G III APPAREL GROUP LTD /DE/
Form 10-Q
September 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2014

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 x 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 x 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 x Accelerated filer ¨
Non-accelerated filer ¨ 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 x

As of September 2, 2014, there were 22,385,233 shares of issuer's common stock, par value $0.01 per share, outstanding.

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PART I – FINANCIAL INFORMATION

Item1. Financial Statements.

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2014	July 31, 2013	January 31, 2014
	(Unaudited)	(Unaudited)	
	(In thousands, except share and per share amounts)		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 21,534	$ 16,454	$ 22,091
Accounts receivable, net of allowances for doubtful accounts and sales discounts of $41,542, $38,285 and $54,987, respectively	193,282	162,563	160,010
Inventories	534,186	406,246	359,639
Prepaid income taxes	18,474	4,586	6,807
Deferred income taxes, net	16,331	10,318	16,331
Prepaid expenses and other current assets	37,228	36,011	21,312
Total current assets	821,035	636,178	586,190
PROPERTY AND EQUIPMENT, NET	75,808	46,016	62,832
OTHER ASSETS	32,316	31,858	31,259
OTHER INTANGIBLES, NET	14,229	14,018	13,926
TRADEMARKS, NET	80,425	75,137	81,086
GOODWILL	55,354	54,153	55,604
	$ 1,079,167	$ 857,360	$ 830,897
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable	$ 45,031	$ 122,092	$ 48,843
Accounts payable	244,098	195,549	131,241
Accrued expenses	48,773	37,851	56,468
Due to noncontrolling shareholder	5,733	3,203	4,674
Total current liabilities	343,635	358,695	241,226
NOTES PAYABLE	20,386	19,518	20,560
DEFERRED INCOME TAXES, NET	21,936	19,235	22,100
CONTINGENT PURCHASE PRICE PAYABLE	5,503	5,711	5,550
OTHER NON-CURRENT LIABILITIES	19,652	14,257	19,465
TOTAL LIABILITIES	411,112	417,416	308,901

STOCKHOLDERS' EQUITY			
Preferred stock; 1,000,000 shares authorized; No shares issued and outstanding			
Common stock - $.01 par value; 80,000,000 shares authorized; 22,877,458, 20,889,322 and 20,935,804 shares issued	229	210	209
Additional paid-in capital	324,211	179,834	184,841
Accumulated other comprehensive income	5,836	1,008	6,165
Retained earnings	343,323	263,289	335,797
Common stock held in treasury, at cost – 492,225 shares	(3,899)	(3,899)	(3,899)
Total G-III stockholders' equity	669,700	440,442	523,113
Noncontrolling interest	(1,645)	(498)	(1,117)
Total stockholders' equity	668,055	439,944	521,996
	$ 1,079,167	$ 857,360	$ 830,897

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 AND COMPREHENSIVE INCOME

	Three Months Ended July 31,	
	2014	2013
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	$ 424,010	$ 304,158
Cost of goods sold	275,951	204,739
Gross profit	148,059	99,419
Selling, general and administrative expenses	131,609	89,044
Depreciation and amortization	4,955	3,242
Operating profit	11,495	7,133
Interest and financing charges, net	1,965	1,750
Income before income taxes	9,530	5,383
Income tax expense	3,622	2,045
Net income	5,908	3,338
Add: Loss attributable to noncontrolling interest	328	254
Income attributable to G-III	$ 6,236	$ 3,592
NET INCOME PER COMMON SHARE:		
Basic:		
Net income per common share	$ 0.29	$ 0.18
Weighted average number of shares outstanding	21,187	20,305
Diluted:		
Net income per common share	$ 0.29	$ 0.17
Weighted average number of shares outstanding	21,660	20,753
Net income attributable to G-III	$ 6,236	$ 3,592
Other comprehensive loss:		
Foreign currency translation adjustments	(293)	(136)
Other comprehensive loss	(293)	(136)
Comprehensive income	$ 5,943	$ 3,456

