutive equity awards                               | 885                | 1,327          | 987              | 1,340           |
| Weighted average shares used in diluted computations | 93,893             | 93,507         | 93,966           | 93,373          |

For the three months ended August 2, 2008 and August 4, 2007, options for 1,082,322 and 320,420, respectively, of the Company s shares and for the six months ended August 2, 2008 and August 4, 2007, options for 908,929 and 263,619, respectively, of the Company s shares were outstanding but were excluded from the computation of diluted weighted average common shares and common share equivalents outstanding because their effect would have been anti-dilutive.

The Company also excluded 1,087,000 nonvested stock awards granted to certain employees from the computation of diluted weighted average common shares and common share equivalents outstanding, because they are subject to certain performance-based annual vesting conditions which had not been achieved by the end of the three and six month periods ended August 2, 2008. Assuming the current fiscal year s annual performance criteria had been achieved as of August 2, 2008, the incremental dilutive impact would have been approximately 86,222 and 62,105



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shares, respectively, for the three and six month periods then ended.

In March 2008, the Company's Board of Directors terminated the previously authorized 2001 share repurchase program and authorized a new program to repurchase, from time-to-time and as market and business conditions warrant, up to \$200 million of the Company's common stock (the 2008 Share Repurchase Program). Repurchases 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 and the program may be discontinued at any time, without prior notice. During the six months ended August 2, 2008, the Company repurchased 951,000 shares under the 2008 Share Repurchase Program at an aggregate cost of \$33.1 million. All such share repurchases were made during the three months ended August 2, 2008.

Table of Contents**(3) Comprehensive Income**

Comprehensive income consists of net earnings, Supplemental Executive Retirement Plan ( SERP ) related prior service cost and actuarial valuation loss amortization, unrealized gains or losses on investments available for sale, foreign currency translation adjustments and the effective portion of the change in the fair value of cash flow hedges.

A reconciliation of comprehensive income for the three and six months ended August 2, 2008 and August 4, 2007 is as follows (in thousands):

|  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | Aug. 2,<br>2008    | Aug. 4,<br>2007 | Aug. 2,<br>2008  | Aug. 4,<br>2007 |
| Net earnings   | \$ 53,832          | \$ 37,482       | \$ 101,633       | \$ 73,009       |
| Foreign currency translation adjustment  | 1,210              | 1,074           | 6,676            | 10,205          |
| Unrealized gain (loss) on hedges, net of tax effect                                  | 856                | (883)           | 2,185            | (1,443)         |
| Unrealized loss on investments, net of tax effect                                    | (73)               | (138)           | (109)            | (99)            |
| SERP prior service cost and actuarial valuation loss amortization, net of tax effect | 427                | 358             | 854              | 716             |
| Comprehensive income   | \$ 56,252          | \$ 37,893       | \$ 111,239       | \$ 82,388       |

**(4) Accounts Receivable**

Accounts receivable consists of trade receivables primarily relating to the Company's wholesale businesses in Europe, North America and Asia. The Company provided for allowances relating to these receivables of \$23.2 million and \$20.3 million, at August 2, 2008 and February 2, 2008, respectively. In addition, accounts receivable includes royalty receivables relating to licensing operations, for which the Company recorded an allowance for doubtful accounts of \$0.5 million and \$0.3 million at August 2, 2008 and February 2, 2008, respectively. 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):

|                       | Aug. 2,<br>2008 | Feb. 2,<br>2008 |
|-----------------------|-----------------|-----------------|
| Raw materials         | \$ 9,652        | \$ 6,506        |
| Work in progress      | 3,723           | 5,596           |
| Finished goods Europe | 93,183          | 87,459          |
| Finished goods Retail | 105,920         | 92,965          |

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|                |           |    |         |    |         |
|----------------|-----------|----|---------|----|---------|
| Finished goods | Wholesale |    | 46,410  |    | 39,633  |
|                |           | \$ | 258,888 | \$ | 232,159 |

As of August 2, 2008 and February 2, 2008, inventories had been written down to the lower of cost or market by \$25.3 million and \$21.2 million, respectively.

**(6) 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, which is subject to ongoing review and evaluation by management. The Company's effective income tax rate decreased 290 basis points to 36.0% for the six months ended August 2, 2008 compared to 38.9% in the six months ended August 4, 2007 primarily due to a higher proportion of earnings in lower tax jurisdictions.

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The business segments of the Company are retail, wholesale, European and licensing. Management evaluates segment performance based primarily on revenues and earnings from operations. Corporate overhead, global advertising and marketing expenditures, interest income and interest expense and other income and expense are evaluated on a consolidated basis and are not allocated to the Company's business segments.

Net revenue and earnings from operations are summarized as follows for the three and six months ended August 2, 2008 and August 4, 2007 (in thousands):

|                                  | Three Months Ended |                 | Six Months Ended |                 |
|----------------------------------|--------------------|-----------------|------------------|-----------------|
|                                  | Aug. 2,<br>2008    | Aug. 4,<br>2007 | Aug. 2,<br>2008  | Aug. 4,<br>2007 |
| Net revenue:                     |                    |                 |                  |                 |
| Retail operations                | \$ 242,360         | \$ 201,573      | \$ 454,297       | \$ 381,102      |
| Wholesale operations             | 72,363             | 57,278          | 147,497          | 116,473         |
| European operations              | 174,233            | 107,888         | 352,897          | 226,807         |
| Licensing operations             | 26,216             | 21,548          | 49,701           | 41,854          |
|                                  | \$ 515,172         | \$ 388,287      | \$ 1,004,392     | \$ 766,236      |
| Earnings (loss) from operations: |                    |                 |                  |                 |
| Retail operations                | \$ 30,136          | \$ 27,761       | \$ 52,980        | \$ 47,653       |
| Wholesale operations             | 10,791             | 10,193          | 23,345           | 20,894          |
| European operations              | 40,126             | 19,366          | 80,087           | 47,083          |
| Licensing operations             | 22,530             | 19,107          | 42,777           | 36,464          |
| Corporate overhead               | (18,573)           | (17,066)        | (38,254)         | (34,799)        |
|                                  | \$ 85,010          | \$ 59,361       | \$ 160,935       | \$ 117,295      |

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.

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

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

|   | Aug. 2,<br>2008 | Feb. 2,<br>2008 |
|---|-----------------|-----------------|
| Short-term borrowings with European banks               | \$ 38,418       | \$ 32,742       |
| European capital lease, maturing quarterly through 2016 | 20,458          | 20,422          |
| Other loans   |                 | 814             |
|   | 58,876          | 53,978          |

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|                           |        |        |
|---------------------------|--------|--------|
| Less current installments | 40,703 | 35,254 |
|---------------------------|--------|--------|