

G III APPAREL GROUP LTD /DE/
Form 10-Q
September 01, 2016

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, 2016

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 August 31, 2016, there were 45,756,789 shares of issuer’s 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**

| | July 31, 2016 | July 31, 2015 | January 31, 2016 |
|---|---|----------------------|-----------------------------|
| | (Unaudited) | (Unaudited) | |
| | (In thousands, except per share amounts) | | |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 44,950 | \$ 18,810 | \$ 132,587 |
| Accounts receivable, net of allowances for doubtful accounts and sales discounts of \$64,016, \$54,213 and \$74,261, respectively | 243,108 | 238,659 | 221,500 |
| Inventories | 569,996 | 605,214 | 485,311 |
| Prepaid income taxes | 31,130 | 8,668 | 23,347 |
| Deferred income taxes, net | 17,576 | 16,057 | 17,564 |
| Prepaid expenses and other current assets | 33,149 | 30,386 | 22,131 |
| Total current assets | 939,909 | 917,794 | 902,440 |
| INVESTMENTS IN UNCONSOLIDATED AFFILIATES | 62,882 | 25,490 | 25,662 |
| PROPERTY AND EQUIPMENT, NET | 103,697 | 89,743 | 103,579 |
| OTHER ASSETS | 24,782 | 26,817 | 24,886 |
| OTHER INTANGIBLES, NET | 10,217 | 11,609 | 10,799 |
| TRADEMARKS, NET | 68,169 | 68,182 | 67,267 |
| GOODWILL | 49,864 | 49,844 | 49,437 |
| TOTAL ASSETS | \$ 1,259,520 | \$ 1,189,479 | \$ 1,184,070 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Notes payable | \$ — | \$ 5,503 | \$ — |
| Accounts payable | 244,904 | 297,724 | 173,586 |
| Accrued expenses | 60,423 | 56,225 | 71,218 |
| Total current liabilities | 305,327 | 359,452 | 244,804 |
| DEFERRED INCOME TAXES, NET | 24,902 | 19,006 | 23,840 |
| CONTINGENT PURCHASE PRICE PAYABLE | — | 888 | — |
| OTHER NON-CURRENT LIABILITIES | 29,186 | 24,958 | 27,299 |
| TOTAL LIABILITIES | 359,415 | 404,304 | 295,943 |
| STOCKHOLDERS' EQUITY | | | |

| | | | |
|---|--------------|--------------|--------------|
| Preferred stock; 1,000 shares authorized; No shares issued and outstanding | | | |
| Common stock - \$.01 par value; 120,000 shares authorized; 46,407, 46,204 and 46,212 shares issued respectively | 231 | 232 | 229 |
| Additional paid-in capital | 360,947 | 343,582 | 353,739 |
| Accumulated other comprehensive loss | (20,467) | (20,112) | (23,689) |
| Retained earnings | 561,970 | 465,372 | 560,491 |
| Common stock held in treasury, at cost – 650, 984 and 667 shares respectively | (2,576) | (3,899) | (2,643) |
| TOTAL STOCKHOLDERS' EQUITY | 900,105 | 785,175 | 888,127 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,259,520 | \$ 1,189,479 | \$ 1,184,070 |

The accompanying notes are an integral part of these statements.

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

| | Three Months Ended July 31 | |
|---|--|------------|
| | 2016 | 2015 |
| | (Unaudited) | |
| | (In thousands, except per share amounts) | |
| Net sales | \$ 442,267 | \$ 473,884 |
| Cost of goods sold | 286,624 | 305,544 |
| Gross profit | 155,643 | 168,340 |
| Selling, general and administrative expenses | 153,168 | 141,483 |
| Depreciation and amortization | 7,672 | 5,914 |
| Operating profit (loss) | (5,197) | 20,943 |
| Equity income in joint venture | 348 | — |
| Interest and financing charges, net | (1,056) | (1,177) |
| Income (loss) before income taxes | (5,905) | 19,766 |
| Income tax expense (benefit) | (4,612) | 7,313 |
| Net income (loss) | \$ (1,293) | \$ 12,453 |
| NET INCOME (LOSS) PER COMMON SHARE: | | |
| Basic: | | |
| Net income (loss) per common share | \$ (0.03) | \$ 0.28 |
| Weighted average number of shares outstanding | 45,667 | 45,073 |
| Diluted: | | |
| Net income per common share | \$ (0.03) | \$ 0.27 |
| Weighted average number of shares outstanding | 45,667 | 46,362 |
| Net income (loss) | \$ (1,293) | \$ 12,453 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (2,810) | 1,117 |
| Other comprehensive income (loss) | (2,810) | 1,117 |
| Comprehensive income (loss) | \$ (4,103) | \$ 13,570 |

The accompanying notes are an integral part of these statements.

