

GUESS INC  
Form 10-Q  
December 07, 2010  
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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 October 30, 2010**

**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)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-3679695**

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

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

(Address of principal executive offices)

**90021**

(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 2, 2010, the registrant had 92,010,800 shares of Common Stock, \$.01 par value per share, outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements.****GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	Oct. 30, 2010 (unaudited)	Jan. 30, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 469,020	\$ 502,063
Accounts receivable, net	372,217	283,747
Inventories	346,014	253,162
Deferred tax assets	31,091	30,570
Other current assets	54,382	54,621
Total current assets	1,272,724	1,124,163
Property and equipment, net	299,954	255,308
Goodwill	30,030	29,877
Other intangible assets, net	10,742	15,974
Long-term deferred tax assets	53,211	55,504
Other assets	99,034	50,423
	\$ 1,765,695	\$ 1,531,249
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$ 2,264	\$ 2,357
Accounts payable	228,091	195,075
Accrued expenses	193,298	145,321
Total current liabilities	423,653	342,753
Capital lease obligations	12,949	14,137
Deferred rent and lease incentives	74,430	60,642
Other long-term liabilities	74,962	73,561
	585,994	491,093
Redeemable noncontrolling interests	16,119	13,813
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 137,175,910 and 136,568,091 shares, outstanding 91,880,218 and 92,736,761 shares, at October 30, 2010 and January 30, 2010, respectively	919	927

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Paid-in capital	352,916	319,737
Retained earnings	1,060,032	919,531
Accumulated other comprehensive (loss) income	7,566	(2,952)
Treasury stock, 45,295,692 and 43,831,330 shares at October 30, 2010 and January 30, 2010, respectively	(266,195)	(217,032)
Guess?, Inc. stockholders' equity	1,155,238	1,020,211
Nonredeemable noncontrolling interests	8,344	6,132
Total stockholders' equity	1,163,582	1,026,343
	\$ 1,765,695	\$ 1,531,249

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**(in thousands, except per share data)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009	Oct. 30, 2010	Oct. 31, 2009
Net revenue:				
Product sales	\$ 580,922	\$ 494,998	\$ 1,645,553	\$ 1,414,489
Net royalties	32,981	27,814	84,826	71,947
	613,903	522,812	1,730,379	1,486,436
Cost of product sales	347,506	285,921	976,495	840,265
Gross profit	266,397	236,891	753,884	646,171
Selling, general and administrative expenses	173,682	137,917	487,722	408,049
Pension curtailment expense			5,819	
Earnings from operations	92,715	98,974	260,343	238,122
Other income (expense):				
Interest expense	(262)	(778)	(775)	(1,723)
Interest income	602	277	1,585	1,461
Other income (expense), net	5,854	(1,340)	9,026	(1,413)
	6,194	(1,841)	9,836	(1,675)
Earnings before income tax expense	98,909	97,133	270,179	236,447
Income tax expense	28,818	32,054	81,055	78,028
Net earnings	70,091	65,079	189,124	158,419
Net earnings attributable to noncontrolling interests	1,002	1,009	2,942	2,247
Net earnings attributable to Guess?, Inc.	\$ 69,089	\$ 64,070	\$ 186,182	\$ 156,172
Earnings per common share attributable to common stockholders (Note 2):				
Basic	\$ 0.75	\$ 0.69	\$ 2.01	\$ 1.70
Diluted	\$ 0.75	\$ 0.69	\$ 2.00	\$ 1.68
Weighted average common shares outstanding attributable to common stockholders (Note 2):				
Basic	90,911	90,941	91,474	90,765
Diluted	91,543	91,778	92,174	91,416
Dividends declared per common share	\$ 0.16	\$ 0.125	\$ 0.48	\$ 0.325

*See accompanying notes to condensed consolidated financial statements.*



Table of Contents**GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**(in thousands)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009	Oct. 30, 2010	Oct. 31, 2009
Net earnings	\$ 70,091	\$ 65,079	\$ 189,124	\$ 158,419
Foreign currency translation adjustment	30,785	10,154	10,907	44,852
Unrealized (loss) gain on hedges, net of tax effect	(6,499)	(1,282)	(5,442)	(10,219)
Unrealized (loss) gain on investments, net of tax effect	36	38	231	98
SERP prior service cost and actuarial valuation loss amortization, including curtailment expense, net of tax effect	343	292	5,018	868
Comprehensive income	94,756	74,281	199,838	194,018
Less comprehensive income attributable to noncontrolling interests	(1,473)	(515)	(3,138)	(2,822)
Comprehensive income attributable to Guess?, Inc.	\$ 93,283	\$ 73,766	\$ 196,700	\$ 191,196

*See accompanying notes to condensed consolidated financial statements.*



Table of Contents**GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**(in thousands)  
(unaudited)

	Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009
Cash flows from operating activities:		
Net earnings	\$ 189,124	\$ 158,419
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	45,278	41,380
Amortization of intangible assets	2,921	5,713
Share-based compensation expense	22,722	19,447
Unrealized forward contract (gains) losses	4,512	4,776
Net loss on disposition of property and equipment	4,133	1,289
Pension curtailment expense	5,819	
Other items, net	(2,822)	(1,495)
Changes in operating assets and liabilities:		
Accounts receivable	(84,544)	(26,169)
Inventories	(89,212)	(10,970)
Prepaid expenses and other assets	(42,655)	5,349
Accounts payable and accrued expenses	64,148	(35,231)
Deferred rent and lease incentives	13,657	7,283
Other long-term liabilities	1,227	(1,478)
Net cash provided by operating activities	134,308	168,313
Cash flows from investing activities:		
Purchases of property and equipment	(84,896)	(61,913)
Proceeds from dispositions of long-term assets	1,450	474
Acquisition of lease interest	(2,249)	
Acquisition of businesses, net of cash acquired		549
Net cash settlement of forward contracts	6,859	429
Purchases of long-term investments	(6,687)	(5,597)
Net cash used in investing activities	(85,523)	(66,058)
Cash flows from financing activities:		
Certain short-term borrowings, net	536	(26,034)
Proceeds from borrowings		40,000
Repayment of borrowings and capital lease obligations	(1,160)	(41,266)
Dividends paid	(44,545)	(30,008)
Noncontrolling interest capital contributions		650
Noncontrolling interest capital distributions		(1,311)
Issuance of common stock, net of nonvested award repurchases	5,471	2,865
Excess tax benefits from share-based compensation	6,158	2,651
Purchase of treasury stock	(49,361)	(5,309)
Net cash used in financing activities	(82,901)	(57,762)
Effect of exchange rates on cash and cash equivalents	1,073	6,251
Net increase (decrease) in cash and cash equivalents	(33,043)	50,744
Cash and cash equivalents at beginning of period	502,063	294,118
Cash and cash equivalents at end of period	\$ 469,020	\$ 344,862

Supplemental cash flow data:

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Interest paid	\$	574	\$	1,538
Income taxes paid	\$	50,889	\$	75,482

*See accompanying notes to condensed consolidated financial statements.*

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**October 30, 2010**

(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 October 30, 2010 and January 30, 2010, and the condensed consolidated statements of income and condensed consolidated statements of comprehensive income for the three and nine months ended October 30, 2010 and October 31, 2009, and the condensed consolidated statements of cash flows for the nine months ended October 30, 2010 and October 31, 2009. 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 October 30, 2010 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 January 30, 2010. The Company has made certain reclassifications to the prior year s consolidated financial statements to conform to classifications in the current year. These reclassifications, none of which are material, had no impact on previously reported statements of income.

The three and nine months ended October 30, 2010 had the same number of days as the three and nine months ended October 31, 2009. All references herein to fiscal 2011 and fiscal 2010 represent the results of the 52-week fiscal years ended January 29, 2011 and January 30, 2010, respectively.

*New Accounting Guidance*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued authoritative guidance that requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics, among others: (a) the power to direct the activities of a variable interest entity that most significantly impacts the entity s economic performance, and (b) the obligation to absorb losses or the right to receive benefits from the entity, that could potentially be significant to the variable interest entity. Under this guidance, ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity are required. The Company adopted the relevant provisions of the guidance on January 31, 2010 and will apply the requirements prospectively. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In January 2010, the FASB issued authoritative guidance that expands the required disclosures about fair value measurements. This guidance provides for new disclosures requiring the Company to (a) disclose separately the amounts of significant transfers in and out of Level 1 and

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Level 2 fair value measurements and describe the reasons for the transfers, and (b) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Company to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type, and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. The Company adopted the guidance effective January 31, 2010, except for the presentation of purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements, which will be effective for fiscal years beginning after December 15, 2010. The adoption of the first phase of this guidance did not have a material impact on the Company's consolidated financial statements.

### (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 for the period. Diluted earnings per share represent 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 FASB issued 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.

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The computation of basic and diluted net earnings per common share attributable to common stockholders is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009	Oct. 30, 2010	Oct. 31, 2009
Net earnings attributable to Guess?, Inc.	\$ 69,089	\$ 64,070	\$ 186,182	\$ 156,172
Net earnings attributable to nonvested restricted stockholders	676	886	1,911	2,302
Net earnings attributable to common stockholders	\$ 68,413	\$ 63,184	\$ 184,271	\$ 153,870
Weighted average shares used in basic computations	90,911	90,941	91,474	90,765
Effect of dilutive securities:				
Stock options and restricted stock units	632	837	700	651
Weighted average shares used in diluted computations	91,543	91,778	92,174	91,416
Net earnings per common share attributable to common stockholders:				
Basic	\$ 0.75	\$ 0.69	\$ 2.01	\$ 1.70
Diluted	\$ 0.75	\$ 0.69	\$ 2.00	\$ 1.68

For the three months ended October 30, 2010 and October 31, 2009, equity awards granted for 795,166 and 650,361, respectively, of the Company's common shares and for the nine months ended October 30, 2010 and October 31, 2009, equity awards granted for 700,936 and 1,365,817 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 their effect would have been anti-dilutive.

In addition to the participating securities discussed above, the Company also excluded 563,400 nonvested stock options granted to certain employees from the computation of diluted weighted average common shares and common share equivalents outstanding for the three and nine months ended October 31, 2009, because they were subject to a performance-based annual vesting condition.

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 \$200.0 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 nine months ended October 30, 2010, the Company repurchased 1,500,000 shares under the 2008 Share Repurchase Program at an aggregate cost of \$49.3 million. All such share repurchases were made during the three months ended July 31, 2010. During the nine months ended October 31, 2009, the Company repurchased 407,600 shares under the 2008 Share Repurchase Program at an aggregate cost of \$5.3 million. All such share repurchases were made during the three months ended May 2, 2009. At October 30, 2010, the Company had remaining authority under the 2008 Share Repurchase Program to purchase an additional \$84.9 million of its common stock.

