

G III APPAREL GROUP LTD /DE/

Form 10-Q

December 10, 2010

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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, 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 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

(Do not check if a 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, 2010, there were 19,298,847 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<br>31,<br>2010<br>(Unaudited)                 | October<br>31,<br>2009<br>(Unaudited) | January<br>31,<br>2010 |
|--|---|---------------------------------------|------------------------|
|  | (In thousands, except share and per share<br>amounts) |                                       |                        |
| <b>ASSETS</b>  |   |                                       |                        |
| <b>CURRENT ASSETS</b>  |   |                                       |                        |
| Cash and cash equivalents  | \$ 16,586   | \$ 16,633                             | \$ 46,813              |
| Accounts receivable, net of allowance for doubtful accounts<br>and sales discounts of \$39,942, \$35,979 and \$29,092,<br>respectively | 297,101   | 235,943                               | 73,456                 |
| Inventories  | 208,507   | 127,087                               | 119,877                |
| Deferred income taxes  | 15,315  | 11,565                                | 15,315                 |
| Prepaid expenses and other current assets  | 6,540   | 5,660                                 | 10,694                 |
| Total current assets   | 544,049   | 396,888                               | 266,155                |
| PROPERTY AND EQUIPMENT, NET  | 19,020  | 8,455                                 | 7,539                  |
| DEFERRED INCOME TAXES  | 10,672  | 11,640                                | 10,672                 |
| OTHER ASSETS   | 2,275   | 1,363                                 | 1,723                  |
| INTANGIBLES, NET   | 18,793  | 20,171                                | 19,826                 |
| GOODWILL   | 26,100  | 25,900                                | 26,100                 |
|  | \$ 620,909  | \$ 464,417                            | \$ 332,015             |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |   |                                       |                        |
| <b>CURRENT LIABILITIES</b>   |   |                                       |                        |
| Notes payable  | \$ 166,739  | \$ 167,815                            | \$                     |
| Income taxes payable   | 28,232  | 15,484                                | 10,874                 |
| Accounts payable   | 85,638  | 54,629                                | 50,337                 |
| Accrued expenses   | 40,511  | 29,847                                | 29,333                 |
| Deferred income taxes  | 1,529   | 1,578                                 | 1,529                  |
| Total current liabilities  | 322,649   | 269,353                               | 92,073                 |
| DEFERRED INCOME TAXES  | 6,495   | 6,648                                 | 6,495                  |
| OTHER NON-CURRENT LIABILITIES  | 6,105   | 785                                   | 1,237                  |
| TOTAL LIABILITIES  | 335,249   | 276,786                               | 99,805                 |
| <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; 19,666,072, 17,229,294 and 19,192,704 shares issued | 197        | 172        | 192        |
| Additional paid-in capital   | 146,866    | 102,215    | 137,764    |
| Accumulated other comprehensive loss   | (43)       | (36)       | (36)       |
| Retained earnings  | 139,610    | 86,250     | 95,260     |
| Common stock held in treasury 367,225 shares at cost   | (970)      | (970)      | (970)      |
|  | 285,660    | 187,631    | 232,210    |
|  | \$ 620,909 | \$ 464,417 | \$ 332,015 |

*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,           |            |
|---|--|------------|
|   | 2010                                     | 2009       |
|   | (Unaudited)                              |            |
|   | (In thousands, except per share amounts) |            |
| Net sales                                     | \$ 450,002                               | \$ 363,540 |
| Cost of goods sold                            | 296,055                                  | 237,912    |
| Gross profit                                  | 153,947                                  | 125,628    |
| Selling, general and administrative expenses  | 80,140                                   | 66,738     |
| Depreciation and amortization                 | 1,508                                    | 1,303      |
| Operating profit                              | 72,299                                   | 57,587     |
| Interest and financing charges, net           | 1,706                                    | 1,891      |
| Income before income taxes                    | 70,593                                   | 55,696     |
| Income tax expense                            | 27,871                                   | 23,393     |
| Net income                                    | \$ 42,722                                | \$ 32,303  |
| <b>NET INCOME PER COMMON SHARE:</b>           |  |            |
| Basic:  |  |            |
| Net income per common share                   | \$ 2.22                                  | \$ 1.93    |
| Weighted average number of shares outstanding | 19,227                                   | 16,770     |
| Diluted:                                      |  |            |
| Net income per common share                   | \$ 2.16                                  | \$ 1.87    |
| Weighted average number of shares outstanding | 19,764                                   | 17,238     |

