

GUESS INC  
Form 10-Q  
December 02, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended October 31, 2015

OR

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

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

Commission file number: 1-11893

GUESS?, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-3679695

(State or other jurisdiction of incorporation or organization)

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

1444 South Alameda Street

Los Angeles, California

90021

(Address of principal executive offices)

(Zip Code)

(213) 765-3100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of December 1, 2015 the registrant had 83,770,874 shares of Common Stock, \$.01 par value per share, outstanding.



Table of Contents

GUESS?, INC.

FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	<u>1</u>
	<u>Condensed Consolidated Balance Sheets as of October 31, 2015 and January 31, 2015</u>	<u>1</u>
	<u>Condensed Consolidated Statements of Income — Three and Nine Months Ended October 31, 2015 and November 1, 2014</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) — Three and Nine Months Ended October 31, 2015 and November 1, 2014</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Cash Flows — Nine Months Ended October 31, 2015 and November 1, 2014</u>	<u>4</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>48</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>49</u>
<u>PART II. OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>50</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>51</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>52</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements.

## GUESS?, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	Oct 31, 2015 (unaudited)	Jan 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$402,386	\$483,483
Accounts receivable, net	195,825	216,205
Inventories	373,103	319,078
Other current assets	78,831	92,593
Total current assets	1,050,145	1,111,359
Property and equipment, net	240,058	259,524
Goodwill	33,811	34,133
Other intangible assets, net	7,794	9,745
Long-term deferred tax assets	66,117	68,747
Other assets	124,547	117,897
	\$1,522,472	\$1,601,405
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of capital lease obligations	\$4,450	\$1,548
Accounts payable	175,976	159,924
Accrued expenses	146,624	140,494
Total current liabilities	327,050	301,966
Long-term debt and capital lease obligations	2,189	6,165
Deferred rent and lease incentives	78,160	81,761
Other long-term liabilities	96,128	117,630
	503,527	507,522
Redeemable noncontrolling interests	4,698	4,437
Commitments and contingencies (Note 12)		
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 139,977,240 and 139,559,000 shares, outstanding 83,773,648 and 85,323,154 shares, as of October 31, 2015 and January 31, 2015, respectively		853
Paid-in capital	465,105	453,546
Retained earnings	1,240,981	1,265,524
Accumulated other comprehensive loss	(142,239	) (127,065 )
Treasury stock, 56,203,592 and 54,235,846 shares as of October 31, 2015 and January 31, 2015, respectively	(562,744	) (519,002 )
Guess?, Inc. stockholders' equity	1,001,941	1,073,856
Nonredeemable noncontrolling interests	12,306	15,590
Total stockholders' equity	1,014,247	1,089,446

\$1,522,472      \$1,601,405

See accompanying notes to condensed consolidated financial statements.

1

---

Table of ContentsGUESS?, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Product sales	\$493,214	\$557,862	\$1,467,110	\$1,636,569
Net royalties	27,750	31,972	78,942	84,377
Net revenue	520,964	589,834	1,546,052	1,720,946
Cost of product sales	337,300	375,876	998,786	1,113,980
Gross profit	183,664	213,958	547,266	606,966
Selling, general and administrative expenses	162,826	189,093	495,874	554,220
Earnings from operations	20,838	24,865	51,392	52,746
Other income (expense):				
Interest expense	(292	) (596	) (1,456	) (1,893
Interest income	273	351	784	1,076
Other income, net	247	7,484	6,581	11,131
	228	7,239	5,909	10,314
Earnings before income tax expense	21,066	32,104	57,301	63,060
Income tax expense	8,005	10,594	21,774	21,465
Net earnings	13,061	21,510	35,527	41,595
Net earnings attributable to noncontrolling interests	617	722	1,453	954
Net earnings attributable to Guess?, Inc.	\$12,444	\$20,788	\$34,074	\$40,641
Net earnings per common share attributable to common stockholders (Note 2):				
Basic	\$0.15	\$0.24	\$0.40	\$0.48
Diluted	\$0.15	\$0.24	\$0.40	\$0.47
Weighted average common shares outstanding attributable to common stockholders (Note 2):				
Basic	83,985	84,624	84,651	84,565
Diluted	84,373	84,832	84,847	84,789
Dividends declared per common share	\$0.225	\$0.225	\$0.675	\$0.675

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## GUESS?, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Net earnings	\$ 13,061	\$ 21,510	\$ 35,527	\$ 41,595
Other comprehensive income (loss) ("OCI"):				
Foreign currency translation adjustment				
Gains (losses) arising during the period	2,230	(47,100 )	(19,406 )	(44,558 )
Derivative financial instruments designated as cash flow hedges				
Gains arising during the period	409	4,356	4,835	3,544
Less income tax effect	(79 )	(551 )	(847 )	(445 )
Reclassification to net earnings for (gains) losses realized	(2,467 )	800	(8,226 )	1,615
Less income tax effect	309	(87 )	1,121	283
Marketable securities				
Losses arising during the period	(2 )	(13 )	(16 )	(79 )
Less income tax effect	1	5	7	30
Reclassification to net earnings for gains realized	—	—	—	(87 )
Less income tax effect	—	—	—	33
Defined benefit plans				
Actuarial gain	—	—	11,378	—
Less income tax effect	—	—	(4,352 )	—
Actuarial loss amortization	116	234	1,059	703
Prior service credit amortization	—	(58 )	(97 )	(174 )
Curtailment	—	—	(1,651 )	—
Less income tax effect	(14 )	(67 )	359	(202 )
Total comprehensive income (loss)	13,564	(20,971 )	19,691	2,258
Less comprehensive income attributable to noncontrolling interests:				
Net earnings	617	722	1,453	954
Foreign currency translation adjustment	(62 )	(479 )	(662 )	(362 )
Amounts attributable to noncontrolling interests	555	243	791	592
Comprehensive income (loss) attributable to Guess?, Inc.	\$ 13,009	\$ (21,214 )	\$ 18,900	\$ 1,666

See accompanying notes to condensed consolidated financial statements.

Table of ContentsGUESS?, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014
Cash flows from operating activities:		
Net earnings	\$35,527	\$41,595
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	52,370	61,870
Amortization of intangible assets	1,643	2,332
Share-based compensation expense	13,327	11,374
Unrealized forward contract gains	(1,697)	) (5,267)
Net (gain) loss on disposition of long-term assets and property and equipment	(1,254)	) 16,825
Other items, net	1,707	384
Changes in operating assets and liabilities:		
Accounts receivable	16,094	30,000
Inventories	(59,330)	) (73,709)
Prepaid expenses and other assets	(1,902)	) (6,822)
Accounts payable and accrued expenses	25,934	(72,154)
Deferred rent and lease incentives	(3,147)	) (1,827)
Other long-term liabilities	(14,545)	) (9,485)
Net cash provided by (used in) operating activities	64,727	(4,884)
Cash flows from investing activities:		
Purchases of property and equipment	(40,293)	) (53,208)
Changes in other assets	3,470	261
Proceeds from maturity and sale of investments	—	5,598
Acquisition of businesses, net of cash acquired	(1,263)	) (887)
Net cash settlement of forward contracts	7,557	181
Net cash used in investing activities	(30,529)	) (48,055)
Cash flows from financing activities:		
Payment of debt issuance costs	(1,072)	) —
Proceeds from borrowings	948	1,256
Repayment of capital lease obligations and borrowings	(1,160)	) (4,022)
Dividends paid	(57,734)	) (57,652)
Noncontrolling interest capital distributions	(4,075)	) —
Issuance of common stock, net of tax withholdings on vesting of stock awards	(983)	) 703
Excess tax benefits from share-based compensation	135	181
Purchase of treasury stock	(44,053)	) —
Net cash used in financing activities	(107,994)	) (59,534)
Effect of exchange rates on cash and cash equivalents	(7,301)	) (15,597)
Net change in cash and cash equivalents	(81,097)	) (128,070)
Cash and cash equivalents at the beginning of the year	483,483	502,945
Cash and cash equivalents at the end of the period	\$402,386	\$374,875
Supplemental cash flow data:		
Interest paid	\$771	\$1,205



Income taxes paid	\$17,692	\$62,000
-------------------	----------	----------

See accompanying notes to condensed consolidated financial statements.

4

---

Table of Contents

GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2015

(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 October 31, 2015 and January 31, 2015, the condensed consolidated statements of income and comprehensive income (loss) for the three and nine months ended October 31, 2015 and November 1, 2014 and the condensed consolidated statements of cash flows for the nine months ended October 31, 2015 and November 1, 2014. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three and nine months ended October 31, 2015 are not necessarily indicative of the results of operations to be expected for the full fiscal year. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended January 31, 2015.

The three and nine months ended October 31, 2015 had the same number of days as the three and nine months ended November 1, 2014. All references herein to "fiscal 2016," "fiscal 2015" and "fiscal 2014" represent the results of the 52-week fiscal year ending January 30, 2016 and the 52-week fiscal years ended January 31, 2015 and February 1, 2014, respectively.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Guess?, Inc., its wholly-owned direct and indirect subsidiaries and its non wholly-owned subsidiaries and joint ventures in which the Company has a controlling financial interest and is determined to be the primary beneficiary. Accordingly, all references herein to "Guess?, Inc." include the consolidated results of the Company, its wholly-owned subsidiaries and its joint ventures. All intercompany accounts and transactions are eliminated during the consolidation process.

Reclassifications

The Company has made certain reclassifications to prior year amounts to conform to the current period presentation within the accompanying notes to the condensed consolidated financial statements.

New Accounting Guidance

In April 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance which raises the threshold for disposals to qualify as discontinued operations. Under this new guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity's operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date. This guidance also requires expanded or new disclosures for discontinued operations, individually material disposals that do not meet the definition of a discontinued operation, an entity's continuing involvement with a discontinued operation following disposal and retained equity method investments in a discontinued operation. The Company adopted this guidance effective February 1, 2015. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements for the three and nine months ended October 31, 2015.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and

Table of Contents

circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2017, which will be the Company's first quarter of fiscal 2019, and allows for either full retrospective or modified retrospective adoption. Early adoption is permitted for fiscal periods beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements, including the choice of application method upon adoption.

