

G III APPAREL GROUP LTD /DE/  
Form 10-Q  
June 09, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2008

OR

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

For the transition period from                      to

Commission File Number 0-18183

G-III APPAREL GROUP, LTD.

(Exact name of registrant as specified in its charter)

Delaware

41-1590959 (State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

512

Seventh Avenue, New York, New York 10018 (Address of Principal Executive Offices) (Zip Code)  
(212) 403-0500

(Registrant's telephone number, including area code)

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

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

Yes No

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

Large

accelerated filer Accelerated filer Non-accelerated filer

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 June 1, 2008, there were 16,512,277 shares of our common stock, par value \$0.01 per share, outstanding.



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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

April 30,

2008 April 30,

2007 January 31,

2008	(unaudited)	(unaudited)	ASSETS	CURRENT ASSETS			Cash and cash				
equivalents	\$ 2,566	\$ 58,771	\$ 38,341	Accounts receivable, net of allowance for doubtful accounts and sales discounts of \$19,193, \$13,974 and \$22,724, respectively	49,460	25,613	66,944	Inventories, net	57,642		
	31,182	59,934	Prepaid income taxes	5,460	7,301	—	Deferred income taxes	15,616	5,279		
	10,046	Prepaid expenses and other current assets	13,993	13,651	8,500	Total current assets	144,737				
	141,797	183,765	PROPERTY, PLANT AND EQUIPMENT, NET	7,425	5,566	5,261	DEFERRED				
	INCOME TAXES	3,941	2,800	3,944	GOODWILL	51,109	24,758	31,746	OTHER		
	INTANGIBLES, NET	27,228	11,142	11,143	OTHER ASSETS	2,143	1,474	1,839	\$ 236,583		
	\$ 187,537	\$ 237,698	LIABILITIES AND STOCKHOLDERS' EQUITY	CURRENT							
	LIABILITIES	Notes payable		\$ 26,177	\$ 8,147	\$ 13,060	Current maturities of obligations				
	under capital leases	—	195	—	Income taxes payable	—	—	4,348	Accounts payable	17,989	9,286
	24,290	Contingent purchase price payable	1,440	—	4,894	Accrued expenses	14,686	9,186	15,461		
	Deferred income taxes	1,298	—	1,298	Total current liabilities	61,590	26,814	63,351	NOTES		
	PAYABLE	—	11,444	—	DEFERRED INCOME TAXES	7,086	—	—	OTHER NON-CURRENT		
	LIABILITIES	473	433	473	TOTAL LIABILITIES	69,149	38,691	63,824	COMMITMENTS		
	AND CONTINGENCIES										
	STOCKHOLDERS' EQUITY	Preferred stock, 1,000,000 shares authorized;						No shares			
	issued and outstanding in all periods	Common stock – \$.01 par value; 40,000,000 shares									
	authorized; 16,873,502, 16,734,404 and 16,839,004 shares										
	issued, respectively	169	167	168	Additional paid-in capital	97,552	96,016	97,105	Retained		
	earnings	70,683	53,633	77,571	168,404	149,816	174,844	Common stock held in treasury –			
	367,225 shares at cost	(970)	(970)	(970)	167,434	148,846	173,874	\$ 236,583	\$		
	187,537	\$ 237,698									

The accompanying notes are an integral part of these statements.

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G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

THREE MONTHS

ENDED APRIL 30, (Unaudited)	2008	2007	Net sales	\$ 75,396	\$ 35,088	Cost of goods sold	57,859	27,759	Gross profit	17,537	7,329	Selling, general and administrative expenses	27,165	16,493
Depreciation and amortization	1,580	1,594	Operating loss	(11,208)	(10,758)	Interest and financing charges, net	566	265	Loss before income taxes	(11,774)	(11,023)	Income tax benefit	(4,886)	(4,575)
Net loss	\$ (6,888)	\$ (6,448)	LOSS PER COMMON SHARE:			Basic and Diluted:								
Net loss per common share	\$ (0.42)	\$ (0.42)	Weighted average number of shares outstanding	16,482,000	15,252,000									

The accompanying notes are an integral part of these statements.