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 AND COMPREHENSIVE INCOME

	Six Months Ended July 31, 2014	2013
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	$ 790,202	$ 576,773
Cost of goods sold	511,966	384,961
Gross profit	278,236	191,812
Selling, general and administrative expenses	254,050	174,872
Depreciation and amortization	9,181	6,363
Operating profit	15,005	10,577
Interest and financing charges, net	3,718	3,528
Income before income taxes	11,287	7,049
Income tax expense	4,289	2,678
Net income	6,998	4,371
Add: Loss attributable to noncontrolling interest	528	339
Income attributable to G-III	$ 7,526	$ 4,710
NET INCOME PER COMMON SHARE:		
Basic:		
Net income per common share	$ 0.36	$ 0.23
Weighted average number of shares outstanding	20,843	20,234
Diluted:		
Net income per common share	$ 0.35	$ 0.23
Weighted average number of shares outstanding	21,346	20,686
Net income attributable to G-III	$ 7,526	$ 4,710
Other comprehensive loss:		
Foreign currency translation adjustments	(329)	(2,515)
Other comprehensive loss	(329)	(2,515)
Comprehensive income	$ 7,197	$ 2,195

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

	Six Months Ended July 31	
	2014	2013
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net income	$ 6,998	$ 4,371
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,181	6,363
Equity based compensation	5,780	4,107
Tax benefit from exercise/vesting of equity awards	8,618	4,550
Deferred financing charges	469	335
Changes in operating assets and liabilities:		
Accounts receivable, net	(33,352)	15,569
Inventories	(174,618)	(125,439)
Income taxes, net	(11,671)	(16,767)
Prepaid expenses and other current assets	(15,942)	(16,225)
Other assets, net	(1,869)	(12,554)
Accounts payable, accrued expenses and other liabilities	99,814	75,880
Net cash used in operating activities	(106,592)	(59,810)
Cash flows from investing activities		
Capital expenditures	(21,367)	(10,680)
Net cash used in investing activities	(21,367)	(10,680)
Cash flows from financing activities		
Proceeds from sale of common stock, net	128,686	-
Proceeds from (repayment of) notes payable, net	(3,812)	57,092
Proceeds from exercise of equity awards	640	760
Excess tax benefit from exercise/vesting of equity awards	5,430	2,957
Taxes paid for net share settlement	(4,316)	(946)
Noncontrolling interest investment, net	1,063	863
Net cash provided by financing activities	127,691	60,726
Foreign currency translation adjustments	(289)	(1,142)
Net decrease in cash and cash equivalents	(557)	(10,906)
Cash and cash equivalents at beginning of period	22,091	27,360
Cash and cash equivalents at end of period	$ 21,534	$ 16,454

Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 3,055	$ 3,411
Income taxes	7,273	14,874

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” or “G-III” refers to G-III Apparel Group, Ltd. and its subsidiaries. The Company designs, manufactures and markets an extensive range of apparel, including outerwear, dresses, sportswear, swimwear, women’s suits and women’s performance wear, as well as footwear, luggage and women’s handbags, small leather goods and cold weather accessories. The Company also operates retail stores.

The Company consolidates the accounts of all its wholly-owned and majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated. Vilebrequin International SA (“Vilebrequin”), a Swiss corporation, and the Company’s joint venture that operates Calvin Klein Performance retail stores in mainland China and Hong Kong, G-T (International) Fashion Company Limited (“G-T Fashion”), report results on a calendar year basis rather than on the January 31 fiscal year basis used by the Company.

The results for the three month and six month periods ended July 31, 2014 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 period presented have been reflected.

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, 2014 filed with the Securities and Exchange Commission.

Certain reclassifications have been made to the Condensed Consolidated Balance Sheet and the Condensed Consolidated Statement of Cash Flows for the prior year period to present that information on a basis consistent with the current year

Note 2 – Public Offering

In June 2014, the Company sold 1,725,000 shares of our common stock, including 225,000 shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares, at a public offering price of $77.63 per share. The Company received net proceeds of $128.7 million from the offering after payment of underwriting discounts and expenses of the offering. The net proceeds are expected to be used for general corporate purposes to support the growth of the business.