Table of Contents**(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 January 30, 2010 and nine months ended October 30, 2010 is as follows (in thousands):

	Guess?, Inc. Stockholders Equity	Stockholders' Equity Nonredeemable Noncontrolling Interests	Total	Redeemable Noncontrolling Interests
Balances at January 31, 2009	\$ 773,001	\$ 2,453	\$ 775,454	\$ 10,050
Issuance of common stock under stock compensation plans, net of tax effect	9,408		9,408	
Issuance of stock under ESPP	1,249		1,249	
Share-based compensation	27,339		27,339	
Dividends	(41,598)		(41,598)	
Share repurchases	(5,309)		(5,309)	
Acquisition of subsidiary with redeemable put feature				2,815
Noncontrolling interest capital contribution		1,001	1,001	
Noncontrolling interest capital distribution	(109)	(1,202)	(1,311)	
Comprehensive income (loss) (a):				
Net earnings	242,761	3,569	246,330	
Foreign currency translation adjustment	22,684	311	22,995	948
Unrealized loss on hedges, net of income tax of \$2,690	(6,918)		(6,918)	
Unrealized gain on investments, net of income tax of \$58	94		94	
SERP prior service cost and actuarial valuation loss amortization, net of income tax of \$1,435	(2,391)		(2,391)	
Balances at January 30, 2010	\$ 1,020,211	\$ 6,132	\$ 1,026,343	\$ 13,813
Issuance of common stock under stock compensation plans, net of tax effect	9,700		9,700	
Issuance of stock under ESPP	1,072		1,072	
Share-based compensation	22,722		22,722	
Dividends	(44,608)		(44,608)	
Share repurchases	(49,361)		(49,361)	
Redeemable noncontrolling interests redemption value adjustment	(1,198)	(926)	(2,124)	2,124
Comprehensive income (loss) (a):				
Net earnings	186,182	2,942	189,124	
Foreign currency translation adjustment	10,711	196	10,907	182
Unrealized loss on hedges, net of income tax of \$521	(5,442)		(5,442)	
Unrealized gain on investments, net of income tax of \$161	231		231	
SERP prior service cost and actuarial valuation loss amortization, including curtailment expense, net of income tax of \$3,384	5,018		5,018	
Balances at October 30, 2010	\$ 1,155,238	\$ 8,344	\$ 1,163,582	\$ 16,119

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(a) Total 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.

### *Redeemable Noncontrolling Interests*

In connection with the acquisition of two majority-owned subsidiaries, the Company is party to put arrangements with respect to the common securities that represent the remaining noncontrolling interests of the acquired companies. Each put arrangement is exercisable by the counter-party outside the control of the Company by requiring the Company to redeem the counterparty's entire equity stake in the subsidiary at a put price based on a multiple of earnings formula. Each put arrangement is recorded on the balance

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sheet at its redemption value and classified as a redeemable noncontrolling interest outside of permanent equity. As of October 30, 2010, the redeemable noncontrolling interests of \$16.1 million was composed of redemption values related to the Focus Europe S.r.l. ( Focus ) and Guess Sud SAS ( Guess Sud ) put arrangements of \$11.9 million and \$4.2 million, respectively. As of January 30, 2010, the redeemable noncontrolling interests of \$13.8 million was composed of redemption values related to the Focus and Guess Sud put arrangements of \$10.9 million and \$2.9 million, respectively.

The put arrangement for Focus, representing 25% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the minority owner by providing written notice to the Company no later than June 27, 2012. The redemption value of the Focus put arrangement is based on a multiple of Focus's net earnings.

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 minority owners by providing written notice to the Company anytime after January 30, 2012 or sooner in certain limited circumstances. The redemption value of the Guess Sud put arrangement is based on a multiple of Guess Sud's earnings before interest, taxes, depreciation and amortization.

**(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 \$30.4 million and \$29.9 million at October 30, 2010 and January 30, 2010, respectively. In addition, accounts receivable includes royalty receivables relating to licensing operations of \$27.9 million and \$23.0 million at October 30, 2010 and January 30, 2010, respectively, for which the Company recorded an allowance for doubtful accounts of \$0.8 million and \$0.7 million at October 30, 2010 and January 30, 2010, 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):

	Oct. 30, 2010	Jan. 30, 2010
Raw materials	\$ 9,622	\$ 9,405
Work in progress	3,682	2,689
Finished goods	332,710	241,068
	\$ 346,014	\$ 253,162

As of October 30, 2010 and January 30, 2010, inventories had been written down to the lower of cost or market by \$19.8 million and \$16.8 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. The Company's effective income tax rate decreased to 30.0% for the nine months ended October 30, 2010 from 33.0% for the nine months ended October 31, 2009, primarily due to a higher estimated proportion of annual earnings in lower tax jurisdictions and certain state tax refund claims submitted during the current year.

**(7) Segment Information**

In the first quarter of fiscal 2011, the Company revised its segment reporting whereby the North American wholesale and Asia segments are now separate segments for reporting purposes. The Company's businesses are now 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 from operations. The Company believes this segment reporting better reflects how its five business segments are managed and each segment's performance is evaluated. The North American retail segment includes the Company's retail operations in North America. The Europe segment includes both wholesale and retail operations in Europe and the Middle East. The Asia segment includes the Company's wholesale and retail operations in Asia. The North American wholesale segment includes the Company's wholesale operations in North America. The licensing segment includes the worldwide licensing operations of the Company. Corporate overhead, interest income, interest expense and other income and expense are evaluated on a consolidated basis and not allocated to the Company's business segments.

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Net revenue and earnings from operations are summarized as follows for the three and nine months ended October 30, 2010 and October 31, 2009 (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009	Oct. 30, 2010	Oct. 31, 2009
<b>Net revenue:</b>				
North American retail	\$ 253,721	\$ 239,518	\$ 731,296	\$ 674,538
Europe	216,161	168,829	625,460	524,686
Asia	54,770	40,527	145,529	102,355
North American wholesale	56,270	46,124	143,268	112,910
Licensing	32,981	27,814	84,826	71,947
	\$ 613,903	\$ 522,812	\$ 1,730,379	\$ 1,486,436
<b>Earnings (loss) from operations:</b>				
North American retail	\$ 19,326	\$ 33,110	\$ 70,008	\$ 81,325
Europe	42,565	40,801	127,396	116,233
Asia	8,291	5,472	21,129	9,532
North American wholesale	16,697	12,245	37,619	25,499
Licensing	30,941	24,176	76,491	61,863
Corporate overhead	(25,105)	(16,830)	(72,300)	(56,330)
	\$ 92,715	\$ 98,974	\$ 260,343	\$ 238,122

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.

All amounts for the years ended January 30, 2010 and January 31, 2009 have been revised as follows to conform to the new segment reporting described above (in thousands):

	First Quarter Ended	Second Quarter Ended	Third Quarter Ended	Fourth Quarter Ended	Year Ended	Year Ended
	May 2, 2009	Aug. 1, 2009	Oct. 31, 2009	Jan. 30, 2010	Jan. 30, 2010	Jan. 31, 2009
<b>Net revenue:</b>						
North American retail	\$ 207,560	\$ 227,460	\$ 239,518	\$ 309,365	\$ 983,903	\$ 977,980
Europe	145,698	210,159	168,829	222,556	747,242	718,964
Asia	32,296	29,532	40,527	44,932	147,287	119,878
North American wholesale	33,573	33,213	46,124	39,772	152,682	176,303
Licensing	22,074	22,059	27,814	25,405	97,352	100,265
	\$ 441,201	\$ 522,423	\$ 522,812	\$ 642,030	\$ 2,128,466	\$ 2,093,390
<b>Earnings (loss) from operations:</b>						
North American retail	\$ 18,007	\$ 30,208	\$ 33,110	\$ 50,962	\$ 132,287	\$ 93,156
Europe	23,139	52,293	40,801	57,002	173,235	168,630
Asia	2,496	1,564	5,472	6,293	15,825	5,715
North American wholesale	4,926	8,328	12,245	9,667	35,166	39,786
Licensing	19,015	18,672	24,176	24,777	86,640	86,422

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Corporate overhead	(19,549)	(19,951)	(16,830)	(28,007)	(84,337)	(64,922)
	\$ 48,034	\$ 91,114	\$ 98,974	\$ 120,694	\$ 358,816	\$ 328,787

Table of Contents**(8) Borrowings and Capital Lease Obligations**

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

	Oct. 30, 2010	Jan. 30, 2010
European capital lease, maturing quarterly through 2016	\$ 14,624	\$ 15,756
Other	589	738
	15,213	16,494
Less current installments	2,264	2,357
Long-term capital lease obligations	\$ 12,949	\$ 14,137

The Company entered into a capital lease in December 2005 for a new building in Florence, Italy. At October 30, 2010, the capital lease obligation was \$14.6 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 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 October 30, 2010 was approximately \$1.0 million.

On September 19, 2006, the Company and certain of its subsidiaries entered into a credit facility led by Bank of America, N.A., as administrative agent for the lenders (the Credit Facility). The Credit Facility provides for an \$85 million revolving multicurrency line of credit and is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. The Credit Facility is scheduled to mature on September 30, 2011. The Company is in the early stages of discussions with potential lenders and fully expects to have a replacement facility in place prior to the scheduled maturity on September 30, 2011. The size, rates and other key terms of the replacement facility have yet to be determined. At October 30, 2010, the Company had \$11.4 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 borrowing agreements, primarily for working capital purposes, with various banks in Europe. Under these agreements, which are generally secured by specific accounts receivable balances, the Company can borrow up to \$221.6 million, limited primarily by accounts receivable balances at the time of borrowing. Based on the applicable accounts receivable balances at October 30, 2010, the Company could have borrowed up to approximately \$212.2 million under these agreements. However, the Company's ability to borrow through foreign subsidiaries is generally limited to \$185.0 million under the terms of the Credit Facility. At October 30, 2010, the Company had no outstanding borrowings and \$13.8 million in outstanding documentary letters of credit under these credit agreements. The agreements are primarily denominated in euros and provide for annual interest rates ranging from 0.8% to 3.1%. The maturities of the short-term borrowings 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 \$20.9 million that has a minimum net equity requirement, there are no other financial ratio covenants.

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

**(9) Share-Based Compensation**

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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 October 30, 2010 and October 31, 2009 (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009	Oct. 30, 2010	Oct. 31, 2009
Stock options	\$ 2,200	\$ 2,140	\$ 6,010	\$ 5,763
Nonvested stock awards/units	5,428	4,214	16,410	13,377
Employee Stock Purchase Plan	69	57	302	307
Total share-based compensation expense	\$ 7,697	\$ 6,411	\$ 22,722	\$ 19,447

Unrecognized compensation cost related to nonvested stock options and nonvested stock awards/units totaled approximately \$13.0 million and \$32.5 million, respectively, as of October 30, 2010. This unrecognized expense assumes the performance-based equity awards vest in the future. This cost is expected to be recognized over a weighted-average period of 1.3 years. The weighted average

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fair values of stock options granted during the nine months ended October 30, 2010 and October 31, 2009 were \$14.39 and \$8.94, respectively.