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## G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

## Three Months

Ended April 30, (Unaudited)	2008	2007	Cash flows from operating activities	Net loss	\$ (6,888 )
	\$ (6,448 )		Adjustments to reconcile net income to net cash(used in) provided by operating activities, net of assets and liabilities acquired:		
			Depreciation and amortization	1,570	1,594
			Non-cash stock based compensation		
	217	128	Deferred financing charges	174	174
			Changes in operating assets and liabilities:		
			Accounts receivable, net	22,858	35,347
			Inventories, net	9,597	6,929
			Income taxes, net	(9,808 )	(9,808 )
			Prepaid expenses and other current assets	(5,199 )	(3,898 )
			Other assets, net	(230 )	335
			Accounts payable, accrued expenses and other liabilities	(14,300 )	(8,062 )
			Net cash (used in) provided by operating activities	(2,009 )	16,485
			Cash flows from investing activities		
			Capital expenditures	(697 )	(690 )
			Acquisition of Andrew Marc, net of cash acquired	(42,963 )	—
			Contingent purchase price paid	(3,454 )	(3,741 )
			Net cash used in investing activities	(47,114 )	(4,431 )
			Cash flows from financing activities		
			Increase in notes payable, net	26,177	—
			Repayment of notes payable	—	(788 )
			Repayment of term loan	(13,060 )	(3,706 )
			Payments for capital lease obligations	—	(39 )
			Proceeds from sale of common stock, net	—	36,547
			Proceeds from exercise of stock options	67	838
			Tax benefit from exercise of stock options	164	1,839
			Net cash provided by financing activities	13,348	34,691
			Net (decrease) increase in cash and cash equivalents	(35,775 )	46,745
			Cash and cash equivalents at beginning of period	38,341	12,026
			Cash and cash equivalents at end of period	\$ 2,566	\$ 58,771
			Supplemental disclosures of cash flow information:		
			Cash paid during the period for:		
			Interest	\$ 466	\$ 204
			Income taxes	4,714	3,190
			Detail of acquisition:		
			Acquired intangibles	\$ 36,483	Fair value of
			other assets acquired, net	20,867	Fair value of total assets acquired
			Fair value of total assets acquired	57,350	Liabilities assumed
			Liabilities assumed	(14,310 )	Cash paid for acquisition
			Cash paid for acquisition	43,040	Cash acquired
			Cash acquired	77	Net cash paid for acquisition
			Net cash paid for acquisition	\$ 42,963	

The accompanying notes are an integral part of these statements.

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G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — General Discussion

As used in these financial statements, the term “Company” refers to G-III Apparel Group, Ltd. and its wholly-owned subsidiaries. The results for the three month period ended April 30, 2008 are not necessarily indicative of the results expected for the entire fiscal year, given the seasonal nature of the Company’s business. The accompanying financial statements included herein are unaudited. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim period presented have been reflected.

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

The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended January 31, 2008.

Note 2 — Acquisition of Andrew Marc

In February 2008, the Company acquired all of the outstanding stock of AM Apparel Holdings Inc. from GB Holding I, LLC for a purchase price, including working capital adjustments and fees and expenses related to the acquisition, of approximately \$43.0 million. The cost to acquire these assets has been preliminarily allocated to the assets according to estimated fair values and is subject to adjustment when additional information concerning the asset valuation is finalized. The preliminary allocation has resulted in acquired intangibles in the amount of \$36.5 million, which includes approximately \$19.4 million of goodwill.

AM Apparel owns the businesses of Andrew Marc, which is a supplier of outerwear for men and women, women’s handbags and men’s carrying cases to the upscale specialty and department store tiers of distribution. Andrew Marc sells products under its own Andrew Marc and Marc New York brands, as well as under the licensed Dockers and Levi’s brands.

