

GUESS INC
Form 10-Q
September 10, 2009
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 1, 2009

OR

- o 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 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
(Do not check if a smaller reporting company)

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 4, 2009, the registrant had 92,137,766 shares of Common Stock, \$.01 par value per share, outstanding.

Table of Contents

GUESS?, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	1
	<u>Condensed Consolidated Balance Sheets as of August 1, 2009 and January 31, 2009</u>	1
	<u>Condensed Consolidated Statements of Income Three and Six Months Ended August 1, 2009 and August 2, 2008</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income Three and Six Months Ended August 1, 2009 and August 2, 2008</u>	3
	<u>Condensed Consolidated Statements of Cash Flows Six Months Ended August 1, 2009 and August 2, 2008</u>	4
	<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
<u>Item 4.</u>	<u>Controls and Procedures</u>	33

PART II. OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	34
<u>Item 1A.</u>	<u>Risk Factors</u>	34
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	35
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	36
<u>Item 5.</u>	<u>Other Information</u>	36
<u>Item 6.</u>	<u>Exhibits</u>	37

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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(in thousands, except share data)

	Aug. 1, 2009 (unaudited)	Jan. 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 329,707	\$ 294,118
Accounts receivable, net	297,031	262,349
Inventories	258,612	239,675
Prepaid expenses and other current assets	52,666	70,769
Deferred tax assets	29,862	27,278
Total current assets	967,878	894,189
Property and equipment, net	249,147	221,416
Goodwill	31,703	27,102
Other intangible assets, net	16,893	16,145
Long-term deferred tax assets	51,215	49,689
Other assets	45,970	38,025
	\$ 1,362,806	\$ 1,246,566
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of borrowings and capital lease obligations	\$ 2,968	\$ 24,018
Accounts payable	203,174	192,168
Accrued expenses	125,983	119,698
Total current liabilities	332,125	335,884
Borrowings and capital lease obligations	15,394	14,586
Deferred rent and lease incentives	58,787	52,563
Other long-term liabilities	59,770	58,029
	466,076	461,062
Commitments and contingencies (Note 11)		
Redeemable noncontrolling interests	12,865	10,050
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 135,908,996 and 135,826,959 shares, outstanding 92,058,928 and 92,329,419 shares, at August 1, 2009 and January 31, 2009, respectively	920	923
Paid-in capital	294,585	282,220
Retained earnings	792,017	718,368
Accumulated other comprehensive income (loss)	8,907	(16,421)
Treasury stock, 43,850,068 and 43,497,540 shares at August 1, 2009 and January 31, 2009, respectively	(217,125)	(212,089)
Guess?, Inc. stockholders' equity	879,304	773,001
Noncontrolling interests	4,561	2,453
Total stockholders' equity	883,865	775,454
	\$ 1,362,806	\$ 1,246,566

See accompanying notes to condensed consolidated financial statements.

Table of Contents

GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	Aug. 1, 2009	Aug. 2, 2008	Aug. 1, 2009	Aug. 2, 2008
Net revenue:				
Product sales	\$ 500,364	\$ 488,956	\$ 919,491	\$ 954,691
Net royalties	22,059	26,216	44,133	49,701
	522,423	515,172	963,624	1,004,392
Cost of product sales	290,646	283,017	554,344	550,998
Gross profit	231,777	232,155	409,280	453,394
Selling, general and administrative expenses				
Earnings from operations	140,663	147,145	270,132	292,459
	91,114	85,010	139,148	160,935
Other income (expense):				
Interest expense	(339)	(799)	(945)	(1,824)
Interest income	447	1,553	1,184	3,086
Other income (expense), net	(1,339)	(724)	(73)	(1,632)
	(1,231)	30	166	(370)
Earnings before income tax expense	89,883	85,040	139,314	160,565
Income tax expense	29,662	30,616	45,974	57,805
Net earnings	60,221	54,424	93,340	102,760
Net earnings attributable to noncontrolling interests				
Net earnings attributable to Guess?, Inc.	661	592	1,238	1,127
	\$ 59,560	\$ 53,832	\$ 92,102	\$ 101,633
Earnings per common share attributable to common stockholders (Note 2):				
Basic	\$ 0.65	\$ 0.57	\$ 1.00	\$ 1.07
Diluted	\$ 0.64	\$ 0.56	\$ 0.99	\$ 1.07
Weighted average common shares outstanding attributable to common stockholders (Note 2):				
Basic	90,724	93,008	90,678	92,979
Diluted	91,381	93,763	91,253	93,784
Dividends declared per common share	\$ 0.10	\$ 0.08	\$ 0.20	\$ 0.16

See accompanying notes to condensed consolidated financial statements.

