

G III APPAREL GROUP LTD /DE/

Form 10-Q

December 04, 2009

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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 October 31, 2009**

**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 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

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 1, 2009, there were 16,862,069 shares of our common stock, par value \$0.01 per share, outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****G-III APPAREL GROUP, LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	October 31, 2009 (Unaudited)	October 31, 2008 (Unaudited)	January 31, 2009
	(In thousands, except share and per share amounts)		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 16,633	\$ 9,728	\$ 2,508
Accounts receivable, net of allowance for doubtful accounts and sales discounts of \$35,979, \$28,018 and \$20,989, respectively	235,943	217,686	69,695
Inventories	127,087	131,028	116,612
Deferred income taxes	11,565	15,616	11,565
Prepaid expenses and other current assets	5,660	8,085	10,319
<b>Total current assets</b>	<b>396,888</b>	<b>382,143</b>	<b>210,699</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>8,455</b>	<b>10,093</b>	<b>9,863</b>
<b>DEFERRED INCOME TAXES</b>	<b>11,640</b>	<b>3,938</b>	<b>11,640</b>
<b>OTHER ASSETS</b>	<b>1,363</b>	<b>2,241</b>	<b>1,858</b>
<b>INTANGIBLES, NET</b>	<b>20,171</b>	<b>25,138</b>	<b>21,406</b>
<b>GOODWILL</b>	<b>25,900</b>	<b>49,076</b>	<b>25,494</b>
	<b>\$ 464,417</b>	<b>\$ 472,629</b>	<b>\$ 280,960</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Notes payable	\$ 167,815	\$ 170,659	\$ 29,048
Income taxes payable	15,484	12,195	5,222
Accounts payable	54,629	62,785	51,463
Accrued expenses	29,847	24,533	19,299
Contingent purchase price payable			4,935
Deferred income taxes	1,578	1,298	1,578
<b>Total current liabilities</b>	<b>269,353</b>	<b>271,470</b>	<b>111,545</b>
<b>DEFERRED INCOME TAXES</b>	<b>6,648</b>	<b>7,086</b>	<b>6,648</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>785</b>	<b>615</b>	<b>538</b>
<b>TOTAL LIABILITIES</b>	<b>276,786</b>	<b>279,171</b>	<b>118,731</b>
<b>STOCKHOLDERS EQUITY</b>			

Preferred stock; 1,000,000 shares authorized; No shares issued and outstanding			
Common stock \$.01 par value; 40,000,000 shares authorized; 17,229,294, 16,905,502 and 17,063,002 shares issued	172	169	171
Additional paid-in capital	102,215	98,592	99,486
Accumulated other comprehensive income	(36)		
Retained earnings	86,250	95,667	63,542
Common stock held in treasury 367,225 shares at cost	(970)	(970)	(970)
	187,631	193,458	162,229
	\$ 464,417	\$ 472,629	\$ 280,960

*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**

	Three Months Ended October 31,	
	2009	2008
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	\$ 363,540	\$ 351,599
Cost of goods sold	237,912	239,080
Gross profit	125,628	112,519
Selling, general and administrative expenses	66,738	58,937
Depreciation and amortization	1,303	1,900
Operating profit	57,587	51,682
Interest and financing charges, net	1,891	2,496
Income before income taxes	55,696	49,186
Income tax expense	23,393	20,350
Net income	\$ 32,303	\$ 28,836
<b>NET INCOME PER COMMON SHARE:</b>		
Basic:		
Net income per common share	\$ 1.93	\$ 1.74
Weighted average number of shares outstanding	16,770	16,526
Diluted:		
Net income per common share	\$ 1.87	\$ 1.68
Weighted average number of shares outstanding	17,238	17,160