*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,            |            |
|---|--|------------|
|   | 2010                                     | 2009       |
|   | (Unaudited)                              |            |
|   | (In thousands, except per share amounts) |            |
| Net sales                                     | \$ 793,239                               | \$ 607,029 |
| Cost of goods sold                            | 529,502                                  | 409,371    |
| Gross profit                                  | 263,737                                  | 197,658    |
| Selling, general and administrative expenses  | 183,665                                  | 150,817    |
| Depreciation and amortization                 | 4,065                                    | 4,091      |
| Operating profit                              | 76,007                                   | 42,750     |
| Interest and financing charges, net           | 2,702                                    | 3,599      |
| Income before income taxes                    | 73,305                                   | 39,151     |
| Income tax expense                            | 28,955                                   | 16,443     |
| Net income                                    | \$ 44,350                                | \$ 22,708  |
| <b>NET INCOME PER COMMON SHARE:</b>           |  |            |
| Basic:  |  |            |
| Net income per common share                   | \$ 2.32                                  | \$ 1.36    |
| Weighted average number of shares outstanding | 19,087                                   | 16,740     |
| Diluted:                                      |  |            |
| Net income per common share                   | \$ 2.26                                  | \$ 1.33    |
| Weighted average number of shares outstanding | 19,606                                   | 17,011     |

*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<br>31, |           |
|---|----------------------------------|-----------|
|   | 2010                             | 2009      |
|   | (Unaudited)                      |           |
|   | (In thousands)                   |           |
| Cash flows from operating activities  |                                  |           |
| Net income  | \$ 44,350                        | \$ 22,708 |
| Adjustments to reconcile net income to net cash used in operating activities: |                                  |           |
| Depreciation and amortization   | 4,065                            | 4,091     |
| Stock based compensation  | 2,423                            | 1,387     |
| Deferred financing charges  | 664                              | 484       |
| Changes in operating assets and liabilities:                                  |                                  |           |
| Accounts receivable, net  | (223,645)                        | (166,248) |
| Inventories   | (88,630)                         | (10,475)  |
| Income taxes, net   | 17,358                           | 10,262    |
| Prepaid expenses and other current assets                                     | 4,022                            | 4,659     |
| Other assets, net   | (1,084)                          | 11        |
| Accounts payable, accrued expenses and other liabilities                      | 51,347                           | 13,961    |
| <br>  |                                  |           |
| Net cash used in operating activities   | (189,130)                        | (119,160) |
| <br>  |                                  |           |
| Cash flows from investing activities  |                                  |           |
| Capital expenditures  | (14,513)                         | (1,448)   |
| Contingent purchase price paid  |                                  | (5,341)   |
| Net cash used in investing activities   | (14,513)                         | (6,789)   |
| <br>  |                                  |           |
| Cash flows from financing activities  |                                  |           |
| Proceeds from notes payable, net  | 166,739                          | 138,767   |
| Proceeds from exercise of stock options                                       | 2,518                            | 854       |
| Tax benefit from exercise/vesting of equity awards                            | 4,166                            | 489       |
| Net cash provided by financing activities                                     | 173,423                          | 140,110   |
| <br>  |                                  |           |
| Effect of exchange rate changes   | (7)                              | (36)      |
| <br>  |                                  |           |
| Net (decrease) / increase in cash and cash equivalents                        | (30,227)                         | 14,125    |
| Cash and cash equivalents at beginning of period                              | 46,813                           | 2,508     |
| <br>  |                                  |           |
| Cash and cash equivalents at end of period                                    | \$ 16,586                        | \$ 16,633 |

Supplemental disclosures of cash flow information:

Cash paid during the period for:

|              |    |       |    |       |
|--------------|----|-------|----|-------|
| Interest     | \$ | 2,651 | \$ | 3,216 |
| Income taxes |    | 7,404 |    | 5,396 |

*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, 2010 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 periods 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 for the fiscal year ended January 31, 2010 filed with the Securities and Exchange Commission.