Table of Contents

GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	Aug. 1, 2009	Aug. 2, 2008	Aug. 1, 2009	Aug. 2, 2008
Net earnings	\$ 60,221	\$ 54,424	\$ 93,340	\$ 102,760
Foreign currency translation adjustment	23,725	1,210	34,698	6,676
Unrealized (loss) gain on hedges, net of tax effect	(5,637)	856	(8,937)	2,185
Unrealized (loss) gain on investments, net of tax effect	(120)	(73)	60	(109)
SERP prior service cost and actuarial valuation loss amortization, net of tax effect	292	427	576	854
Comprehensive income	78,481	56,844	119,737	112,366
Comprehensive income attributable to noncontrolling interests	1,366	763	2,307	1,580
Comprehensive income attributable to Guess?, Inc.	\$ 77,115	\$ 56,081	\$ 117,430	\$ 110,786

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See accompanying notes to condensed consolidated financial statements.

Table of Contents

GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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(in thousands)
(unaudited)

	Six Months Ended	
	Aug. 1, 2009	Aug. 2, 2008
Cash flows from operating activities:		
Net earnings	\$ 93,340	\$ 102,760
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	26,820	25,480
Amortization of intangible assets	3,715	3,898
Share-based compensation expense	13,036	10,927
Forward contract losses	7,407	5,639
Net loss on disposition of long-term assets and property and equipment	810	3,008
Other items, net	3,526	363
Changes in operating assets and liabilities:		
Accounts receivable	(9,611)	(38,001)
Inventories	(1,675)	(24,845)
Prepaid expenses and other assets	(1,254)	(20,809)
Accounts payable and accrued expenses	(21,045)	41,431
Deferred rent and lease incentives	6,224	4,604
Other long-term liabilities	(663)	1,726
Net cash provided by operating activities	120,630	116,181
Cash flows from investing activities:		
Purchases of property and equipment	(42,028)	(50,310)
Proceeds from dispositions of long-term assets and property and equipment	474	
Acquisition of businesses, net of cash acquired	549	
Net cash settlement of forward contracts	3,313	(4,059)
Purchases of long-term investments	(5,639)	(5,701)
Net cash used in investing activities	(43,331)	(60,070)
Cash flows from financing activities:		
Certain short-term borrowings, net	(22,161)	6,211
Proceeds from borrowings	40,000	
Repayment of borrowings and capital lease obligation	(40,815)	(2,296)
Dividends paid	(18,453)	(15,165)
Noncontrolling interest capital contributions	650	1,005
Noncontrolling interest capital distributions	(1,202)	
Issuance of common stock, net of nonvested award repurchases	825	(95)
Excess tax benefits from share-based compensation	57	4,628
Purchase of treasury stock	(5,309)	(33,051)
Net cash used in financing activities	(46,408)	(38,763)
Effect of exchange rates on cash and cash equivalents	4,698	1,538
Net increase in cash and cash equivalents	35,589	18,886
Cash and cash equivalents at beginning of period	294,118	275,595
Cash and cash equivalents at end of period	\$ 329,707	\$ 294,481
Supplemental cash flow data:		
Interest paid	\$ 1,184	\$ 1,608
Income taxes paid	\$ 45,586	\$ 37,035

See accompanying notes to condensed consolidated financial statements.

Table of Contents

GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

August 1, 2009

(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 August 1, 2009 and January 31, 2009, and the condensed consolidated statements of income and condensed consolidated statements of comprehensive income for the three and six months ended August 1, 2009 and August 2, 2008, and the condensed consolidated statements of cash flows for the six months ended August 1, 2009 and August 2, 2008. 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 August 1, 2009 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 31, 2009.

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 results of operations. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 160 (SFAS 160), Accounting for Noncontrolling Interests, in the first quarter ended May 2, 2009. SFAS 160, in conjunction with Emerging Issues Task Force D-98 (EITF D-98), Classification and Measurement of Redeemable Securities, requires that redeemable noncontrolling interests be reclassified outside of permanent equity as a component of mezzanine instruments. The Company has restated the opening balance sheet as of January 31, 2009 to reflect the reclassification of \$10.1 million to redeemable noncontrolling interests.

The three and six month periods ended August 1, 2009 had the same number of days as the three and six month periods ended August 2, 2008.