*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**

	Nine Months Ended October 31,	
	2009	2008
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	\$ 607,029	\$ 540,458
Cost of goods sold	409,371	381,520
Gross profit	197,658	158,938
Selling, general and administrative expenses	150,817	118,625
Depreciation and amortization	4,091	5,255
Operating profit	42,750	35,058
Interest and financing charges, net	3,599	4,161
Income before income taxes	39,151	30,897
Income tax expense	16,443	12,801
Net income	\$ 22,708	\$ 18,096
<b>NET INCOME PER COMMON SHARE:</b>		
Basic:		
Net income per common share	\$ 1.36	\$ 1.10
Weighted average number of shares outstanding	16,740	16,507
Diluted:		
Net income per common share	\$ 1.33	\$ 1.07
Weighted average number of shares outstanding	17,011	16,990

*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**

	Nine Months Ended October 31,	
	2009	2008
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 22,708	\$ 18,096
Adjustments to reconcile net income to net cash used in operating activities, net of assets and liabilities acquired:		
Depreciation and amortization	4,091	5,255
Stock based compensation	1,387	914
Deferred financing charges	484	691
Changes in operating assets and liabilities:		
Accounts receivable, net	(166,248)	(145,368)
Inventories	(10,475)	(45,799)
Income taxes, net	10,262	7,950
Prepaid expenses and other current assets	4,659	2,086
Other assets, net	11	(708)
Accounts payable, accrued expenses and other liabilities	13,961	42,505
 Net cash used in operating activities	 (119,160)	 (114,378)
 Cash flows from investing activities		
Capital expenditures	(1,448)	(1,611)
Acquisition of Andrew Marc, net of cash acquired		(43,051)
Acquisition of Wilsons, net of cash acquired		(22,842)
Contingent purchase price paid	(5,341)	(4,904)
 Net cash used in investing activities	 (6,789)	 (72,408)
 Cash flows from financing activities		
Proceeds from notes payable, net	138,767	170,659
Repayment of term loan		(13,060)
Proceeds from exercise of stock options	854	346
Tax benefit from exercise of stock options	489	228
 Net cash provided by financing activities	 140,110	 158,173
 Effect of exchange rate changes	 (36)	
 Net increase (decrease) in cash and cash equivalents	 14,125	 (28,613)

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Cash and cash equivalents at beginning of period	2,508	38,341
Cash and cash equivalents at end of period	\$ 16,633	\$ 9,728
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,216	\$ 3,741
Income taxes	5,396	4,721
Detail of Andrew Marc acquisition:		
Acquired intangibles		\$ 34,451
Fair value of other assets acquired, net		20,867
Fair value of total assets acquired		55,318
Liabilities assumed		(12,190)
Cash paid for acquisition		43,128
Cash acquired		77
Net cash paid for acquisition		\$ 43,051
Detail of Wilsons acquisition:		
Cash paid for acquisition		\$ 22,929
Cash acquired		87
Net cash paid for acquisition		\$ 22,842

*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 Basis of Presentation**

As used in these financial statements, the term Company refers to G-III Apparel Group, Ltd. and its wholly-owned subsidiaries. The results for the three and nine month periods ended October 31, 2009 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, 2009.

**Note 2 Inventories**

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

	October 31, 2009	October 31, 2008	January 31, 2009
	(In thousands)		
Finished goods	\$ 123,744	\$ 127,413	\$ 113,824
Raw materials and work-in-process	3,343	3,615	2,788
	\$ 127,087	\$ 131,028	\$ 116,612

**Note 3 Contingent Purchase Price Payable**

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 were entitled to receive additional purchase price based on the performance of these divisions through January 31, 2009. Contingent payments in the aggregate amount of \$5.3 million and \$4.9 million have been recorded based upon the performance of these divisions with respect to the fiscal years ended January 31, 2009 and 2008, respectively. Fiscal 2009 was the final year the Company was obligated to pay additional purchase price in connection with these acquisitions. Payments under these obligations were completed in the second quarter of fiscal 2010.

