

G III APPAREL GROUP LTD /DE/
Form 10-Q
September 08, 2014

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 July 31, 2014

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

| | |
|--|-----------------------------------|
| 512 Seventh Avenue, New York, New York (Address of Principal Executive Offices) | 10018 (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 September 2, 2014, there were 22,385,233 shares of issuer's common stock, par value \$0.01 per share, outstanding.

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Table of Contents**PART I – FINANCIAL INFORMATION****Item1.****Financial Statements.****G-III APPAREL GROUP, LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

| | July 31, 2014 (Unaudited) (In thousands, except share and per share amounts) | July 31, 2013 (Unaudited) | January 31, 2014 |
|---|---|---------------------------------|---------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 21,534 | \$ 16,454 | \$ 22,091 |
| Accounts receivable, net of allowances for doubtful accounts and sales discounts of \$41,542, \$38,285 and \$54,987, respectively | 193,282 | 162,563 | 160,010 |
| Inventories | 534,186 | 406,246 | 359,639 |
| Prepaid income taxes | 18,474 | 4,586 | 6,807 |
| Deferred income taxes, net | 16,331 | 10,318 | 16,331 |
| Prepaid expenses and other current assets | 37,228 | 36,011 | 21,312 |
| Total current assets | 821,035 | 636,178 | 586,190 |
| PROPERTY AND EQUIPMENT, NET | 75,808 | 46,016 | 62,832 |
| OTHER ASSETS | 32,316 | 31,858 | 31,259 |
| OTHER INTANGIBLES, NET | 14,229 | 14,018 | 13,926 |
| TRADEMARKS, NET | 80,425 | 75,137 | 81,086 |
| GOODWILL | 55,354 | 54,153 | 55,604 |
| | \$ 1,079,167 | \$ 857,360 | \$ 830,897 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Notes payable | \$ 45,031 | \$ 122,092 | \$ 48,843 |
| Accounts payable | 244,098 | 195,549 | 131,241 |
| Accrued expenses | 48,773 | 37,851 | 56,468 |
| Due to noncontrolling shareholder | 5,733 | 3,203 | 4,674 |
| Total current liabilities | 343,635 | 358,695 | 241,226 |
| NOTES PAYABLE | 20,386 | 19,518 | 20,560 |
| DEFERRED INCOME TAXES, NET | 21,936 | 19,235 | 22,100 |
| CONTINGENT PURCHASE PRICE PAYABLE | 5,503 | 5,711 | 5,550 |
| OTHER NON-CURRENT LIABILITIES | 19,652 | 14,257 | 19,465 |
| TOTAL LIABILITIES | 411,112 | 417,416 | 308,901 |

STOCKHOLDERS' EQUITY

Preferred stock; 1,000,000 shares authorized; No shares issued and outstanding

| | | | |
|---|--------------|------------|------------|
| Common stock - \$.01 par value; 80,000,000 shares authorized; 22,877,458, 20,889,322 and 20,935,804 shares issued | 229 | 210 | 209 |
| Additional paid-in capital | 324,211 | 179,834 | 184,841 |
| Accumulated other comprehensive income | 5,836 | 1,008 | 6,165 |
| Retained earnings | 343,323 | 263,289 | 335,797 |
| Common stock held in treasury, at cost – 492,225 shares | (3,899) | (3,899) | (3,899) |
| Total G-III stockholders' equity | 669,700 | 440,442 | 523,113 |
| Noncontrolling interest | (1,645) | (498) | (1,117) |
| Total stockholders' equity | 668,055 | 439,944 | 521,996 |
| | \$ 1,079,167 | \$ 857,360 | \$ 830,897 |

The accompanying notes are an integral part of these statements.