In August 2014, the FASB issued authoritative guidance that requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and requires additional disclosures if certain criteria are met. This guidance is effective for fiscal periods ending after December 15, 2016, which will be the Company's fourth quarter of fiscal 2017, with early adoption permitted. The adoption of this guidance is not expected to impact the Company's consolidated financial statements or related disclosures.

In February 2015, the FASB issued authoritative guidance which modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This guidance is effective for fiscal periods beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and allows for either full retrospective or modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements, including the choice of application method upon adoption.

In April 2015, the FASB issued authoritative guidance to simplify the presentation of debt issuance costs by requiring such costs to be presented as a deduction from the corresponding debt liability. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and requires retrospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In April 2015, the FASB issued authoritative guidance which would permit an entity to measure its defined benefit plan assets and obligations using the calendar month-end that is closest to the entity's fiscal period-end for interim and annual periods. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and requires prospective adoption, with early adoption permitted. The Company is currently evaluating whether it will adopt this guidance, but if adopted, this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In April 2015, the FASB issued authoritative guidance which provides clarification on accounting for cloud computing arrangements which include a software license. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and allows for either prospective or retrospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In July 2015, the FASB issued authoritative guidance to simplify the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. This guidance is effective for fiscal years beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, and requires prospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In September 2015, the FASB issued authoritative guidance that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and requires prospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.



Table of Contents

In November 2015, the FASB issued authoritative guidance to simplify the presentation of deferred income taxes by requiring that all deferred tax liabilities and assets be classified as long-term on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, and allows for either prospective or retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements, including the choice of application method upon adoption.

(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 during the period. The weighted average number of common shares outstanding does not include restricted stock units with forfeitable dividend rights that have been classified as issued and outstanding but are considered contingently returnable as a result of certain service conditions. These restricted stock units are considered common equivalent shares outstanding and are excluded from the basic earnings per share calculation until the respective service conditions have been met. 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. However, net losses are not allocated to nonvested restricted stockholders since they are not contractually obligated to share in the losses of the Company. In addition, the Company has granted certain nonvested stock units that are subject to certain performance-based or market-based vesting conditions as well as continued service requirements through the respective vesting periods. These nonvested stock units are included in the computation of diluted net earnings per common share attributable to common stockholders only to the extent that the underlying performance-based or market-based vesting conditions are satisfied as of the end of the reporting period, or would be considered satisfied if the end of the reporting period were the end of the related contingency period, and the results would be dilutive under the treasury stock method. The computation of basic and diluted net earnings per common share attributable to common stockholders is as follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Net earnings attributable to Guess?, Inc.	\$12,444	\$20,788	\$34,074	\$40,641
Less net earnings attributable to nonvested restricted stockholders	137	135	363	415
Net earnings attributable to common stockholders	\$12,307	\$20,653	\$33,711	\$40,226
Weighted average common shares used in basic computations	83,985	84,624	84,651	84,565
Effect of dilutive securities:				
Stock options and restricted stock units	388	208	196	224
Weighted average common shares used in diluted computations	84,373	84,832	84,847	84,789
Net earnings per common share attributable to common stockholders:				
Basic	\$0.15	\$0.24	\$0.40	\$0.48
Diluted	\$0.15	\$0.24	\$0.40	\$0.47



Table of Contents

For the three months ended October 31, 2015 and November 1, 2014, equity awards granted for 2,357,138 and 1,633,245, respectively, of the Company's common shares and for the nine months ended October 31, 2015 and November 1, 2014, equity awards granted for 2,530,121 and 1,558,532, respectively, of the Company's common shares were outstanding but were excluded from the computation of diluted weighted average common shares and common equivalent shares outstanding because the assumed proceeds, as calculated under the treasury stock method, resulted in these awards being antidilutive. For the three and nine months ended October 31, 2015, the Company also excluded 425,866 nonvested stock units which are subject to the achievement of performance-based or market-based vesting conditions from the computation of diluted weighted average common shares and common equivalent shares outstanding because these conditions were not achieved as of October 31, 2015. For the three and nine months ended November 1, 2014, the Company excluded 259,700 nonvested stock units which were subject to the achievement of performance-based vesting conditions from the computation of diluted weighted average common shares and common equivalent shares outstanding because these conditions were not achieved as of November 1, 2014.

Share Repurchase Program

On June 26, 2012, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock. Repurchases under the program 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, which may be discontinued at any time, without prior notice. During the three and nine months ended October 31, 2015, the Company repurchased 2,000,000 shares under the program at an aggregate cost of \$44.0 million. There were no share repurchases during the three and nine months ended November 1, 2014. As of October 31, 2015, the Company had remaining authority under the program to purchase \$451.8 million of its common stock.

Table of Contents

## (3) Stockholders' Equity and Redeemable Noncontrolling Interests

A reconciliation of common stock outstanding, treasury stock and 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 31, 2015 and nine months ended October 31, 2015 is as follows (in thousands, except share data):

	Shares		Stockholders' Equity			Redeemable Noncontrolling Interests
	Common Stock	Treasury Stock	Guess?, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total	
Balance at February 1, 2014	84,962,345	54,283,384	\$ 1,154,514	\$ 15,472	\$ 1,169,986	\$ 5,830
Net earnings	—	—	94,570	2,614	97,184	—
Foreign currency translation adjustment	—	—	(114,566 )	(2,141 )	(116,707 )	(788 )
Gain on derivative financial instruments designated as cash flow hedges, net of income tax of (\$721)	—	—	7,270	—	7,270	—
Loss on marketable securities, net of income tax of \$61	—	—	(106 )	—	(106 )	—
Prior service credit amortization and actuarial valuation loss and related amortization on defined benefit plans, net of income tax of \$2,335	—	—	(5,862 )	—	(5,862 )	—
Issuance of common stock under stock compensation plans, net of tax effect	313,271	—	(1,937 )	—	(1,937 )	—
Issuance of stock under Employee Stock Purchase Plan	47,538	(47,538 )	1,008	—	1,008	—
Share-based compensation	—	—	15,342	—	15,342	—
Dividends	—	—	(76,982 )	—	(76,982 )	—
Noncontrolling interest capital distribution	—	—	—	(355 )	(355 )	—
Redeemable noncontrolling interest redemption value adjustment	—	—	605	—	605	(605 )
Balance at January 31, 2015	85,323,154	54,235,846	\$ 1,073,856	\$ 15,590	\$ 1,089,446	\$ 4,437
Net earnings	—	—	34,074	1,453	35,527	—
Foreign currency translation adjustment	—	—	(18,744 )	(662 )	(19,406 )	(389 )
Loss on derivative financial instruments	—	—	(3,117 )	—	(3,117 )	—



Edgar Filing: GUESS INC - Form 10-Q

designated as cash flow hedges, net of income tax of \$274							
Loss on marketable securities, net of income tax of \$7	—	—	(9	) —	(9	) —	
Actuarial valuation gain (loss) and related amortization, curtailment and prior service credit amortization on defined benefit plans, net of income tax of (\$3,993)	—	—	6,696	—	6,696	—	
Issuance of common stock under stock compensation plans, net of tax effect	418,240	—	(1,921	) —	(1,921	) —	
Issuance of stock under Employee Stock Purchase Plan	32,254	(32,254	) 518	—	518	—	
Share-based compensation	—	—	13,327	—	13,327	—	
Dividends	—	—	(58,036	) —	(58,036	) —	
Share repurchases	(2,000,000	) 2,000,000	(44,053	) —	(44,053	) —	
Noncontrolling interest capital distribution	—	—	—	(4,075	) (4,075	) —	
Redeemable noncontrolling interest redemption value adjustment	—	—	(650	) —	(650	) 650	
Balance at October 31, 2015	83,773,648	56,203,592	\$ 1,001,941	\$ 12,306	\$ 1,014,247	\$ 4,698	

Table of Contents

## Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), net of related income taxes, for the three and nine months ended October 31, 2015 and November 1, 2014 are as follows (in thousands):

	Three Months Ended Oct 31, 2015				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at August 1, 2015	\$(142,605 )	\$ 5,868	\$(11 )	\$(6,056 )	\$(142,804 )
Gains (losses) arising during the period	2,292	330	(1 )	—	2,621
Reclassification to net earnings for (gains) losses realized	—	(2,158 )	—	102	(2,056 )
Net other comprehensive income (loss)	2,292	(1,828 )	(1 )	102	565
Balance at October 31, 2015	\$(140,313 )	\$ 4,040	\$(12 )	\$(5,954 )	\$(142,239 )
	Nine Months Ended Oct 31, 2015				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at January 31, 2015	\$(121,569 )	\$ 7,157	\$(3 )	\$(12,650 )	\$(127,065 )
Gains (losses) arising during the period	(18,744 )	3,988	(9 )	7,026	(7,739 )
Reclassification to net earnings for gains realized	—	(7,105 )	—	(330 )	(7,435 )
Net other comprehensive income (loss)	(18,744 )	(3,117 )	(9 )	6,696	(15,174 )
Balance at October 31, 2015	\$(140,313 )	\$ 4,040	\$(12 )	\$(5,954 )	\$(142,239 )
	Three Months Ended Nov 1, 2014				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at August 2, 2014	\$(4,578 )	\$ 366	\$ 8	\$(6,570 )	\$(10,774 )
Gains (losses) arising during the period	(46,621 )	3,805	(8 )	—	(42,824 )
Reclassification to net earnings for losses realized	—	713	—	109	822
Net other comprehensive income (loss)	(46,621 )	4,518	(8 )	109	(42,002 )
Balance at November 1, 2014	\$(51,199 )	\$ 4,884	\$—	\$(6,461 )	\$(52,776 )
	Nine Months Ended Nov 1, 2014				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash	Marketable Securities	Defined Benefit Plans	Total

