

GUESS INC
Form 10-Q
June 10, 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 May 1, 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)

1444 South Alameda Street
Los Angeles, California
(Address of principal executive offices)

95-3679695

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

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
(Do not check if a smaller reporting company)

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 June 4, 2010, the registrant had 93,218,046 shares of Common Stock, \$.01 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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(in thousands, except share data)

	May 1, 2010 (unaudited)	Jan. 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 517,705	\$ 502,063
Accounts receivable, net	282,535	283,747
Inventories	245,836	253,162
Deferred tax assets	30,441	30,570
Other current assets	51,638	54,621
Total current assets	1,128,155	1,124,163
Property and equipment, net	256,962	255,308
Goodwill	29,155	29,877
Other intangible assets, net	13,474	15,974
Long-term deferred tax assets	52,743	55,504
Other assets	74,279	50,423
	\$ 1,554,768	\$ 1,531,249
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$ 2,707	\$ 2,357
Accounts payable	175,475	195,075
Accrued expenses	136,517	145,321
Total current liabilities	314,699	342,753
Capital lease obligations	12,752	14,137
Deferred rent and lease incentives	63,809	60,642
Other long-term liabilities	77,327	73,561
	468,587	491,093
Redeemable noncontrolling interests	13,247	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 137,140,675 and 136,568,091 shares, outstanding 93,318,756 and 92,736,761 shares, at May 1, 2010 and January 30, 2010, respectively	933	927
Paid-in capital	335,798	319,737
Retained earnings	954,941	919,531
Accumulated other comprehensive (loss) income	(9,114)	(2,952)
Treasury stock, 43,821,919 and 43,831,330 shares at May 1, 2010 and January 30, 2010, respectively	(216,985)	(217,032)
Guess?, Inc. stockholders' equity	1,065,573	1,020,211
Nonredeemable noncontrolling interests	7,361	6,132
Total stockholders' equity	1,072,934	1,026,343
	\$ 1,554,768	\$ 1,531,249

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended	
	May 1, 2010	May 2, 2009
Net revenue:		
Product sales	\$ 514,055	\$ 419,127
Net royalties	25,286	22,074
	539,341	441,201
Cost of product sales	304,090	263,698
Gross profit	235,251	177,503
Selling, general and administrative expenses	158,105	129,469
Pension curtailment expense	5,819	
Earnings from operations	71,327	48,034
Other income (expense):		
Interest expense	(195)	(606)
Interest income	301	737
Other income (expense), net	3,428	1,266
	3,534	1,397
Earnings before income tax expense	74,861	49,431
Income tax expense	23,207	16,312
Net earnings	51,654	33,119
Net earnings attributable to noncontrolling interests	1,319	577
Net earnings attributable to Guess?, Inc.	\$ 50,335	\$ 32,542
Earnings per common share attributable to common stockholders (Note 2):		
Basic	\$ 0.54	\$ 0.35
Diluted	\$ 0.54	\$ 0.35
Weighted average common shares outstanding attributable to common stockholders (Note 2):		
Basic	91,902	90,631
Diluted	92,768	91,158
Dividends declared per common share	\$ 0.16	\$ 0.10

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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(in thousands)
(unaudited)

	Three Months Ended	
	May 1, 2010	May 2, 2009
Net earnings	\$ 51,654	\$ 33,119
Foreign currency translation adjustment	(12,273)	10,973
Unrealized gain (loss) on hedges, net of tax effect	1,428	(3,300)
Unrealized gain on investments, net of tax effect	175	180
SERP prior service cost and actuarial valuation loss amortization, including curtailment expense, net of tax effect	4,418	284
Comprehensive income	45,402	41,256
Less comprehensive income attributable to noncontrolling interests	(1,229)	(941)
Comprehensive income attributable to Guess?, Inc.	\$ 44,173	\$ 40,315

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See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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(in thousands)
(unaudited)