The following unaudited pro forma information presents the results of operations of the Company as if the acquisition had taken place on February 1, 2007:

					Three Months ended
April 30,	2008	2007	(in thousands, except per share amounts)	Net sales	\$ 76,611 \$ 41,232
(8,837 )	(10,179 )			Loss per share: Basic and Diluted	\$ (0.54 ) \$ (0.67 )

The unaudited pro forma results shown above reflect the assumption that the Company would have financed the acquisitions under identical terms and conditions as the actual financing and do not reflect any anticipated cost savings that may result from combining the entities. The unaudited pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of February 1, 2007.

The operating results of Andrew Marc have been included in the Company's financial statements since February 11, 2008, the date of acquisition.

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## Note 3 — Inventories

Inventories, which are stated at lower of cost (determined by the first-in, first out method) or market, consist of:

							April 30,		
2008	April 30,								
2007	January 31,								
2008	(in thousands)	Finished goods	\$ 53,410	\$ 27,944	\$ 56,848	Work-in-process	264	309	7
		Raw materials	3,968	2,929	3,079	\$ 57,642	\$ 31,182	\$ 59,934	

## Note 4 — Intangibles

In July 2005, the company acquired Marvin Richards and the operating assets of the Winlit Group. The former principals of each of Marvin Richards and the Winlit Group are entitled to receive additional purchase price based on the performance of these divisions through January 31, 2009. Contingent payments in the aggregate amount of \$4.9 million and \$3.7 million have been recorded based upon the performance of these divisions with respect to the fiscal years ended January 31, 2008 and 2007, respectively. Goodwill is increased for any earn-out payments made.

## Note 5 — Loss per Common Share

Basic loss per share has been computed using the weighted average number of common shares outstanding during each period. Diluted income per share amounts are computed, when applicable, using the weighted average number of common shares and potential dilutive common shares, consisting of stock options and stock warrants outstanding during the period.

## Note 6 — Notes Payable

The Company has a financing agreement with The CIT Group/Commercial Services, Inc., as Agent, for a consortium of banks. The financing agreement, which, in April 2008, was amended and extended to July 11, 2011, is a senior collateralized credit facility that provides for borrowings under a revolving line of credit in the aggregate principal amount of up to \$250 million. This financing replaced our prior financing that consisted of a revolving line of credit that provided for borrowings in the aggregate principal amount of up to \$165 million and a term loan in the initial principal amount of \$30 million.

The financing agreement provides for a maximum revolving line of credit of \$250 million. Amounts available under the line are subject to borrowing base formulas and over advances as specified in the financing agreement. Borrowings under the line of credit bear interest at the Company's option at the prime rate less 0.25% or LIBOR plus 2.0%.

The prior term loan in the original principal amount of \$30 million was payable over three years with eleven quarterly installments of principal in the amount of \$1,650,000 and a balloon payment due on July 11, 2008, the maturity date of the loan. The amount outstanding under the term loan, \$13.1 million at January 31, 2008, was repaid in full from the proceeds of the extended financing agreement.

The financing agreement requires us, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined. It also limits payments for cash dividends and stock redemption to \$1.5 million plus an additional amount based on the proceeds of sales of equity securities. The financing agreement is

secured by all of our assets.