Edgar Filing: GUESS INC - Form 10-Q

		Flow Hedges			
Balance at February 1, 2014	\$(7,003 )	\$ (113 )	\$ 103	\$(6,788 )	\$(13,801 )
Gains (losses) arising during the period	(44,196 )	3,099	(49 )	—	(41,146 )
Reclassification to net earnings for (gains) losses realized	—	1,898	(54 )	327	2,171
Net other comprehensive income (loss)	(44,196 )	4,997	(103 )	327	(38,975 )
Balance at November 1, 2014	\$(51,199 )	\$ 4,884	\$—	\$(6,461 )	\$(52,776 )

10

---

Table of Contents

Details on reclassifications out of accumulated other comprehensive income (loss) to net earnings during the three and nine months ended October 31, 2015 and November 1, 2014 are as follows (in thousands):

	Three Months Ended		Nine Months Ended		Location of (Gain) Loss Reclassified from Accumulated OCI into Earnings
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014	
Derivative financial instruments designated as cash flow hedges:					
Foreign exchange currency contracts	\$ (2,507 )	\$ 800	\$ (7,450 )	\$ 1,559	Cost of product sales
Foreign exchange currency contracts	40	—	(776 )	56	Other income/expense
Less income tax effect	309	(87 )	1,121	283	Income tax expense
	(2,158 )	713	(7,105 )	1,898	
Marketable securities:					
Available-for-sale securities	—	—	—	(87 )	Other income/expense
Less income tax effect	—	—	—	33	Income tax expense
	—	—	—	(54 )	)
Defined benefit plans:					
Actuarial loss amortization	116	234	1,059	703	(1)
Prior service credit amortization	—	(58 )	(97 )	(174 )	(1)
Curtailment	—	—	(1,651 )	—	(1)
Less income tax effect	(14 )	(67 )	359	(202 )	) Income tax expense
	102	109	(330 )	327	
Total reclassifications during the period	\$ (2,056 )	\$ 822	\$ (7,435 )	\$ 2,171	

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic defined benefit pension cost. Refer to Note 13 for further information.

Redeemable Noncontrolling Interests

The Company is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest from the acquisition of its majority-owned subsidiary, Guess Sud SAS (“Guess Sud”). 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 noncontrolling interest holders by providing written notice to the Company any time after January 30, 2012. The put arrangement is recorded on the balance sheet at its expected redemption value based on a method which approximates fair value and is classified as a redeemable noncontrolling interest outside of permanent equity. The redemption value of the Guess Sud redeemable put arrangement was \$4.0 million and \$3.4 million as of October 31, 2015 and January 31, 2015, respectively.

The Company is also party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest for its majority-owned subsidiary, Guess Brasil Comércio e Distribuição S.A. (“Guess Brazil”), which was established through a majority-owned joint venture during fiscal 2014. The put arrangement for Guess Brazil, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company beginning in the sixth year of the agreement, or sooner in certain limited circumstances, and every third anniversary from the end of the sixth year thereafter subject to certain time restrictions. The redemption value of the Guess Brazil put arrangement is based on a multiple of Guess Brazil’s earnings before interest, taxes, depreciation and amortization subject to certain adjustments. The carrying value of the redeemable noncontrolling interest related to Guess Brazil was \$0.7 million and \$1.0 million as of October 31, 2015 and January 31, 2015, respectively.

Table of Contents

## (4)Accounts Receivable

Accounts receivable is summarized as follows (in thousands):

	Oct 31, 2015	Jan 31, 2015
Trade	\$206,000	\$229,618
Royalty	11,163	10,118
Other	9,920	8,389
	227,083	248,125
Less allowance for doubtful accounts	31,258	31,920
	\$195,825	\$216,205

Accounts receivable consists of trade receivables relating primarily to the Company's wholesale business in Europe, and to a lesser extent, to its wholesale businesses in the Americas and Asia, royalty receivables relating to its licensing operations, and certain other receivables. Other receivables generally relate to amounts due to the Company that result from activities that are not related to the direct sale of the Company's products or collection of royalties. The accounts receivable allowance includes allowances for doubtful accounts, wholesale sales returns and wholesale markdowns. Retail sales returns allowances are included in accrued expenses.

## (5)Inventories

Inventories consist of the following (in thousands):

	Oct 31, 2015	Jan 31, 2015
Raw materials	\$2,492	\$4,548
Work in progress	55	77
Finished goods	370,556	314,453
	\$373,103	\$319,078

The above balances include an allowance to write down inventories to the lower of cost or market of \$19.5 million and \$19.7 million as of October 31, 2015 and January 31, 2015, respectively.

## (6)Restructuring Charges

During the first quarter of fiscal 2014, the Company implemented plans to streamline its structure and reduce expenses in both Europe and North America. During the second quarter of fiscal 2014, the Company expanded these plans to include the consolidation and streamlining of certain operations in Europe and Asia. The Company incurred total restructuring charges of \$12.4 million under these plans related primarily to severance, impairment and lease termination costs during fiscal 2014. There were no restructuring charges incurred during the three and nine months ended October 31, 2015 and November 1, 2014 related to these plans. The Company does not expect significant future cash-related charges to be incurred as the actions under these plans were substantially completed during fiscal 2014. As of October 31, 2015, the balance in accrued expenses for amounts expected to be paid during the remainder of fiscal 2016 were minimal. At January 31, 2015, the Company had a balance of approximately \$0.3 million in accrued expenses related to these restructuring activities.

The following table summarizes restructuring activities related primarily to severance during the fiscal year ended January 31, 2015 and nine months ended October 31, 2015 (in thousands):

	Total
Balance at February 1, 2014	\$4,578
Cash payments	(2,952 )
Foreign currency and other adjustments	(1,350 )
Balance at January 31, 2015	\$276
Cash payments	(172 )
Foreign currency and other adjustments	(67 )
Balance at October 31, 2015	\$37

Table of Contents

(7) 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 increased to 38.0% for the nine months ended October 31, 2015 from 34.0% for the nine months ended November 1, 2014. The increase in the effective income tax rate was due primarily to the distribution of earnings between quarters, a larger mix of taxable income in higher taxable jurisdictions and higher non-deductible compensation costs during the nine months ended October 31, 2015 compared to the same prior-year period.

From time-to-time, the Company is subject to routine compliance reviews on various tax matters around the world in the ordinary course of business. As of October 31, 2015, several income tax audits were underway for various periods in multiple jurisdictions. The Company accrues an amount for its estimate of additional income tax liability which the Company, more likely than not, could incur as a result of the ultimate resolution of income tax audits ("uncertain tax positions"). The Company reviews and updates the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax audits, upon expiration of statutes of limitation, or upon occurrence of other events.

The Company had aggregate accruals for uncertain tax positions, including penalties and interest, of \$13.9 million and \$14.4 million as of October 31, 2015 and January 31, 2015, respectively.

(8) Segment Information

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Americas Retail, Europe, Asia, Americas Wholesale and Licensing. In the second quarter of fiscal 2016, the Company changed the names of its "North American Retail" and "North American Wholesale" segments to "Americas Retail" and "Americas Wholesale" to better reflect that these segments are inclusive of its operations in North America as well as Central and South America. There have been no changes to the underlying reporting in either segment. The Company's operating segments are the same as its reportable segments. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before restructuring charges, if any. The Company believes this segment reporting reflects how its five business segments are managed and how each segment's performance is evaluated by the Company's chief operating decision maker to assess performance and make resource allocation decisions. The Americas Retail segment includes the Company's retail and e-commerce operations in North and Central America and its retail operations in South America. The Europe segment includes the Company's wholesale, retail and e-commerce operations in Europe and the Middle East. The Asia segment includes the Company's wholesale, retail and e-commerce operations in Asia. The Americas Wholesale segment includes the Company's wholesale operations in the Americas. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization, and restructuring charges. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: accounting and finance, executive compensation, facilities, global advertising and marketing, human resources, information technology and legal.

Table of Contents

Net revenue and earnings (loss) from operations are summarized as follows for the three and nine months ended October 31, 2015 and November 1, 2014 (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Net revenue:				
Americas Retail(1)	\$226,599	\$243,238	\$673,304	\$715,582
Europe	160,696	189,852	497,468	584,270
Asia	59,100	71,271	179,880	205,656
Americas Wholesale(1)	46,819	53,501	116,458	131,061
Licensing	27,750	31,972	78,942	84,377
Total net revenue	\$520,964	\$589,834	\$1,546,052	\$1,720,946
Earnings (loss) from operations:				
Americas Retail(1)	\$(2,053)	\$(10,517)	\$(4,018)	\$(23,578)
Europe	6,150	7,660	20,668	25,541
Asia	2,794	2,126	8,294	7,743
Americas Wholesale(1)	9,583	13,940	21,202	26,860
Licensing	24,842	28,157	70,282	75,787
Corporate Overhead	(20,478)	(16,501)	(65,036)	(59,607)
Total earnings from operations	\$20,838	\$24,865	\$51,392	\$52,746

In the second quarter of fiscal 2016, the Company changed the names of its “North American Retail” and “North American Wholesale” segments to “Americas Retail” and “Americas Wholesale” to better reflect that these segments are inclusive of its operations in North America as well as Central and South America. There have been no changes to the underlying reporting in either segment.

Due to the seasonal nature of the Company’s business segments, the above net revenue and operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

**(9) Borrowings and Capital Lease Obligations**

Borrowings and capital lease obligations are summarized as follows (in thousands):

	Oct 31, 2015	Jan 31, 2015
European capital lease, maturing quarterly through May 2016	\$4,450	\$5,745
Other	2,189	1,968
	6,639	7,713
Less current installments	4,450	1,548
Long-term debt and capital lease obligations	\$2,189	\$6,165

**Capital Lease**

The Company leases a building in Florence, Italy under a capital lease which provides for minimum lease payments through May 1, 2016. As of October 31, 2015, the capital lease obligation was \$4.5 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument that resulted in a swap fixed rate of 3.55%. This interest rate swap agreement matures on February 1, 2016 and converts the nature of the capital lease obligation from Euribor floating-rate debt to fixed-rate debt. The fair value of the interest rate swap liability as of October 31, 2015 was approximately \$0.1 million.