Table of Contents**G-III APPAREL GROUP, LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

| | Three Months Ended July 31, | |
|---|--|------------|
| | 2014 | 2013 |
| | (Unaudited) | |
| | (In thousands, except per share amounts) | |
| Net sales | \$ 424,010 | \$ 304,158 |
| Cost of goods sold | 275,951 | 204,739 |
| Gross profit | 148,059 | 99,419 |
| Selling, general and administrative expenses | 131,609 | 89,044 |
| Depreciation and amortization | 4,955 | 3,242 |
| Operating profit | 11,495 | 7,133 |
| Interest and financing charges, net | 1,965 | 1,750 |
| Income before income taxes | 9,530 | 5,383 |
| Income tax expense | 3,622 | 2,045 |
| Net income | 5,908 | 3,338 |
| Add: Loss attributable to noncontrolling interest | 328 | 254 |
| Income attributable to G-III | \$ 6,236 | \$ 3,592 |
| NET INCOME PER COMMON SHARE: | | |
| Basic: | | |
| Net income per common share | \$ 0.29 | \$ 0.18 |
| Weighted average number of shares outstanding | 21,187 | 20,305 |
| Diluted: | | |
| Net income per common share | \$ 0.29 | \$ 0.17 |
| Weighted average number of shares outstanding | 21,660 | 20,753 |
| Net income attributable to G-III | \$ 6,236 | \$ 3,592 |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | (293) | (136) |
| Other comprehensive loss | (293) | (136) |
| Comprehensive income | \$ 5,943 | \$ 3,456 |

The accompanying notes are an integral part of these statements.

Table of Contents**G-III APPAREL GROUP, LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

| | Six Months Ended July 31, | |
|---|--|------------|
| | 2014 | 2013 |
| | (Unaudited) | |
| | (In thousands, except per share amounts) | |
| Net sales | \$ 790,202 | \$ 576,773 |
| Cost of goods sold | 511,966 | 384,961 |
| Gross profit | 278,236 | 191,812 |
| Selling, general and administrative expenses | 254,050 | 174,872 |
| Depreciation and amortization | 9,181 | 6,363 |
| Operating profit | 15,005 | 10,577 |
| Interest and financing charges, net | 3,718 | 3,528 |
| Income before income taxes | 11,287 | 7,049 |
| Income tax expense | 4,289 | 2,678 |
| Net income | 6,998 | 4,371 |
| Add: Loss attributable to noncontrolling interest | 528 | 339 |
| Income attributable to G-III | \$ 7,526 | \$ 4,710 |
| NET INCOME PER COMMON SHARE: | | |
| Basic: | | |
| Net income per common share | \$ 0.36 | \$ 0.23 |
| Weighted average number of shares outstanding | 20,843 | 20,234 |
| Diluted: | | |
| Net income per common share | \$ 0.35 | \$ 0.23 |
| Weighted average number of shares outstanding | 21,346 | 20,686 |
| Net income attributable to G-III | \$ 7,526 | \$ 4,710 |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | (329 |) (2,515 |
| Other comprehensive loss | (329 |) (2,515 |
| Comprehensive income | \$ 7,197 | \$ 2,195 |

The accompanying notes are an integral part of these statements.

Table of Contents**G-III APPAREL GROUP, LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six Months Ended July 31 | |
|---|--------------------------|------------|
| | 2014 | 2013 |
| | (Unaudited) | |
| | (In thousands) | |
| Cash flows from operating activities | | |
| Net income | \$ 6,998 | \$ 4,371 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 9,181 | 6,363 |
| Equity based compensation | 5,780 | 4,107 |
| Tax benefit from exercise/vesting of equity awards | 8,618 | 4,550 |
| Deferred financing charges | 469 | 335 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (33,352) | 15,569 |
| Inventories | (174,618) | (125,439) |
| Income taxes, net | (11,671) | (16,767) |
| Prepaid expenses and other current assets | (15,942) | (16,225) |
| Other assets, net | (1,869) | (12,554) |
| Accounts payable, accrued expenses and other liabilities | 99,814 | 75,880 |
| Net cash used in operating activities | (106,592) | (59,810) |
| Cash flows from investing activities | | |
| Capital expenditures | (21,367) | (10,680) |
| Net cash used in investing activities | (21,367) | (10,680) |
| Cash flows from financing activities | | |
| Proceeds from sale of common stock, net | 128,686 | - |
| Proceeds from (repayment of) notes payable, net | (3,812) | 57,092 |
| Proceeds from exercise of equity awards | 640 | 760 |
| Excess tax benefit from exercise/vesting of equity awards | 5,430 | 2,957 |
| Taxes paid for net share settlement | (4,316) | (946) |
| Noncontrolling interest investment, net | 1,063 | 863 |
| Net cash provided by financing activities | 127,691 | 60,726 |
| Foreign currency translation adjustments | (289) | (1,142) |
| Net decrease in cash and cash equivalents | (557) | (10,906) |
| Cash and cash equivalents at beginning of period | 22,091 | 27,360 |
| Cash and cash equivalents at end of period | \$ 21,534 | \$ 16,454 |