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## Note 7 — Segments

The Company's reportable segments are business units that offer different products and are managed separately. The Company operates in two segments, licensed and non-licensed apparel. The following information is presented for the three month periods indicated below:

THREE MONTHS ENDED APRIL 30,		2008	2007	(in thousands)		Licensed	Non-
Licensed	Licensed	Non-	Licensed	Non-	Licensed	Non-	
Licensed Net sales	\$ 41,714	\$ 33,682	\$ 29,845	\$ 5,243	Cost of goods sold	32,936	24,923
23,122	4,637	Gross profit	8,778	8,759	6,723	606	Selling, general and administrative, including depreciation and amortization
		15,750	12,995	13,493	4,594	Operating loss	\$ (6,972 )
							\$ (4,236 )
							\$ (6,770 )
							\$ (3,988 )

Included in finished goods inventory at April 30, 2008 are approximately \$33.2 million and \$20.2 million of inventories for licensed and non-licensed apparel, respectively. Included in finished goods at April 30, 2007 are approximately \$18.0 million and \$9.9 million of inventories for licensed and non-licensed apparel, respectively. All other assets are commingled.

## Note 8 — Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring the use of fair value, establishes a framework for measuring fair value, and expands the disclosure about such fair value measurements. The application of SFAS No. 157 as it relates to financial assets and financial liabilities is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 12, 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157," which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company's adoption of SFAS No. 157 on February 1, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis did not impact the Company's consolidated financial statements. The Company is currently evaluating the impact that the adoption of SFAS No. 157 for nonfinancial assets and liabilities measured at fair value on a non-recurring basis may have on its financial position and results of operations.

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

Unless the context otherwise requires, "G-III", "us", "we" and "our" refer to G-III Apparel Group, Ltd. and its subsidiaries. References to fiscal years refer to the year ended or ending on January 31 of that year. For example, our fiscal year ending January 31, 2009 is referred to as "fiscal 2009".

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

#### Overview

G-III designs, manufactures, imports and markets an extensive range of outerwear and sportswear, including coats, jackets, pants, skirts, suits, dresses and other sportswear items under licensed brands, our own proprietary brands and private retail labels. While our products are distributed through a broad mix of retail partners at a variety of price points, a majority of our sales are concentrated with our ten largest customers.

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

We operate our business in two segments, licensed apparel and non-licensed apparel. The licensed apparel segment includes sales of apparel brands licensed by us from third parties. The non-licensed apparel segment includes sales of apparel under our own brands and private label brands.

The sale of licensed product has been a key element of our business strategy for many years. As part of this strategy, we added several new fashion and sports apparel licenses over the past few years. We believe that consumers prefer to buy brands they know and we have continually sought licenses that would increase the portfolio of name brands we can offer through different tiers of retail distribution, for a wide array of products and at a variety of price points.

We have expanded our portfolio of proprietary and licensed brands over the past 15 years through acquisitions and through entering into license agreements for new brands or for additional products under previously licensed brands. We have made four acquisitions since July 2005, each of which has helped to broaden our product offerings and expand our ability to serve different tiers of distribution.

In May 2007, we acquired specified operating assets of Jessica Howard, Ltd. and Industrial Cotton, Inc., two related companies. Jessica Howard designs and markets moderate and better dresses under the proprietary Jessica Howard and Eliza J brands, as well as under private label programs. Industrial Cotton is a mid-tier provider of a broad assortment of junior denim products. The operating results of the Jessica Howard/Industrial Cotton businesses have been included in our financial statements since the date of acquisition.

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The acquired Jessica Howard dress operations expanded and complemented our dress business which began shipping under the Calvin Klein label in September 2006. We believe that the capabilities of our Jessica Howard division will assist us in seeking additional dress licenses. We added to our dress business in July 2007, when we expanded our license with Ellen Tracy to include dresses. We also intend to grow the existing Jessica Howard and Eliza J brands and expand the private label programs to further develop our dress business. Industrial Cotton adds expertise to our junior sportswear business.

In February 2008, we acquired Andrew Marc, a supplier of outerwear for both men and women, women's handbags and men's carrying cases to upscale specialty and department stores. As a result of this acquisition, we have added Andrew Marc and Marc New York as additional company-owned brands and Levi's and Dockers as additional licensed brands. We believe that the Andrew Marc brand can be leveraged into a variety of new categories to become a meaningful lifestyle brand for us. The operating results of the Andrew Marc business have been included in our financial statements since the date of acquisition.