	Three Months Ended	
	May 1, 2010	May 2, 2009
Cash flows from operating activities:		
Net earnings	\$ 51,654	\$ 33,119
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	14,564	12,793
Amortization of intangible assets	1,187	1,754
Share-based compensation expense	8,068	6,764
Unrealized forward contract (gains) losses	(1,974)	3,066
Net loss on disposition of property and equipment	986	220
Pension curtailment expense	5,819	
Other items, net	(2,000)	759
Changes in operating assets and liabilities:		
Accounts receivable	(7,169)	(4,682)
Inventories	4,751	40,933
Prepaid expenses and other assets	(13,435)	(2,214)
Accounts payable and accrued expenses	(22,752)	(51,064)
Deferred rent and lease incentives	3,295	3,884
Other long-term liabilities	4,790	(531)
Net cash provided by operating activities	47,784	44,801
Cash flows from investing activities:		
Purchases of property and equipment	(19,405)	(18,480)
Proceeds from dispositions of long-term assets		474
Acquisition of lease interest	(2,249)	
Acquisition of businesses, net of cash acquired		(312)
Net cash settlement of forward contracts	609	3,693
Purchases of long-term investments	(2,414)	(3,640)
Net cash used in investing activities	(23,459)	(18,265)
Cash flows from financing activities:		
Certain short-term borrowings, net	442	4,623
Proceeds from borrowings		40,000
Repayment of borrowings and capital lease obligation	(390)	(40,378)
Dividends paid	(14,925)	(9,222)
Noncontrolling interest capital contributions		650
Issuance of common stock, net of nonvested award repurchases	2,606	434
Excess tax benefits from share-based compensation	5,612	60
Purchase of treasury stock		(5,309)
Net cash used in financing activities	(6,655)	(9,142)
Effect of exchange rates on cash and cash equivalents	(2,028)	1,118
Net increase in cash and cash equivalents	15,642	18,512
Cash and cash equivalents at beginning of period	502,063	294,118
Cash and cash equivalents at end of period	\$ 517,705	\$ 312,630
Supplemental cash flow data:		
Interest paid	\$ 76	\$ 690
Income taxes paid	\$ 10,099	\$ 12,621

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

May 1, 2010

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(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 May 1, 2010 and January 30, 2010, and the condensed consolidated statements of income, condensed consolidated statements of comprehensive income and condensed consolidated statements of cash flows for the three months ended May 1, 2010 and May 2, 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 months ended May 1, 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 results of operations.

The three months ended May 1, 2010 had the same number of days as the three months ended May 2, 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 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 to 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	
	May 1, 2010	May 2, 2009
Net earnings attributable to Guess?, Inc.	\$ 50,335	\$ 32,542
Net earnings attributable to nonvested restricted stockholders	553	532
Net earnings attributable to common stockholders	\$ 49,782	\$ 32,010
Weighted average shares used in basic computations	91,902	90,631
Effect of dilutive securities:		
Stock options and restricted stock units	866	527
Weighted average shares used in diluted computations	92,768	91,158
Net earnings per common share attributable to common stockholders:		
Basic	\$ 0.54	\$ 0.35
Diluted	\$ 0.54	\$ 0.35

For the three months ended May 1, 2010 and May 2, 2009, equity awards granted for 320,500 and 1,537,394, 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 months ended May 2, 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 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 three months ended May 2, 2009, the Company repurchased 407,600 shares under the 2008 Share Repurchase Program at an aggregate cost of \$5.3 million. There were no share repurchases under the 2008 Share Repurchase Program during the three months ended May 1, 2010. At May 1, 2010, the Company had remaining authority under the 2008 Share Repurchase Program to purchase an additional \$134.2 million of its common stock.

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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 three months ended May 1, 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	7,703		7,703	
Issuance of stock under ESPP	343		343	
Share-based compensation	8,068		8,068	
Dividends	(14,925)		(14,925)	
Comprehensive income (loss) (a):				
Net earnings	50,335	1,319	51,654	
Foreign currency translation adjustment	(12,183)	(90)	(12,273)	(566)
Unrealized gain on hedges, net of income tax of \$130	1,428		1,428	
Unrealized gain on investments, net of income tax of \$13	175		175	
SERP prior service cost and actuarial valuation loss amortization, including curtailment expense, net of income tax of \$2,832	4,418		4,418	
Balances at May 1, 2010	\$ 1,065,573	\$ 7,361	\$ 1,072,934	\$ 13,247

(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