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Note 3 – Inventories

Wholesale inventories are stated at the lower of cost (determined by the first-in, first out method) or market which comprises a significant portion of the Company's inventory. Retail inventories are valued at the lower of cost or market as determined by the retail inventory method. Vilebrequin inventories are stated at the lower of cost (determined by the weighted average method) or market. Inventories consist of:

	July 31, 2014	July 31, 2013	January 31, 2014
	(In thousands)		
Finished goods	$524,350	$ 395,600	$ 350,627
Raw materials and work-in-process	9,836	10,646	9,012
	$534,186	$ 406,246	$ 359,639

Note 4 – 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 unvested restricted stock awards and stock options outstanding, during the period. In addition, all share based payments outstanding that vest based on the achievement of performance conditions, and for which the respective performance conditions have not been achieved, have been excluded from the diluted per share calculation. Approximately 328,000 shares of common stock have been excluded from the diluted net income per share calculation for the six months ended July 31, 2014. For the six months ended July 31, 2014 and 2013, 216,654 and 272,365 shares of common stock, respectively, were issued in connection with the exercise or vesting of equity awards.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Net income attributable to G-III	$6,236	$3,592	$7,526	$4,710
Basic net income per share:				
Basic common shares	21,187	20,305	20,843	20,234

Basic net income per share	$ 0.29	$ 0.18	$ 0.36	$ 0.23
Diluted net income per share:				
Basic common shares	21,187	20,305	20,843	20,234
Restricted stock awards and stock options	473	448	503	452
Diluted common shares	21,660	20,753	21,346	20,686
Diluted net income per share	$ 0.29	$ 0.17	$ 0.35	$ 0.23

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Note 5 – Notes Payable and Other Liabilities

The Company’s credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent for a group of lenders, is a five year senior secured credit facility through August 2017 providing for borrowings in the aggregate principal amount of up to $450 million. Amounts available under the credit agreement are subject to borrowing base formulas and over advances as specified in the credit agreement. As of July 31, 2014, there was $305.7 million available under the credit agreement.

Borrowings bear interest, at the Company’s option, at LIBOR plus a margin of 1.5% to 2.0% or prime plus a margin of 0.5% to 1.0%, with the applicable margin determined based on availability under the credit agreement. The credit agreement requires the Company to maintain a minimum fixed charge coverage ratio, as defined, and under certain circumstances, permits the Company to make payments for cash dividends, stock redemptions and share repurchases subject to compliance with certain covenants. As of July 31, 2014, the Company was in compliance with these covenants.

The credit agreement is secured by all of the assets of G-III Apparel Group, Ltd. and its subsidiaries, G-III Leather Fashions, Inc., Riviera Sun, Inc., CK Outerwear, LLC, Andrew & Suzanne Company Inc., AM Retail Group, Inc., G-III Apparel Canada ULC, G-III License Company, LLC and AM Apparel Holdings, Inc.

Notes payable under the Company’s credit agreement were $45.0 million at July 31, 2014 and $122.1 million at July 31, 2013.

In August 2012, as part of the purchase price in connection with the Company’s acquisition of Vilebrequin, the Company issued to the seller €15.0 million (approximately $18.6 million using the exchange rate on the date of acquisition) principal amount of unsecured promissory notes due December 31, 2017, with interest payable at the rate of 5% per year. The promissory notes were recorded at stated value, which approximated fair value, on the date of issuance. The fair value of these promissory notes was $20.4 million at July 31, 2014 (using the exchange rate on that date), which approximated their carrying value.

Due to noncontrolling shareholder consists of amounts loaned to G-T Fashion and its subsidiary by the other joint venture partner. These loans, in the aggregate principal amount of $5.7 million as of July 31, 2014, are unsecured and have maturities of less than one year.