**Note 4 Net Income per Common Share**

Basic net income per share has been computed using the weighted average number of common shares outstanding during each period. Diluted net income per share, when applicable, is computed using the weighted average number of common shares and potential dilutive common shares, consisting of stock options, stock purchase warrants and unvested restricted stock awards outstanding during the period. For the three months ended October 31, 2009 and 2008, approximately 265,000 and 238,000 shares, respectively, have been excluded from the diluted per share calculation as their inclusion would be anti-dilutive. For the nine months ended October 31, 2009 and 2008, approximately 870,000 and 279,000 shares, respectively, have been excluded from the diluted per share calculation as their inclusion would be anti-dilutive. The Company issued 166,292 shares and 223,998 shares of common stock related to the exercise of stock options and the vesting of restricted stock grants during the nine months ended October 31, 2009 and the twelve months ended January 31, 2009, respectively.



**Table of Contents****Note 5 Notes Payable**

The Company has a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The Company's financing agreement, which extends through July 2011, is a senior secured revolving credit facility providing for borrowings in the aggregate principal amount of up to \$250 million. Borrowings under this credit facility bear interest at the prime rate plus 0.75%, or LIBOR plus 3.0%, at the Company's option. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires the Company, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined. 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 October 31, 2009, the Company was in compliance with these covenants. The financing agreement is secured by all of the Company's assets.

**Note 6 Segments**

The Company's reportable segments are business units that offer different products and are managed separately. The Company operates in three segments; wholesale licensed apparel, wholesale non-licensed apparel and retail operations. The retail operations segment was added as a result of the Company's acquisition of the Wilsons retail outlet chain in July 2008, now operating as AM Retail Group, Inc. The Company had an insignificant retail operation prior to this acquisition and the results of this operation are now included in the Company's retail operations segment. Previously, the Company's retail operation was primarily included in the non-licensed apparel segment. There is substantial intersegment cooperation, cost allocations and sharing of assets. As a result, the Company does not represent that these segments, if operated independently, would report the operating results below. The following information, in thousands, is presented for the three and nine month periods indicated below:

	Three Months Ended October 31,					
	2009			2008		
	Wholesale Licensed	Wholesale Non- Licensed	Retail	Wholesale Licensed	Wholesale Non- Licensed	Retail
Net sales <sup>(2)</sup>	\$ 252,934	\$ 89,357	\$ 29,653	\$ 229,106	\$ 98,087	\$ 24,406
Cost of goods sold <sup>(2)</sup>	171,661	59,133	15,522	155,900	69,414	13,766
Gross profit	81,273	30,224	14,131	73,206	28,673	10,640
Selling, general and administrative	40,724	11,138	14,876	34,113	10,683	14,141
Depreciation and amortization	210	782	311	691	986	223
Operating profit (loss)	\$ 40,339	\$ 18,304	\$ (1,056)	\$ 38,402	\$ 17,004	\$ (3,724)

**Table of Contents****Note 6 Segments (continued)**

	Nine Months Ended October 31,					
	Wholesale Licensed	2009 Wholesale Non- Licensed	Retail	Wholesale Licensed	2008 Wholesale Non- Licensed	Retail <sup>(1)</sup>
Net sales <sup>(2)</sup>	\$ 403,807	\$ 146,952	\$ 77,777	\$ 338,654	\$ 169,761	\$ 32,043
Cost of goods sold <sup>(2)</sup>	283,290	103,448	44,140	239,407	123,998	18,115
Gross profit	120,517	43,504	33,637	99,247	45,763	13,928
Selling, general and administrative	82,459	25,598	42,760	68,443	31,470	18,712
Depreciation and amortization	629	2,572	890	2,073	2,858	324
Operating profit (loss)	\$ 37,429	\$ 15,334	\$ (10,013)	\$ 28,731	\$ 11,435	\$ (5,108)

(1) Results for the retail operations segment for the nine months ended October 31, 2008 only include operations of the Wilsons retail outlet stores from July 8, 2008, the date the Company acquired certain assets related to the Wilsons retail outlet business.

(2) Net sales and cost of goods sold for the wholesale licensed apparel



and wholesale non-licensed apparel segments include an aggregate of \$8.4 million and \$21.5 of intersegment sales to the Company's retail operations for the three and nine months ended October 31, 2009, respectively. Intersegment sales for the prior comparable year were not significant.