Supplemental disclosures of cash flow information:

Cash paid during the year for:

| | | |
|--------------|----------|----------|
| Interest | \$ 3,055 | \$ 3,411 |
| Income taxes | 7,273 | 14,874 |

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” or “G-III” refers to G-III Apparel Group, Ltd. and its subsidiaries. The Company designs, manufactures and markets an extensive range of apparel, including outerwear, dresses, sportswear, swimwear, women’s suits and women’s performance wear, as well as footwear, luggage and women’s handbags, small leather goods and cold weather accessories. The Company also operates retail stores.

The Company consolidates the accounts of all its wholly-owned and majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated. Vilebrequin International SA (“Vilebrequin”), a Swiss corporation, and the Company’s joint venture that operates Calvin Klein Performance retail stores in mainland China and Hong Kong, G-T (International) Fashion Company Limited (“G-T Fashion”), report results on a calendar year basis rather than on the January 31 fiscal year basis used by the Company.

The results for the three month and six month periods ended July 31, 2014 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 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 for the fiscal year ended January 31, 2014 filed with the Securities and Exchange Commission.

Certain reclassifications have been made to the Condensed Consolidated Balance Sheet and the Condensed Consolidated Statement of Cash Flows for the prior year period to present that information on a basis consistent with the current year

Note 2 – Public Offering

In June 2014, the Company sold 1,725,000 shares of our common stock, including 225,000 shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares, at a public offering price of \$77.63 per share. The Company received net proceeds of \$128.7 million from the offering after payment of underwriting discounts and expenses of the offering. The net proceeds are expected to be used for general corporate purposes to support the growth of the business.

Table of ContentsNote 3 – Inventories

Wholesale inventories are stated at the lower of cost (determined by the first-in, first out method) or market which comprises a significant portion of the Company's inventory. Retail inventories are valued at the lower of cost or market as determined by the retail inventory method. Vilebrequin inventories are stated at the lower of cost (determined by the weighted average method) or market. Inventories consist of:

| | July 31, 2014 | July 31, 2013 | January 31, 2014 |
|-----------------------------------|------------------|---------------|------------------|
| | (In thousands) | | |
| Finished goods | \$524,350 | \$ 395,600 | \$ 350,627 |
| Raw materials and work-in-process | 9,836 | 10,646 | 9,012 |
| | \$534,186 | \$ 406,246 | \$ 359,639 |

Note 4 – Net Income per Common Share

Basic net income per common share has been computed using the weighted average number of common shares outstanding during each period. Diluted net income per share is computed using the weighted average number of common shares and potential dilutive common shares, consisting of unvested restricted stock awards and stock options outstanding, during the period. In addition, all share based payments outstanding that vest based on the achievement of performance conditions, and for which the respective performance conditions have not been achieved, have been excluded from the diluted per share calculation. Approximately 328,000 shares of common stock have been excluded from the diluted net income per share calculation for the six months ended July 31, 2014. For the six months ended July 31, 2014 and 2013, 216,654 and 272,365 shares of common stock, respectively, were issued in connection with the exercise or vesting of equity awards.

The reconciliation between basic and diluted net income per share is as follows:

| Three Months Ended | Six Months Ended |
|--------------------|------------------|
| July 31, | July 31, |
| 2014 | |