

GUESS INC
Form 10-Q
June 07, 2011
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**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 April 30, 2011

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 (§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
(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 June 2, 2011 the registrant had 92,592,444 shares of Common Stock, \$.01 par value per share, outstanding.

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GUESS?, INC.

FORM 10-Q

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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)

	Apr. 30, 2011 (unaudited)	Jan. 29, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 426,774	\$ 427,037
Short-term investments	15,035	15,087
Accounts receivable, net	377,432	358,482
Inventories	300,713	294,705
Deferred tax assets	19,827	18,121
Other current assets	58,861	50,148
Total current assets	1,198,642	1,163,580
Property and equipment, net	337,161	313,856
Goodwill	31,268	29,595
Other intangible assets, net	10,321	9,192
Long-term deferred tax assets	56,192	55,455
Other assets	129,304	114,126
	\$ 1,762,888	\$ 1,685,804
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$ 2,359	\$ 2,177
Accounts payable	212,667	233,846
Accrued expenses	213,685	194,993
Total current liabilities	428,711	431,016
Capital lease obligations	12,834	12,218
Deferred rent and lease incentives	77,281	76,455
Other long-term liabilities	87,611	85,210
	606,437	604,899
Redeemable noncontrolling interests	22,238	14,711
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 137,851,134 and 137,579,379 shares, outstanding 92,573,705 and 92,290,744 shares, at April 30, 2011 and January 29, 2011, respectively	926	923

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Paid-in capital	374,732	368,225
Retained earnings	978,544	960,460
Accumulated other comprehensive income (loss)	32,837	(8,578)
Treasury stock, 45,277,429 and 45,288,635 shares at April 30, 2011 and January 29, 2011, respectively	(266,088)	(266,154)
Guess?, Inc. stockholders' equity	1,120,951	1,054,876
Nonredeemable noncontrolling interests	13,262	11,318
Total stockholders' equity	1,134,213	1,066,194
	\$ 1,762,888	\$ 1,685,804

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	
	Apr. 30, 2011	May 1, 2010
Net revenue:		
Product sales	\$ 563,399	\$ 514,055
Net royalties	28,845	25,286
	592,244	539,341
Cost of product sales	343,024	304,090
Gross profit	249,220	235,251
Selling, general and administrative expenses	178,287	158,105
Pension curtailment expense		5,819
Earnings from operations	70,933	71,327
Other (expense) income:		
Interest expense	(405)	(195)
Interest income	1,295	301
Other (expense) income, net	(10,002)	3,428
	(9,112)	3,534
Earnings before income tax expense	61,821	74,861
Income tax expense	18,237	23,207
Net earnings	43,584	51,654
Net earnings attributable to noncontrolling interests	902	1,319
Net earnings attributable to Guess?, Inc.	\$ 42,682	\$ 50,335
Earnings per common share attributable to common stockholders (Note 2):		
Basic	\$ 0.46	\$ 0.54
Diluted	\$ 0.46	\$ 0.54
Weighted average common shares outstanding attributable to common stockholders (Note 2):		
Basic	91,629	91,902
Diluted	92,171	92,768
Dividends declared per common share	\$ 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**(in thousands)
(unaudited)

	Three Months Ended	
	Apr. 30, 2011	May 1, 2010
Net earnings	\$ 43,584	\$ 51,654
Foreign currency translation adjustment	49,733	(12,273)
Unrealized (loss) gain on hedges, net of tax effect	(8,004)	1,428
Unrealized gain on investments, net of tax effect	87	175
SERP prior service cost and actuarial valuation loss amortization, including curtailment expense, net of tax effect	641	4,418
Comprehensive income	86,041	45,402
Less comprehensive income attributable to noncontrolling interests	(1,944)	(1,229)
Comprehensive income attributable to Guess?, Inc.	\$ 84,097	\$ 44,173

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	Apr. 30, 2011	May 1, 2010
Cash flows from operating activities:		
Net earnings	\$ 43,584	\$ 51,654
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	19,260	14,564
Amortization of intangible assets	634	1,187
Share-based compensation expense	7,255	8,068
Unrealized forward contract losses (gains)	13,758	(1,974)
Net loss on disposition of property and equipment	1,150	986
Pension curtailment expense		5,819
Other items, net	(158)	(2,000)
Changes in operating assets and liabilities:		
Accounts receivable	2,663	(7,169)
Inventories	4,442	4,751
Prepaid expenses and other assets	(5,152)	(13,435)
Accounts payable and accrued expenses	(40,885)	(22,752)
Deferred rent and lease incentives	398	3,295
Other long-term liabilities	886	4,790
Net cash provided by operating activities	47,835	47,784
Cash flows from investing activities:		
Purchases of property and equipment	(30,894)	(19,405)
Acquisition of lease interest	(1,339)	(2,249)
Net cash settlement of forward contracts	(1,600)	609
Purchases of long-term investments	(10,248)	(2,414)
Net cash used in investing activities	(44,081)	(23,459)
Cash flows from financing activities:		
Certain short-term borrowings, net		442
Repayment of borrowings and capital lease obligations	(444)	(390)
Dividends paid	(18,582)	(14,925)
Issuance of common stock, net of nonvested award repurchases	(1,296)	2,606
Excess tax benefits from share-based compensation	913	5,612
Net cash used in financing activities	(19,409)	(6,655)
Effect of exchange rates on cash and cash equivalents	15,392	(2,028)
Net (decrease) increase in cash and cash equivalents	(263)	15,642
Cash and cash equivalents at beginning of period	427,037	502,063
Cash and cash equivalents at end of period	\$ 426,774	\$ 517,705
Supplemental cash flow data:		
Interest paid	\$ 267	\$ 76
Income taxes paid	\$ 9,063	\$ 10,099