On April 29, 2010, the Company made an annual grant of 237,400 stock options and 230,300 nonvested stock awards/units to its employees. On April 14, 2009, the Company made an annual grant of 1,105,400 stock options and 106,400 nonvested awards/units to its employees.

On May 1, 2008, the Company granted an aggregate of 167,000 nonvested stock awards to certain employees which are subject to certain annual performance-based vesting conditions over a five-year period. On October 30, 2008, the Company granted an aggregate of 563,400 nonvested stock options to certain employees scheduled to vest over a four-year period, subject to the achievement of performance-based vesting conditions for fiscal 2010. During the first quarter of fiscal 2010, the Compensation Committee determined that the performance goals established in the prior year were no longer set at an appropriate level to incentivize and help retain employees given the greater than previously anticipated deterioration of the economy that had occurred since the goals were established. Therefore, in April 2009, the Compensation Committee modified the performance goals of that year's tranche of the outstanding performance-based stock awards and options to address the challenges associated with the economic environment. During the first quarter of fiscal 2011, the Compensation Committee modified the performance goals of the current year tranche of the outstanding performance based stock awards to address the continuing challenges associated with the economic environment. None of the modifications had a material impact on the consolidated financial statements of the Company.

**(10) 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 Maurice and Paul Marciano, who are executives of the Company, 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 October 30, 2010 with expiration dates ranging from 2011 to 2020. The lease with respect to the Company's corporate headquarters in Los Angeles, California, was amended in August 2010 to extend the term for an additional two years, to 2020. All other terms of the existing corporate headquarters lease remain in full force and effect. In September 2010, the Company, through a French subsidiary, entered into a lease for a new showroom and office space located in Paris, France with an entity that is owned in part by an affiliate of the Marciano Trusts. The new lease will allow the Company, which currently occupies two separate corporate locations in Paris, to consolidate its locations into a single improved and larger space. The Company expects to take possession of the new Paris facility during the first half of fiscal 2012, at which time lease payments and a nine year lease term will commence. The Paris lease provides for annual rent in the amount of \$0.9 million for the first year (with subsequent annual rent adjustments based on a specified price index) and includes a Company option for early termination at the end of the sixth year.

Aggregate rent expense under these related party leases for the nine months ended October 30, 2010 and October 31, 2009 was \$3.1 million and \$2.9 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 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 October 30, 2010 and October 31, 2009 were approximately \$0.7 million and \$0.5 million, respectively.

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 January 30, 2010.

**(11) Commitments and Contingencies**

*Leases*

The Company leases its showrooms and retail store locations under operating lease agreements expiring on various dates through September 2027. Some of these leases require the Company to make periodic payments for property taxes, utilities and common area

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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 3% to 6%, 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 January 2016.

*Incentive Bonuses*

Certain officers and key employees of the Company are eligible to receive annual cash incentive bonuses based on the achievement of specified performance criteria. These bonuses are based on performance measures such as earnings per share and earnings from operations of the Company or particular segments thereof, as well as other objective and subjective criteria as determined by the Compensation Committee of the Board of Directors. In addition to such annual incentive opportunities, Paul Marciano, Chief Executive Officer and Vice Chairman of the Company, is entitled to receive a \$3.5 million special cash bonus in December 2012, subject to the receipt by the Company of a fixed cash rights payment of \$35.0 million that is due in January 2012 from one of its licensees. In connection with this special bonus, the Company will accrue an expense of \$3.5 million, plus applicable payroll taxes, through December 2012.

*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 Guess Italia, S.r.l. asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint seeks injunctive relief, unspecified compensatory damages, including treble damages, and certain other relief. A similar complaint has also been filed in the Court of Milan, Italy. The Company plans to defend the allegations vigorously. The Company believes that it is too early to predict the outcome of this action or whether the outcome 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 October 30, 2010 related to any of the Company's legal proceedings.

**(12) Supplemental Executive Retirement Plan**

The components of net periodic pension cost for the three and nine months ended October 30, 2010 and October 31, 2009 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009	Oct. 30, 2010	Oct. 31, 2009
Service cost	\$ 69	\$ 53	\$ 207	\$ 159
Interest cost	557	513	1,673	1,539



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Net amortization of unrecognized prior service cost	186	436	808	1,308
Net amortization of actuarial losses	140		420	
Curtailment expense			5,819	
Net periodic defined benefit pension cost	\$ 952	\$ 1,002	\$ 8,927	\$ 3,006

As a non-qualified pension plan, no funding of the SERP is required; however, the Company has and expects to 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 cash surrender values of the insurance policies were \$28.7 million and \$22.1 million as of October 30, 2010 and January 30, 2010, respectively, and were included in other assets. The amount of future payments may vary, depending on the future years of service, future annual compensation of the participants and investment performance of the trust. As a result of the change in value of the insurance policy investments, the Company recorded gains of \$1.5 million and \$2.2 million in other income and expense during the three and nine months ended October 30, 2010, respectively, and gains of \$0.7 million and \$2.9 million during the three and nine months ended October 31, 2009, respectively.

During the nine months ended October 30, 2010, the Company recorded a pension plan curtailment expense of \$5.8 million before taxes related to the accelerated amortization of prior service cost resulting from the departure of Carlos Alberini, the Company's former President and Chief Operating Officer. Mr. Alberini's departure resulted in a significant reduction in the total expected remaining years of future service of all participants combined, resulting in the pension curtailment.

Table of Contents**(13) 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 October 30, 2010 and January 30, 2010 (in thousands):

Recurring Fair Value Measures	Fair Value Measurements at Oct. 30, 2010				Fair Value Measurements at Jan. 30, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Foreign exchange forward contracts	\$	\$ 3,220	\$	\$ 3,220	\$	\$ 8,075	\$	\$ 8,075
Securities available for sale	3,121			3,121	399			399
<b>Total</b>	<b>\$ 3,121</b>	<b>\$ 3,220</b>	<b>\$</b>	<b>\$ 6,341</b>	<b>\$ 399</b>	<b>\$ 8,075</b>	<b>\$</b>	<b>\$ 8,474</b>
<b>Liabilities:</b>								
Foreign exchange forward contracts	\$	\$ 10,649	\$	\$ 10,649	\$	\$ 922	\$	\$ 922
Interest rate swaps		1,261		1,261		1,231		1,231
Deferred compensation obligations		8,715		8,715		6,677		6,677
<b>Total</b>	<b>\$</b>	<b>\$ 20,625</b>	<b>\$</b>	<b>\$ 20,625</b>	<b>\$</b>	<b>\$ 8,830</b>	<b>\$</b>	<b>\$ 8,830</b>

The fair values of the Company's available-for-sale securities are based on quoted prices. Fair value of the interest rate swaps are based upon inputs corroborated by observable market data. The 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. 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.

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Long-term investments are recorded at fair value and consist of certain marketable equity securities of \$3.1 million and \$0.4 million at October 30, 2010 and January 30, 2010, respectively, and are included in other assets in the accompanying condensed consolidated balance sheets. Unrealized gains (losses), net of taxes, are included as a component of stockholders' equity and comprehensive income. The accumulated unrealized gains (losses), net of taxes, included in accumulated other comprehensive income relating to marketable equity securities owned by the Company at October 30, 2010 and January 30, 2010, were \$0.1 million and (\$0.1) million, respectively.

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 8) are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. At October 30, 2010, 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, such as property, plant, and equipment, and purchased intangibles that are subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets that are to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by such asset. If the carrying amount of an asset exceeds its estimated future

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cash flows, an impairment charge is recognized in the amount by which the carrying amount of such asset exceeds the estimated 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 the future cash flows. The estimated cash flows used for this nonrecurring fair value measurement is considered a Level 3 input as defined above.

**(14) 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 objective is to hedge the variability in forecasted cash flows due to the foreign currency risk. Various transactions that occur in Canada, Europe and South Korea are denominated in U.S. dollars, British pounds or Swiss francs 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 intercompany liabilities. In addition, certain sales and operating expenses 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 manage exchange risk on certain of these anticipated foreign currency transactions. The Company does not hedge all transactions denominated in foreign currency.

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 October 30, 2010, 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 capital lease obligation 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 cash flows. Refer to Note 8 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 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 within stockholders' equity,

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and are recognized in other income and expense in the period in which the royalty expense is incurred.

From time to time, Swiss franc forward contracts are used to hedge certain anticipated Swiss operating expenses over specific months. Changes in the fair value of Swiss franc forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income within stockholders' equity, and are recognized in selling, general and administrative ( SG&A ) expenses in the period which approximates the time the expenses are incurred.

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

Table of Contents*Summary of Derivative Instruments*

The fair value of derivative instruments in the condensed consolidated balance sheet as of October 30, 2010 and January 30, 2010 was as follows (in thousands):

	<b>Derivative Balance Sheet Location</b>	<b>Fair Value at Oct. 30, 2010</b>	<b>Fair Value at Jan. 30, 2010</b>
<b>ASSETS:</b>			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts	Other current assets	\$ 1,026	\$ 3,351
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Other current assets	2,194	4,724
<b>Total</b>		<b>\$ 3,220</b>	<b>\$ 8,075</b>
<b>LIABILITIES:</b>			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts	Current liabilities	\$ 4,929	\$ 116
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Current liabilities	5,720	806
Interest rate swaps	Long-term liabilities	1,261	1,231
<b>Total derivatives not designated as hedging instruments</b>		<b>6,981</b>	<b>2,037</b>
<b>Total</b>		<b>\$ 11,910</b>	<b>\$ 2,153</b>

*Forward Contracts Designated as Cash Flow Hedges*

During the nine months ended October 30, 2010, the Company purchased U.S. dollar forward contracts in Europe and Canada totaling US\$87.4 million and US\$63.7 million, respectively, to hedge forecasted merchandise purchases and intercompany royalties that were designated as cash flow hedges. As of October 30, 2010, the Company had forward contracts outstanding for its European and Canadian operations of US\$90.7 million and US\$55.8 million, respectively, which are expected to mature over the next 14 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 other comprehensive income ( OCI ) and net earnings for the three and nine months ended October 30, 2010 and October 31, 2009 (in thousands):

	Gain/(Loss) Recognized in OCI		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (1)	Gain/(Loss) Reclassified from Accumulated OCI into Income/(Loss)	
	Three Months Ended Oct. 30, 2010	Three Months Ended Oct. 31, 2009		Three Months Ended Oct. 30, 2010	Three Months Ended Oct. 31, 2009
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts	\$ (3,570)	\$ 120	Cost of product sales	\$ 3,475	\$ 1,394
Foreign exchange currency contracts	\$	\$ 58	SG&A expenses	\$	\$ 75
Foreign exchange currency contracts	\$ (41)	\$ (206)	Other income/expense	\$ 258	\$ (66)

	Gain/(Loss) Recognized in OCI		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (1)	Gain/(Loss) Reclassified from Accumulated OCI into Income/(Loss)	
	Nine Months Ended Oct. 30, 2010	Nine Months Ended Oct. 31, 2009		Nine Months Ended Oct. 30, 2010	Nine Months Ended Oct. 31, 2009
Derivatives designated as hedging instruments:					
Foreign exchange currency contracts	\$ (2,563)	\$ (5,501)	Cost of product sales	\$ 2,795	\$ 6,748
Foreign exchange currency contracts	\$	\$ (198)	SG&A expenses	\$	\$ 284
Foreign exchange currency contracts	\$ 636	\$ (301)	Other income/expense	\$ 1,240	\$ (80)

(1) The ineffective portion was immaterial during the three and nine months ended October 30, 2010 and October 31, 2009 and was recorded in net earnings and included in other income/expense.