Included in finished goods inventory at October 31, 2009 are approximately \$68.5 million, \$19.9 million and \$35.3 million of inventories for wholesale licensed apparel, wholesale non-licensed apparel and retail operations, respectively. Included in finished goods inventory at October 31, 2008 are approximately \$65.6 million, \$29.7 million and \$32.1 million of inventories for wholesale licensed apparel, wholesale non-licensed apparel and retail operations, respectively. All other assets are commingled.

#### Note 7 Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 (the Codification) (ASC Topic 105). SFAS No. 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. As a result of the adoption of this pronouncement, this Quarterly Report on Form 10-Q for the quarter ending October 31, 2009 and all subsequent public filings will reference the Codification as the sole source of authoritative literature. Accordingly, all accounting references have been updated and SFAS references have been replaced with ASC references as if the SFAS has been adopted into the Codification. The adoption of the Codification had no impact on our results of operations or our financial position.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (ASC Topic 855). This pronouncement establishes principles and requirements for subsequent events, which are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, it sets forth (a) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and (c) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The pronouncement was effective for interim or annual financial periods ending after June 15, 2009. The implementation of this standard did not have a material impact on our results of operations or our financial position. We evaluated events and transactions that occurred after the balance sheet date through December 4, 2009, the date at which we

issued our financial statements.

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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, 2010 is referred to as fiscal 2010.

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

**Overview**

G-III designs, manufactures, imports and markets an extensive range of outerwear, dresses, sportswear and women's suits under licensed brands, our own proprietary brands and private retail labels. G-III also operates 121 retail stores, 118 of which are outlet stores operated under the Wilsons Leather name. While our products are sold at a variety of price points through a broad mix of retail partners and our own outlet stores, a majority of our sales are concentrated with our ten largest customers.

Our business is dependent on, among other things, retailer and consumer demand for our products. We believe that significant economic uncertainty and a slowdown in the global macroeconomic environment continue to negatively impact the level of consumer spending for discretionary items. The current depressed economic environment has been characterized by a decline in consumer discretionary spending that has disproportionately affected retailers and sellers of consumer goods, particularly those whose goods are viewed as discretionary purchases, such as fashion apparel and related products, such as ours. We cannot predict the direction in which this current economic downturn will move. Continued uncertain macroeconomic conditions and concerns about the access of retailers and consumers to credit may have a negative impact on our results for the remainder of fiscal 2010 and beyond.

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

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

Our two most recent acquisitions were made in fiscal 2009. In February 2008, we acquired Andrew Marc, a supplier of fine outerwear and handbags for both men and women to upscale specialty and department stores. As a result of this acquisition, we added Andrew Marc and Marc New York as additional company-owned brands and Levi's and Dockers as additional licensed brands. We believe that the Andrew Marc brand can be leveraged into a variety of new categories to become a meaningful lifestyle brand for us. Since we acquired Andrew Marc, we entered into agreements to license the Andrew Marc and Marc New York brands for women's footwear, men's accessories, women's handbags and men's cold weather accessories. We also launched a Marc New York dress line which began shipping for the Fall 2009 season.



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In July 2008, we acquired certain assets of Wilsons The Leather Experts, which had been a national retailer of outerwear and accessories. The assets acquired included 116 outlet store leases, inventory, distribution center operations and the Wilsons name and other related trademarks and trade names.

Our retail operations segment, which consists almost entirely of our Wilsons retail outlet store business, had an operating loss during fiscal 2009. It also had an operating loss for the first nine months of fiscal 2010. We acquired Wilsons during the middle of the year when the merchandise plan for the key Fall and Holiday seasons was already set. The difficult economic environment also contributed to a weaker than expected performance by our Wilsons retail business during the 2008 Holiday season. We have undertaken the following initiatives to improve the performance of our retail outlet business:

Improve the merchandise mix of outerwear at our stores, with increased emphasis on leather outerwear and a stronger assortment of private label product;

Emphasize presentation of product in our stores and training of our sales associates;

Incorporate an improved mix of private label and branded accessories; and

Reduce overhead costs at the distribution center for our retail operations by reducing our leased space by one-half at that distribution center.