Note 6 – Segments

The Company's reportable segments are business units that offer products through different channels of distribution and are managed separately. The Company has three reportable segments; licensed products, non-licensed products and retail operations. The G.H. Bass business was added to the retail operations segment upon its acquisition in November 2013. There is substantial intersegment cooperation, cost allocations and sharing of assets between the licensed and non-licensed products segments. 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 month and six month periods indicated below:

	Three Months Ended July 31, 2014				
	Licensed	Non-Licensed	Retail	**Elimination** [1]	Total
Net sales	$253,930	$ 87,276	$100,053	$ (17,249)	$424,010
Cost of goods sold	184,541	54,278	54,381	(17,249)	275,951
Gross profit	69,389	32,998	45,672	—	148,059
Selling, general and administrative	55,049	24,173	52,387	—	131,609
Depreciation and amortization	1,169	2,145	1,641	—	4,955
Operating profit (loss)	$13,171	$ 6,680	$(8,356)	$ —	$11,495

	Three Months Ended July 31, 2013				
	Licensed	Non-Licensed	Retail	**Elimination** [1]	Total
Net sales	$202,454	$ 70,400	$41,097	$ (9,793)	$304,158
Cost of goods sold	147,689	45,887	20,950	(9,787)	204,739
Gross profit (loss)	54,765	24,513	20,147	(6)	99,419
Selling, general and administrative	48,495	19,964	20,621	(36)	89,044
Depreciation and amortization	575	1,875	792	—	3,242
Operating profit (loss)	$5,695	$ 2,674	$(1,266)	$ 30	$7,133

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	Six Months Ended July 31, 2014				
	Licensed	Non-Licensed	Retail	**Elimination** [(1)]	Total
Net sales	$470,645	$ 155,025	$195,686	$ (31,154)	$790,202
Cost of goods sold	340,332	97,739	105,049	(31,154)	511,966
Gross profit	130,313	57,286	90,637	—	278,236
Selling, general and administrative	104,528	45,392	104,130	—	254,050
Depreciation and amortization	2,023	4,123	3,035	—	9,181
Operating profit (loss)	$23,762	$ 7,771	$(16,528)	$ —	$15,005

	Six Months Ended July 31, 2013				
	Licensed	Non-Licensed	Retail	**Elimination** [(1)]	Total
Net sales	$382,961	$ 131,089	$86,347	$ (23,624)	$576,773
Cost of goods sold	277,991	87,382	43,160	(23,572)	384,961
Gross profit (loss)	104,970	43,707	43,187	(52)	191,812
Selling, general and administrative	94,752	39,262	40,956	(98)	174,872
Depreciation and amortization	1,060	3,814	1,489	—	6,363
Operating profit	$9,158	$ 631	$742	$ 46	$10,577

(1) Represents intersegment sales to the Company’s retail operations.

The total assets for each of the Company’s reportable segments are as follow:

	July 31, 2014	2013
	(In thousands)	
Licensed	$529,004	$463,736
Non-Licensed	293,224	247,991
Retail	169,268	79,344
Corporate	87,671	66,289
Total Assets	$1,079,167	$857,360

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Note 7 – Recent Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (ASU 2014-08). This ASU changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and “represents a strategic shift that has (or will have) a major effect on the Company’s operations and financial results.” For disposals of individually significant components that do not qualify as discontinued operations, the Company must disclose pre-tax earnings of the disposed component. This guidance is effective for the Company prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, “Compensation—Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” (ASU 2014-12). This ASU provides for explicit guidance on how to account for awards with performance targets that affect vesting and could be achieved after the requisite service period. A performance target that affects vesting and that could be achieved after an employee’s requisite service period shall be accounted for as a performance condition. As such, the performance target shall not be reflected in estimating the fair value of the award at the grant date. Compensation cost shall be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service already has been rendered. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Note 8 – Subsequent Events

The Company has considered subsequent events up to the filing date and does not believe there are any occurrences that would have a material impact on its results of operations.

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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, 2015 is referred to as "fiscal 2015". Vilebrequin and G-T Fashion report results on a calendar year basis rather than on the January 31 fiscal year basis used by G-III. Accordingly, the results of Vilebrequin and G-T Fashion are and will be included in our financial statements for the quarter ended or ending closest to G-III's fiscal quarter. For example, in this Form 10-Q for the three month and six month periods ended July 31, 2014, the results of Vilebrequin and G-T Fashion are included for the three month and six month periods ended June 30, 2014.