**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<br>31,<br>2010 | October 31,<br>2009 | January 31,<br>2010 |
|-----------------------------------|------------------------|---------------------|---------------------|
|                                   |                        | (In thousands)      |                     |
| Finished goods                    | \$ 204,987             | \$ 123,744          | \$ 116,627          |
| Raw materials and work-in-process | 3,520                  | 3,343               | 3,250               |
|                                   | \$ 208,507             | \$ 127,087          | \$ 119,877          |

**Note 3 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 stock options, stock purchase warrants and unvested restricted stock awards outstanding during the period. For the three and nine months ended October 31, 2010, there were no anti-dilutive shares excluded from the diluted per share calculation. For the three and nine months ended October 31, 2009, there were 265,000 and 870,000 anti-dilutive shares excluded from the diluted per share calculation. For the nine months ended October 31, 2010 and 2009, 473,368 and 166,292 shares of common stock, respectively, were issued in connection with the exercise or vesting of equity awards.

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

|   | Three Months Ended<br>October 31,        |           | Nine Months Ended<br>October 31, |           |
|---|--|-----------|----------------------------------|-----------|
|   | 2010                                     | 2009      | 2010                             | 2009      |
|   | (In thousands, except per share amounts) |           |                                  |           |
| Net income  | \$ 42,722                                | \$ 32,303 | \$ 44,350                        | \$ 22,708 |
| Basic net income per share:                         |  |           |                                  |           |
| Basic common shares                                 | 19,227                                   | 16,770    | 19,087                           | 16,740    |
| Basic net income per share                          | \$ 2.22                                  | \$ 1.93   | \$ 2.32                          | \$ 1.36   |
| Diluted net income per share:                       |  |           |                                  |           |
| Basic common shares                                 | 19,227                                   | 16,770    | 19,087                           | 16,740    |
| Stock options, warrants and restricted stock awards | 537                                      | 468       | 519                              | 271       |
| Diluted common shares                               | 19,764                                   | 17,238    | 19,606                           | 17,011    |
| Diluted net income per share                        | \$ 2.16                                  | \$ 1.87   | \$ 2.26                          | \$ 1.33   |

**Note 4 Notes Payable**

The Company has a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The financing agreement is a senior secured revolving credit facility. The financing agreement was amended in May 2010 to (a) increase the maximum line of credit from \$250 million to \$300 million, (b) reduce the interest rate on borrowings by 0.25% to, at the Company's option, the prime rate plus 0.50% or LIBOR plus 2.75%, (c) extend the maturity of the loan from July 11, 2011 to July 31, 2013, and (d) revise the maximum senior leverage ratio that must be maintained. 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, and also limits payments for cash dividends and stock redemptions. As of October 31, 2010, the Company was in compliance with these covenants. The financing agreement is secured by all of the Company's assets.

**Table of Contents****Note 5 Segments**

The Company's reportable segments are business units that offer products through different channels of distribution and are managed separately. The Company operates in three segments; wholesale licensed apparel, wholesale non-licensed apparel and retail operations. 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 set forth in the table below. The following information, in thousands, is presented for the three and nine month periods indicated below:

|  | Three Months Ended October 31, |                                       |           |                       |                                       |            |
|--|--------------------------------|---------------------------------------|-----------|-----------------------|---------------------------------------|------------|
|  | Wholesale<br>Licensed          | 2010<br>Wholesale<br>Non-<br>Licensed | Retail    | Wholesale<br>Licensed | 2009<br>Wholesale<br>Non-<br>Licensed | Retail     |
| Net sales <sup>(1)</sup>               | \$ 319,853                     | \$ 106,805                            | \$ 32,046 | \$ 252,934            | \$ 89,357                             | \$ 29,653  |
| Cost of goods sold <sup>(1)</sup>      | 216,987                        | 71,289                                | 16,481    | 171,661               | 59,133                                | 15,522     |
| Gross profit                           | 102,866                        | 35,516                                | 15,565    | 81,273                | 30,224                                | 14,131     |
| Selling, general and<br>administrative | 50,650                         | 14,101                                | 15,389    | 40,724                | 11,138                                | 14,876     |
| Depreciation and<br>amortization       | 187                            | 1,002                                 | 319       | 210                   | 782                                   | 311        |
| Operating profit (loss)                | \$ 52,029                      | \$ 20,413                             | \$ (143)  | \$ 40,339             | \$ 18,304                             | \$ (1,056) |

|  | Nine Months Ended October 31, |                                       |            |                       |                                       |             |
|--|-------------------------------|---------------------------------------|------------|-----------------------|---------------------------------------|-------------|
|  | Wholesale<br>Licensed         | 2010<br>Wholesale<br>Non-<br>Licensed | Retail     | Wholesale<br>Licensed | 2009<br>Wholesale<br>Non-<br>Licensed | Retail      |
| Net sales <sup>(2)</sup>               | \$ 541,940                    | \$ 189,324                            | \$ 84,363  | \$ 403,807            | \$ 146,952                            | \$ 77,777   |
| Cost of goods sold <sup>(2)</sup>      | 375,545                       | 131,241                               | 45,104     | 283,290               | 103,448                               | 44,140      |
| Gross profit                           | 166,395                       | 58,083                                | 39,259     | 120,517               | 43,504                                | 33,637      |
| Selling, general and<br>administrative | 108,091                       | 32,414                                | 43,160     | 82,459                | 25,598                                | 42,760      |
| Depreciation and<br>amortization       | 513                           | 2,585                                 | 967        | 629                   | 2,572                                 | 890         |
| Operating profit (loss)                | \$ 57,791                     | \$ 23,084                             | \$ (4,868) | \$ 37,429             | \$ 15,334                             | \$ (10,013) |

- (1) Net sales and cost of goods sold for the wholesale licensed apparel and wholesale non-licensed apparel segments include an aggregate of \$8.7 million and \$8.4 million of intersegment sales to the Company's retail operations for the three months ended October 31, 2010 and 2009, respectively.
- (2) Net sales and cost of goods sold for the wholesale licensed apparel and wholesale non-licensed apparel segments include an aggregate of \$22.4 million and \$21.5 million of intersegment sales to the Company's retail operations for the nine months ended October 31, 2010 and 2009, respectively.



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Included in finished goods inventory at October 31, 2010 are approximately \$140.1 million, \$26.4 million and \$38.5 million of inventories for wholesale licensed apparel, wholesale non-licensed apparel and retail operations, respectively. 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. All other assets are commingled.

**Note 6 Fair Value Measurements**

FASB ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820) establishes a common definition for fair value to be applied to United States generally accepted accounting principles (GAAP), provides guidance requiring the use of fair value, establishes a framework for measuring fair value, and expands the disclosure about such fair value measurements. ASC 820 establishes a three-level fair value hierarchy that requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data and require the reporting entity to develop its own assumptions.

The Company's financial instruments consist of cash and cash equivalents, short-term trade receivables, accounts payable and notes payable under the Company's credit facility. The carrying values on the balance sheet for cash and cash equivalents, short-term trade receivables, and accounts payable approximate their fair values due to the short-term maturities of such items and are classified as level 1. The carrying value on the balance sheet for the Company's notes payable approximate their fair value due to the variable interest rate, and as such is classified within level 2 of the fair value hierarchy.

The Company evaluates long-lived assets for recoverability in accordance with ASC 360, Property Plant and Equipment whenever events or changes in circumstances indicate that an asset may have been impaired. In evaluating an asset for recoverability, the Company estimates the future cash flow expected to result from the use of the asset and eventual disposition and market data assumptions. If the sum of the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized.