Our acquisitions are part of our strategy to expand our product offerings and increase the portfolio of proprietary and licensed brands that we offer through different tiers of retail distribution and at a variety of price points. We believe that these acquisitions complement our other licensed brands, G-III owned labels and private label programs.

We believe that brand owners will look to consolidate the number of licensees they engage to develop product and they will seek licensees with a successful track record of developing brands. We are continually having discussions with licensors regarding new opportunities. It is our objective to continue to expand our product offerings.

As a result of an acquisition made in July 2005, we have licenses for men's and women's outerwear with Calvin Klein. In September 2005, we entered into a license agreement to manufacture and distribute women's better suits under the Calvin Klein label and, in April 2006, we entered into a license agreement to manufacture and distribute women's dresses under the Calvin Klein label. We began shipping the women's suit line in January 2006 and the women's dress line in October 2006. We further expanded our relationship with Calvin Klein in December 2007 by adding a license for women's performance wear. We began limited shipments of this product for the Spring 2008 season and expect a complete rollout for the Fall 2008 season.

Significant trends that affect the apparel industry include the continuing consolidation of retail chains, the desire on the part of retailers to consolidate vendors supplying them, the increased focus by department stores on their own private label brands and a shift in consumer shopping preferences away from traditional department stores to other mid-tier and specialty store venues. There has also been significant downward pressure on average retail prices for many categories of apparel. We have responded to these trends by continuing to focus on selling products with recognized brand equity, by attention to design, quality and value and by improving our sourcing capabilities. We have also responded with the strategic acquisitions made by us over the past three years that have added additional licensed and proprietary brands and helped diversify our business by adding new product lines and distribution channels. We believe that our broad distribution capabilities help us to respond to the various shifts by consumers between distribution channels and that our operational capabilities will enable us to continue to be a vendor of choice for our retail partners.

## Results of Operations

Three months ended April 30, 2008 compared to three months ended April 30, 2007

Our lowest sales traditionally occur in the first fiscal quarter of the year. Net sales for the three months ended April 30, 2008 increased to \$75.4 million from \$35.1 million in the same period last year. Net sales of licensed apparel increased to \$41.7 million from \$29.8 million primarily as a result of an increase of \$6.4 million in net sales of Calvin Klein licensed product and \$1.6 million in sales of Kenneth Cole licensed product. Our Calvin Klein licensed product consists of men's and women's

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outerwear, women's suits, dresses and women's performance wear. Our Kenneth Cole licensed product consists of women's and men's outerwear. Net sales of non-licensed apparel in the three months increased to \$33.7 million from \$5.2 million primarily due to sales by our Jessica Howard/Industrial Cotton division (\$25.3 million). Jessica Howard/Industrial Cotton primarily markets and sells women's dresses and, to a lesser extent, junior sportswear. Jessica Howard/Industrial Cotton was acquired in May 2007 and, accordingly, was not included in our results of operations in last year's period.

Gross profit increased to \$17.5 million, or 23.3% of net sales, for the three month period ended April 30, 2008, from \$7.3 million, or 20.9% of net sales, in the same period last year. The gross profit percentage in our licensed apparel segment decreased to 21.0% in the three month period ended April 30, 2008 from 22.5% in the same period last year. The decrease in the gross profit percentage was due to reduced margins in our Calvin Klein suit business and closeout activity in our outerwear business. The gross profit percentage for Calvin Klein suits declined because the retail environment for women's suits has continued to be soft. The gross profit percentage in our non-licensed segment was 26.0% in the three month period ended April 30, 2008 compared to 11.6% in the same period last year. The increase in the gross margin is primarily attributable to dress sales by our Jessica Howard/Industrial Cotton division. Sales of non-licensed apparel in the prior comparable quarter were primarily closeout sales of outerwear.