Recent Accounting Pronouncements Adopted

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Positions (FSP) SFAS No. 157-1 (FSP 157-1) and FSP SFAS No. 157-2 (FSP 157-2). FSP 157-1 amends SFAS 157, Fair Value Measurements, to exclude SFAS No. 13, Accounting for Leases, and its related interpretive accounting pronouncements that address leasing transactions. FSP 157-2 relates to the measurement of fair value for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted FSP 157-2 effective February 1, 2009 for all nonfinancial assets and liabilities as required. Refer to Note 13 for additional information. The adoption of FSP 157-2 did not have a material impact on the Company s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), Business Combinations, which replaces FASB Statement 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141R amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. The Company adopted SFAS 141R on February 1, 2009 and has applied the provisions of the statement to all acquisitions from such date.

Table of Contents

In December 2007, the FASB issued SFAS 160, which clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. The Company adopted SFAS 160 on February 1, 2009. Refer to Note 3 for further information. The provisions of SFAS 160 have been applied prospectively with the exception of reclassifying nonredeemable noncontrolling interests to equity in the Company's consolidated balance sheets and recasting consolidated net earnings to include net earnings prior to fiscal 2010 attributable to both the controlling and noncontrolling interests, which are required to be adopted retrospectively.

In March 2008, the FASB issued SFAS No. 161 (SFAS 161), Disclosures about Derivative Instruments and Hedging Activities, which amends SFAS 133 and expands disclosures to include information about the fair value of derivatives, related credit risks and a company's strategies and objectives for using derivatives. The Company adopted SFAS 161 on February 1, 2009 and has included the expanded disclosures in Note 14.

In June 2008, the FASB Emerging Issues Task Force (EITF) issued FSP No. EITF 03-6-1 (FSP EITF 03-6-1), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which requires unvested share-payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents to be included in the two-class method of computing earnings per share. FSP EITF 03-6-1 also requires retrospective application to all periods presented. The Company adopted FSP EITF 03-6-1 on February 1, 2009 and applied it retrospectively to all periods presented. Refer to Note 2. The adoption of FSP EITF 03-6-1 resulted in a reduction in diluted earnings per common share of approximately \$0.02 for the six months ended August 1, 2009 and approximately \$0.01 for the six months ended August 2, 2008.

In April 2009, the FASB issued FASB Staff Position FAS No. 115-2 and FAS No. 124-2 (FSP 115-2), Recognition and Presentation of Other-Than-Temporary Impairments, to improve the presentation and disclosure of other-than-temporary impairment on debt and equity securities in the financial statements. FSP 115-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairment of equity securities. FSP 115-2 is effective for interim reporting periods ending after June 15, 2009. The Company adopted FSP 115-2 during the second quarter of fiscal 2010. The adoption of the provisions of FSP 115-2 did not have a material impact on the Company's financial position or results of operations. See additional disclosure at Note 13.

In April 2009, the FASB issued FASB Staff Position FAS No. 107-1 and APB 28-1 (FSP 107-1), Interim Disclosures about Fair Value of Financial Instruments. FSP 107-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim reporting periods. Such disclosures were previously required only in annual financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009. The Company adopted FSP 107-1 during the second quarter of fiscal 2010. The adoption of the provisions of FSP 107-1 did not have a material impact on the Company's financial position or results of operations. See additional disclosure at Note 13.

In May 2009, the FASB issued SFAS No. 165 (SFAS 165), Subsequent Events. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim reporting periods ending after June 15, 2009. The Company adopted SFAS 165 during the second quarter of fiscal 2010. In accordance with SFAS 165, the Company evaluates subsequent events through the date its financial statements are issued. See Note 15 for additional information.

Recent Accounting Pronouncements Issued

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In June 2009, the FASB issued SFAS No. 168 (SFAS 168), FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. Upon adoption, the FASB Accounting Standards Codification (ASC) established by SFAS 168 will become the source of authoritative generally accepted accounting principles in the United States, and will supersede all then-existing non-SEC accounting and reporting standards. The Codification will be effective for interim and annual periods ending after September 15, 2009. The Company will adopt SFAS 168 in the third quarter of fiscal 2010. The Company does not expect SFAS 168 to have a material impact on its financial position or results of operations.

Table of Contents**(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 are excluded from the dilutive impact of common equivalent shares outstanding in accordance with FASB SFAS No. 128, Earnings per Share, and FSP EITF 03-6-1 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 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	
	Aug. 1, 2009	Aug. 2, 2008	Aug. 1, 2009	Aug. 2, 2008
Net earnings attributable to Guess?, Inc.	\$ 59,560	\$ 53,832	\$ 92,102	\$ 101,633
Net earnings attributable to nonvested restricted stockholders	840	982	1,402	1,742
Net earnings attributable to common stockholders	\$ 58,720	\$ 52,850	\$ 90,700	\$ 99,891
Weighted average shares used in basic computations	90,724	93,008	90,678	92,979
Effect of dilutive securities:				
Stock options and restricted stock units	657	755		