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2011

(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 April 30, 2011 and January 29, 2011, and the condensed consolidated statements of income, comprehensive income and cash flows for the three months ended April 30, 2011 and May 1, 2010. 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 months ended April 30, 2011 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 29, 2011.

The three months ended April 30, 2011 had the same number of days as the three months ended May 1, 2010. All references herein to fiscal 2012 , fiscal 2011 and fiscal 2010 represent the results of the 52-week fiscal years ending January 28, 2012 and ended January 29, 2011 and January 30, 2010, respectively.

Loyalty Programs

The Company launched customer loyalty programs for its G by GUESS, GUESS? and GUESS by MARCIANO stores in July 2009, August 2008 and September 2007, respectively. The GUESS? and GUESS by MARCIANO loyalty programs were merged in May 2009. Under the programs, customers accumulate points based on purchase activity. Once a loyalty program member achieves a certain point level, the member earns awards that may only be redeemed for merchandise. In all of the programs, unredeemed points generally expire after six months and unredeemed awards generally expire after two months. Due to the relative newness of the programs, prior to the fourth quarter of fiscal 2011, all unexpired, unredeemed points and awards were accrued in current liabilities and recorded as a reduction of net sales as points and awards were accumulated by the member. In the fourth quarter of fiscal 2011, based on the accumulation of multiple cycles of actual redemptions experienced since inception of the programs, the Company revised its approach to estimate the value of future award redemptions under the existing loyalty program by incorporating these historical redemption rates. In connection with this revision, the Company recorded a cumulative adjustment of \$6.7 million in the fourth quarter of fiscal 2011 to increase net revenue and to adjust the current liability balance to an amount reflecting estimated future award redemptions. The aggregate dollar value of the loyalty program accruals included in accrued liabilities was \$2.5 million and \$2.7 million at April 30, 2011 and January 29, 2011, respectively. Future revisions to the estimated liability may result in changes to net revenue.

New Accounting Guidance

In January 2010, the Financial Accounting Standards Board (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, 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 was adopted effective January 30, 2011. The adoption of this guidance did not have an impact on the disclosures within 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 represents 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 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 basic and diluted earnings per common share.

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

	Three Months Ended	
	Apr. 30, 2011	May 1, 2010
Net earnings attributable to Guess?, Inc.	\$ 42,682	\$ 50,335
Net earnings attributable to nonvested restricted stockholders	304	553
Net earnings attributable to common stockholders	\$ 42,378	\$ 49,782
Weighted average shares used in basic computations	91,629	91,902
Effect of dilutive securities:		
Stock options and restricted stock units	542	866
Weighted average shares used in diluted computations	92,171	92,768
Earnings per common share attributable to common stockholders:		
Basic	\$ 0.46	\$ 0.54
Diluted	\$ 0.46	\$ 0.54

For the three months ended April 30, 2011 and May 1, 2010, equity awards granted for 435,583 and 282,955, respectively, of the Company's common shares were outstanding but were excluded from the computation of diluted weighted average common shares and common share equivalents outstanding because their effect would have been anti-dilutive.

On March 14, 2011, the Company's Board of Directors terminated the previously authorized 2008 share repurchase program (which had \$84.9 million capacity remaining) and authorized a new program to repurchase, from time-to-time and as market and business conditions warrant, up to \$250.0 million of the Company's common stock (the 2011 Share Repurchase Program). Repurchases may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program and the program may be discontinued at any time, without prior notice. There were no share repurchases under the 2011 or 2008 Share Repurchase Programs during the three months ended April 30, 2011 or the three months ended May 1, 2010. At April 30, 2011, the Company had remaining authority under the 2011 Share Repurchase Program to purchase \$250.0 million of its common stock.