Selling, general and administrative expenses increased \$10.6 million to \$28.7 million in the three month period ended April 30, 2008 from \$18.1 million in the same period last year. Selling, general and administrative expenses increased primarily as a result of increases in personnel costs (\$5.5 million), facility costs (\$1.5 million), and advertising and promotion (\$1.1 million). Personnel costs and facility costs increased primarily as a result of the acquisitions of Andrew Marc in February 2008 and Jessica Howard/Industrial Cotton in May 2007. Facility costs for Andrew Marc consist primarily of rent and related costs for a warehouse and distribution facility it leases in New Jersey. Facility costs for Jessica Howard/Industrial Cotton consist primarily of third party warehousing costs. Advertising and promotion increased primarily due to cooperative advertising in our department store business, trade show expense and increased advertising paid to licensors based on a percentage of net sales of licensed product. We expect that our selling, general and administrative expenses will continue to increase during the remainder of the fiscal year as a result of our recent acquisition of Andrew Marc, as well as the continued expansion of our business.

Interest and finance charges, net for the three months ended April 30, 2008 were \$566,000 compared to \$265,000 for the comparable period last year. Interest expense increased due to higher average borrowings as a result of using our cash to acquire Andrew Marc.

Income tax benefit for the three months ended April 30, 2008 was \$4.9 million compared to \$4.6 million in the comparable period last year. The increase in income tax benefit was a direct result of the greater loss before income taxes for the three months ended April 30, 2008 over the comparable period last year. The effective rate for both periods was 41.5%.

## Liquidity and Capital Resources

Our primary cash requirements are to fund our seasonal build up in inventories and accounts receivable, primarily during our second and third fiscal quarters each year. Due to the seasonality of our business, we generally reach our maximum borrowing under our asset-based credit facility during our third fiscal quarter. The primary sources to meet our operating cash requirements have been borrowings under our credit facility and cash generated from operations. We also raised cash from offerings of our common stock in July 2006 and March 2007.



The amount borrowed under the line of credit varies based on our seasonal requirements. At April 30, 2008, we had cash and cash equivalents of \$2.6 million and short-term outstanding borrowings of \$26.2 million. At April 30, 2007, we had cash and cash equivalents of \$58.8 million and short-term outstanding borrowings of \$777,000. In February 2008, we paid \$43.0 million, including fees and expenses related to the acquisition, to purchase Andrew Marc. We used our cash balances and our revolving credit facility to pay the purchase price and expenses in connection with this acquisition.

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Our contingent liability under open letters of credit was approximately \$25.0million as of April 30, 2008 compared to \$7.1 million as of April 30, 2007. The increase in open letters of credit in the current quarter is a result of our acquisition of Andrew Marc.

## Financing Agreement

We have a financing agreement with The CIT Group/Commercial Services, Inc., as Agent for a consortium of banks that was recently amended and extended for three years to July 2011. The financing agreement is a senior secured revolving credit facility providing for borrowings in the aggregate principal amount of up to \$250 million. This financing replaced our prior financing that consisted of a revolving line of credit that provided for borrowings in the aggregate principal amount of up to \$165 million and a term loan in the initial principal amount of \$30 million.

The financing agreement provides for a maximum revolving line of credit of \$250 million. Amounts available under the line of credit are subject to borrowing base formulas and over advances as specified in the financing agreement. Borrowings under the line of credit bear interest, at our option, at the prime rate less 0.25% (4.75% at May 1, 2008) or LIBOR plus 2.0% (4.85% at May 1, 2008).

The financing agreement requires us, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined. It also limits payments for cash dividends and stock redemptions to \$1.5 million plus an additional amount based on the proceeds of sales of equity securities. As of April 30, 2008, we were in compliance with these covenants. The financing agreement is secured by all of our assets.