**Note 7 New Accounting Pronouncements**

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that an SEC filer disclose the date through which subsequent events have been evaluated. ASC 2010-09 was effective upon issuance. The adoption of this standard had no effect on the Company's results of operation or financial position.

**Table of Contents****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, 2011 is referred to as fiscal 2011.

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 environment, 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, and markets an extensive range of outerwear, sportswear and dresses, including coats, jackets, pants and women's suits. We sell our products under our own proprietary brands, which include the Andrew Marc, Marc New York and Marc Moto labels, licensed brands and private retail labels. G-III also operates retail stores, almost all 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 uncertain economic environment has been characterized by a decline in consumer discretionary spending that has affected retailers and sellers of consumer goods, particularly those whose goods are viewed as discretionary purchases, including fashion apparel and related products, such as ours. We cannot predict the direction in which the current economic environment 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 fiscal 2011 and fiscal 2012.

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 marketplace, 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 for more than 15 years through acquisitions and by entering into license agreements for new brands or for additional products under previously licensed brands. We have made five acquisitions since July 2005 that have helped to broaden our product offerings, expand our ability to serve different tiers of distribution and add a retail component to our business.

In February 2008, we acquired Andrew Marc, a supplier of fine outerwear 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. We launched Andrew Marc and Marc New York dress lines for the Spring 2009 season utilizing our own in-house designers and our manufacturing sources. We also began a program to license our Andrew Marc and Marc New York brands and entered into license agreements for Andrew Marc and Marc New York eyewear, women's footwear, men's accessories, women's handbags and men's cold weather accessories. In May 2010, we entered into a license agreement

with the Jones Jeanswear Division of Jones Apparel Group for the design, marketing and distribution of Andrew Marc, Marc New York and Marc Moto men's denim and related

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sportswear. First shipments of denim product under our Marc Moto label commenced in November 2010. In September 2010, we entered into license agreements for the design, marketing and distribution of Andrew Marc men's dress shirts and men's tailored clothing. We expect first shipments of these products to be made for the Fall 2011 season.

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 and fiscal 2010, as well as during the first nine months of fiscal 2011. During fiscal 2010, we undertook 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.

As a result, the amount of the operating loss in our retail segment was reduced in fiscal 2010, as well as in the first nine months of fiscal 2011 compared to the first nine months of fiscal 2010. We continue to believe that operation of the Wilsons retail stores is part of our core competency, as outerwear comprised about one-half of our net sales at Wilsons in fiscal 2010, the first full year of operation for us. We expect to continue to implement and refine these initiatives with a view to creating a store concept that is capable of building growth and profitability.

During the third quarter of fiscal 2011, we announced the formation of a joint venture with The Camuto Group that will open and operate footwear and accessory retail stores under the name Vince Camuto. The Camuto Group will provide product for the new store concept and will merchandise the stores. G-III will provide the infrastructure and expertise for the stores, including real estate, distribution, information systems, finance and administration. Both companies will share equally in the capital costs of the joint venture. We expect to begin opening these stores in the first half of fiscal 2012.

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 our Wilsons outlet stores and to our Wilsons e-commerce business.

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 under private label brands. The retail operations segment consists almost entirely of the Wilsons retail outlet stores we acquired in July 2008, now operating as AM Retail Group, Inc.

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. In May 2010, we added licenses for Calvin Klein luggage and for Calvin Klein women's handbags and small leather goods. First shipment of these products is expected to commence in 2011. In September 2010, we entered into an extended and expanded license agreement with the National Football League to manufacture and market men's and women's outerwear, sportswear, and swimwear products in the United States under a variety of NFL trademarks. This license agreement is for five additional years and commences April 1, 2012. In October 2010, we expanded our relationship with Guess pursuant to a new license

agreement for dresses. First shipments of our Guess dresses are expected for the Spring 2011 season.

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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 offer through different tiers of retail distribution, for a wide array of products 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 expanding brands into new categories. We are continually having discussions with licensors regarding new opportunities.

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, a shift in consumer shopping preferences away from traditional department stores to other mid-tier and specialty store venues and increases in raw material, manufacturing and transportation costs.