Table of Contents**(3) Stockholders Equity and Redeemable Noncontrolling Interests**

A reconciliation of the total carrying amount of total stockholders' equity, Guess?, Inc. stockholders' equity and stockholders' equity attributable to nonredeemable and redeemable noncontrolling interests for the fiscal year ended January 29, 2011 and three months ended April 30, 2011 is as follows (in thousands):

	Guess?, Inc. Stockholders Equity	Stockholders' Equity Nonredeemable Noncontrolling Interests	Total	Redeemable Noncontrolling Interests
Balances at January 30, 2010	\$ 1,020,211	\$ 6,132	\$ 1,026,343	\$ 13,813
Issuance of common stock under stock compensation plans, net of tax effect	18,236		18,236	
Issuance of stock under ESPP	1,309		1,309	
Share-based compensation	29,312		29,312	
Dividends	(247,570)		(247,570)	
Share repurchases	(49,361)		(49,361)	
Redeemable noncontrolling interest redemption value adjustment	(1,143)		(1,143)	1,143
Comprehensive income (loss) (a):				
Net earnings	289,508	4,995	294,503	
Foreign currency translation adjustment	(1,631)	191	(1,440)	(245)
Unrealized loss on hedges, net of income tax of \$399	(3,634)		(3,634)	
Unrealized gain on investments, net of income tax of \$72	116		116	
SERP prior service cost and actuarial valuation loss amortization, net of income tax of \$251	(477)		(477)	
Balances at January 29, 2011	\$ 1,054,876	\$ 11,318	\$ 1,066,194	\$ 14,711
Issuance of common stock under stock compensation plans, net of tax effect	(937)		(937)	
Issuance of stock under ESPP	375		375	
Share-based compensation	7,255		7,255	
Dividends	(18,484)		(18,484)	
Redeemable non-controlling interest redemption value adjustment	(6,231)		(6,231)	6,231
Comprehensive income (loss) (a):				
Net earnings	42,682	902	43,584	
Foreign currency translation adjustment	48,691	1,042	49,733	1,296
Unrealized loss on hedges, net of income tax of \$1,706	(8,004)		(8,004)	
Unrealized gain on investments, net of income tax of \$50	87		87	
SERP prior service cost and actuarial valuation loss amortization, net of income tax of \$335	641		641	
Balances at April 30, 2011	\$ 1,120,951	\$ 13,262	\$ 1,134,213	\$ 22,238

(a) Total comprehensive income consists of net earnings, Supplemental Executive Retirement Plan (SERP) prior service cost and actuarial valuation gains or losses and related amortization, unrealized gains or losses on investments available-for-sale, foreign currency translation adjustments and the effective portion of the change in the fair value of cash flow hedges.

Redeemable Noncontrolling Interests

In connection with the acquisition of two majority-owned subsidiaries, the Company is party to put arrangements with respect to the common securities that represent the remaining noncontrolling interests of the acquired companies. Each put arrangement is exercisable by the counter-party outside the control of the Company by requiring the Company to redeem the counterparty's entire equity stake in the subsidiary at a put price based on a multiple of earnings formula. Each put arrangement is recorded on the balance sheet at its redemption value and classified as a redeemable noncontrolling interest outside of permanent equity. As of April 30, 2011, the redeemable noncontrolling interests of \$22.2 million was composed of redemption values related to the Focus Europe S.r.l. (Focus) and Guess Sud SAS (Guess Sud) put arrangements of \$14.7 million and \$7.5 million, respectively. As of January 29, 2011, the redeemable noncontrolling interests of \$14.7 million was composed of redemption values related to the Focus and Guess Sud put arrangements of \$10.7 million and \$4.0 million, respectively.

The put arrangement for Focus, representing 25% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the minority owner by providing written notice to the Company no later than June 27, 2012. The redemption value of the Focus put arrangement is based on a multiple of Focus's net earnings.

The put arrangement for Guess Sud, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the minority owners by providing written notice to the Company anytime after January 30, 2012 or sooner in certain limited circumstances. The redemption value of the Guess Sud put arrangement is based on a multiple of Guess Sud's earnings before interest, taxes, depreciation and amortization.

(4) Accounts Receivable

Accounts receivable consists of trade receivables relating primarily to the Company's wholesale businesses in Europe, North America and Asia. The Company provided for allowances relating to these receivables of \$33.8 million and \$29.9 million at April 30, 2011 and January 29, 2011, respectively. In addition, accounts receivable includes royalty receivables relating to licensing operations of \$24.4 million and \$27.5 million at April 30, 2011 and January 29, 2011, respectively, for which the Company recorded an allowance for doubtful accounts of \$0.7 million and \$0.8 million at April 30, 2011 and January 29, 2011, respectively. The accounts receivable allowance includes allowances for doubtful accounts, wholesale sales returns and wholesale markdowns. Retail sales returns allowances are included in accrued expenses.

Table of Contents**(5) Inventories**

Inventories consist of the following (in thousands):

	Apr. 30, 2011	Jan. 29, 2011
Raw materials	\$ 12,938	\$ 10,312
Work in progress	3,343	2,280
Finished goods	284,432	282,113
	\$ 300,713	\$ 294,705

As of April 30, 2011 and January 29, 2011, inventories had been written down to the lower of cost or market by \$20.6 million and \$19.0 million, respectively.

(6) Income Taxes

Income tax expense for the interim periods was computed using the effective tax rate estimated to be applicable for the full fiscal year. The Company's effective income tax rate decreased to 29.5% for the three months ended April 30, 2011 from 31.0% for the three months ended May 1, 2010, due primarily to a higher estimated proportion of annual earnings in lower tax jurisdictions in fiscal 2012 and the unfavorable impact of a change in certain state tax regulations relating to fiscal 2011.

From time to time, the Company is subject to ro