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

| | Six Months Ended July 31 | |
|---|--|------------|
| | 2016 | 2015 |
| | (Unaudited) | |
| | (In thousands, except per share amounts) | |
| Net sales | \$ 899,670 | \$ 906,849 |
| Cost of goods sold | 578,358 | 584,082 |
| Gross profit | 321,312 | 322,767 |
| Selling, general and administrative expenses | 306,273 | 278,516 |
| Depreciation and amortization | 14,865 | 11,601 |
| Operating profit | 174 | 32,650 |
| Equity income in joint venture | 617 | — |
| Interest and financing charges, net | (2,298) | (2,153) |
| Income (loss) before income taxes | (1,507) | 30,497 |
| Income tax expense (benefit) | (2,985) | 11,284 |
| Net income | \$ 1,478 | \$ 19,213 |
| NET INCOME PER COMMON SHARE: | | |
| Basic: | | |
| Net income per common share | \$ 0.03 | \$ 0.43 |
| Weighted average number of shares outstanding | 45,601 | 45,020 |
| Diluted: | | |
| Net income per common share | \$ 0.03 | \$ 0.42 |
| Weighted average number of shares outstanding | 46,967 | 46,289 |
| Net income | \$ 1,478 | \$ 19,213 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 3,222 | (10,007) |
| Other comprehensive income (loss) | 3,222 | (10,007) |
| Comprehensive income | \$ 4,700 | \$ 9,206 |

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, | |
|---|---------------------------|------------|
| | 2016 | 2015 |
| | (Unaudited) | |
| | (In thousands) | |
| Cash flows from operating activities | | |
| Net income | \$ 1,478 | \$ 19,213 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 14,865 | 11,601 |
| Loss on disposal of fixed assets | 657 | 532 |
| Equity income in joint venture | (617) | — |
| Equity based compensation | 9,028 | 7,634 |
| Deferred financing charges | 421 | 419 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (21,508) | (40,679) |
| Inventories | (84,537) | (179,681) |
| Income taxes, net | (7,781) | 4,569 |
| Prepaid expenses and other current assets | (10,998) | (7,317) |
| Other assets, net | (349) | (949) |
| Accounts payable, accrued expenses and other liabilities | 60,322 | 113,590 |
| Net cash used in operating activities | (39,019) | (71,068) |
| Cash flows from investing activities | | |
| Investment in unconsolidated affiliate | (35,432) | (25,490) |
| Capital expenditures | (12,617) | (16,600) |
| Net cash used in investing activities | (48,049) | (42,090) |
| Cash flows from financing activities | | |
| Proceeds from notes payable, net | — | 5,503 |
| Taxes paid for net share settlement | (2,011) | — |
| Proceeds from exercise of equity awards | 256 | 376 |
| Net cash provided by (used in) financing activities | (1,755) | 5,879 |
| Foreign currency translation adjustments | 1,186 | (2,265) |
| Net decrease in cash and cash equivalents | (87,637) | (109,544) |
| Cash and cash equivalents at beginning of period | 132,587 | 128,354 |
| Cash and cash equivalents at end of period | \$ 44,950 | \$ 18,810 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |

| | | |
|--------------|----------|----------|
| Interest | \$ 1,748 | \$ 1,785 |
| Income taxes | 3,875 | 6,504 |

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 women’s handbags, footwear, small leather goods, cold weather accessories and luggage. The Company also operates retail stores.

The Company consolidates the accounts of all its wholly-owned and majority-owned subsidiaries. KL North America BV (“KLNA”) is a Dutch limited liability company which is a joint venture that is 49% owned by the Company. This investment is accounted for using the equity method of accounting. All material intercompany balances and transactions have been eliminated. Vilebrequin International SA (“Vilebrequin”), a Swiss corporation, which is wholly-owned by the Company, and KLNA report results on a calendar year basis rather than on the January 31 fiscal year basis used by the Company.

The results for the six month period ended July 31, 2016 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. All adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the financial position, resu