

GUESS INC
Form 10-Q
September 07, 2010
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended July 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: 1-11893

GUESS?, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of
incorporation or organization)

95-3679695

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

**1444 South Alameda Street
Los Angeles, California**

(Address of principal executive offices)

90021

(Zip Code)

(213) 765-3100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 September 2, 2010, the registrant had 91,799,365 shares of Common Stock, \$.01 par value per share, outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements.****GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	July 31, 2010 (unaudited)	Jan. 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 478,625	\$ 502,063
Accounts receivable, net	301,522	283,747
Inventories	307,056	253,162
Deferred tax assets	30,245	30,570
Other current assets	57,534	54,621
Total current assets	1,174,982	1,124,163
Property and equipment, net	272,938	255,308
Goodwill	28,817	29,877
Other intangible assets, net	13,343	15,974
Long-term deferred tax assets	52,388	55,504
Other assets	85,065	50,423
	\$ 1,627,533	\$ 1,531,249
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$ 2,123	\$ 2,357
Accounts payable	229,451	195,075
Accrued expenses	149,999	145,321
Total current liabilities	381,573	342,753
Capital lease obligations	12,519	14,137
Deferred rent and lease incentives	68,617	60,642
Other long-term liabilities	75,305	73,561
	538,014	491,093
Redeemable noncontrolling interests	14,467	13,813
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding		
Common stock, \$.01 par value. Authorized 150,000,000 shares; issued 137,096,878 and 136,568,091 shares, outstanding 91,790,540 and 92,736,761 shares, at July 31, 2010 and January 30, 2010, respectively	918	927

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Paid-in capital	343,871	319,737
Retained earnings	1,006,230	919,531
Accumulated other comprehensive (loss) income	(16,628)	(2,952)
Treasury stock, 45,306,338 and 43,831,330 shares at July 31, 2010 and January 30, 2010, respectively	(266,258)	(217,032)
Guess?, Inc. stockholders' equity	1,068,133	1,020,211
Nonredeemable noncontrolling interests	6,919	6,132
Total stockholders' equity	1,075,052	1,026,343
	\$ 1,627,533	\$ 1,531,249

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 31, 2010	Aug. 1, 2009	July 31, 2010	Aug. 1, 2009
Net revenue:				
Product sales	\$ 550,576	\$ 500,364	\$ 1,064,631	\$ 919,491
Net royalties	26,559	22,059	51,845	44,133
	577,135	522,423	1,116,476	963,624
Cost of product sales	324,899	290,646	628,989	554,344
Gross profit	252,236	231,777	487,487	409,280
Selling, general and administrative expenses	155,935	140,663	314,040	270,132
Pension curtailment expense			5,819	
Earnings from operations	96,301	91,114	167,628	139,148
Other income (expense):				
Interest expense	(283)	(339)	(513)	(945)
Interest income	647	447	983	1,184
Other income (expense), net	(256)	(1,339)	3,172	(73)
	108	(1,231)	3,642	166
Earnings before income tax expense	96,409	89,883	171,270	139,314
Income tax expense	29,030	29,662	52,237	45,974
Net earnings	67,379	60,221	119,033	93,340
Net earnings attributable to noncontrolling interests	621	661	1,940	1,238
Net earnings attributable to Guess?, Inc.	\$ 66,758	\$ 59,560	\$ 117,093	\$ 92,102
Earnings per common share attributable to common stockholders (Note 2):				
Basic	\$ 0.72	\$ 0.65	\$ 1.26	\$ 1.00
Diluted	\$ 0.72	\$ 0.64	\$ 1.25	\$ 0.99
Weighted average common shares outstanding attributable to common stockholders (Note 2):				
Basic	91,610	90,724	91,756	90,678
Diluted	92,153	91,381	92,471	91,253
Dividends declared per common share	\$ 0.16	\$ 0.10	\$ 0.32	\$ 0.20

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 31, 2010	Aug. 1, 2009	July 31, 2010	Aug. 1, 2009
Net earnings	\$ 67,379	\$ 60,221	\$ 119,033	\$ 93,340
Foreign currency translation adjustment	(7,605)	23,725	(19,878)	34,698
Unrealized (loss) gain on hedges, net of tax effect	(371)	(5,637)	1,057	(8,937)
Unrealized (loss) gain on investments, net of tax effect	20	(120)	195	60
SERP prior service cost and actuarial valuation loss amortization, including curtailment expense, net of tax effect	257	292	4,675	576
Comprehensive income	59,680	78,481	105,082	119,737
Less comprehensive income attributable to noncontrolling interests	436	1,366	1,665	2,307
Comprehensive income attributable to Guess?, Inc.	\$ 59,244	\$ 77,115	\$ 103,417	\$ 117,430

See accompanying notes to condensed consolidated financial statements.