We continue to believe that the operation of the Wilsons retail outlet stores is part of our core competency, as outerwear is expected to comprise approximately one-half of our annual net sales at Wilsons. We expect to continue to implement these initiatives with a view to creating a store concept that is capable of building growth over the long term.

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

We market our products to department, specialty and mass merchant retail stores in the United States. We also supply our outerwear to the Wilsons outlet stores and to the Wilsons e-commerce business we acquired. In 2008, we re-launched a website for Andrew Marc product to further expand our e-commerce presence.

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

The sale of licensed product has been a key element of our business strategy for many years. As part of this strategy, we continue to add new fashion and sports apparel licenses. We have expanded our relationship with Calvin Klein by adding licenses for women's performance wear in December 2007 and for better women's sportswear in August 2008. We began limited shipments of women's performance wear for the Spring 2008 season and expanded distribution for the Fall 2008 season. We began shipping women's better sportswear for the Spring 2009 season. In July 2008, we entered into a license agreement to design and distribute Jessica Simpson dresses, which we also began shipping for the Spring 2009 season. In November 2009, we extended our license related to the Ellen Tracy brand for an additional four years through December 31, 2014.

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 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.



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

A number of retailers have experienced significant financial difficulties, which in some cases has resulted in bankruptcies, liquidations and/or store closings. The financial difficulties of a retail customer of ours could result in reduced business with that customer. We may also assume higher credit risk relating to receivables of a retail customer experiencing financial difficulty that could result in higher reserves for doubtful accounts or increased write-offs of accounts receivable.

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

**Results of Operations*****Three months ended October 31, 2009 compared to three months ended October 31, 2008***

Net sales for the three months ended October 31, 2009 increased to \$363.5 million from \$351.6 million in the same period last year. Net sales of wholesale licensed apparel increased to \$252.9 million from \$229.1 million primarily as a result of an increase of \$38.1 million in net sales of Calvin Klein licensed product. Our Calvin Klein licensed product consists of men's and women's outerwear, women's dresses, suits and performance wear, as well as Calvin Klein women's sportswear which we launched earlier in fiscal 2010. This increase was offset in part by decreases in net sales of our Kenneth Cole outerwear (\$11.8 million) and our sports divisions (\$2.8 million). Net sales of wholesale non-licensed apparel in the three months ended October 31, 2009 decreased to \$89.4 million from \$98.1 million primarily due to a \$12.1 million decrease in net sales of private label product offset, in part, by an increase in net sales in our Andrew Marc division (\$5.0 million) and Jessica Howard dress division (\$1.8 million). Net sales of our retail operations were \$29.7 million for the three months ended October 31, 2009 compared to \$24.4 million in the same period last year as a result of an increase in outerwear sales.

Gross profit increased to \$125.6 million, or 34.6% of net sales, for the three month period ended October 31, 2009, from \$112.5 million, or 32.0% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed apparel segment was 32.1% in the three month period ended October 31, 2009 compared to 32.0% in the same period last year. The gross profit percentage in our wholesale non-licensed apparel segment increased to 33.8% in the three month period ended October 31, 2009 from 29.2% in the same period last year primarily as a result of improved margins on increased sales volume in our Andrew Marc and Jessica Howard divisions. The gross profit percentage for our retail operations segment was 47.7% for the three months ended October 31, 2009 compared to 43.6% for the comparable period last year as a result of improved margins on men's and women's outerwear. The gross profit percentage for retail sales are generally higher than for wholesale sales.

Selling, general and administrative expenses increased \$7.8 million to \$66.7 million in the three month period ended October 31, 2009 from \$58.9 million in the same period last year. This increase is primarily a result of increases in personnel costs (\$5.1 million), outside warehousing (\$1.1 million) and advertising and promotion expenses (\$732,000). Personnel costs increased primarily due to an increase in accrued bonuses as a result of our improved profitability, including bonuses to be paid to two executives who executed new employment agreements which provide for performance bonuses based on company and divisional profitability. Outside warehousing costs increased as a result of the increased shipping volume and advertising costs increased because sales of licensed product increased and we typically pay an advertising fee under our license agreements based on a percentage of sales of licensed product.