Various statements contained in this Form 10-Q, in future filings by us with the Securities and Exchange Commission (the "SEC"), in our press releases and in oral statements made from time to time by us or on our behalf constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "will," "project," "we believe," "is or remains optimistic," "currently envisions," "forecasts, similar words or phrases and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from the future results, performance or achievements expressed in or implied by such forward-looking statements. Forward-looking statements also include representations of our expectations or beliefs concerning future events that involve risks and uncertainties, including, but not limited to:

- our dependence on licensed products;
- our dependence on the strategies and reputation of our licensors;
- costs and uncertainties with respect to expansion of our product offerings;
- the performance of our products at retail and customer acceptance of new products;
- customer concentration;
- risks of doing business abroad;
- price, availability and quality of materials used in our products;
- the need to protect our trademarks and other intellectual property;

- risks relating to our retail business;
- risks relating to our Vilebrequin and G.H. Bass businesses;
- dependence on existing management;
- our ability to make strategic acquisitions and possible disruptions from acquisitions;
- need for additional financing;
- seasonal nature of our business;
- our reliance on foreign manufacturers;
- the need to successfully upgrade, maintain and secure our information systems;
- the impact of the current economic and credit environment on us, our customers, suppliers and vendors;
- the effects of competition in the markets in which we operate;
- consolidation of our retail customers;
- additional legislation and/or regulation in the U.S. or around the world;
- our ability to import products in a timely and cost effective manner;
- our ability to continue to maintain our reputation;

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- fluctuations in the price of our common stock;
- potential effect on the price of our common stock if actual results are worse than financial forecasts; and
- the effect of regulations applicable to us as a U.S. public company.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2014. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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Overview

G-III designs, manufactures and markets an extensive range of apparel, including outerwear, dresses, sportswear, swimwear, women's suits and women's performance wear, as well as footwear, luggage and women's handbags, small leather goods and cold weather accessories. We sell our products under our own proprietary brands, which include Vilebrequin, Bass, G.H. Bass, Andrew Marc and Marc New York, licensed brands and private retail labels. G-III operates retail stores under the Wilsons Leather, G.H Bass, Vilebrequin, Calvin Klein Performance and Andrew Marc names.

Our business is dependent on, among other things, retailer and consumer demand for our products. We believe that economic conditions 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 may affect retailers and sellers of consumer goods, particularly those whose goods are viewed as discretionary purchases, such as 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 may have a negative impact on our results of operations.

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 geographic areas 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 three reportable segments, licensed products, non-licensed products and retail operations. The licensed products segment includes sales of products under brands licensed by us from third parties. The non-licensed products segment includes sales of products under our own brands and private label brands. The retail operations segment consists primarily of our Wilsons and G.H. Bass stores, as well as a limited number of Andrew Marc stores and Calvin Klein Performance stores.

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We have expanded our portfolio of proprietary and licensed brands through acquisitions and by entering into license agreements for new brands or for additional products under previously licensed brands. Our acquisitions have helped to broaden our product offerings, expand our ability to serve different tiers of distribution and add a retail component to our business.

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.

The G.H. Bass business acquired in November 2013 added a well-known heritage brand that developed the iconic original penny loafer (known as “Weejuns”). We sell G.H. Bass footwear, apparel and accessories primarily through G.H. Bass outlet stores located in the Unites States. This acquisition doubled the size of our retail footprint and is expected to enable us to leverage our Wilsons infrastructure to operate our Bass stores. G.H. Bass also licenses the brand for wholesale distribution of men’s and women’s footwear and men’s sportswear. In June, 2014, we entered into a multi-year wholesale license agreement with Overland Ltd. for the sale of men’s, women’s and children’s footwear under the G.H. Bass and related brands in Europe. Overland plans to sell G.H. Bass footwear primarily to department and specialty stores beginning in Fall 2014. A companion agreement also permits Overland to operate G.H. Bass retail locations throughout Europe.

The Vilebrequin business acquired in August 2012 provides us with a premier brand, selling status products worldwide. Vilebrequin is a well-known brand and we expect to add more company owned and franchised retail locations and increase our wholesale distribution throughout the world, as well as develop the business beyond its heritage in men’s swimwear, resort wear and related accessories.