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**(in thousands)
(unaudited)

	Six Months Ended	
	July 31, 2010	Aug. 1, 2009
Cash flows from operating activities:		
Net earnings	\$ 119,033	\$ 93,340
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	29,534	26,820
Amortization of intangible assets	1,954	3,715
Share-based compensation expense	15,025	13,036
Unrealized forward contract (gains) losses	(154)	9,553
Net loss on disposition of property and equipment	321	810
Pension curtailment expense	5,819	
Other items, net	(1,442)	(807)
Changes in operating assets and liabilities:		
Accounts receivable	(29,978)	(11,711)
Inventories	(57,366)	(7,390)
Prepaid expenses and other assets	(33,789)	(1,700)
Accounts payable and accrued expenses	44,004	(7,149)
Deferred rent and lease incentives	8,135	6,008
Other long-term liabilities	2,780	(680)
Net cash provided by operating activities	103,876	123,845
Cash flows from investing activities:		
Purchases of property and equipment	(48,814)	(42,028)
Proceeds from dispositions of long-term assets	600	474
Acquisition of lease interest	(2,249)	
Acquisition of businesses, net of cash acquired		549
Net cash settlement of forward contracts	4,904	3,313
Purchases of long-term investments	(6,679)	(5,639)
Net cash used in investing activities	(52,238)	(43,331)
Cash flows from financing activities:		
Certain short-term borrowings, net	511	(24,914)
Proceeds from borrowings		40,000
Repayment of borrowings and capital lease obligations	(766)	(40,815)
Dividends paid	(29,810)	(18,453)
Noncontrolling interest capital contributions		650
Noncontrolling interest capital distributions		(1,202)
Issuance of common stock, net of nonvested award repurchases	4,105	825
Excess tax benefits from share-based compensation	5,728	57
Purchase of treasury stock	(49,361)	(5,309)
Net cash used in financing activities	(69,593)	(49,161)
Effect of exchange rates on cash and cash equivalents	(5,483)	4,236
Net increase (decrease) in cash and cash equivalents	(23,438)	35,589
Cash and cash equivalents at beginning of period	502,063	294,118
Cash and cash equivalents at end of period	\$ 478,625	\$ 329,707

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Supplemental cash flow data:

Interest paid	\$	356	\$	1,184
Income taxes paid	\$	41,233	\$	45,586

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010

(unaudited)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Guess?, Inc. and its subsidiaries (the Company) contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated balance sheets as of July 31, 2010 and January 30, 2010, and the condensed consolidated statements of income and condensed consolidated statements of comprehensive income for the three and six months ended July 31, 2010 and August 1, 2009, and the condensed consolidated statements of cash flows for the six months ended July 31, 2010 and August 1, 2009. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the SEC). Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three and six months ended July 31, 2010 are not necessarily indicative of the results of operations to be expected for the full fiscal year. These financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended January 30, 2010. The Company has made certain reclassifications to the prior year s consolidated financial statements to conform to classifications in the current year. These reclassifications, none of which are material, had no impact on previously reported statements of income.

The three and six months ended July 31, 2010 had the same number of days as the three and six months ended August 1, 2009. All references herein to fiscal 2011 and fiscal 2010 represent the results of the 52-week fiscal years ended January 29, 2011 and January 30, 2010, respectively.

New Accounting Guidance

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics, among others: (a) the power to direct the activities of a variable interest entity that most significantly impacts the entity s economic performance, and (b) the obligation to absorb losses or the right to receive benefits from the entity, that could potentially be significant to the variable interest entity. Under this guidance, ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity are required. The Company adopted the relevant provisions of the guidance on January 31, 2010 and will apply the requirements prospectively. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In January 2010, the FASB issued authoritative guidance that expands the required disclosures about fair value measurements. This guidance provides for new disclosures requiring the Company to (a) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (b) present separately information about purchases, sales,

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issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Company to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. The Company adopted the guidance effective January 31, 2010, except for the presentation of purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements, which will be effective for fiscal years beginning after December 15, 2010. The adoption of the first phase of this guidance did not have a material impact on the Company's consolidated financial statements.

(2) Earnings Per Share

Basic earnings per share represents net earnings attributable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share represent net earnings attributable to common stockholders divided by the weighted-average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with FASB issued authoritative guidance under the two-class method since the nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, earnings attributable to nonvested restricted stockholders are excluded from net earnings attributable to common stockholders for purposes of calculating

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basic and diluted earnings per common share.

The computation of basic and diluted net earnings per common share attributable to common stockholders is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 31, 2010	Aug. 1, 2009	July 31, 2010	Aug. 1, 2009
Net earnings attributable to Guess?, Inc.	\$ 66,758	\$ 59,560	\$ 117,093	\$ 92,102
Net earnings attributable to nonvested restricted stockholders	668	840	1,228	1,402
Net earnings attributable to common stockholders	\$ 66,090	\$ 58,720	\$ 115,865	\$ 90,700
Weighted average shares used in basic computations	91,610	90,724	91,756	90,678
Effect of dilutive securities:				
Stock options and restricted stock units	543	657	715	575
Weighted average shares used in diluted computations	92,153	91,381	92,471	91,253
Net earnings per common share attributable to common stockholders:				
Basic	\$ 0.72	\$ 0.65	\$ 1.26	\$ 1.00
Diluted	\$ 0.72			