As of October 30, 2010, accumulated other comprehensive income included a net unrealized loss of approximately US\$3.6 million, net of tax, of which US\$3.8 million will be recognized in other expense or cost of product sales 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 (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct. 30, 2010	Oct. 31, 2009	Oct. 30, 2010	Oct. 31, 2009
Beginning balance gain (loss)	\$ 2,902	\$ (174)	\$ 1,845	\$ 8,763

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Net gains (losses) from changes in cash flow hedges	(3,178)		(140)		(1,623)		(4,813)
Net losses (gains) reclassified to income	(3,321)		(1,142)		(3,819)		(5,406)
Ending balance gain (loss)	\$ (3,597)		\$ (1,456)		\$ (3,597)		\$ (1,456)

As of January 30, 2010, the Company had forward contracts outstanding for its European and Canadian operations of US\$62.4 million and US\$27.7 million, respectively.

### *Forward Contracts Not Designated as Cash Flow Hedges*

As of October 30, 2010, the Company had Canadian dollar foreign currency contracts to purchase US\$47.9 million expected to mature over the next 11 months, euro foreign currency contracts to purchase US\$128.4 million expected to mature over the next 11 months,



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Swiss franc foreign currency contracts to purchase US\$34.4 million expected to mature over the next 14 months and GBP12.3 million of foreign currency contracts to purchase euros expected to mature over the next 2 months.

The following table summarizes the gains (losses) before taxes recognized on the derivative instruments not designated as cash flow hedges in other income and expense for the three and nine months ended October 30, 2010 and October 31, 2009 (in thousands):

	Location of Gain/(Loss) Recognized in Income	Gain/(Loss) Recognized in Income		Gain/(Loss) Recognized in Income	
		Three Months Ended Oct. 30, 2010	Three Months Ended Oct. 31, 2009	Nine Months Ended Oct. 30, 2010	Nine Months Ended Oct. 31, 2009
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	Other income/expense	\$ (3,938)	\$ (3,059)	\$ (102)	\$ (16,015)
Interest rate swaps	Other income/expense	\$ 130	\$ (144)	\$ (37)	\$ (515)

As of January 30, 2010, the Company had Canadian dollar foreign currency contracts to purchase US\$22.3 million, euro foreign currency contracts to purchase US\$117.6 million and GBP14.0 million of foreign currency contracts to purchase euros.

**(15) Subsequent Events**

On November 23, 2010, the Company announced a special cash dividend of \$2.00 per share on the Company's common stock, which is estimated to total approximately \$184 million, and a regular quarterly cash dividend of \$0.20 per share. The combined cash dividends will be paid on December 23, 2010 to stockholders of record as of the close of business on December 8, 2010.

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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 or the Company in this Form 10-Q, we are referring to Guess?, Inc. and its subsidiaries on a consolidated basis.

***Important Notice 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 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, could, estimate, expect, intend, may, plan, predict, project, will, contain, and other 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, estimated charges, plans regarding store openings and closings, plans regarding business growth and international expansion, e-commerce, business seasonality, results of litigation, industry trends, consumer demands and preferences, competition, currency fluctuations, raw material 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 January 30, 2010 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***

In the first quarter of fiscal 2011, the Company revised its segment reporting whereby the North American wholesale and Asia segments are now separate segments for reporting purposes. The Company's businesses are now 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 from operations. The Company believes this segment reporting better reflects how its five business segments are managed and each segment's performance is evaluated. The North American retail segment includes the Company's retail operations in North America. The Europe segment includes the Company's wholesale and retail operations in Europe and the Middle East. The Asia segment includes the Company's wholesale and retail operations in Asia. The North American wholesale segment includes the

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Company's wholesale operations in North 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. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: information technology, human resources, global advertising and marketing, accounting and finance, executive compensation, facilities and legal.

We acquired Focus Europe S.r.l. ( Focus ), our former licensee for GUESS by MARCIANO products in Europe, the Middle East and Asia, in December 2006. We also acquired BARN S.r.l. ( Barn ), our former kids licensee in Europe, in January 2008. Each of these entities is reported in our European segment. G by GUESS is a relatively new retail brand concept that was launched in early fiscal 2008 and is included in our North American retail segment. Our South Korea and China businesses, which we have operated directly since January 2007 and April 2007, respectively, are reported in our Asia segment. Our international jewelry license agreement, which expired in December 2009, was not renewed as the Company decided to directly operate this business going forward. Beginning in January 2010, the operating results of our international jewelry business are included in our Europe segment. Prior to that date, we recorded the related royalty income in our licensing segment.

### *Products*

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

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***Recent Global Economic Developments***

Economic conditions remain uncertain in many markets around the world and consumer behavior remains cautious. In North America in particular, the relatively weaker levels of consumer confidence and the highly promotional conditions among retailers may persist for some time. These conditions could affect both our growth and our profitability.

We also continue to experience significant volatility in the global currency markets. 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 quarter of fiscal 2011, the average U.S. dollar rate weakened against these currencies versus the average rate in the comparable prior-year period. However, during the second and third quarters of fiscal 2011, the average U.S. dollar rate was stronger against the euro while weaker against the Canadian dollar and Korean won versus the comparable prior-year periods. This had an overall negative impact on the translation of our international revenues and earnings for the three and nine months ended October 30, 2010.

In addition, some of our transactions that occur 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. These transactions include U.S. dollar denominated purchases of merchandise, U.S. dollar and British pound intercompany liabilities and certain sales and operating expenses denominated in Swiss francs. Fluctuations in exchange rates can impact the profitability of our foreign operations and reported earnings and are largely dependent on the transaction timing and magnitude during the period that the currency fluctuates. The Company enters into derivative financial instruments to manage exchange risk on certain foreign currency transactions. However, the Company does not hedge all transactions denominated in foreign currency.

***Long-Term Growth Strategy***

Despite the economic conditions described above, our key long-term strategies remain unchanged. Global expansion continues to be the cornerstone of our growth strategy. Our combined revenues outside of the U.S. and Canada represented approximately 48% of the total Company's revenues for the nine months ended October 30, 2010, compared to 21% at the end of 2005. We expect this trend to continue as we expand in both Europe and Asia. Expanding our retail business across the globe is another important part of our growth strategy. We see opportunities to increase the number of GUESS? branded retail stores in Europe, as we expand outside of Italy, and also in North America, where we see opportunities particularly with our newer store concepts. We will continue to regularly evaluate and implement initiatives that we believe will build brand equity, grow our business and enhance profitability.

Our North American retail growth strategy is to increase retail sales and profitability by expanding our network of retail stores and improving the productivity and performance of existing stores. We will continue to emphasize our new G by GUESS store concept and our accessories business. This includes greater focus on our accessories line in our existing stores and the expansion of our GUESS? Accessories store concept. We currently plan to open a total of 58 retail stores across all concepts in the U.S. and Canada during fiscal 2011.

In Europe, we will continue to focus on growing our business in the countries where our brand is well known but under-penetrated. The Company is planning to increase the number of directly operated GUESS? retail stores in Europe. We recently opened flagship stores in

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Knightsbridge, London and Paseo di Gracia, Barcelona and we have expanded our existing flagship store in Milan, Italy. Together with our licensee partners, we plan to continue our international expansion in Europe by opening a total of 126 retail stores in fiscal 2011.

We see significant market opportunities in Asia and we are dedicating capital and human resources to support the region's growth and development. We have opened flagship stores in key cities such as Seoul, Shanghai, Hong Kong, Macau and Beijing and have partnered with licensees to develop our business in the second tier cities in this region. We and our partners plan to open a total of 44 retail stores across all concepts in Asia during fiscal 2011.

The Company's capital expenditures for the full fiscal year 2011 are planned at approximately \$145 million (before deducting estimated lease incentives of approximately \$15 million), which includes key money investments for new European stores. The planned capital expenditures are primarily for expansion of our retail businesses in Europe and North America, store remodeling programs, investments in information systems, expansion of our Asia business and other infrastructure investments.

### *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 October 30, 2010 had the same number of days as the three and nine months ended October 31, 2009.

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The Company reports National Retail Federation ( NRF ) calendar comparable store sales on a quarterly basis for our full-price retail and factory outlet stores in the U.S. and Canada. A store is considered comparable after it 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 is removed from the comparable store base until it has been opened at its new size, in its new location or under its new concept for 13 full months.

**Executive Summary**

*The Company*

Net earnings attributable to Guess?, Inc. was \$69.1 million, or diluted earnings of \$0.75 per common share, for the quarter ended October 30, 2010, compared to net earnings attributable to Guess?, Inc. of \$64.1 million, or diluted earnings of \$0.69 per common share, for the quarter ended October 31, 2009.

Total net revenue increased 17.4% to \$613.9 million for the quarter ended October 30, 2010, from \$522.8 million in the same prior-year period. Revenues increased in all our segments, with the largest growth rate coming from our Asia and Europe segments, which together represented two-thirds of the total revenue increase. In constant U.S. dollars, revenues increased by 20.6% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue for the quarter ended October 30, 2010 by \$16.6 million.

Gross margin (gross profit as a percentage of total net revenues) declined 190 basis points to 43.4% for the quarter ended October 30, 2010, compared to 45.3% in the same prior-year period. The negative impact of the stronger U.S. dollar on product purchases and higher markdowns in our Europe and North American retail segments were the main factors contributing to the lower gross margin.