Retailers are seeking to expand the differentiation of their offerings by devoting more resources to the development of exclusive products, whether by focusing on their own private label products or on products produced exclusively for a retailer by a national brand manufacturer. Retailers are placing more emphasis on building strong images for their private label merchandise. Exclusive brands are only made available to a specific retailer, and thus customers loyal to their brands can only find them in the stores of that retailer.

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

A number of retailers are experiencing 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 attempt to lower credit risk from our customers by closely monitoring accounts receivable balances and shipping levels, as well as the ongoing financial performance and credit standing of customers.

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, 2010 compared to three months ended October 31, 2009***

Net sales for the three months ended October 31, 2010 increased to \$450.0 million from \$363.5 million in the same period last year. Net sales of wholesale licensed apparel increased to \$319.9 million from \$252.9 million primarily as a result of an increase of \$44.6 million in net sales of Calvin Klein licensed product, mainly due to increased sales of our Calvin Klein women's dresses and sportswear, an increase of \$8.0 million in net sales of our Guess outerwear, and an increase of \$6.1 million in net sales of our Kenneth Cole outerwear. Net sales of wholesale non-licensed apparel in the three months ended October 31, 2010 increased to \$106.8 million from \$89.4 million primarily due to an increase in sales of private label outerwear (\$10.2 million) and Andrew Marc product (\$6.1 million). Net sales of our retail operations were \$32.0 million for the three months ended October 31, 2010 compared to \$29.7 million in the same period last year primarily as a result of an increase in the sales of accessories.

Gross profit increased to \$153.9 million, or 34.2% of net sales, for the three months ended October 31, 2010, from \$125.6 million, or 34.6% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed apparel segment was 32.2% in the three months ended October 31, 2010 compared to 32.1% in the same period last year. The gross profit percentage in our wholesale non-licensed apparel segment was 33.3% in the three month period ended October 31, 2010 compared to 33.8% in the same period last year due to lower gross margins in our Andrew Marc division as a result of the mix of Andrew Marc and Marc New York product sales. The gross profit percentage for our retail operations segment was 48.6% for the three months



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ended October 31, 2010 compared to 47.7% for the comparable period last year as a result of higher initial margins across all product categories.

Selling, general and administrative expenses increased to \$80.1 million in the three months ended October 31, 2010 from \$66.7 million in the same period last year. This increase is primarily a result of increases in personnel costs (\$7.3 million), facility costs (\$2.7 million) and advertising and promotion expenses (\$1.7 million). Personnel costs increased due to an increase in accrued bonuses as a result of expected profitability for the year. Facility costs increased as a result of rent expense associated with new leases entered into for additional warehouse, showroom and office space to accommodate the increase in sales volume and expansion of product lines. Advertising costs increased because sales of licensed product, primarily Calvin Klein, increased and we typically pay an advertising fee under our license agreements based on a percentage of sales of licensed product.

Depreciation and amortization increased to \$1.5 million in the three months ended October 31, 2010 from \$1.3 million in the same period last year primarily as a result of leasehold improvements and fixtures for the additional warehouse, showroom and office space we have leased.

Interest and finance charges, net for the three months ended October 31, 2010 were \$1.7 million compared to \$1.9 million for the same period last year. Our charges were lower because of lower average borrowings under our credit facility during the third quarter due to application of the proceeds from our public offering in December 2009 which was used to pay down debt under the facility.

Income tax expense for the three months ended October 31, 2010 was \$27.9 million compared to \$23.4 million for the same period last year. The effective tax rate for the three months ended October 31, 2010 was 39.5% compared to an effective tax rate of 42.0% in the same period last year. The effective tax rate in the prior comparable period is higher primarily because we were not able to recognize 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, 2010 compared to nine months ended October 31, 2009***