**Credit Facilities**

On June 23, 2015, the Company entered into a five-year senior secured asset-based revolving credit facility with Bank of America, N.A. and the other lenders party thereto (the “Credit Facility”). The Credit Facility provides for a borrowing capacity in an amount up to \$150 million, including a Canadian sub-facility up to \$50 million, subject to a borrowing base. Based on applicable accounts receivable, inventory and eligible cash balances as of October 31, 2015, the Company could have borrowed up to \$150 million under the Credit Facility. The Credit Facility has an option to expand the borrowing capacity by up to \$150 million subject to certain terms and conditions, including the willingness of existing or new lenders to assume such increased amount. The Credit





Table of Contents

Facility is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits, and may be used for working capital and other general corporate purposes. The Credit Facility replaced the Company's previous \$300 million credit facility, which was scheduled to mature in July 2016. No principal or interest was outstanding or accrued and unpaid under the prior credit facility on its termination date.

All obligations under the Credit Facility are unconditionally guaranteed by the Company and the Company's existing and future domestic and Canadian subsidiaries, subject to certain exceptions, and are secured by a first priority lien on substantially all of the assets of the Company and such domestic and Canadian subsidiaries, as applicable.

Direct borrowings under the Credit Facility made by the Company and its domestic subsidiaries shall bear interest at the U.S. base rate plus an applicable margin (varying from 0.25% to 0.75%) or at LIBOR plus an applicable margin (varying from 1.25% to 1.75%). The U.S. base rate is based on the greater of (i) the U.S. prime rate, (ii) the federal funds rate, plus 0.5%, and (iii) LIBOR for a 30 day interest period, plus 1.0%. Direct borrowings under the Credit Facility made by the Company's Canadian subsidiaries shall bear interest at the Canadian prime rate plus an applicable margin (varying from 0.25% to 0.75%) or at the Canadian BA rate plus an applicable margin (varying from 1.25% to 1.75%). The Canadian prime rate is based on the greater of (i) the Canadian prime rate, (ii) the Bank of Canada overnight rate, plus 0.5%, and (iii) the Canadian BA rate for a one month interest period, plus 1.0%. The applicable margins are calculated quarterly and vary based on the average daily availability of the aggregate borrowing base. The Company is also obligated to pay certain commitment, letter of credit and other fees customary for a credit facility of this size and type. As of October 31, 2015, the Company had \$1.7 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Credit Facility requires the Company to comply with a fixed charge coverage ratio on a trailing four-quarter basis if a default or an event of default occurs under the Credit Facility or if the borrowing capacity falls below certain levels. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company and certain of its subsidiaries' ability to: incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the Credit Facility, the lenders may cease making loans, terminate the Credit Facility and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Credit Facility allows for both secured and unsecured borrowings outside of the Credit Facility up to specified amounts.

The Company, through its European subsidiaries, maintains short-term uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. The majority of the borrowings under these agreements are secured by specific accounts receivable balances. Based on the applicable accounts receivable balances as of October 31, 2015, the Company could have borrowed up to \$68.0 million under these agreements. As of October 31, 2015, the Company had no outstanding borrowings and \$1.9 million in outstanding documentary letters of credit under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 0.9% to 6.7%. The maturities of any short-term borrowings under these arrangements are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings. With the exception of one facility for up to \$38.5 million that has a minimum net equity requirement, there are no other financial ratio covenants.

**Other**

From time-to-time, the Company will obtain other financing in foreign countries for working capital to finance its local operations.

Table of Contents

## (10) Share-Based Compensation

The following table summarizes the share-based compensation expense recognized under all of the Company's stock plans during the three and nine months ended October 31, 2015 and November 1, 2014 (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Stock options	\$575	\$542	\$1,495	\$1,618
Stock awards/units	4,670	3,187	11,707	9,564
Employee Stock Purchase Plan	30	32	125	192
Total share-based compensation expense	\$5,275	\$3,761	\$13,327	\$11,374

Unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options and nonvested stock awards/units totaled approximately \$4.9 million and \$25.2 million, respectively, as of October 31, 2015. This cost is expected to be recognized over a weighted average period of 1.7 years. The weighted average grant date fair value of options granted was \$3.74 and \$6.23 during the nine months ended October 31, 2015 and November 1, 2014, respectively.

## Grants

On July 7, 2015, in connection with a new employment agreement entered into between the Company and Victor Herrero (the "Herrero Employment Agreement"), who became the Company's Chief Executive Officer on August 1, 2015, the Company granted Mr. Herrero 600,000 stock options and 250,000 nonvested stock units. Mr. Herrero was also granted 150,000 restricted stock units which are considered contingently returnable as a result of certain service conditions set forth in the Herrero Employment Agreement.

On April 2, 2015, the Company made an annual grant of 577,700 stock options and 401,700 nonvested stock awards/units to its employees. On April 2, 2014, the Company made an annual grant of 365,600 stock options and 301,200 nonvested stock awards/units to its employees.

## Performance-Based Awards

As discussed above, on July 7, 2015, the Company granted certain nonvested stock units to Mr. Herrero in connection with the Herrero Employment Agreement. The nonvested stock units are scheduled to vest in increments of one-fourth of the shares granted on each anniversary from the date of grant, subject to the achievement of certain performance-based vesting conditions during the last two quarters of fiscal 2016 as well as continued service requirements through each of the vesting periods.

The Company has granted certain nonvested stock units to Paul Marciano, the Company's former Chief Executive Officer and current Executive Chairman of the Board and Chief Creative Officer, in connection with an employment agreement entered into between the Company and Mr. Marciano during fiscal 2014. Each award of nonvested stock units has an initial vesting period from the date of the grant through the end of the first fiscal year followed by two annual vesting periods. The nonvested stock units are subject to the achievement of certain performance-based vesting conditions during the first fiscal year of the grant as well as continued service requirements through each of the vesting periods.

The Company has also granted a target number of nonvested stock units to Mr. Marciano in connection with his employment agreement. The number of shares that may ultimately vest with respect to each award will equal 0% to 150% of the target number of shares, subject to the achievement of certain performance-based vesting conditions during the first fiscal year of the grant as well as continued service requirements through the vesting date. Any shares that are ultimately issued are scheduled to vest at the end of the third fiscal year following the grant date.

Table of Contents

The following table summarizes the activity for nonvested performance-based awards during the nine months ended October 31, 2015:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at January 31, 2015	413,834	\$29.66
Granted	425,866	19.39
Vested	(33,333 )	27.86
Forfeited	(159,700 )	27.86
Nonvested at October 31, 2015	646,667	\$23.44

**Market-Based Awards**

On May 1, 2015, the Company also granted a target of 183,368 nonvested stock units to Mr. Marciano in connection with his employment agreement. The number of shares that may ultimately vest will equal 0% to 150% of the target number of shares, subject to the performance of the Company's total stockholder return ("TSR") relative to the TSR of a select group of peer companies over a three-year period. Vesting is also subject to continued service requirements through the vesting date. Any shares that are ultimately issued are scheduled to vest in fiscal 2019. The grant date fair value for such nonvested stock units was estimated using a Monte Carlo simulation that incorporates option-pricing inputs covering the period from the grant date through the end of the performance period. Compensation expense is recognized on a straight-line basis over the vesting period.

**(11) Related Party Transactions**

The Company and its subsidiaries periodically enter into transactions with other entities or individuals that are considered related parties, including certain transactions with entities affiliated with trusts for the respective benefit of Paul Marciano, who is an executive of the Company, Maurice Marciano, Chairman Emeritus of the Board, Armand Marciano, their brother and former executive of the Company, and certain of their children (the "Marciano Trusts").

**Leases**

The Company leases warehouse and administrative facilities, including the Company's corporate headquarters in Los Angeles, California, from partnerships affiliated with the Marciano Trusts and certain of their affiliates. There were three of these leases in effect as of October 31, 2015 with expiration dates ranging from calendar years 2015 to 2020. Due to excess capacity at the Company's corporate headquarters, the lease was amended in August 2015 to reduce the square footage by 13,070 square feet to 341,739 square feet. The amendment also provided for a corresponding pro-rata reduction in aggregate rent, common area maintenance charges and property tax expense due to the lower square footage. All other terms of the existing corporate headquarters lease remain in full force and effect.

Aggregate rent, common area maintenance charges and property tax expense recorded under these related party leases for the nine months ended October 31, 2015 and November 1, 2014 was \$4.0 million and \$4.6 million, respectively. The Company believes the related party lease terms have not been significantly affected by the fact that the Company and the lessors are related.

**Aircraft Arrangements**

The Company periodically charters aircraft owned by MPM Financial, LLC ("MPM Financial"), an entity affiliated with the Marciano Trusts, through informal arrangements with MPM Financial and independent third party management companies contracted by MPM Financial to manage its aircraft. The total fees paid under these arrangements for the nine months ended October 31, 2015 and November 1, 2014 were approximately \$0.3 million and \$1.2 million, respectively.

Table of Contents

## Consulting Arrangement

After serving for over 30 years as an executive and leader for Guess?, Inc., co-founder Maurice Marciano retired from his position as executive Chairman of the Board and as an employee of the Company upon the expiration of his employment agreement on January 28, 2012. In connection with his retirement and under the terms of his previously existing employment agreement, the Company and Mr. Marciano entered into a two-year consulting agreement, subsequently extended for a third year (the “Marciano Consulting Agreement”), under which Mr. Marciano provided certain consulting services to the Company. The Marciano Consulting Agreement provided for consulting fees of \$500,000 per year and continued automobile use in a manner consistent with past practice. The Marciano Consulting Agreement expired on January 28, 2015 and was not renewed. However, Mr. Marciano continues to serve the Company as a director and the Chairman Emeritus of the Board. The Company elected to continue to provide for automobile use subsequent to the expiration of the term of the Marciano Consulting Agreement based on Mr. Marciano’s continuing substantial contributions to the Company. There were no expenses incurred related to the Marciano Consulting Agreement during the nine months ended October 31, 2015. Total expenses incurred with respect to the Marciano Consulting Agreement were approximately \$0.4 million for the nine months ended November 1, 2014.

## Other Transactions

From time-to-time, the Company utilizes a third party agent named Harmony Collection, LLC to produce specific apparel products on behalf of the Company. Armand Marciano, brother of Maurice and Paul Marciano, is part owner and an executive of the parent company of Harmony Collection, LLC. There were no payments made by the Company under this arrangement for the nine months ended October 31, 2015. The total payments made by the Company under this arrangement for the nine months ended November 1, 2014 were approximately \$1.0 million.