Selling, general and administrative ( SG&A ) expenses increased 25.9% to \$173.7 million for the quarter ended October 30, 2010, compared to \$137.9 million in the same prior-year period. The increase was driven by higher store selling and infrastructure costs to support our global retail expansion, store impairment charges in our North American retail and Europe segments and higher performance-based compensation costs. Currency translation fluctuations relating to our foreign operations favorably impacted SG&A compared to the same prior-year period. SG&A expense as a percentage of revenues ( SG&A rate ) increased by 190 basis points to 28.3% for the quarter ended October 30, 2010, compared to the same prior-year period.

Earnings from operations decreased 6.3% to \$92.7 million for the quarter ended October 30, 2010, compared to \$99.0 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted earnings from operations by \$3.7 million. Operating margin declined 380 basis points to 15.1% for the quarter ended October 30, 2010, compared to 18.9% for the same prior-year period as a result of the lower gross margin and higher SG&A rate.

Other income, net, (including interest income and expense) totaled \$6.2 million for the quarter ended October 30, 2010, compared to other expense, net, of \$1.8 million in the same prior-year period. The net gain for the quarter ended October 30, 2010 included net mark-to-market gains on insurance policy investments and net mark-to-market gains from the revaluation of foreign currency transactions. Other expense, net,

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for the quarter ended October 31, 2009 primarily consisted of charges related to net mark-to-market losses from the revaluation of foreign currency transactions, partially offset by mark-to-market gains on our insurance policy investments.

Our effective income tax rate decreased to 29.1% for the quarter ended October 30, 2010, compared to 33.0% for the same prior-year period, primarily due to a higher estimated proportion of annual earnings in lower tax jurisdictions and certain state tax refund claims submitted during the current year.

The Company had \$469.0 million in cash and cash equivalents as of October 30, 2010, up \$124.1 million, compared to \$344.9 million as of October 31, 2009. In December 2010, the Company will be funding a special dividend of approximately \$184 million. Total debt as of October 30, 2010, primarily related to our capital lease in Europe, was \$15.2 million, down \$2.8 million from \$18.0 million as of October 31, 2009. Accounts receivable increased by \$60.0 million, or 19.2%, to \$372.2 million at October 30, 2010, compared to \$312.2 million at October 31, 2009. The accounts receivable balance at October 30, 2010 included a negative translation impact of approximately \$13.7 million due to currency fluctuations compared to the prior-year quarter end. Inventory increased by \$76.6 million, or 28.4%, to \$346.0 million as of October 30, 2010, compared to \$269.4 million as of October 31, 2009. The increase in inventory primarily supports the expansion of our European business, including a significant increase in our retail store base and planned earlier deliveries, as well as growth in our North American businesses.

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***North American Retail***

Our North American retail segment, comprising North American full-priced retail stores, factory outlet stores and e-commerce, generated net sales of \$253.7 million during the quarter ended October 30, 2010, an increase of \$14.2 million, or 5.9%, from \$239.5 million in the same prior-year period. The increase was primarily due to a larger store base and positive comparable store sales of 1.5% (0.6% in local currency, which excludes the favorable translation impact of currency fluctuations relating to our Canadian retail stores). North American retail earnings from operations decreased by \$13.8 million, or 41.6%, to \$19.3 million for the quarter ended October 30, 2010, compared to \$33.1 million in the same prior-year period. Operating margin declined 620 basis points to 7.6% for the quarter ended October 30, 2010, compared to 13.8% for the same prior-year period, primarily due to our new store openings, which negatively impacted both the occupancy and SG&A rates, store impairment charges and higher product markdowns.

In the quarter, we opened 27 new stores in the U.S. and Canada and closed 2 stores. At October 30, 2010, we operated 473 stores in the U.S. and Canada, comprised of 195 full-priced GUESS? retail stores, 117 GUESS? factory outlet stores, 59 GUESS? Accessories stores, 52 GUESS by MARCIANO stores and 50 G by GUESS stores. This compares to 433 stores as of October 31, 2009.

***Europe***

In Europe, revenue increased by \$47.4 million, or 28.0%, to \$216.2 million for the quarter ended October 30, 2010, compared to \$168.8 million in the same prior-year period. All of our European businesses contributed to this growth, led by our new jewelry business. We expanded our base of directly operated stores and our existing stores generated positive comparable store sales. Our existing wholesale business also grew in the quarter. The increase was partially offset by the unfavorable translation impact on revenues caused by changes in foreign currency exchange rates. At October 30, 2010, we directly operated 131 stores in Europe compared to 77 stores at October 31, 2009, excluding concessions. Earnings from operations from our Europe segment increased by \$1.8 million, or 4.3%, to \$42.6 million for the quarter ended October 30, 2010, compared to \$40.8 million in the same prior-year period. Operating margin declined 450 basis points to 19.7% for the quarter ended October 30, 2010, compared to 24.2% for the same prior-year period due primarily to lower product margins and a higher occupancy rate, partially offset by a lower SG&A rate. Product margins were adversely affected by the higher cost of products purchased in U.S. dollars due to the stronger average U.S. dollar rate versus the euro while the occupancy rate increased due to our retail store expansion. Although SG&A expenses increased in local currency, our SG&A rate improved. The higher expenses primarily relate to additional infrastructure and higher store selling, given our expanding retail store base.

***Asia***

In Asia, revenue increased by \$14.3 million, or 35.1%, to \$54.8 million for the quarter ended October 30, 2010, compared to \$40.5 million in the same prior-year period. All of our Asia businesses contributed to this growth, with a greater number of doors compared to the same prior-year period and stronger performance in existing doors. We continue to see growth in the second tier cities, as well as first tier cities, as we develop our business in the Greater China region. Our sales in Greater China also included earlier shipments to our licensees compared to the same period a year ago. Earnings from operations from our Asia segment increased by \$2.8 million, or 51.5%, to \$8.3 million for the quarter ended October 30, 2010, compared to \$5.5 million in the same prior-year period. Operating margin increased 160 basis points to 15.1% for the quarter ended October 30, 2010, compared to 13.5% for the same prior-year period driven by the leveraging of SG&A expenses as we continue to grow sales in the region.



*North American Wholesale*

Our North American wholesale segment revenue increased by \$10.2 million, or 22.0%, to \$56.3 million for the quarter ended October 30, 2010, from \$46.1 million in the same prior-year period. Revenues increased in all our businesses, led by the U.S. wholesale business, which included a favorable shift of orders delivered in the third quarter that normally would have occurred during the fourth quarter, partially offset by a shift of orders into the second quarter from the third quarter. North American wholesale earnings from operations increased by \$4.5 million, or 36.4%, to \$16.7 million for the quarter ended October 30, 2010, compared to \$12.2 million in the same prior-year period. Operating margin improved 320 basis points to 29.7% for the quarter ended October 30, 2010, compared to 26.5% for same prior-year period, driven by improved product margins in all our businesses and the leveraging of SG&A expenses.

*Licensing*

Our licensing royalty revenue increased by \$5.2 million, or 18.6%, to \$33.0 million compared to \$27.8 million in the same prior-year period, driven by royalties from higher sales in our watches, handbags, footwear and eyewear categories, partially offset by the loss of royalties as a result of the direct operation of our international jewelry business since January 2010. Earnings from operations increased by \$6.7 million, or 28.0%, to \$30.9 million for the quarter ended October 30, 2010, compared to \$24.2 million in the same prior-year period.

Table of Contents**Corporate Overhead**

Corporate overhead expenses increased by \$8.3 million, or 49.2%, to \$25.1 million for the quarter ended October 30, 2010, from \$16.8 million in the same prior-year period. The increase was driven by higher performance-based compensation costs and higher professional fees.

**Global Store Count**

In the third quarter of fiscal 2011, together with our partners, we opened 84 new stores worldwide, consisting of 41 stores in Europe and the Middle East, 27 stores in the U.S. and Canada, 15 stores in Asia and 1 store in Central and South America. Together with our partners, we closed 23 stores worldwide, consisting of 11 stores in Asia, 10 stores in Europe and the Middle East and 2 stores in the U.S. and Canada.

We ended the third quarter of fiscal 2011 with 1,353 stores worldwide, comprised as follows:

<b>Region</b>	<b>Total Stores</b>	<b>Directly Operated Stores</b>	<b>Licensee Stores</b>
United States and Canada	473	473	
Europe and the Middle East	472	131	341
Asia	351	27	324
Other	57	14	43
<b>Total</b>	<b>1,353</b>	<b>645</b>	<b>708</b>

This store count does not include 254 concessions located primarily in South Korea and Greater China because of their smaller store size in relation to our standard international store size. Of the total 1,353 stores, 946 were GUESS? stores, 254 were GUESS? Accessories stores, 98 were GUESS by MARCIANO stores and 55 were G by GUESS stores.

**RESULTS OF OPERATIONS**

*Three months ended October 30, 2010 and October 31, 2009*

**NET REVENUE.** Net revenue increased by \$91.1 million, or 17.4%, to \$613.9 million for the quarter ended October 30, 2010, from \$522.8 million for the quarter ended October 31, 2009. All of our segments contributed to this growth, led by our international businesses. In constant U.S. dollars, revenues increased by 20.6% as currency translation fluctuations relating to our foreign operations unfavorably impacted net

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revenue by \$16.6 million compared to the same prior-year period.

Net revenue from our North American retail operations increased by \$14.2 million, or 5.9%, to \$253.7 million for the quarter ended October 30, 2010, from \$239.5 million in the same prior-year period. This increase was primarily due to a larger store base and positive comparable store sales of 1.5% (0.6% in local currency, which excludes the favorable translation impact of currency fluctuations relating to our Canadian retail stores). Overall, currency translation fluctuations relating to our non-U.S. retail stores favorably impacted net revenue in our retail segment by \$2.4 million. The store base increased by an average of 30 net additional stores during the quarter ended October 30, 2010 compared to the prior-year quarter, resulting in a net 5.4% increase in average square footage.

Net revenue from our Europe operations increased by \$47.4 million, or 28.0%, to \$216.2 million for the quarter ended October 30, 2010, from \$168.8 million in the same prior-year period. All of our European businesses contributed to this growth, led by our new jewelry business. We expanded our base of directly operated stores and our existing stores generated positive comparable store sales. Our existing wholesale business also grew in the quarter. The increase was partially offset by the unfavorable translation impact on revenues caused by changes in foreign currency exchange rates. At October 30, 2010, we directly operated 131 stores in Europe compared to 77 stores at October 31, 2009, excluding concessions. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue in our Europe segment by \$21.3 million.

Net revenue from our Asia operations increased by \$14.3 million, or 35.1%, to \$54.8 million for the quarter ended October 30, 2010, from \$40.5 million in the same prior-year period. All of our Asia businesses contributed to this growth, with a greater number of doors compared to the same prior-year period and stronger performance in existing doors. Currency translation fluctuations relating to our South Korea operations favorably impacted net revenue in our Asia segment by \$1.5 million.