Depreciation and amortization decreased to \$1.3 million in the three months ended October 31, 2009 from \$1.9 million in the same period last year primarily as a result of certain intangible assets that became fully amortized during fiscal 2009.



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Interest and finance charges, net for the three months ended October 31, 2009 were approximately \$1.9 million compared to \$2.5 million for the comparable period last year. The lower interest expense is a result of the decrease in the prime rate and LIBOR.

Income tax expense for the three months ended October 31, 2009 was \$23.4 million compared to \$20.4 million for the same period last year. The effective tax rate for the three month period ended October 31, 2009 was 42.0% compared to an effective tax rate of 41.4% in the same period last year. The increase in the effective tax rate is primarily due to not recognizing the benefit of certain state losses incurred by our AM Retail Group, Inc. subsidiary that operates our Wilsons retail outlet stores.

***Nine months ended October 31, 2009 compared to nine months ended October 31, 2008***

Net sales for the nine months ended October 31, 2009 increased to \$607.0 million from \$540.5 million in the same period last year. Net sales of wholesale licensed apparel increased to \$403.8 million from \$338.7 million primarily attributable to an increase of \$74.0 million in net sales of Calvin Klein licensed product. The increase in Calvin Klein net sales was primarily attributable to increased sales of Calvin Klein dresses and sales of Calvin Klein sportswear which began shipping in the first quarter of the current fiscal year. This increase in net sales of wholesale licensed apparel was offset, in part, by decreases in net sales by our Kenneth Cole outerwear divisions (\$10.4 million). Net sales of wholesale non-licensed apparel in the nine months ended October 31, 2009 decreased to \$147.0 million from \$169.8 million primarily due to a decrease of \$14.2 million in net sales of our private label outerwear and \$6.2 million in net sales of our Jessica Howard dress division, offset in part by a \$4.1 million increase in net sales of our Andrew Marc product. Net sales of our retail operations were \$77.8 million for the nine months ended October 31, 2009 compared to \$32.0 million in the same period last year. The Wilsons retail outlet stores were acquired on July 11, 2008. All income statement items relating to our retail operations for the prior period are included only from the date of acquisition.

Gross profit increased to \$197.7 million for the nine month period ended October 31, 2009 from \$158.9 million in the same period last year. Gross profit as a percentage of net sales increased to 32.6% for the nine months ended October 31, 2009 compared to 29.4% in the prior year period. Gross profit as a percentage of net sales increased primarily because we operated our retail operations segment, which has a higher gross profit percentage than our wholesale segments, for the entire period in fiscal 2010. The gross profit in our wholesale licensed apparel segment increased to \$120.5 million for the nine month period ended October 31, 2009 from \$99.2 million in the same period last year. The gross profit percentage in our wholesale licensed apparel segment increased slightly to 29.8% from 29.3% in the same period last year. The gross profit in our wholesale non-licensed apparel segment decreased to \$43.5 million from \$45.8 million in the same period last year. The gross profit percentage in our wholesale non-licensed apparel segment increased to 29.6% from 27.0% in the same period last year. This percentage increase is primarily attributable to increased margins in our Andrew Marc division. The gross profit percentage in our retail operations segment was 43.2% in the nine month period ended October 31, 2009 compared to 43.5% in the comparable period last year.

Selling, general and administrative expenses increased \$32.2 million to \$150.8 million in the nine month period ended October 31, 2009 from \$118.6 million in the same period last year. Selling, general and administrative expenses increased primarily as a result of expenses related to the Wilsons retail business (\$24.2 million), which were included for the entire period this year and only from the date of acquisition (July 2008) for the prior period. In addition, there were increases in personnel costs (\$3.9 million), advertising and promotion expenses (\$2.8 million) and outside warehousing (\$1.4 million). Personnel costs increased due primarily to an increase in accrued bonuses as a result of the improved profitability, including bonuses to be paid to two executives who executed new employment agreements which provide for performance bonuses based on company and divisional profitability. Advertising costs increased because sales of licensed product increased and we typically pay an advertising fee under our license agreements based on a percentage of sales of licensed product, and outside warehousing costs increased as a result of increased shipping volume.