These related party disclosures should be read in conjunction with the disclosure concerning related party transactions in the Company’s Annual Report on Form 10-K for the year ended January 31, 2015.

## (12) Commitments and Contingencies

## Leases

The Company leases its showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facilities and retail and factory outlet store locations under operating lease agreements expiring on various dates through September 2031. Some of these leases require the Company to make periodic payments for property taxes, utilities and common area operating expenses. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 2% to 12%, when specific sales volumes are exceeded. Some leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the initial lease term on a straight-line basis. The Company also leases some of its equipment under operating lease agreements expiring at various dates through July 2020. As discussed in further detail in Note 9, the Company leases a building in Florence, Italy under a capital lease which provides for minimum lease payments through May 1, 2016.

## Litigation

On May 6, 2009, Gucci America, Inc. filed a complaint in the U.S. District Court for the Southern District of New York against Guess?, Inc. and certain third party licensees for the Company asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint sought injunctive relief, compensatory damages, including treble damages, and certain other relief. Complaints similar to those in the above action have also been filed by Gucci entities against the Company and certain of its subsidiaries in the Court of Milan, Italy, the Intermediate People’s Court of Nanjing, China and the Court of Paris, France. The three-week bench trial in the U.S. matter concluded on April 19, 2012, with the court issuing a preliminary ruling on May 21, 2012 and a final ruling on July 19, 2012. Although the plaintiff was seeking compensation in the U.S. matter in the form of damages of \$26 million and an accounting of profits of \$99 million, the final ruling provided for monetary damages of \$2.3 million against the Company and \$2.3 million against certain of its licensees. The

Table of Contents

court also granted narrow injunctions in favor of the plaintiff for certain of the claimed infringements. On August 20, 2012, the appeal period expired without any party having filed an appeal, rendering the judgment final. On May 2, 2013, the Court of Milan ruled in favor of the Company in the Milan, Italy matter. In the ruling, the Court rejected all of the plaintiff's claims and ordered the cancellation of three of the plaintiff's Italian and four of the plaintiff's European Community trademark registrations. On June 10, 2013, the plaintiff appealed the Court's ruling in the Milan matter. On September 15, 2014, the Court of Appeal of Milan affirmed the majority of the lower Court's ruling in favor of the Company, but overturned the lower Court's finding with respect to an unfair competition claim. That portion of the matter is now in a damages phase based on the ruling. On October 16, 2015, the plaintiff appealed the remainder of the Court of Appeal of Milan's ruling in favor of the Company to the Italian Supreme Court of Cassation. In the China matter, the Intermediate People's Court of Nanjing, China issued a ruling on November 8, 2013 granting an injunction in favor of the plaintiff for certain of the claimed infringements on handbags and small leather goods and awarding the plaintiff statutory damages in the amount of approximately \$80,000. The Company strongly disagrees with the Court's decision and has appealed the ruling. The judgment in the China matter is stayed pending the appeal, which was heard in May 2014. On January 30, 2015, the Court of Paris ruled in favor of the Company, rejecting all of the plaintiff's claims and partially canceling two of the plaintiff's community trademark registrations and one of the plaintiff's international trademark registrations. On February 17, 2015, the plaintiff appealed the Court of Paris' ruling.

On August 25, 2006, Franchez Isaguirre, a former employee of the Company, filed a complaint in the Superior Court of California, County of Los Angeles alleging violations by the Company of California wage and hour laws. The complaint was subsequently amended, adding a second former employee as an additional named party. The plaintiffs purport to represent a class of similarly situated employees in California who allegedly had been injured by not being provided adequate meal and rest breaks. The complaint seeks unspecified compensatory damages, statutory penalties, attorney's fees and injunctive and declaratory relief. On June 9, 2009, the Court certified the class but immediately stayed the case pending the resolution of a separate California Supreme Court case on the standards of class treatment for meal and rest break claims. Following the Supreme Court ruling, the Superior Court denied the Company's motions to decertify the class and to narrow the class in January 2013 and June 2013, respectively. The Company subsequently petitioned to have the Court's decision not to narrow the class definition reviewed. That petition was ultimately denied by the California Supreme Court in April 2014. In July 2015, the parties entered into a Memorandum of Understanding to settle the matter for \$5.25 million, subject to certain limited offsets. The settlement was preliminarily approved by the Court in October 2015, but still remains subject to further review and final approval of the Court.

The Company has received customs tax assessment notices from the Italian Customs Agency regarding its customs tax audit of one of the Company's European subsidiaries for the period from July 2010 through December 2012. Such assessments totaled €9.8 million (\$10.8 million), including potential penalties and interest. The Company strongly disagrees with the positions that the Italian Customs Agency has taken and therefore filed appeals with the Milan First Degree Tax Court ("MFDTC"). On May 5, 2015, the MFDTC issued a judgment in favor of the Company in relation to the first set of appeals (covering the period through September 2010) and canceled the related assessments totaling €1.7 million (\$1.8 million). In November 2015, the Italian Customs Agency notified the Company of its intent to appeal the MFDTC judgment. While the initial judgment was favorable to the Company, there can be no assurances that the Company's remaining appeals for October 2010 through December 2012 will be successful or that the Italian Customs Agency will not be successful in its appeal of the MFDTC judgment. It also continues to be possible that the Company will receive similar or even larger assessments for periods subsequent to December 2012 or other claims or charges related to the matter in the future.

Although the Company believes that it has a strong position and will continue to vigorously defend each of the remaining matters, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcomes will have a material impact on the Company's financial position or results of operations.

Table of Contents

The Company is also involved in various other claims and other matters incidental to the Company's business, the resolutions of which are not expected to have a material adverse effect on the Company's financial position or results of operations.

(13) Defined Benefit Plans

Supplemental Executive Retirement Plan

On August 23, 2005, the Board of Directors of the Company adopted a Supplemental Executive Retirement Plan ("SERP") which became effective January 1, 2006. The SERP provides select employees who satisfy certain eligibility requirements with certain benefits upon retirement, termination of employment, death, disability or a change in control of the Company, in certain prescribed circumstances.

In July 2015, the SERP was amended in connection with Paul Marciano's planned transition from Chief Executive Officer to Executive Chairman of the Board and Chief Creative Officer. The amendment effectively eliminated any future salary progression by finalizing compensation levels for future benefits. Mr. Marciano will continue to be eligible to receive SERP benefits in the future in accordance with the amended terms of the SERP. Subsequent to the amendment, there are no employees considered actively participating under the terms of the SERP.

As a result, the Company included an actuarial gain of \$11.4 million before taxes in accumulated other comprehensive income (loss) during the nine months ended October 31, 2015. In addition, the Company also recognized a curtailment gain of \$1.7 million before taxes related to the accelerated amortization of the remaining prior service credit during the nine months ended October 31, 2015. The actuarial and curtailment gains were recorded during the three months ended August 1, 2015.

As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has made periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The amount of any future payments into the insurance policies, if any, may vary depending on investment performance of the trust. The cash surrender values of the insurance policies were \$55.1 million and \$53.6 million as of October 31, 2015 and January 31, 2015, respectively, and were included in other assets in the Company's condensed consolidated balance sheets. As a result of changes in the value of the insurance policy investments, the Company recorded unrealized gains (losses) of \$(0.8) million and \$0.8 million in other income and expense during the three and nine months ended October 31, 2015, respectively, and unrealized gains of \$0.8 million and \$3.0 million in other income during the three and nine months ended November 1, 2014, respectively. During the nine months ended October 31, 2015, the Company also recorded realized gains of \$0.7 million in other income resulting from payout on the insurance policies. The realized gains were recorded during the three months ended May 2, 2015. The projected benefit obligation was \$50.7 million and \$61.9 million as of October 31, 2015 and January 31, 2015, respectively, and was included in accrued expenses and other long-term liabilities in the Company's condensed consolidated balance sheets depending on the expected timing of payments. SERP benefit payments of \$0.4 million and \$1.3 million were made during the three and nine months ended October 31, 2015, respectively. SERP benefit payments of \$0.6 million and \$0.8 million were made during the three and nine months ended November 1, 2014.

Table of Contents

The components of net periodic defined benefit pension cost for the three and nine months ended October 31, 2015 and November 1, 2014 related to the SERP are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Interest cost	\$498	\$573	\$1,489	\$1,717
Net amortization of unrecognized prior service credit	—	(58	) (97	) (174
Net amortization of actuarial losses	11	234	729	703
Curtailement gain	—	—	(1,651	) —
Net periodic defined benefit pension cost	\$509	\$749	\$470	\$2,246

**Swiss Pension Plan**

In accordance with local regulations, the Company also maintains a pension plan in Switzerland for certain of its employees. The plan is a government-mandated defined contribution plan that provides employees with a minimum investment return determined annually by the Swiss government, and as such, is treated under pension accounting in accordance with authoritative guidance. Under the plan, both the Company and certain of its employees with annual earnings in excess of government determined amounts are required to make contributions into a fund managed by an independent investment fiduciary. The Company's contributions must be made in an amount at least equal to the employee's contribution. Minimum employee contributions are based on the respective employee's age, salary and gender. As of October 31, 2015 and January 31, 2015, the plan had a projected benefit obligation of CHF14.8 million (US\$15.0 million) and CHF13.9 million (US\$15.1 million), respectively, and plan assets held at the independent investment fiduciary of CHF12.4 million (US\$12.6 million) and CHF11.5 million (US\$12.5 million), respectively. The net liability of CHF2.4 million (US\$2.4 million) and CHF2.4 million (US\$2.6 million) was included in other long-term liabilities in the Company's condensed consolidated balance sheets as of October 31, 2015 and January 31, 2015, respectively. During the three and nine months ended October 31, 2015, the Company recognized net periodic defined benefit pension cost of CHF0.4 million (US\$0.4 million) and CHF1.3 million (US\$1.3 million), respectively, resulting from service cost and net amortization of actuarial losses related to the Swiss pension plan.

**(14) Fair Value Measurements**

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e. interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company's own data.