The sale of licensed products is a key element of our strategy and we have continually expanded our offerings of licensed products over the past 20 years. In December 2012, we entered into a license agreement covering a broad range of women’s apparel under the Ivanka Trump brand and, in April 2013, we entered into a license agreement for Calvin Klein men’s and women’s swimwear that became effective on December 1, 2013. We launched Ivanka Trump product in the third quarter of fiscal 2014 and began shipping Calvin Klein swimwear for the Spring 2014 season. In November 2013, we expanded our relationship with Tommy Hilfiger to include a license for women’s outerwear. We expect to launch Tommy Hilfiger women’s outerwear for the Fall 2014 season. We have nine different license agreements relating to a variety of products sold under the Calvin Klein brand. In March 2014, the current term of each of these nine license agreements was extended to December 31, 2023.

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 can 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. It is our objective to continue to expand our product offerings and we are continually discussing new licensing opportunities with brand owners.

Our retail operations segment consists primarily of our Wilsons and G.H. Bass stores, substantially all of which are operated as outlet stores. As of July 31, 2014, we operated 174 Wilsons stores, 157 G.H. Bass stores and 81 Vilebrequin stores, as well as 6 Andrew Marc stores.

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Trends

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 and exclusive 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.

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 July 31, 2014 compared to three months ended July 31, 2013

Net sales for the three months ended July 31, 2014 increased to $424.0 million from $304.2 million in the same period last year. Net sales of licensed products increased to $253.9 million from $202.5 million, primarily as a result of an increase of $24.7 million in net sales of Calvin Klein licensed products with the largest increases occurring in the women’s performance wear and women’s outerwear categories. The increase in net sales of licensed products was also due to an increase of $7.6 million in net sales of Cole Haan men’s and women’s outerwear and an increase of $5.2 million in net sales of Guess product lines. Net sales of non-licensed products in the three months ended July 31, 2014 were $87.3 million compared to $70.4 million in the same period last year. The increase in net sales of non-licensed products is primarily the result of a $16.2 million increase in net sales of private label products and a $3.1 million increase in net sales of Vilebrequin products. Net sales of our retail operations increased to $100.1 million for the three months ended July 31, 2014 from $41.1 million in the same period last year. The increase in net sales is primarily the result of $53.6 million in net sales of the G.H. Bass business that was acquired in November 2013.

Gross profit increased to $148.1 million, or 34.9% of net sales, for the three months ended July 31, 2014, from $99.4 million, or 32.7% of net sales, in the same period last year. The gross profit percentage in our licensed products segment was 27.3% in the three months ended July 31, 2014 compared to 27.1% in the same period last year. The gross profit percentage in our non-licensed products segment was 37.8% in the three month period ended July 31, 2014 compared to 34.9% in the same period last year. This increase was primarily attributable to improved gross margins of our Jessica Howard and Eliza J dress divisions. The gross profit percentage in our retail operations segment was 45.6% for the three months ended July 31, 2014 compared to 49.0% for the comparable period last year. This decrease in gross profit percentage is primarily due to our new G.H. Bass business, which had a lower gross profit percentage compared to the rest of our retail business.

Selling, general and administrative expenses increased to $131.6 million in the three months ended July 31, 2014 from $89.0 million in the same period last year. This increase is primarily due to the additional $26.6 million in selling, general and administrative expenses resulting from the G.H. Bass business that was acquired in November 2013. In addition, we had increases in personnel costs ($10.2 million) and facility costs ($4.9 million). Personnel costs increased primarily as a result of an increase in headcount to staff additional stores opened since the prior year, as well as an increase in bonuses related to higher profitability. Facility costs increased primarily as a result of additional rent expense associated with our new retail stores and increases in third party warehouse costs as a result of the increase in inventory.

Depreciation and amortization increased to $5.0 million in the three months ended July 31, 2014 from $3.2 million in the same period last year. These expenses increased as a result of depreciation and amortization associated with fixtures added to department stores for some of our licensed divisions, with the opening of additional retail stores and with respect to the G.H. Bass business acquired at the beginning of the fourth fiscal quarter last year.

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Interest and financing charges, net for the three months ended July 31, 2014, were $2.0 million compared to $1.8 million for the same period last year.