## Public Offering

In March 2007, we completed a public offering of 4,500,000 shares of our common stock, of which 1,621,000 shares were offered by us and 2,879,000 shares were offered by selling stockholders, at a public offering price of \$20.00 per share. We received net proceeds of \$30.3 million from this offering after payment of the underwriting discount and expenses of the offering. In April, 2007, we received additional net proceeds of \$6.0 million in connection with the sale of 313,334 shares pursuant to the exercise of the underwriters' overallotment option.

## Cash from Operating Activities

We used \$2.0 million of cash from operating activities during the three months ended April 30, 2008, primarily as a result of a decrease in accounts payable and accrued expenses of \$14.3 million, a net decrease in our income tax payable of \$9.8 million, our net loss of \$6.9 million and an increase in prepaid expenses of \$5.2 million offset, in part, by a decrease of \$22.9 million in accounts receivable and \$9.6 million in inventory. The decrease in accounts payable and accrued expenses is primarily attributable to accrued bonuses (\$3.2 million) and accrued royalties (\$1.9 million) being paid in the first quarter. The decrease in income taxes payable is attributable to income taxes paid subsequent to year end as a result of our fiscal 2007 income and the increase in prepaid taxes is a result of the tax benefit recorded for our first quarter 2008 loss. The decrease in accounts receivable for the three months resulted primarily from the collection of accounts receivable related to net sales in the fourth quarter of fiscal 2008 which were much higher than net sales in the first quarter of fiscal 2009. This is consistent with our seasonal pattern in prior years. The decrease in inventory is a result of closing out year end inventory. This is also consistent with our seasonal pattern of reducing our inventory levels throughout the first quarter. The decrease in inventory reflected in the condensed consolidated statements of cash flows does not include \$7.3 million of inventory acquired in connection with the acquisition of Andrew Marc.

Cash from Investing Activities

We used \$47.1 million of cash in investing activities in the three months ended April 30, 2008. We used \$43.0 million of cash in connection with the acquisition of Andrew Marc. We paid \$3.5 million

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during the quarter in connection with contingent payments earned as a result of the operating results of the two businesses we acquired in 2005. Fiscal 2009 is the last year of our obligation to pay additional purchase price in connection with these two acquisitions. We also used \$697,000 in cash for capital expenditures in the three months ended April 30, 2008, primarily for renovation of our new warehouse facility in South Brunswick, NJ and updating our New York City showrooms.

## Cash from Financing Activities

Cash from financing activities provided \$13.3 million in the three months ended April 30, 2008 primarily as a result of increased borrowings under our line of credit. We borrowed \$5.4 million in connection with the acquisition of Andrew Marc. We also repaid \$13.1 million which represented the outstanding balance under our term loan at the time we amended and extended our financing agreement.

## Financing Needs

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

## Critical Accounting Policies

Our discussion of results of operations and financial condition relies on our consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. We believe that investors need to be aware of these policies and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While we believe that these accounting policies are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts. The accounting policies and related estimates described in our Annual Report on Form 10-K for the year ended January 31, 2008 are those that depend most heavily on these judgments and estimates. As of April 30, 2008, there have been no material changes to our critical accounting policies.

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

There are no material changes to the disclosure made with respect to these matters in our Annual Report on Form 10-K for the year ended January 31, 2008.

## Item 4. Controls and Procedures.

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

executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and thus, are effective in making known to them material information relating to G-III required to be included in this report.

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

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PART II — OTHER INFORMATION

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in ‘‘Item 1A. Risk Factors’’ in our Annual Report on Form 10-K for the year ended January 31, 2008, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits.

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Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd.’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2008. 31 .2 Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd.’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2008. 32 .1 Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd.’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2008. 32 .2 Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd.’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2008.

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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.

APPAREL GROUP, LTD. (Registrant) Date: June 9, 2008 By: /s/ Morris  
Goldfarb Morris Goldfarb  
Chief Executive Officer Date: June 9, 2008 By: /s/ Neal S. Nackman  
Chief Financial Officer

G-III

Neal S. Nackman

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