Table of Contents

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of October 31, 2015 and January 31, 2015 (in thousands):

Recurring Fair Value Measures	Fair Value Measurements at Oct 31, 2015				Fair Value Measurements at Jan 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Foreign exchange currency contracts	\$—	\$6,280	\$—	\$6,280	\$—	\$15,542	\$—	\$15,542
Available-for-sale securities	20	—	—	20	36	—	—	36
<b>Total</b>	<b>\$20</b>	<b>\$6,280</b>	<b>\$—</b>	<b>\$6,300</b>	<b>\$36</b>	<b>\$15,542</b>	<b>\$—</b>	<b>\$15,578</b>
<b>Liabilities:</b>								
Foreign exchange currency contracts	\$—	\$145	\$—	\$145	\$—	\$—	\$—	\$—
Interest rate swap	—	118	—	118	—	270	—	270
Deferred compensation obligations	—	10,656	—	10,656	—	9,133	—	9,133
<b>Total</b>	<b>\$—</b>	<b>\$10,919</b>	<b>\$—</b>	<b>\$10,919</b>	<b>\$—</b>	<b>\$9,403</b>	<b>\$—</b>	<b>\$9,403</b>

There were no transfers of financial instruments between the three levels of fair value hierarchy during the nine months ended October 31, 2015 or during the year ended January 31, 2015.

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the interest rate swaps are based upon inputs corroborated by observable market data. Foreign exchange forward contracts are entered into by the Company principally to hedge the future payment of inventory and intercompany transactions by non-U.S. subsidiaries. Periodically, the Company may also use foreign currency forward contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries. The fair values of the Company's foreign exchange forward contracts are based on quoted foreign exchange forward rates at the reporting date. Deferred compensation obligations to employees are adjusted based on changes in the fair value of the underlying employee-directed investments. Fair value of these obligations is based upon inputs corroborated by observable market data.

Available-for-sale securities, which consist of marketable equity securities, are recorded at fair value and are included in other assets in the accompanying condensed consolidated balance sheets. As of October 31, 2015 and January 31, 2015, available-for-sale securities were minimal. Unrealized gains (losses), net of taxes, are included as a component of stockholders' equity and comprehensive income (loss). As of October 31, 2015 and January 31, 2015, the accumulated unrealized losses, net of taxes, included in accumulated other comprehensive income (loss) related to available-for-sale securities owned by the Company were minimal. During the nine months ended November 1, 2014, the Company received proceeds of \$0.6 million from the sale of marketable equity securities which were classified as available-for-sale securities. The sale of marketable equity securities was made during the three months ended May 3, 2014. The cost of securities sold was based on the specific identification method. Gains recognized during the nine months ended November 1, 2014 were \$0.1 million as a result of this sale and were included in other income.

The carrying amount of the Company's remaining financial instruments, which principally include cash and cash equivalents, trade receivables, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments. The fair values of the Company's debt instruments (see Note 9) are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. As of October 31, 2015 and January 31, 2015, the carrying value of all financial instruments was not materially different from fair value, as the interest rates on variable-rate debt including the capital lease obligation approximated rates currently available to the Company.



Table of Contents

## Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment quarterly or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company considers each individual retail location as an asset group for impairment testing, which is the lowest level at which individual cash flows can be identified. The asset group includes leasehold improvements, furniture, fixtures and equipment, computer hardware and software and certain long-term security deposits and lease acquisition costs. The Company reviews retail locations in penetrated markets for impairment risk once the locations have been opened for at least one year in their current condition, or sooner as changes in circumstances require. The Company believes that waiting one year allows a retail location to reach a maturity level where a more comprehensive analysis of financial performance can be performed. The Company evaluates impairment risk for retail locations in new markets, where the Company is in the early stages of establishing its presence, once the locations have been opened for at least two years. The Company believes that waiting two years allows for brand awareness to be established. The Company also evaluates impairment risk for retail locations that are expected to be closed in the foreseeable future.

An asset is considered to be impaired if the Company determines that the carrying value may not be recoverable based upon its assessment of the asset's ability to continue to generate earnings from operations and positive cash flow in future periods or if significant changes in the Company's strategic business objectives and utilization of the assets occurred. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value, which is determined based on discounted future cash flows. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows.

Future expected cash flows for assets in retail locations are based on management's estimates of future cash flows over the remaining lease period or expected life, if shorter. For expected retail location closures, the Company will evaluate whether it is necessary to shorten the useful life for any of the assets within the respective asset group. The Company will use this revised useful life when estimating the asset group's future cash flows. The Company considers historical trends, expected future business trends and other factors when estimating the future cash flow for each retail location. The Company also considers factors such as: the local environment for each retail location, including mall traffic and competition; the Company's ability to successfully implement strategic initiatives; and the ability to control variable costs such as cost of sales and payroll and, in some cases, renegotiate lease costs. The estimated cash flows used for this nonrecurring fair value measurement are considered a Level 3 input as defined above. If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, there may be additional exposure to future impairment losses that could be material to the Company's results of operations.

The Company recorded impairment charges of \$0.2 million and \$2.0 million during the three and nine months ended October 31, 2015, respectively, and \$9.8 million and \$14.6 million during the three and nine months ended November 1, 2014, respectively. The impairment charges related primarily to the impairment of certain retail locations in North America and Europe resulting from under-performance or the exercise of kick-out options during each of the respective periods. These impairment charges were included in selling, general and administrative expenses in the Company's condensed consolidated statements of income for each of the respective periods.

## (15) Derivative Financial Instruments

## Hedging Strategy

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. The Company has entered into certain forward contracts to hedge the risk of foreign currency rate fluctuations. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these hedges.

The Company's primary objective is to hedge the variability in forecasted cash flows due to the foreign currency risk. Various transactions that occur primarily in Europe, Canada, South Korea and Mexico are

Table of Contents

denominated in U.S. dollars and British pounds and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar denominated purchases of merchandise and U.S. dollar and British pound denominated intercompany liabilities. In addition, certain operating expenses, tax liabilities and pension-related liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company enters into derivative financial instruments, including forward exchange contracts, to offset some but not all of the exchange risk on certain of these anticipated foreign currency transactions.

Periodically, the Company may also use foreign currency forward contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries.

The impact of the credit risk of the counterparties to the derivative contracts is considered in determining the fair value of the foreign currency forward contracts. As of October 31, 2015, credit risk has not had a significant effect on the fair value of the Company's foreign currency contracts.

The Company also has interest rate swap agreements, which are not designated as hedges for accounting purposes, to effectively convert its floating-rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with the Company's variable-rate capital lease obligation, thus reducing the impact of interest rate changes on future interest payment cash flows. Refer to Note 9 for further information.

**Hedge Accounting Policy**

U.S. dollar forward contracts are used to hedge forecasted merchandise purchases over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as cash flow hedges, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in cost of product sales in the period which approximates the time the hedged merchandise inventory is sold. The Company also hedges forecasted intercompany royalties over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as cash flow hedges, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in other income and expense in the period in which the royalty expense is incurred.

The Company has also used U.S. dollar forward contracts to hedge the net investments of certain of the Company's international subsidiaries over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as net investment hedges, are recorded in foreign currency translation adjustment as a component of accumulated other comprehensive income (loss) within stockholders' equity and are not recognized in earnings until the sale or liquidation of the hedged net investment.

The Company also has foreign currency contracts that are not designated as hedging instruments for accounting purposes. Changes in fair value of foreign currency contracts not designated as hedging instruments are reported in net earnings as part of other income and expense.

Table of Contents

## Summary of Derivative Instruments

The fair value of derivative instruments in the condensed consolidated balance sheets as of October 31, 2015 and January 31, 2015 is as follows (in thousands):

	Derivative Balance Sheet Location	Fair Value at Oct 31, 2015	Fair Value at Jan 31, 2015
<b>ASSETS:</b>			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts:			
Cash flow hedges	Other current assets/ Other assets	\$4,307	\$6,597
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Other current assets	1,973	8,945
Total		\$6,280	\$15,542
<b>LIABILITIES:</b>			
Derivatives designated as hedging instruments:			
Foreign exchange currency contracts:			
Cash flow hedges	Accrued expenses	\$36	\$—
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Accrued expenses	109	—
Interest rate swaps	Accrued expenses/ Other long-term liabilities	118	270
Total derivatives not designated as hedging instruments		227	270
Total		\$263	\$270

## Derivatives Designated as Hedging Instruments

## Cash Flow Hedges

During the nine months ended October 31, 2015, the Company purchased U.S. dollar forward contracts in Europe and Canada totaling US\$110.6 million and US\$70.6 million, respectively, to hedge forecasted merchandise purchases and intercompany royalties that were designated as cash flow hedges. As of October 31, 2015, the Company had forward contracts outstanding for its European and Canadian operations of US\$107.4 million and US\$55.6 million, respectively, which are expected to mature over the next 18 months.

Table of Contents

The following table summarizes the gains (losses) before taxes recognized on the derivative instruments designated as cash flow hedges in OCI and net earnings for the three and nine months ended October 31, 2015 and November 1, 2014 (in thousands):

	Gain Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings(1)	Gain (Loss) Reclassified from Accumulated OCI into Earnings	
	Three Months Ended Oct 31, 2015	Nov 1, 2014		Three Months Ended Oct 31, 2015	Nov 1, 2014
Derivatives designated as cash flow hedges:					
Foreign exchange currency contracts	\$363	\$3,869	Cost of product sales	\$2,507	\$(800 )
Foreign exchange currency contracts	\$46	\$487	Other income/expense	\$(40 )	\$—
	Gain Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings(1)	Gain (Loss) Reclassified from Accumulated OCI into Earnings	
	Nine Months Ended Oct 31, 2015	Nov 1, 2014		Nine Months Ended Oct 31, 2015	Nov 1, 2014
Derivatives designated as cash flow hedges:					
Foreign exchange currency contracts	\$4,559	\$3,163	Cost of product sales	\$7,450	\$(1,559 )
Foreign exchange currency contracts	\$276	\$381	Other income/expense	\$776	\$(56 )

(1) The ineffective portion was immaterial during the three and nine months ended October 31, 2015 and November 1, 2014 and was recorded in net earnings and included in interest income/expense.

