

G III APPAREL GROUP LTD /DE/

Form 10-K

April 27, 2007

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-18183

G-III APPAREL GROUP, LTD.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

512 Seventh Avenue, New York, New York

(Address of principal executive offices)

41-1590959

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

10018

(Zip Code)

Registrant's telephone number, including area code: (212) 403-0500

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes    No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes    No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer      Accelerated filer      Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes      No

As of July 31, 2006, the aggregate market value of the registrant's voting stock held by non-affiliates of the registrant (based on the last sale price for such shares as quoted by the Nasdaq Global Market) was approximately \$66,910,074.

The number of outstanding shares of the registrant's Common Stock as of March 31, 2007 was 16,047,845.

Documents incorporated by reference: Certain portions of the registrant's definitive Proxy Statement relating to the registrant's Annual Meeting of Stockholders to be held on or about June 7, 2007, to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 with the Securities and Exchange Commission, are incorporated by reference into Part III of this Report.

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### ITEM 1. BUSINESS.

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 ended January 31, 2007 is referred to as "fiscal 2007". Our Internet address is "www.g-iii.com".

All share and per share information in this Annual Report has been adjusted to give retroactive effect to a three-for-two stock split of our Common Stock in March 2006.

#### Overview

G-III designs, manufactures and markets an extensive range of outerwear and sportswear, including coats, jackets and pants, as well as women's suits and dresses. We sell our products under licensed brands, our own proprietary brands and private retail labels. We provide high quality apparel under recognized brands to retailers such as Macy's, Nordstrom and Saks. We distribute our products through a diverse mix and a large number of retailers at a variety of

price points.

Licensed brands have been an important part of our strategy for over 10 years. We currently have licenses to produce branded fashion apparel, including, among others, under the Calvin Klein, Sean John, Kenneth Cole, Cole Haan, Guess?, Jones New York, Nine West, Ellen Tracy, IZOD, House of Deréon and Tommy Hilfiger labels. We also have licenses to produce branded sports apparel containing trademarks of the National Football League, National Basketball Association, Major League Baseball, National Hockey League, Louisville Slugger, World Poker Tour and over 100 U.S. colleges and universities.

We work with leading retailers, such as Federated, Wal-Mart, JC Penney and Kohl's, in developing product lines to be sold under their own proprietary private labels. In March 2006, we announced that we had expanded our relationship with Wal-Mart to design and produce a new young men's and boy's branded urban sportswear line under its Exsto label. We began shipping Exsto product during July 2006 and are shipping to over 500 Wal-Mart locations. We also produce apparel under our own proprietary brands, including Marvin Richards, G-III, Black Rivet, Siena Studio, Colebrook, G-III by Carl Banks, Winlit, NY 10018 and La Nouvelle Renaissance.

In July 2005, we acquired the business of Marvin Richards and the operating assets of Winlit Group, Ltd. As a result of the Marvin Richards acquisition, we added licenses for men's and women's outerwear under the Calvin Klein brand name, as well as Marvin Richards' own proprietary labels. As a result of acquiring Winlit's assets, we added licenses for men's and women's outerwear under the Guess? brand, men's leather outerwear under the Tommy Hilfiger brand and women's outerwear under the Ellen Tracy brand. We also acquired Winlit's own proprietary labels. In addition, we added significant management, merchandising, manufacturing and design expertise as a result of these acquisitions.

As an immediate benefit of our acquisition of Marvin Richards, we expanded our relationship with Calvin Klein by entering into license agreements in September 2005 to manufacture and distribute women's better suits, and in April 2006 to manufacture and distribute women's dresses, under the Calvin Klein label.

We operate our business in two segments, licensed apparel and non-licensed apparel. The licensed apparel segment includes sales of apparel brands licensed by us from third parties. The non-licensed apparel segment principally includes sales of apparel under our own brands and private label brands owned by retailers. See Note M to our Consolidated Financial Statements for financial information with respect to these segments.

We are a Delaware corporation that was formed in 1989. We and our predecessors have conducted our business since 1974.

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### Competitive Strengths

Our broad portfolio of high-profile brands combined with our extensive distribution relationships positions us for growth. We intend to capitalize on the following competitive strengths in order to achieve our goal of creating an all-season diversified apparel company:

**Broad portfolio of recognized brands.** Over the past 10 years, we have built a broad and deep portfolio of over 25 licensed and proprietary brands. We believe we are a licensee of choice for well-known brands that have built a loyal following of both fashion-conscious consumers and retailers who desire high quality, well designed apparel. We have

selectively added the licensing rights to premier brands in women's, men's and sports categories catering to a wide range of customers. In an environment of rapidly changing consumer fashion trends, we benefit from a balanced mix of well-established and newer brands. In addition to our licensed brands, we own several successful proprietary brands. Our experience in developing our licensed brands and our own proprietary labels, as well as our reputation for producing high quality, well-designed apparel, has led major department stores and retailers, including Federated, Wal-Mart, JC Penney and Kohl's, to select us as a designer and manufacturer for their private label programs. We currently market apparel under the following licensed and proprietary brand names:

Women's	Men's	Sports
Licensed Brands		
Calvin Klein	Calvin Klein	National Football League
ck Calvin Klein	ck Calvin Klein	Major League Baseball
Kenneth Cole NY	Kenneth Cole NY	National Basketball Association
Reaction Kenneth Cole	Reaction Kenneth Cole	National Hockey League
Sean John	Sean John	Collegiate Licensing Company
Cole Haan	Cole Haan	Louisville Slugger
Guess	Guess	World Poker Tour
Guess?	Guess?	
House of Deréon	IZOD	
Jones New York	Tommy Hilfiger	
Jones NY Collection		
Nine West		
Ellen Tracy		
Company Ellen Tracy		
IZOD		
Proprietary Brands		
G-III	G-III	G-III Sports by Carl Banks
Black Rivet	Black Rivet	
Marvin Richards	Colebrook	
Winlit	Winlit	
Colebrook		
NY 10018		
La Nouvelle Renaissance		
LNR		
Siena Studio		

Diversified distribution base. We market our products at multiple price points and across multiple channels of distribution, allowing us to provide products to a broad range of consumers, while reducing our reliance on any one demographic segment, merchandise preference or distribution channel. Our products are sold to approximately 2,400 customers, including leading department and specialty stores such as Macy's, Nordstrom and Saks, mid-tier and mass merchants such as Wal-Mart, JC Penney, Target and Kohl's, and membership clubs such as Costco and Sam's Club. As a result of our broad distribution platform, we are a licensee and supplier of choice and can more easily adapt to changes in the retail

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environment. In addition, we believe our strong relationships with retailers have been established through many years of personal customer service and adherence to meeting or exceeding retailer expectations.

**Superior design, sourcing and quality control.** Our in-house design and merchandising team of over 100 professionals designs substantially all of our licensed, proprietary and private label products. Our designers work closely with our licensors and private label customers to create designs and styles that represent the look they want. We believe that our creative design team and our sourcing expertise give us an advantage in product development. We have a network of worldwide suppliers that allows us to negotiate competitive terms without relying on any single vendor. In addition, we employ a 25-person quality control team and a 33-person sourcing group in China to ensure the quality of our products. We believe we have developed a significant customer following and positive reputation in the industry as a result of our design capabilities, sourcing expertise, on-time delivery and high standards of quality control.

**Leadership position in the outerwear wholesale business.** As one of the largest outerwear wholesalers, we are widely recognized within the apparel industry for our high-quality and well-designed products. Our knowledge of the outerwear business and our industry-wide reputation provide us with an advantage when we are competing for outerwear licenses and private label business. We are known for our leather manufacturing expertise, a skill that has given us another competitive advantage in the outerwear market. Our expertise and reputation in designing, manufacturing and marketing outerwear have enabled us to build strong customer relationships and to expand into women's suits, dresses and other product categories.

**Experienced management team.** Our executive management team has extensive experience in the apparel industry. Morris Goldfarb, our Chief Executive Officer and son of our founder, has been with us for 35 years, Jeanette Nostra, our President, has been with us for 25 years, and Wayne S. Miller, our Chief Operating Officer, has been with us for eight years. In 2005, we added significant management, merchandising, manufacturing and design expertise as a result of our acquisition of the Marvin Richards and Winlit businesses. The principals of those businesses, Sammy Aaron and David Winn, each have more than 25 years' experience in the apparel industry. The experience, expertise and depth of our management team have enabled us to implement new initiatives in new product categories with existing licensees, such as Calvin Klein and Sean John, and private label customers, such as Wal-Mart.

## Growth Strategy

Our goal is to build an all-season diversified apparel company with a broad portfolio of brands that we offer in multiple channels of retail distribution through the following growth strategies:

**Execute new initiatives.** We are continually seeking opportunities to produce products for all seasons as we attempt to reduce our dependency on our third fiscal quarter for the majority of our net sales and substantially all of our net income. We have initiated the following product diversification efforts, each of which we believe has significant revenue potential:

- We expanded our relationship with Calvin Klein, one of the most recognized fashion brands in the United States, in September 2005 to include a license for women's suits. We began to ship this line to department and specialty stores in January 2006 and had product in over 400 doors by fall 2006.
- In March 2006, we announced that we would be designing and producing for Wal-Mart a new urban young men's and boy's branded sportswear line, under its Exsto label. We began shipping Exsto product during July 2006 and were shipping to over 500 Wal-Mart locations by fall 2006.
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We further expanded our relationship with Calvin Klein in April 2006 to include a license for women's dresses and began shipping this line to department and specialty stores in October 2006.

- We expanded our relationship with Sean John to include a license for women's sportswear. We expect to launch this line in department stores and urban specialty stores for fall 2007.