Depreciation and amortization decreased to \$4.1 million in the nine months ended October 31, 2009 from \$5.3 million in the same period last year primarily as a result of certain intangible assets that became fully amortized during fiscal 2009.

Interest and finance charges, net for the nine months ended October 31, 2009 were \$3.6 million compared to \$4.2 million for the same period last year. The lower interest expense is a result of the decrease in the prime rate and LIBOR.

Income tax expense for the nine months ended October 31, 2009 was \$16.4 million compared to \$12.8 million in the comparable period last year. The effective rate for the current period was 42.0% compared to 41.4% for the comparable prior period. The increase in the effective tax rate is primarily due to not recognizing the benefit of certain state losses in our AM Retail Group, Inc. subsidiary.

**Table of Contents****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.

The amount borrowed under the line of credit varies based on our seasonal requirements. At October 31, 2009, we had cash and cash equivalents of \$16.6 million and outstanding borrowings of \$167.8 million. At October 31, 2008, we had cash and cash equivalents of \$9.7 million and outstanding borrowings of \$170.7 million.

Our contingent liability under open letters of credit was approximately \$7.0 million as of October 31, 2009 compared to \$7.3 million as of October 31, 2008.

*Financing Agreement*

Our financing agreement is a senior secured revolving credit facility providing for a maximum revolving line of credit of \$250 million. Borrowings under this credit facility, which extends through July 2011, bear interest at the prime rate plus 0.75%, or LIBOR plus 3.0%, at our option. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires us, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined. 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 October 31, 2009, we were in compliance with these covenants.

*Cash from Operating Activities*

We used \$119.2 million of cash from operating activities during the nine months ended October 31, 2009, primarily as a result of an increase in accounts receivable of \$166.2 million and an increase in inventory of \$10.5 million offset, in part, by our net income of \$22.7 million, an increase of \$14.0 million in accounts payable and accrued expenses, an increase of \$10.3 million in income taxes payable and a decrease of \$4.7 million in prepaid expenses.

The changes in these operating cash flow items are consistent with our seasonal pattern. Our accounts receivable increased because a majority of our wholesale sales occur during our fall shipping season. The increase in inventory is a result of anticipated fourth quarter wholesale orders which constitutes the latter part of our fall shipping season, as well as a build up of retail inventory in anticipation of the holiday shopping season. The increase in accrued expenses is attributable to the high sales volume of licensed product for which royalty and advertising payments, generally based on a percentage of sales, are accrued and accrued bonuses which increased based on our improved profitability. The increase in income taxes is a result of our pretax income through the nine months ended October 31, 2009. Prepaid expenses decreased primarily as a result of minimum payments made under our licensing agreements for royalty and advertising being earned in the third quarter.

*Cash from Investing Activities*

We used \$6.8 million of cash in investing activities in the nine months ended October 31, 2009 of which \$5.3 million was for contingent payments earned as a result of the fiscal 2009 operating results of the businesses acquired in 2005. Fiscal 2009 was the final year with respect to which we were obligated to pay additional purchase price in connection with these acquisitions. We also used \$1.4 million during the nine months ended October 31, 2009 for capital expenditures for renovations of various showrooms.

*Cash from Financing Activities*

Cash from financing activities provided \$140.1 million in the nine months ended October 31, 2009, primarily as a result of \$138.8 million of increased borrowings under our line of credit.

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*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, 2009 are those that depend most heavily on these judgments and estimates. As of October 31, 2009, 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, 2009.

**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, 2009, 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.

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**Item 6. Exhibits.**

- 31.1 Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2009.
- 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 October 31, 2009.
- 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 October 31, 2009.
- 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 October 31, 2009.

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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.

G-III APPAREL GROUP, LTD.  
(Registrant)

Date: December 4, 2009

By: /s/ Morris Goldfarb  
Morris Goldfarb  
Chief Executive Officer

Date: December 4, 2009

By: /s/ Neal S. Nackman  
Neal S. Nackman  
Chief Financial Officer