As of October 31, 2015, accumulated other comprehensive income (loss) included a net unrealized gain of approximately \$4.0 million, net of tax, of which \$3.2 million will be recognized in cost of product sales or other income over the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values.

The following table summarizes net after-tax derivative activity recorded in accumulated other comprehensive income (loss) (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Beginning balance gain (loss)	\$5,868	\$366	\$7,157	\$(113 )
Net gains from changes in cash flow hedges	330	3,805	3,988	3,099
Net (gains) losses reclassified to earnings	(2,158 )	713	(7,105 )	1,898
Ending balance gain	\$4,040	\$4,884	\$4,040	\$4,884

At January 31, 2015, the Company had forward contracts outstanding for its European and Canadian operations of US\$50.8 million and US\$24.5 million, respectively, that were designated as cash flow hedges.

Derivatives Not Designated as Hedging Instruments

As of October 31, 2015, the Company had euro foreign currency contracts to purchase US\$67.5 million expected to mature over the next 11 months and Canadian dollar foreign currency contracts to purchase US\$19.9 million expected to mature over the next ten months.



Table of Contents

The following table summarizes the gains before taxes recognized on the derivative instruments not designated as hedging instruments in other income for the three and nine months ended October 31, 2015 and November 1, 2014 (in thousands):

	Location of Gain Recognized in Earnings	Gain Recognized in Earnings Three Months Ended		Gain Recognized in Earnings Nine Months Ended	
		Oct 31, 2015	Nov 1, 2014	Oct 31, 2015	Nov 1, 2014
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	Other income/expense	\$286	\$6,262	\$2,445	\$7,457
Interest rate swaps	Other income/expense	\$44	\$54	\$140	\$186

At January 31, 2015, the Company had euro foreign currency contracts to purchase US\$59.3 million and Canadian dollar foreign currency contracts to purchase US\$19.9 million.

(16) Subsequent Events

On November 9, 2015, the Company entered into an agreement to purchase, for approximately \$29 million, the facility that the Company currently leases to house its U.S. distribution center. The purchase is expected to be completed during the fourth quarter of fiscal 2016. The Company is evaluating whether it will finance this purchase with cash, borrowings (through current credit facilities or new arrangements) or a combination thereof.

On November 24, 2015, the Company announced a regular quarterly cash dividend of \$0.225 per share on the Company's common stock. The cash dividend will be paid on December 24, 2015 to shareholders of record as of the close of business on December 9, 2015.

## Table of Contents

### ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

#### General

Unless the context indicates otherwise, when we refer to “we,” “us,” “our” or the “Company” in this Form 10-Q, we are referring to Guess?, Inc. (“GUESS?”) and its subsidiaries on a consolidated basis.

#### Important Factors Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including documents incorporated by reference herein, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements may also be contained in the Company’s other reports filed under the Securities Exchange Act of 1934, as amended, in its press releases and in other documents. In addition, from time-to-time, the Company through its management may make oral forward-looking statements. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our goals, future prospects and proposed new products, services, developments or business strategies and initiatives (including those identified by the Company’s Chief Executive Officer, Victor Herrero). These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “goal,” “intend,” “may,” “outlook,” “pending,” “plan,” “predict,” “project,” “strategy,” “will,” and similar terms and phrases, including references to assumptions.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. These forward-looking statements may include, among other things, statements relating to our expected results of operations, the accuracy of data relating to, and anticipated levels of, future inventory and gross margins, anticipated cash requirements and sources, cost containment efforts, restructuring charges, estimated charges, plans regarding store openings, closings and remodels, plans regarding business growth, international expansion and capital allocation, plans regarding supply chain efficiencies and global planning and allocation, e-commerce and omni-channel initiatives, business seasonality, results of litigation, industry trends, consumer demands and preferences, competition, currency fluctuations and related impacts, estimated tax rates, results of tax audits and other regulatory proceedings, raw material and other inflationary cost pressures, consumer confidence and general economic conditions. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. Important factors that could cause or contribute to such differences include those discussed under “Part I, Item 1A. Risk Factors” contained in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended January 31, 2015 and in our other filings made from time-to-time with the Securities and Exchange Commission (“SEC”) after the date of this report.

#### Business Segments

The Company’s businesses are grouped into five reportable segments for management and internal financial reporting purposes: Americas Retail, Europe, Asia, Americas Wholesale and Licensing. In the second quarter of fiscal 2016, the Company changed the names of its “North American Retail” and “North American Wholesale” segments to “Americas Retail” and “Americas Wholesale” to better reflect that these segments are inclusive of its operations in North America as well as Central and South America. There have been no changes to the underlying reporting in either segment. The Company’s operating segments are the same as its reportable segments. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before restructuring charges, if any. The Company believes this segment reporting reflects how its five business segments are managed and how each segment’s performance is evaluated by the Company’s chief operating decision maker to assess performance and make resource allocation decisions. The Americas Retail segment includes the Company’s retail and e-commerce operations in North and Central America and its retail operations in South America. The Europe segment includes the Company’s wholesale, retail and e-commerce operations in Europe and the Middle East. The Asia segment includes the Company’s wholesale, retail and e-commerce operations in Asia. The Americas Wholesale segment includes the Company’s wholesale operations in the Americas. The Licensing segment includes the worldwide licensing operations of the Company. The business





Table of Contents

segment operating results exclude corporate overhead costs, which consist of shared costs of the organization, and restructuring charges. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: accounting and finance, executive compensation, facilities, global advertising and marketing, human resources, information technology and legal. Information regarding these segments is summarized in Note 8 to the Condensed Consolidated Financial Statements.

Products

We derive our net revenue from the sale of GUESS?, G by GUESS, GUESS Kids and MARCIANO apparel and our licensees' products through our worldwide network of retail stores, wholesale customers and distributors, as well as our online sites. We also derive royalty revenue from worldwide licensing activities.

Global Economic Conditions

Economic and market conditions have continued to be volatile and uncertain in many markets around the world and consumer behavior remains cautious. The retail environment has been impacted by highly promotional conditions and softer mall traffic, which may persist for some time. In Europe, government austerity programs and bank credit issues have impacted the capital markets of numerous European countries, resulting in reduced consumer confidence and lower discretionary spending in those countries. These circumstances have had, and could in the future have, a negative impact on our business, particularly in our more mature markets in Southern Europe. When these conditions occur, the impact is greater in our multi-brand wholesale channel, particularly in Italy, where many customers are relatively small and are not well capitalized. While the economic environment in Southern Europe has shown signs of improvement, the recovery is still vulnerable. Recent terrorist attacks and the threat of future terrorist activity could also adversely impact consumer behavior. In addition, the geopolitical tension in Russia and Ukraine, as well as other countries and regions, has impacted economic sentiment and could continue to negatively impact our business. We are also seeing evidence of a more cautious consumer in Greater China and South Korea due to the macro-economic conditions in these countries.

Foreign Currency Volatility

Since the majority of our international operations are conducted in currencies other than the U.S. dollar (primarily the euro, Canadian dollar, Korean won and Mexican peso), currency fluctuations can have a significant impact on the translation of our international revenues and earnings into U.S. dollar amounts.

In addition, some of our transactions that occur primarily in Europe, Canada, South Korea and Mexico are denominated in U.S. dollars, Swiss francs and British pounds, exposing them to exchange rate fluctuations when these transactions (such as inventory purchases) are converted to their functional currencies. As a result, fluctuations in exchange rates can impact the operating margins of our foreign operations and reported earnings, largely dependent on the transaction timing and magnitude during the period that the currency fluctuates. When these foreign exchange rates weaken versus the U.S. dollar at the time U.S. dollar denominated inventory is purchased relative to the purchases of the comparable period, our product margins could be unfavorably impacted if the relative sales prices do not change.

During the first nine months of fiscal 2016, the average U.S. dollar rate was stronger against the euro, the Canadian dollar, the Korean won and the Mexican peso compared to the average rate in the same prior-year period. As a result, our product margins in Europe and Canada were negatively impacted by exchange rate fluctuations for the nine months ended October 31, 2015 compared to the same prior-year period. There was also an overall negative impact on the translation of our international revenues and earnings from operations for the nine months ended October 31, 2015 compared to the same prior-year period.

If the U.S. dollar remains strong relative to the respective fiscal 2015 foreign exchange rates, we expect that foreign exchange will continue to have a significant negative impact on our revenues and operating results as well as our international cash and other balance sheet items during the remainder of fiscal 2016, particularly in Europe and Canada.

The Company enters into derivative financial instruments to offset some but not all of the exchange risk on foreign currency transactions. For additional discussion regarding our exposure to foreign currency risk, forward



Table of Contents

contracts designated as hedging instruments and forward contracts not designated as hedging instruments, refer to “Item 3. Quantitative and Qualitative Disclosures About Market Risk.”

Recent Developments

On July 7, 2015, the Company entered into an employment agreement with Victor Herrero that provided for his transition to become the Company’s Chief Executive Officer effective as of August 1, 2015 (the “Transition Date”). On the Transition Date, Paul Marciano, the Company’s former Chief Executive Officer and Vice Chairman of the Board of Directors, assumed the role of Executive Chairman of the Board and Chief Creative Officer.

As part of his assessment of the strategic direction of the Company, Mr. Herrero has identified several initiatives focused on driving shareholder value which we have begun to implement through two separate phases. The first phase focuses on (i) elevating the quality of our sales organization and merchandising strategy to match the quality of our product and marketing; (ii) building a major business in Asia by unlocking the potential of the GUESS? brand in the region; and (iii) creating a culture of purpose and accountability throughout the entire Company by implementing a more centralized organizational structure that reinforces our focus on sales and profitability. The second phase focuses on (i) improving our cost structure (including supply chain and overhead); and (ii) revitalizing our wholesale business. The following provides further details on the planned implementation of these initiatives:

**Sales Organization and Merchandising Strategy.** We have begun executing on our plan to elevate the quality of our sales organization and merchandising strategy which includes: (1) elevating the product knowledge of our sales force; (2) building a more strategic and operational online organization in order to increase millennials’ engagement with our brand through digital marketing and social media; (3) taking steps such as investing in key stores and developing stronger replenishment, visual, stockroom and cost-control standards in order to improve our overall field and store structure; (4) implementing a more effective yearly retail calendar to better enable each store to fully capture local opportunities; (5) using feedback from our sales force to improve our collections and increase the number and effectiveness of our SKU’s; and (6) implementing a global pricing system with greater clarity and simplicity.