Income tax expense for the three months ended July 31, 2014 was $3.6 million compared to $2.0 million for the same period last year. The increase in income tax expense is related to higher pretax income in the current period. The effective tax rate was 38.0% for each of the three months ended July 31, 2014 and 2013.

Six months ended July 31, 2014 compared to six months ended July 31, 2013

Net sales for the six months ended July 31, 2014 increased to $790.2 million from $576.8 million in the same period last year. Net sales of licensed products increased to $470.6 million from $383.0 million primarily as a result of an increase of $59.4 million in net sales of Calvin Klein licensed products, with the largest increases occurring in women's sportswear, handbags and performance wear, along with an increase of $8.6 million in net sales of Cole Haan outerwear. Net sales of non-licensed products in the six months ended July 31, 2014 were $155.0 million compared to $131.1 million in the same period last year. The increase in net sales of non-licensed products is primarily the result of a $17.8 million increase in net sales of private label products and a $4.8 million increase in net sales of Vilebrequin products. Net sales of our retail operations increased to $195.7 million for the six months ended July 31, 2014 from $86.3 million in the same period last year, primarily due to net sales of $97.8 million of the G.H. Bass business that was acquired in November 2013.

Gross profit increased to $278.2 million, or 35.2% of net sales, for the six months ended July 31, 2014, from $191.8 million, or 33.3% of net sales, in the same period last year. The gross profit percentage in our licensed products segment was 27.7% in the six months ended July 31, 2014 compared to 27.4% in the same period last year. The gross profit percentage in our non-licensed products segment was 37.0% in the six month period ended July 31, 2014 compared to 33.3% in the same period last year. This increase was primarily attributable to improved gross margins of our Jessica Howard and Eliza J dress divisions. The gross profit percentage for our retail operations segment was 46.3% for the six months ended July 31, 2014 compared to 50.0% for the comparable period last year This decrease in gross profit percentage is primarily due to our new G.H. Bass business, which had a lower gross profit percentage compared to the rest of our retail business, as well as due to a decrease in the gross margins at Wilsons resulting from higher markdowns in the current year period.

Selling, general and administrative expenses increased to $254.1 million in the six months ended July 31, 2014 from $174.9 million in the same period last year. This increase is primarily due to the additional $53.5 million in selling, general and administrative expenses resulting from the G.H. Bass business that was acquired in November 2013. The remainder of the increase is a result of increases in personnel costs ($17.2 million) and facility costs ($7.6 million). Personnel costs increased primarily due to increases in personnel to staff additional retail stores, in bonuses related to increased profitability and in equity compensation. Facility costs increased as a result of additional rent expense incurred for new retail store leases and increases in third party warehouse costs as a result of the increase in inventory.

Depreciation and amortization increased to $9.2 million in the six months ended July 31, 2014 from $6.4 million in the same period last year. These expenses increased as a result of depreciation and amortization associated with fixtures added to department stores for some of our licensed divisions, with the opening of additional retail stores and with respect to the G.H. Bass business acquired at the beginning of the fourth fiscal quarter last year.

Interest and financing charges, net for the six months ended July 31, 2014, were $3.7 million compared to $3.5 million for the same period last year.

Income tax expense for the six months ended July 31, 2014 was $4.3 million compared to $2.7 million for the same period last year. The increase in income tax expense is related to higher net income in the current year. The effective tax rate was 38.0% for the six months ended July 31, 2014 and 2013.

Liquidity and Capital Resources

Our primary operating cash requirements are to fund our seasonal buildup in inventories and accounts receivable, primarily during the second and third fiscal quarters each year. Due to the seasonality of our business, we generally reach our peak borrowings under our asset-based credit facility during our third fiscal quarter. The primary sources to meet our operating cash requirements have been borrowings under this credit facility, cash generated from operations and, more recently, the sale of our common stock.