Continue to grow our outerwear business. We have been a leader in the outerwear business for many years and believe there is significant growth potential for us in this category. Specifically, our Calvin Klein men's and women's outerwear businesses is expected to benefit from Calvin Klein's strong brand

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awareness and loyalty among consumers. In May 2006, we added a license for Sean John women's outerwear to our existing license for their men's outerwear.

Extend our new product categories to additional brands. We have been able to leverage our expertise and experience in the outerwear business to expand our licenses to new product categories such as women's suits, dresses and sportswear. We will attempt to expand our distribution of products in these categories under other licensed brands, private label brands and our own brands. Specifically, we expect to seek additional licenses to produce dresses and private label programs to produce women's suits.

Seek attractive acquisitions. We plan to continue to pursue acquisitions of complementary product lines and businesses, which could include wholesale and retail opportunities. In July 2005, we acquired two businesses, Marvin Richards and Winlit, both of which added name-brand licenses, including Calvin Klein, Guess?, Tommy Hilfiger and Ellen Tracy, to our expanding brand portfolio. In addition, each of these companies has recognized proprietary labels and significant private label programs. These acquisitions have increased our portfolio of licensed brands, added additional retail customers and allowed us to realize economies of scale. We believe that our existing infrastructure and management depth will enable us to complete additional acquisitions in the apparel industry.

### Products — Development and Design

G-III designs, manufactures and markets women's and men's apparel at a wide range of retail sales prices. Our product offerings primarily include outerwear, sportswear and women's suits and dresses. We sell products under licensed brands, our own brands and private retail labels.

G-III's licensed apparel consists of both men's and women's products. Our strategy is to seek licenses that will enable us to offer a range of products targeting different price points and different tiers of distribution. Our women's licensed apparel includes products that sell at retail prices generally ranging from \$100 for sportswear items to \$800 for outerwear, with some of this product selling for up to \$2,800. Our men's licensed apparel consists of garments that generally sell at retail prices ranging from \$50 for sportswear items to \$500 for outerwear, with some of this product selling for up to \$2,000.

G-III's proprietary branded apparel also consists of both men's and women's products. The Black Rivet, Colebrook, Marvin Richards, Winlit and NY 10018 lines of women's apparel consist of moderately priced women's outerwear and sportswear that typically sell at retail prices from \$40 for sportswear items to \$250 for outerwear. Products in our men's outerwear lines, primarily consisting of leather outerwear, sold under the G-III, Colebrook and Winlit labels, typically have retail prices between \$40 and \$400. Siena Studio, LNR and La Nouvelle Renaissance, our bridge-priced

lines of women's leather and textile apparel, primarily consist of jackets, skirts and related sportswear separates with retail prices from \$100 for skirts to \$700 for outerwear.

We also work with retail chains, such as Federated, Wal-Mart, Sam's Club, JC Penney and Kohl's, in developing product lines sold under their own proprietary private labels. We meet frequently with department and specialty chain store buyers who custom order products by color, fabric and style. These buyers may provide samples to us or may select styles already available in our showrooms. We believe we have established a reputation among these buyers for our ability to produce high quality product on a reliable, expeditious and cost-effective basis.

Our in-house designers are responsible for the design and look of our licensed and non-licensed products. We work closely with our licensors to create designs and styles for each of our licensed brands. Licensors generally must approve products to be sold under their brand names prior to production. We respond to style changes in the apparel industry by maintaining a continuous program of style, color, leather and fabric selection. In designing new products and styles, we attempt to incorporate current trends and consumer preferences. We seek to design products in response to trends in consumer preferences, rather than attempt to create new market trends and styles.

Our design personnel meet regularly with our sales and merchandising department, as well as with the design and merchandising staffs of our licensors, to review market trends, sales results and the popularity of our latest products. In addition, our representatives regularly attend trade and fashion shows and shop at fashion forward stores in the United States, Europe and the Far East. Our designers present

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sample items along with their evaluation of the styles expected to be in demand in the United States. We also seek input from selected customers with respect to product design. We believe that our sensitivity to the needs of retailers, coupled with the flexibility of our production capabilities and our continual monitoring of the retail market, enables us to modify designs and order specifications in a timely fashion.

### Licensing

The following table sets forth for each of our principal licenses the date on which the current term ends and the date on which any potential renewal term ends:

License	Date Current Term Ends	Date Potential Renewal Term Ends
Fashion Licenses		
Calvin Klein (Men's outerwear)	December 31, 2010	December 31, 2015
Calvin Klein (Women's outerwear)	December 31, 2008	December 31, 2013
Calvin Klein (Women's dresses)	December 31, 2011	December 31, 2016
Calvin Klein (Women's suits)	December 31, 2011	None
Cole Haan (Men's and Women's outerwear)	January 31, 2010	January 31, 2012
Ellen Tracy/Company Ellen Tracy (Women's outerwear)	December 31, 2007	December 31, 2010
Guess/Guess? (Men's and Women's outerwear)	December 31, 2009	None

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IZOD (Men's and Women's outerwear)	December 31, 2007	December 31, 2012
Jones New York/Jones NY Collection (Women's outerwear)	January 31, 2009	None