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Net revenue from our North American wholesale operations increased by \$10.2 million, or 22.0%, to \$56.3 million for the quarter ended October 30, 2010, from \$46.1 million in the same prior-year period. The increase was driven by higher sales in all our wholesale businesses, led by the U.S. wholesale business, which included a favorable shift of orders delivered in the third quarter that normally would have occurred during the fourth quarter, partially offset by a shift of orders into the second quarter from the third quarter. At October 30, 2010, our products were sold in approximately 1,067 major doors in the U.S. and Canada compared to approximately 1,094 major doors at October 31, 2009. Currency translation fluctuations relating to our non-U.S. wholesale businesses favorably impacted net revenue in our North American wholesale segment by \$0.8 million.

Net royalty revenue from licensing operations increased by \$5.2 million, or 18.6%, to \$33.0 million for the quarter ended October 30, 2010, from \$27.8 million in the same prior-year period, driven by royalties on higher sales in the watches, handbag, footwear and eyewear categories, partially offset by the loss of royalties as a result of the direct operation of our international jewelry business since January 2010.

**GROSS PROFIT.** Gross profit increased by \$29.5 million, or 12.5%, to \$266.4 million for the quarter ended October 30, 2010, from \$236.9 million in the same prior-year period due to the growth in revenue, partially offset by higher occupancy costs and lower overall product margins. All the segments contributed to our gross profit growth except for our North American retail segment, which was unfavorably impacted by the additional occupancy costs for our new store openings during the quarter and higher markdowns.

Gross margin declined 190 basis points to 43.4% for the quarter ended October 30, 2010, from 45.3% for the same prior-year period, driven by lower overall product margins. The negative impact of the strengthening U.S. dollar on product purchases and higher markdowns in our Europe and North American retail segments were the main factors contributing to the lower gross margin.

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

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** SG&A expenses increased by \$35.8 million, or 25.9%, to \$173.7 million for the quarter ended October 30, 2010, from \$137.9 million in the same prior-year period. The increase was driven by higher store selling and infrastructure costs to support our global retail expansion, store impairment charges in our North American retail and Europe segments and higher performance-based compensation costs. Currency translation fluctuations relating to our foreign operations favorably impacted SG&A compared to the same prior-year period. The Company's SG&A rate increased by 190 basis points to 28.3% for the quarter ended October 30, 2010, compared to the same prior-year period.

**EARNINGS FROM OPERATIONS.** Earnings from operations decreased by \$6.3 million, or 6.3%, to \$92.7 million for the quarter ended October 30, 2010, from \$99.0 million in the same prior-year period. The decrease in earnings from operations primarily resulted from the following:

- Earnings from operations for the North American retail segment decreased by \$13.8 million to \$19.3 million for the quarter ended October 30, 2010, compared to \$33.1 million in the same prior-year period. The decrease in earnings from operations was primarily driven by

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higher SG&A expenses and occupancy costs mainly due to our new store openings and lower product margins due to higher markdowns, which more than offset the benefit from the growth in sales. The higher SG&A expenses were primarily due to store selling expenses and investments in infrastructure, given the larger retail store base, and store impairment charges. Currency translation fluctuations relating to our non-U.S. retail stores favorably impacted earnings from operations by \$0.3 million.

- Earnings from operations for the Europe segment increased by \$1.8 million to \$42.6 million for the quarter ended October 30, 2010, compared to \$40.8 million in the same prior-year period. This increase was primarily due to higher sales partially offset by the unfavorable impact of currency fluctuations on product margins, higher SG&A expenses and an increase in our occupancy costs mainly due to our new store openings. Currency translation fluctuations relating to our Europe segment unfavorably impacted earnings from operations by \$4.5 million.

- Earnings from operations for the Asia segment increased by \$2.8 million to \$8.3 million for the quarter ended October 30, 2010, compared to \$5.5 million in the same prior-year period. The increase was driven by growth in all of our businesses in the region, partially offset by higher SG&A expenses to support that growth. Currency translation fluctuations relating to our South Korea business favorably impacted earnings from operations by \$0.3 million.

- Earnings from operations for the North American wholesale segment increased by \$4.5 million to \$16.7 million for the quarter ended October 30, 2010, compared to \$12.2 million in the same prior-year period. The increase in earnings was

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primarily driven by higher sales and improved product margins on those sales. Currency translation fluctuations relating to our non-U.S. wholesale businesses favorably impacted earnings from operations by \$0.3 million.

- Earnings from operations for the licensing segment increased by \$6.7 million to \$30.9 million for the quarter ended October 30, 2010, compared to \$24.2 million in the same prior-year period, driven by increased royalties due to higher licensed product sales, partially offset by the loss of royalties as a result of the direct operation of our international jewelry business since January 2010.

- Unallocated corporate overhead increased by \$8.3 million to \$25.1 million for the quarter ended October 30, 2010, compared to \$16.8 million for the quarter ended October 31, 2009 due primarily to higher performance-based compensation costs.

Operating margin declined 380 basis points to 15.1% for the quarter ended October 30, 2010, compared to 18.9% for the same prior-year period as a result of the lower gross margin and higher SG&A rate.

**INTEREST EXPENSE AND INTEREST INCOME.** Interest expense decreased to \$0.3 million for the quarter ended October 30, 2010, compared to \$0.8 million for the quarter ended October 31, 2009. At October 30, 2010, total debt, primarily related to our capital lease in Europe was \$15.2 million, compared to \$18.0 million at October 31, 2009. The average debt balance for the quarter ended October 30, 2010 was \$14.5 million, versus an average debt balance of \$22.1 million for the quarter ended October 31, 2009. Interest income increased to \$0.6 million for the quarter ended October 30, 2010, compared to \$0.3 million for the quarter ended October 31, 2009.

**OTHER INCOME, NET.** Other income, net, was \$5.9 million for the quarter ended October 30, 2010, compared to other expense, net, of \$1.3 million in the same prior-year period. Other income, net, for the quarter ended October 30, 2010, included net mark-to-market gains on insurance policy investments and net mark-to-market gains from the revaluation of foreign currency transactions. Other expense, net, for the quarter ended October 31, 2009, primarily consisted of charges related to net mark-to-market losses on the revaluation of foreign currency transactions, partially offset by mark-to-market gains on our insurance policy investments.

**INCOME TAXES.** Income tax expense for the quarter ended October 30, 2010 was \$28.8 million, or a 29.1% effective tax rate, compared to income tax expense of \$32.1 million, or a 33.0% effective tax rate, for 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 lower tax rate in the current quarter was due to a higher estimated proportion of annual earnings in lower tax jurisdictions and certain state tax refund claims submitted during the current year.

**NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS IN SUBSIDIARIES.** Net earnings attributable to noncontrolling interests in subsidiaries for the quarter ended October 30, 2010 remained consistent at \$1.0 million, net of taxes, compared to the same prior-year period.

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**NET EARNINGS ATTRIBUTABLE TO GUESS?, INC.** Net earnings attributable to Guess?, Inc. increased to \$69.1 million for the quarter ended October 30, 2010, from \$64.1 million in the same prior-year period. Diluted earnings per share increased to \$0.75 per share for the quarter ended October 30, 2010, compared to \$0.69 per share for the quarter ended October 31, 2009.

*Nine months ended October 30, 2010 and October 31, 2009*

**NET REVENUE.** Net revenue for the nine months ended October 30, 2010 increased by \$244.0 million, or 16.4%, to \$1,730.4 million, from \$1,486.4 million in the same prior-year period. All of our segments contributed to this growth with our Europe and Asia segments delivering the majority of the total revenue growth as we continue to expand our international operations. In constant U.S. dollars, revenues grew by 17.0% as currency fluctuations relating to our foreign operations unfavorably impacted net revenue for the nine months ended October 30, 2010.

Net revenue from our North American retail operations increased by \$56.8 million, or 8.4%, to \$731.3 million for the nine months ended October 30, 2010, from \$674.5 million in the same prior-year period. This increase was primarily due to positive comparable store sales of 4.7% (2.6% in local currency, which excludes the favorable translation impact of currency fluctuations relating to our Canadian retail stores). Overall, currency translation fluctuations relating to our non-U.S. retail stores favorably impacted net revenue in our retail segment by \$15.7 million. In addition, the expansion of our store base also contributed to the growth in revenues with an average of 15 net additional stores during the nine months ended October 30, 2010 compared to the same prior-year period, resulting in a net 3.1% increase in average square footage.

Net revenue from our Europe operations increased by \$100.8 million, or 19.2%, to \$625.5 million for the nine months ended October 30, 2010, from \$524.7 million in the same prior-year period. All of our European businesses contributed to this growth, led by our new jewelry business. We expanded our base of directly operated stores and our existing stores generated positive comparable store sales. In addition, our existing wholesale business continued to grow. At October 30, 2010, we directly operated 131 stores in

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Europe compared to 77 stores at October 31, 2009, excluding concessions. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue in our Europe segment by \$36.9 million.

Net revenue from our Asia operations increased by \$43.1 million, or 42.2%, to \$145.5 million for the nine months ended October 30, 2010, from \$102.4 million in the same prior-year period. We continued to grow our Asia business, where we, along with our partners, opened 34 stores and 60 concessions during the nine months ended October 30, 2010. Our South Korea business continued to drive the growth in this region with a greater number of doors compared to the same prior-year period and stronger existing door performance. Our Greater China business also increased revenues as we continue to develop our business in this region in both the first and second tier cities. Currency translation fluctuations relating to our South Korea operations favorably impacted net revenue in our Asia segment by \$9.0 million.

Net revenue from our North American wholesale operations increased by \$30.4 million, or 26.9%, to \$143.3 million for the nine months ended October 30, 2010, from \$112.9 million in the same prior-year period. The increase was driven by higher sales in all our businesses with the largest dollar increase coming from our U.S. wholesale business, which included a favorable shift of orders delivered in the third quarter that normally would have occurred during the fourth quarter. Currency translation fluctuations relating to our non-U.S. wholesale businesses favorably impacted net revenue in our North American wholesale segment by \$4.2 million.

Net royalty revenue from licensing operations increased by \$12.9 million, or 17.9%, to \$84.8 million for the nine months ended October 30, 2010, from \$71.9 million in the same prior-year period, driven by royalties on higher sales in the watches, handbag, footwear and eyewear categories, partially offset by the loss of royalties as a result of the direct operation of our international jewelry business since January 2010.

**GROSS PROFIT.** Gross profit increased by \$107.7 million, or 16.7%, to \$753.9 million for the nine months ended October 30, 2010, from \$646.2 million in the same prior-year period. While all the segments contributed to the growth, the largest increase in gross profit came from our Europe segment.