On July 31, 2014, we had cash and cash equivalents of $21.5 million and outstanding borrowings of $45.0 million. On July 31, 2013, we had cash and cash equivalents of $16.5 million and outstanding borrowings of $122.1 million. The reduction in our outstanding borrowings was the result of the application of the net proceeds of our recent public offering of common stock. The outstanding amount of the promissory notes issued in connection with the acquisition of Vilebrequin equaled $20.4 million on July 31, 2014 and $19.5 million on July 31, 2013 based on exchange rates in effect at those dates.

Our contingent liability under open letters of credit was approximately $17.5 million as of July 31, 2014 compared to $22.3 million as of July 31, 2013.

Public Offering

In June 2014, we sold 1,725,000 shares of our common stock, including 225,000 shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares, at a public offering price of $77.63 per share. We received net proceeds of $128.7 million from this offering after payment of the underwriting discount and expenses of the offering. The net proceeds are expected to be used for general corporate purposes to support the growth of our business.

Credit Agreement

We have a five year senior secured credit facility through August 2017 with JPMorgan Chase Bank, N.A., as Administrative Agent for a group of lenders providing for borrowings in the aggregate principal amount of up to $450 million. Amounts available under the credit agreement are subject to borrowing base formulas and over advances as specified in the credit agreement. Borrowings bear interest, at our option, at LIBOR plus a margin of 1.5% to 2.0% or prime plus a margin of 0.5% to 1.0%, with the applicable margin determined based on availability under the credit agreement. The credit agreement requires us to maintain a minimum fixed charge coverage ratio, as defined, and under certain circumstances permits us to make payments for cash dividends, stock redemptions and share repurchases subject to compliance with certain covenants. As of July 31, 2014, we were in compliance with these covenants.

The credit agreement is secured by all of the assets of G-III Apparel Group, Ltd. and its subsidiaries, G-III Leather Fashions, Inc., Riviera Sun, Inc., CK Outerwear, LLC, Andrew & Suzanne Company, Inc., AM Retail Group, Inc., G-III Apparel Canada ULC, G-III License Company, LLC and AM Apparel Holdings, Inc.

Amounts payable under our credit agreement were $45.0 million at July 31, 2014 compared to $122.1 million at July 31, 2013.

Cash from Operating Activities

We used $106.6 million of cash in operating activities during the six months ended July 31, 2014, primarily as a result of an increase of $174.6 million in inventory and an increase of $33.4 million in accounts receivable, offset, in part, by an increase in accounts payable and accrued expenses of $99.8 million.

The changes in these operating cash flow items are generally consistent with our seasonal pattern of building up inventory for the fall shipping season resulting in the increases in inventory and accounts payable. The fall shipping season begins during the latter half of our second quarter.

Cash from Investing Activities

We used $21.4 million of cash in investing activities in the six months ended July 31, 2014 for capital expenditure related to the expansion of the Wilsons distribution center to accommodate the G.H. Bass business acquired in November 2013, the conversion of the G.H. Bass point of sale system from the system used by the prior owner of G.H. Bass to our system, leasehold improvements at our corporate office, new Wilsons, G.H. Bass and Vilebrequin stores and fixturing costs at department stores.

Cash from Financing Activities

Cash from financing activities provided $127.7 million in the six months ended July 31, 2014, primarily as a result of the receipt of net proceeds of $128.7 million in connection with our public offering of common stock in June 2014.

Financing Needs

We believe that our cash on hand and cash generated from operations and our recent public offering, together with funds available under our credit agreement, 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, 2014 are those that depend most heavily on these judgments and estimates. As of July 31, 2014, 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, 2014.

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, 2014, 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.

31.1	Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to Rule 13a - 14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as amended, in connection with G-III Apparel Group, Ltd.’s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2014.
31.2	Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to Rule 13a - 14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as amended, in connection with G-III Apparel Group, Ltd.’s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2014.
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 Form 10-Q for the fiscal quarter ended July 31, 2014.
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 July 31, 2014.
101.INS	XBRL Instance Document.
101.SCH	XBRL Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.DEF	XBRL Extension Definition.
101.LAB	XBRL Label Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.

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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: September 8, 2014	By: /s/ Morris Goldfarb Morris Goldfarb Chief Executive Officer
Date: September 8, 2014	By: /s/ Neal S. Nackman Neal S. Nackman Chief Financial Officer