Net sales for the nine months ended October 31, 2010 increased to \$793.2 million from \$607.0 million in the same period last year. Net sales of wholesale licensed apparel increased to \$541.9 million from \$403.8 million primarily as a result of an increase of \$110.5 million in net sales of Calvin Klein licensed product, mainly due to increased sales of Calvin Klein women's dresses and sportswear, an increase of \$15.1 million in net sales of our Guess outerwear, and an increase of \$6.7 million in net sales of our Kenneth Cole outerwear. Net sales of wholesale non-licensed apparel in the nine months ended October 31, 2010 increased to \$189.3 million from \$147.0 million primarily due to an increase in sales of private label outerwear (\$21.4 million), dresses by our Jessica Howard dress division (\$11.1 million) and Andrew Marc product (\$9.9 million). Net sales of our retail operations were \$84.4 million for the nine months ended October 31, 2010 compared to \$77.8 million in the same period last year primarily as a result of an increase in both accessory and outerwear sales.

Gross profit increased to \$263.7 million, or 33.2% of net sales, for the nine months ended October 31, 2010, from \$197.7 million, or 32.6% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed apparel segment was 30.7% in the nine months ended October 31, 2010 compared to 29.8% in the same period last year. The increase in the gross profit percentage was primarily the result of increased sales in our higher margin Calvin Klein businesses, primarily dresses. The gross profit percentage in our wholesale non-licensed apparel segment increased to 30.7% in the nine month period ended October 31, 2010 from 29.6% in the same period last year primarily as a result of improved margins on increased sales volume of our Jessica Howard dress division and our Andrew Marc division. The gross profit percentage for our retail operations segment was 46.5% for the nine months ended October 31, 2010 compared to 43.2% for the comparable period last year as a result of higher initial margins and less markdown activity across all product categories.

Selling, general and administrative expenses increased to \$183.7 million in the nine months ended October 31, 2010 from \$150.8 million in the same period last year. This increase is primarily a result of increases in personnel costs (\$16.1 million), facility costs (\$6.3 million) and advertising and promotion expenses (\$6.0 million). Personnel costs increased due to an increase in accrued bonuses as a result of expected profitability for the year and as a result of salaries in the first six months of the prior comparable period having been reduced as part of cost cutting measures taken by us in fiscal 2010. Facility costs increased as a result of increased third party warehousing costs due to



increased shipping volume and as a result of rent expense associated with new

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leases entered into for additional warehouse, showroom and office space to accommodate the increase in sales volume and expansion of product lines. Advertising costs increased because sales of licensed product, primarily Calvin Klein, increased and we typically pay an advertising fee under our license agreements based on a percentage of sales of licensed product.

Depreciation and amortization was \$4.1 million in each of the nine months ended October 31, 2010 and 2009. Interest and finance charges, net for the nine months ended October 31, 2010 were approximately \$2.7 million compared to \$3.6 million for the comparable period last year. Our interest charges were lower primarily because we did not draw on our credit facility in our first fiscal quarter due to application of the proceeds from our public offering in December 2009 to pay down debt under the facility.

Income tax expense for the nine months ended October 31, 2010 was \$29.0 million compared to \$16.4 million for the same period last year. The effective tax rate for the nine months ended October 31, 2010 was 39.5% compared to an effective tax rate of 42.0% in the same period last year. The effective tax rate in the prior comparable period is higher primarily because we were not able to recognize the benefit of certain state losses incurred by our AM Retail Group, Inc. subsidiary that operates our Wilsons retail outlet stores.

**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 cash requirements have been borrowings under our credit facility, cash generated from operations and proceeds from offerings of our common stock.

The amount borrowed under our line of credit varies based on our seasonal requirements. At October 31, 2010, we had cash and cash equivalents of \$16.6 million and outstanding borrowings of \$166.7 million. At October 31, 2009, we had cash and cash equivalents of \$16.6 million and outstanding borrowings of \$167.8 million.

Our contingent liability under open letters of credit was approximately \$17.1 million as of October 31, 2010 compared to \$7.0 million as of October 31, 2009.

*Financing Agreement*

We have a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The financing agreement is a senior secured revolving credit facility. The financing agreement was amended in May 2010 to (a) increase the maximum line of credit from \$250 million to \$300 million, (b) reduce the interest rate on borrowings by 0.25% to, at our option, the prime rate plus 0.50% or LIBOR plus 2.75%, (c) extend the maturity of the loan from July 11, 2011 to July 31, 2013, and (d) revise the maximum senior leverage ratio that we must maintain. 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, and also limits payments for cash dividends and stock redemptions. As of October 31, 2010, we were in compliance with these covenants. The financing agreement is secured by all of our assets.