Gross margin increased slightly by 10 basis points to 43.6% for the nine months ended October 30, 2010, from 43.5% for the same prior-year period.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** SG&A expenses increased by \$79.7 million, or 19.5%, to \$487.7 million for the nine months ended October 30, 2010, from \$408.0 million in the same prior-year period. The increase was driven by higher store selling and infrastructure costs to support our global retail expansion, higher marketing investments to enhance our brand's awareness around the world, higher performance-based compensation costs and store impairment charges in our North American retail and Europe segments. The Company's SG&A rate increased 80 basis points to 28.3% for the nine months ended October 30, 2010, compared to 27.5% for the same prior-year period.

**PENSION CURTAILMENT EXPENSE.** During the nine months ended October 30, 2010, the Company recorded a pension plan curtailment expense of \$5.8 million before taxes related to the accelerated amortization of prior service cost resulting from the departure of Carlos Alberini, the Company's former President and Chief Operating Officer. Mr. Alberini's departure resulted in a significant reduction in the total expected remaining years of future service of all participants combined, resulting in the pension curtailment.



**EARNINGS FROM OPERATIONS.** Earnings from operations increased by \$22.2 million, or 9.3%, to \$260.3 million for the nine months ended October 30, 2010, from \$238.1 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted earnings from operations by \$2.7 million compared to the same prior-year period. The increase in earnings from operations primarily resulted from the following:

- Earnings from operations for the North American retail segment decreased by \$11.3 million to \$70.0 million for the nine months ended October 30, 2010, compared to \$81.3 million in the same prior-year period. The decrease in earnings from operations was primarily due to higher store selling costs to support our retail store expansion, store impairment charges, investments in infrastructure, higher marketing costs and the impact of higher markdowns on product margins, partially offset by the favorable impact to earnings from the higher sales. Currency translation fluctuations relating to our non-U.S. retail stores favorably impacted earnings from operations by \$2.4 million.
- Earnings from operations for the Europe segment increased by \$11.2 million to \$127.4 million for the nine months ended October 30, 2010, compared to \$116.2 million in the same prior-year period. The increase was driven by higher sales from our new jewelry business, as well as sales growth from our directly operated retail stores and existing wholesale business. This increase was partially offset by higher occupancy costs and SG&A spending relating to infrastructure investments to support our retail expansion. Currency translation fluctuations relating to our Europe segment unfavorably impacted earnings from operations by \$7.9 million.

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- Earnings from operations for the Asia segment increased by \$11.6 million to \$21.1 million for the nine months ended October 30, 2010, compared to \$9.5 million in the same prior-year period. The increase resulted from higher gross profit in South Korea and Greater China due to sales growth in these regions and improved product margins. This increase was partially offset by higher occupancy and SG&A expenses to support our growth in the regions. Currency translation fluctuations relating to our South Korea business favorably impacted earnings from operations by \$1.5 million.
- Earnings from operations for the North American wholesale segment increased by \$12.1 million to \$37.6 million for the nine months ended October 30, 2010, compared to \$25.5 million in the same prior-year period. The increase in earnings from operations was mainly due to sales growth and higher product margins in all of our businesses. Currency translation fluctuations relating to our non-U.S. wholesale businesses favorably impacted earnings from operations by \$1.3 million.
- Earnings from operations for the licensing segment increased by \$14.6 million to \$76.5 million for the nine months ended October 30, 2010, compared to \$61.9 million in the same prior-year period, driven by increased royalties due to higher licensed product sales, partially offset by the loss of royalties as a result of the direct operation of our international jewelry business since January 2010.
- Unallocated corporate overhead increased by \$16.0 million to \$72.3 million for the nine months ended October 30, 2010, compared to \$56.3 million in the same prior-year period. The increase was primarily driven by the pension curtailment expense and higher performance-based compensation costs.

Operating margin decreased 100 basis points to 15.0% for the nine months ended October 30, 2010, compared to 16.0% for the same prior-year period. The operating margin decrease was primarily due to the higher SG&A expenses to support our global expansion, higher marketing expenses, the pension curtailment expense, higher performance-based compensation costs and store impairment charges.

**INTEREST EXPENSE AND INTEREST INCOME.** Interest expense decreased to \$0.8 million for the nine months ended October 30, 2010, compared to \$1.7 million in the same prior-year period. At October 30, 2010, total debt, primarily related to our capital lease in Europe was \$15.2 million, compared to \$18.0 million at October 31, 2009. The average debt balance for the nine months ended October 30, 2010 was \$14.8 million, versus an average debt balance of \$49.4 million for the nine months ended October 31, 2009. Interest income increased slightly to \$1.6 million for the nine months ended October 30, 2010, compared to \$1.5 million for the nine months ended October 31, 2009.

**OTHER INCOME, NET.** Other income, net, was \$9.0 million for the nine months ended October 30, 2010, compared to other expense, net, of \$1.4 million in the same prior-year period. Other income, net, in the nine months ended October 30, 2010, primarily consisted of net unrealized mark-to-market gains on our insurance policy investments and net mark-to-market gains related to the revaluation of foreign currency transactions. Other expense, net, in the nine months ended October 31, 2009, primarily consisted of net mark-to-market losses on the revaluation of foreign currency transactions, partially offset by net mark-to-market unrealized gains on our insurance policy investments.

**INCOME TAXES.** Income tax expense for the nine months ended October 30, 2010 was \$81.1 million, or a 30.0% effective tax rate, compared to income tax expense of \$78.0 million, or a 33.0% effective tax rate, for 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 lower tax rate in the current nine-month period was due to a higher proportion of earnings in lower tax jurisdictions and certain state tax refund claims submitted during the current period.

**NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS IN SUBSIDIARIES.** Net earnings attributable to noncontrolling interests in subsidiaries for the nine months ended October 30, 2010 was \$2.9 million, net of taxes, compared to \$2.2 million, net of taxes, in the same prior-year period. The increase was primarily due to higher earnings from our Mexico operations.

**NET EARNINGS ATTRIBUTABLE TO GUESS?, INC.** Net earnings attributable to Guess?, Inc. increased to \$186.2 million for the nine months ended October 30, 2010, from \$156.2 million in the same prior-year period. Diluted earnings per share increased to \$2.00 per share for the nine months ended October 30, 2010, compared to \$1.68 per share for the nine months ended October 31, 2009.

## **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

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and payment of dividends to our stockholders. During the nine months ended October 30, 2010, the Company relied on trade credit, available cash, real estate leases, 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 quarterly and one-time special dividend payments to stockholders, primarily with cash flow from operations and existing cash balances supplemented by borrowings, if necessary, under the Credit Facility and bank facilities in Europe, as described below under Credit Facilities. As of October 30, 2010, the Company had cash and cash equivalents of \$469.0 million. In December 2010, the Company will be funding a special dividend of approximately \$184 million. Excess cash and cash equivalents, which represent the majority of our outstanding cash and cash equivalents balance, are held primarily in four diversified money market funds. The funds are AAA rated by national credit rating agencies and are generally comprised of high-quality, liquid investments. As of October 30, 2010, we do not have any exposure to auction-rate security investments in these funds. Please see Important Notice 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 January 30, 2010 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 October 30, 2010 versus the nine months ended October 31, 2009.

**Operating Activities**

Net cash provided by operating activities was \$134.3 million for the nine months ended October 30, 2010, compared to \$168.3 million for the nine months ended October 31, 2009, or a decrease of \$34.0 million. The decrease was driven by the unfavorable impact of changes in working capital for the nine month period ended October 30, 2010 versus the same prior-year period, partially offset by higher net earnings of \$30.7 million. Working capital used in operations included the impact of higher growth in accounts receivable and inventory primarily in our European operations as we continue to grow these businesses, partially offset by growth in accounts payable and accrued expenses relative to the comparable prior-year period.

At October 30, 2010, the Company had working capital (including cash and cash equivalents) of \$849.1 million compared to \$781.4 million at January 30, 2010 and \$703.9 million at October 31, 2009. The Company's primary working capital needs are for inventory and accounts receivable. Accounts receivable at October 30, 2010 amounted to \$372.2 million, up \$60.0 million, compared to \$312.2 million at October 31, 2009. The accounts receivable balance at October 30, 2010 included a negative translation impact of approximately \$13.7 million due to currency fluctuations compared to October 31, 2009. Approximately \$165.0 million of our receivables, or 44.3% of the \$372.2 million in accounts receivable at October 30, 2010, were insured for collection purposes or subject to certain bank guarantees or letters of credit. Inventory at October 30, 2010 amounted to \$346.0 million compared to \$269.4 million at October 31, 2009. The increase in inventory primarily supports the expansion of our European business, including a significant increase in our retail store base and planned earlier deliveries, as well as growth in our North American businesses.

**Investing Activities**

Net cash used in investing activities was \$85.5 million for the nine months ended October 30, 2010, compared to \$66.1 million for the nine months ended October 31, 2009. Cash used in investing activities related primarily to the expansion of our European and North American retail businesses, capital expenditures incurred on existing store remodeling programs in North America and Europe, investments in information systems, expansion of our Asia business, improvements to headquarter buildings and other enhancements.

The increase in cash used in investing activities related primarily to the higher level of spending on new stores and remodeling of existing stores during the nine months ended October 30, 2010 compared to the same prior-year period, partially offset by higher spending on improvements to headquarters in the prior-year period and the favorable settlement of foreign currency forward contracts compared to the same prior-year period. During the nine months ended October 30, 2010, the Company opened 99 owned stores compared to 30 owned stores that were opened in the comparable prior-year period.

#### **Financing Activities**

Net cash used in financing activities was \$82.9 million for the nine months ended October 30, 2010, compared to \$57.8 million for the nine months ended October 31, 2009. The increase in net cash used in financing activities in the current period compared to the prior-year period was primarily due to higher repurchases of shares of the Company's common stock under the 2008 Share Repurchase Program and higher dividends during the current period, partially offset by repayments of borrowings in the prior-year period.

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**Dividends**

During the first quarter of fiscal 2008, the Company announced 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 \$0.20 per common share.

On November 23, 2010, the Company announced a special cash dividend of \$2.00 per share on the Company's common stock, which we estimate will total approximately \$184 million and a regular quarterly cash dividend of \$0.20 per share. The combined cash dividends will be paid on December 23, 2010 to stockholders of record as of the close of business on December 8, 2010.

The payment of cash dividends in the future will be at the discretion of our Board of Directors and will be based on 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 and liquidity.

**Capital Expenditures**

Gross capital expenditures totaled \$84.9 million, before deducting lease incentives of \$12.9 million, for the nine months ended October 30, 2010. This compares to gross capital expenditures of \$61.9 million, before deducting lease incentives of \$4.8 million, for the nine months ended October 31, 2009. The Company's capital expenditures for the full fiscal year 2011 are planned at approximately \$145 million (before deducting estimated lease incentives of approximately \$15 million), which includes key money investments for new European stores. The planned capital expenditures are primarily for the expansion of our retail businesses in Europe and North America, store remodeling programs, investments in information systems, expansion of our Asia business and other infrastructure investments.