*Cash from Operating Activities*

We used \$189.1 million of cash in operating activities during the nine months ended October 31, 2010, primarily as a result of increases in accounts receivable of \$223.6 million and inventory of \$88.6 million, offset in part by an increase in accounts payable and accrued expenses of \$51.3 million, our net income of \$44.4 million and an increase in income taxes payable of \$17.4 million.

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 sales 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. In

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addition, we had increases in inventory as a result of new replenishment programs for Calvin Klein and as a result of early buying opportunities for certain of our products at advantageous prices. 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 payable is a result of our higher pretax income through the nine months ended October 31, 2010.

*Cash from Investing Activities*

We used \$14.5 million of cash in investing activities in the nine months ended October 31, 2010 for capital expenditures. These capital expenditures related primarily to build out and renovation costs with respect to our new warehouse facility that we leased in December 2009 and with respect to the amended leases we entered into in March 2010 relating to our existing corporate showrooms and offices to extend the leases and add additional office space. We expect our capital expenditures for fiscal 2011 to aggregate approximately \$22.5 million for the build out and renovation of the additional warehouse facility, showroom and office space, as well as to add ten retail outlet stores.

*Cash from Financing Activities*

Cash from financing activities provided \$173.4 million in the nine months ended October 31, 2010, primarily as a result of \$166.7 million of borrowings under our line of credit and \$4.2 million in tax benefits recognized from the exercise or vesting of equity awards.

*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, 2010 are those that depend most heavily on these judgments and estimates. As of October 31, 2010, there have been no material changes to our critical accounting policies.

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**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, 2010.

**Item 4. Controls and Procedures.**

As of the end of the period covered by this report, our management, including our 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, 2010, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 6. Exhibits.**

- 10.1 Form of Indemnification Agreement
- 10.2 G-III Apparel Group, Ltd. 2005 Amended and Restated Stock Incentive Plan
- 10.3 Amended and Restated Financing Agreement, dated April 3, 2008, by and among The CIT Group/Commercial Services, Inc., as Agent, the Lenders that are parties thereto, G-III Leather Fashions, Inc., J. Percy for Marvin Richards, Ltd., CK Outerwear, LLC, A. Marc & Co., Inc., and Andrew & Suzanne Company Inc.
- 10.4 Second Amendment of Lease (10th floor), dated March 26, 2010, by and between G-III Leather Fashions, Inc. as Tenant and 500-512 Seventh Avenue Limited Partnership as Landlord.
- 10.5 Second Amendment of Lease (33rd floor), dated March 26, 2010, by and between G-III Leather Fashions, Inc. as Tenant and 500-512 Seventh Avenue Limited Partnership as Landlord.
- 10.6 Second Amendment of Lease (34th and 35th floor), dated March 26, 2010, by and between G-III Leather Fashions, Inc. as Tenant and 500-512 Seventh Avenue Limited Partnership as Landlord.
- 10.7 Third Amendment of Lease (36th, 21st, 22nd, 23rd and 24th floor), dated March 26, 2010, by and between G-III Leather Fashions, Inc. as Tenant and 500-512 Seventh Avenue Limited Partnership as Landlord.
- 10.8 Lease, dated February 10, 2009, between IRET Properties and AM Retail Group, Inc.
- 10.9 Lease Agreement, dated December 21, 2009 and effective December 28, 2009, by and between G-III, as Tenant, and Granite South Brunswick LLC, as Landlord.
- 10.10 Employment Agreement, dated as of July 11, 2005, by and between Sammy Aaron and G-III Apparel Group, Ltd.
- 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, 2010.
- 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, 2010.
- 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

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Form 10-Q for the fiscal quarter ended October 31, 2010.

- 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, 2010.

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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 10, 2010

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

Date: December 10, 2010

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