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 September 19, 2006, the Company and certain of its subsidiaries entered into a credit facility led by Bank of America, N.A., as administrative agent for the lenders (the Credit Facility). The Credit Facility provides for an \$85 million revolving multicurrency line of credit and is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. The Credit Facility is scheduled to mature on September 30, 2011. The Company is in the early stages of discussions with potential lenders and fully expects to have a replacement facility in place prior to the scheduled maturity on September 30, 2011. The size, rates and other key terms of the replacement facility have yet to be determined. At October 30, 2010, the Company had \$11.4 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

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The Company, through its European subsidiaries, maintains short-term borrowing agreements, primarily for working capital purposes, with various banks in Europe. Under these agreements, which are generally secured by specific accounts receivable balances, the Company can borrow up to \$221.6 million, limited primarily by accounts receivable balances at the time of borrowing. Based on the applicable accounts receivable balances at October 30, 2010, the Company could have borrowed up to approximately \$212.2 million under these agreements. However, the Company's ability to borrow through foreign subsidiaries is generally limited to \$185.0 million under the terms of the Credit Facility. At October 30, 2010, the Company had no outstanding borrowings and \$13.8 million in outstanding documentary letters of credit under these credit agreements. The agreements are primarily denominated in euros and provide for annual interest rates ranging from 0.8% to 3.1%. The maturities of the short-term borrowings 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 \$20.9 million that has a minimum net equity requirement, there are no other financial ratio covenants.

The Company entered into a capital lease in December 2005 for a new building in Florence, Italy. At October 30, 2010, the capital lease obligation was \$14.6 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 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 October 30, 2010 was approximately \$1.0 million.

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

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**Share Repurchases**

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 nine months ended October 30, 2010, the Company repurchased 1.5 million shares under the 2008 Share Repurchase Program at an aggregate cost of \$49.3 million. At October 30, 2010, the Company had remaining authority under the 2008 Share Repurchase Program to purchase an additional \$84.9 million of its common stock.

**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. The participants in the SERP were Maurice Marciano, Chairman of the Board, Paul Marciano, Chief Executive Officer and Vice Chairman of the Board, and Carlos Alberini, the Company's former President and Chief Operating Officer. In the first quarter of fiscal 2011, the Company recorded a \$5.8 million charge related to the accelerated amortization of prior service cost resulting from the departure of Mr. Alberini from the Company. As a non-qualified pension plan, no funding of the SERP is required; however, the Company has and expects to 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 future payments may vary, depending on the future years of service, future annual compensation of the participants and investment performance of the trust. The cash surrender values of the insurance policies were \$28.7 million and \$22.1 million as of October 30, 2010 and January 30, 2010, respectively, and were included in other assets. As a result of an increase in value of the insurance policy investments, the Company recorded gains of \$2.2 million and \$2.9 million in other income and expense during the nine months ended October 30, 2010 and October 31, 2009, 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. However, the Company anticipates that potential inflationary pressures on raw materials, labor and freight costs could begin to negatively impact the cost of product purchases in the second half of the following fiscal year. The Company is presently working on several initiatives in its supply chain, as well as potential price increases that could, if successful, mitigate some of these inflationary pressures.

**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 U.S. and Canadian 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 primarily ships from December to March and the Fall/Winter season, which primarily ships from



June to September. The remaining months of the year are relatively smaller wholesale shipping months in Europe. However, customers retain the ability to request early shipment of backlog orders or delay shipment of orders depending on their needs. Accordingly, a certain amount of orders in the backlog may be shipped outside of the traditional shipping months. The Company's goal is to take advantage of early-season demand and potential reorders by offering a pre-collection assortment for apparel.

## **WHOLESALE BACKLOG**

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. 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 businesses maintain a model stock program in basic denim products which generally allows replenishment of a customer's inventory within 72 hours. We generally receive orders for fashion apparel 90 to 160 days prior to the time the products are delivered to our customers' stores. Regarding our U.S. and Canadian wholesale backlog, the scheduling of market weeks can affect the amount of orders booked in the backlog compared to the same date in the prior year. Our U.S. and Canadian wholesale backlog as of November 27, 2010, consisting primarily of orders for fashion apparel, was \$62.4 million, compared to \$59.2 million in constant dollars at November 28, 2009, an increase of 5.4%.

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**Europe Backlog**

As of December 1, 2010, the European wholesale backlog was 272.6 million, compared to 224.9 million at December 3, 2009, an increase of 21.2%. The backlog as of December 1, 2010 is comprised of sales orders primarily for the Spring/Summer 2011 season and includes the impact of the earlier receipt of seasonal orders this year and orders for our international jewelry business, which we began operating directly on January 1, 2010.

**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 January 30, 2010 filed with the SEC on March 31, 2010. There have been no significant changes to our critical accounting policies during the nine months ended October 30, 2010.

**RECENTLY ISSUED ACCOUNTING GUIDANCE**

In January 2010, the FASB issued authoritative guidance that expands the required disclosures about fair value measurements. This guidance provides for new disclosures requiring the Company to (a) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, and (b) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Company to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type, and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. The Company adopted the guidance effective January 31, 2010, except for the presentation of purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements, which will be effective for fiscal years beginning after December 15, 2010. The adoption of the first phase of this guidance did not have a material impact on the Company's consolidated financial statements.

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

*Exchange Rate Risk*

Approximately 56% of product sales and licensing revenue recorded for the nine months ended October 30, 2010 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 January 30, 2010.

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Various transactions that occur in Canada, Europe and South Korea are denominated in U.S. dollars, Swiss francs 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, U.S. dollar and British pound denominated intercompany liabilities and certain sales and operating expenses denominated in Swiss francs that 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 to manage exchange risk on certain anticipated foreign currency transactions. The Company does not hedge all transactions denominated in foreign currency.

### *Forward Contracts Designated as Cash Flow Hedges*

During the nine months ended October 30, 2010, the Company purchased U.S. dollar forward contracts in Europe and Canada totaling US\$87.4 million and US\$63.7 million, respectively, to hedge forecasted merchandise purchases and intercompany royalties that were designated as cash flow hedges. As of October 30, 2010, the Company had forward contracts outstanding for its European and Canadian operations of US\$90.7 million and US\$55.8 million, respectively, which are expected to mature over the next 14 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 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 within stockholders' equity, and are recognized in other income and expense in the period in which the royalty expense is incurred.

From time to time, Swiss franc forward contracts are used to hedge certain anticipated Swiss operating expenses over specific months. Changes in the fair value of the Swiss franc forward contracts designated as cash flow hedges are recorded as a component of

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accumulated other comprehensive income within stockholders' equity, and are recognized in SG&A in the period which approximates the time the expenses are incurred.

As of October 30, 2010, accumulated other comprehensive income included a net unrealized loss of approximately US\$3.6 million, net of tax, of which US\$3.8 million will be recognized in other expense or cost of product sales 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. At October 30, 2010, the net unrealized loss of the remaining open forward contracts recorded in the condensed consolidated balance sheet was approximately US\$3.9 million.

At January 30, 2010, the Company had forward contracts outstanding for its European and Canadian operations of US\$62.4 million and US\$27.7 million, respectively. At January 30, 2010, the unrealized net gain of these open forward contracts recorded in the condensed consolidated balance sheet was approximately US\$3.2 million.

*Forward Contracts Not Designated as Cash Flow Hedges*

The Company also has foreign currency contracts that are not designated as hedges for accounting purposes. Changes in fair value of foreign currency contracts not qualifying as cash flow hedges are reported in net earnings as part of other income and expense. For the nine months ended October 30, 2010, the Company recorded a net loss of US\$0.1 million for the Canadian dollar, euro, British pound and Swiss franc foreign currency contracts, which has been included in other income and expense. At October 30, 2010, the Company had Canadian dollar foreign currency contracts to purchase US\$47.9 million expected to mature over the next 11 months, euro foreign currency contracts to purchase US\$128.4 million expected to mature over the next 11 months, Swiss franc foreign currency contracts to purchase US\$34.4 million expected to mature over the next 14 months and GBP12.3 million of foreign currency contracts to purchase euros expected to mature over the next 2 months. At October 30, 2010, the net unrealized loss of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately US\$3.5 million.

At January 30, 2010, the Company had Canadian dollar foreign currency contracts to purchase US\$22.3 million, euro foreign currency contracts to purchase US\$117.6 million and GBP14.0 million foreign currency contracts to purchase euros. At January 30, 2010, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately US\$3.9 million.

*Sensitivity Analysis*

At October 30, 2010, a sensitivity analysis of changes in the 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\$357.1 million, the fair value of the instruments would have decreased by US\$39.7 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 US\$32.5 million. Any resulting changes in the fair value of the hedged instruments may be more than or 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*

At October 30, 2010, approximately 96% 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 expenses. The change in the unrealized fair value of the interest swap had an insignificant effect on other expense during the nine months ended October 30, 2010. Substantially all 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 October 30, 2010. Any increase would be offset by a favorable gain on the interest rate swap.

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. At October 30, 2010, 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 the fiscal year ending January 29, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**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 Guess Italia, S.r.l. asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint seeks injunctive relief, unspecified compensatory damages, including treble damages, and certain other relief. A similar complaint has also been filed in the Court of Milan, Italy. The Company plans to defend the allegations vigorously. The Company believes that it is too early to predict the outcome of this action or whether the outcome 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 October 30, 2010 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 January 30, 2010, filed with the SEC on March 31, 2010.



Table of Contents**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 1, 2010 to August 28, 2010				
Repurchase program(1)				\$ 84,917,805
Employee transactions(2)				
August 29, 2010 to October 2, 2010				
Repurchase program(1)				\$ 84,917,805
Employee transactions(2)	7,519	\$ 39.71		
October 3, 2010 to October 30, 2010				
Repurchase program(1)				\$ 84,917,805
Employee transactions(2)	660	\$ 40.23		
Total				
Repurchase program(1)				
Employee transactions(2)	8,179	\$ 39.75		

(1) On March 19, 2008, the Company announced that its Board of Directors had authorized the new 2008 Share Repurchase Program to repurchase, from time to time and as market and business conditions warrant, up to \$200 million of the Company's common stock. 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.

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



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**ITEM 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
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 on 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 on July 30, 1996).
10.1.	2006 Non-Employee Directors' Stock Grant and Stock Option Plan (As Amended and Restated Effective September 13, 2010).*
10.2.	Employment Letter Agreement dated October 4, 2010 between the Registrant and J. Michael Prince.*
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 Senior Vice President and 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 Senior Vice President and 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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\* Management Contract or Compensatory Plan

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

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 7, 2010

By:

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

Date: December 7, 2010

By:

/s/ DENNIS R. SECOR  
Dennis R. Secor  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)