**Building our Asia Business.** We believe there continues to be significant potential in this region, particularly in mainland China, and plan to allocate sufficient resources to fuel future growth.

**Transform our Company’s Culture.** In order to generate global synergies, major decisions (including logistics, finance, communication and stock allocation) are becoming more centralized in the Company’s management team in Los Angeles. This centralized approach will reinforce the focus on sales and profitability as well as foster an environment of accountability and execution measured through key performance metrics.

**Improving our Cost Structure.** We plan to improve our cost structure by optimizing our use of capital in accordance with growth strategies, identifying synergies among departments and strengthening our supply chain. We plan to strengthen our supply chain by optimizing vendor proximity to our main markets, improving fabric management and reinforcing open-to-buys. We also plan to shorten our lead times through partnering with our suppliers, exercising agility in the production process and continuously searching for new suppliers and sourcing opportunities in reaction to the latest trends.

**Revitalizing our Wholesale Business.** We plan to partner with our wholesale customers to emphasize a retail-oriented mindset and encourage the adoption of best practices.

Other Ongoing Strategies

**Store Portfolio Rationalization.** We plan to increase the profitability for our brick-and-mortar locations by improving the productivity and performance of our existing stores. As discussed above, we will review our field and store structure and define stores by their current performance along with a plan for improvement. We will also invest in key stores to elevate their image and bring our latest store layouts to the end customer. In Americas Retail, in light of recent performance trends and our new initiatives, we now plan to extend the leases on certain stores previously planned for closure by one to two years in order to allow more time to evaluate the financial

Table of Contents

performance of these locations. We now expect to close approximately 40 stores during fiscal year 2016 through a combination of lease expirations and kick-outs. Including these stores, approximately half of our leases in Americas Retail are up for renewal or have lease exit options over the next three years, providing us with the flexibility to further optimize our retail footprint as appropriate in the coming years.

**Business Portfolio.** We plan to continue to evaluate the different businesses in our global portfolio, reducing the size and cost structure of the less profitable ones, while directing capital investments to those with more profit potential. As discussed above, we plan to allocate sufficient resources to fuel future growth in Asia. In addition, we plan to resume expansion of our G by GUESS concept in the Americas and will target growth in other markets such as Russia and Turkey where we believe the GUESS? brand is underpenetrated.

**Omni-Channel Strategy.** We continue to execute our global omni-channel strategy that allows customers to shop seamlessly in retail stores, online and through mobile devices. We have already deployed certain initiatives in the U.S. including “reserve online, pick-up in stores” and “order from store” as well as mobile optimized commerce sites and smartphone applications. We have also developed our in-store fulfillment capabilities which optimize inventory located in our U.S. and Canadian retail stores. In the U.S. and Canada, e-commerce orders may be fulfilled from our distribution centers, or from our retail stores, or both, and retail store sales may be fulfilled from one of our numerous retail store locations or from our distribution centers. We have begun to deploy similar omni-channel strategies in certain international markets, leveraging our existing technology and experience.

**Capital Allocation**

The Company’s investments in capital for the full fiscal year 2016 are planned between \$55 million and \$65 million (after deducting estimated lease incentives of approximately \$6 million). The planned investments in capital are primarily for store remodeling programs, targeted new store openings and investments in maintaining and improving our infrastructure (primarily information and operating systems). In addition, subsequent to the quarter ended October 31, 2015, the Company entered into an agreement to purchase, for approximately \$29 million, the facility that the Company currently leases to house its U.S. distribution center. The purchase is expected to be completed during the fourth quarter of fiscal 2016.

**Comparable Store Sales**

The Company reports National Retail Federation (“NRF”) calendar comparable store sales on a quarterly basis for our retail businesses which include the combined results from our brick-and-mortar retail stores and our e-commerce sites. We also separately report the impact of e-commerce sales on our comparable store sales metric. As a result of our omni-channel strategy, our e-commerce business has become strongly intertwined with our brick-and-mortar retail store business. Therefore, we believe that the inclusion of e-commerce sales in our comparable store sales metric provides a more meaningful representation of our retail results.

Sales from our brick-and-mortar retail stores include purchases that are initiated, paid for and fulfilled at our retail stores and directly operated concessions or shop-in-shops as well as merchandise that is reserved online but paid for and picked-up at our retail stores. Sales from our e-commerce sites include purchases that are initiated and paid for online and shipped from either our distribution centers or our retail stores as well as purchases that are initiated in a retail store, but due to inventory availability at the retail store, are ordered and paid for online and shipped from our distribution centers or picked-up from a different retail store.

Store sales are considered comparable after the store has been open for 13 full months. If a store remodel results in a square footage change of more than 15%, or involves a relocation or a change in store concept, the store sales are removed from the comparable store base until the store has been opened at its new size, in its new location or under its new concept for 13 full months. E-commerce sales are considered comparable after the online site has been operational in a country for 13 full months and exclude any related revenue from shipping fees.

Definitions and calculations of comparable store sales used by the Company may differ from similarly titled measures reported by other companies.

Table of Contents

Other

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. The three and nine months ended October 31, 2015 had the same number of days as the three and nine months ended November 1, 2014.

Executive Summary

Overview

Net earnings attributable to Guess?, Inc. decreased 40.1% to \$12.4 million, or diluted earnings of \$0.15 per common share, for the quarter ended October 31, 2015, compared to net earnings attributable to Guess?, Inc. of \$20.8 million, or diluted earnings of \$0.24 per common share, for the quarter ended November 1, 2014.

Highlights of the Company's performance for the quarter ended October 31, 2015 compared to the same prior-year period are presented below, followed by a more comprehensive discussion under "Results of Operations":

Operations

Total net revenue decreased 11.7% to \$521.0 million for the quarter ended October 31, 2015, from \$589.8 million in the same prior-year period. In constant currency, net revenue decreased by 3.9%.

- Gross margin (gross profit as a percentage of total net revenue) decreased 100 basis points to 35.3% for the quarter ended October 31, 2015, from 36.3% in the same prior-year period.

Selling, general and administrative ("SG&A") expenses as a percentage of total net revenue ("SG&A rate") decreased 80 basis points to 31.3% for the quarter ended October 31, 2015, from 32.1% in the same prior-year period. SG&A expenses decreased 13.9% to \$162.8 million for the quarter ended October 31, 2015, from \$189.1 million in the same prior-year period.

Operating margin decreased 20 basis points to 4.0% for the quarter ended October 31, 2015, from 4.2% in the same prior-year period. Earnings from operations decreased 16.2% to \$20.8 million for the quarter ended October 31, 2015, from \$24.9 million in the same prior-year period.

Other income, net (including interest income and expense), totaled \$0.2 million for the quarter ended October 31, 2015, compared to \$7.2 million in the same prior-year period.

The effective income tax rate increased 500 basis points to 38.0% for the quarter ended October 31, 2015, compared to 33.0% in the same prior-year period.

Key Balance Sheet Accounts

The Company had \$402.4 million in cash and cash equivalents as of October 31, 2015. This compares to cash and cash equivalents of \$374.9 million at November 1, 2014.

The Company invested \$44.0 million to repurchase two million of its common shares during the third quarter of fiscal 2016.

Accounts receivable, which relates primarily to the Company's wholesale business in Europe, and to a lesser extent, to its wholesale businesses in the Americas and Asia and its international licensing business, decreased by \$40.3 million, or 17.0%, to \$195.8 million as of October 31, 2015, from \$236.1 million at November 1, 2014. On a constant currency basis, accounts receivable decreased by \$19.3 million, or 8.2%.

Inventory decreased by \$39.5 million, or 9.6%, to \$373.1 million as of October 31, 2015, from \$412.6 million at November 1, 2014. On a constant currency basis, inventory decreased by \$8.0 million, or 1.9%.

Table of Contents

## Global Store Count

In the third quarter of fiscal 2016, together with our partners, we opened 30 new stores worldwide, consisting of 12 stores in Europe and the Middle East, ten stores in Asia, seven stores in the U.S. and one store in South America. Together with our partners, we closed 28 stores worldwide, consisting of 13 stores in Europe and the Middle East, 13 stores in Asia and two stores in the U.S.

We ended the third quarter of fiscal 2016 with 1,625 stores worldwide, comprised as follows:

Region	Total Stores	Directly Operated Stores	Licensee Stores
United States and Canada	461	460	1
Europe and the Middle East	593	274	319
Asia	475	49	426
Central and South America	96	43	53
Total	1,625	826	799

This store count does not include 452 concessions located primarily in South Korea and Greater China, which have been excluded because of their smaller store size in relation to our standard international store size. Of the total 1,625 stores, 1,237 were GUESS? stores, 236 were GUESS? Accessories stores, 77 were G by GUESS stores and 75 were MARCIANO stores.

## Results of Operations

Three Months Ended October 31, 2015 and November 1, 2014

## Consolidated Results

**Net Revenue.** Net revenue decreased by \$68.9 million, or 11.7%, to \$521.0 million for the quarter ended October 31, 2015, from \$589.8 million for the quarter ended November 1, 2014. In constant currency, net revenue decreased by 3.9% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue by \$45.7 million compared to the same prior-year period. The decrease was driven primarily by lower shipments in our European wholesale business.

**Gross Margin.** Gross margin decreased 100 basis points to 35.3% for the quarter ended October 31, 2015, from 36.3% in the same prior-year period, of which 60 basis points was due to lower overall product margins and 40 basis points was due to a higher occupancy rate. The lower overall product margins was due primarily to the negative impact from currency exchange rate fluctuations. The higher occupancy rate was driven by the negative impact on the fixed cost structure resulting from lower shipments in our European wholesale business and negative comparable store sales in Americas Retail.

**Gross Profit.** Gross profit decreased by \$30.3 million, or 14.2%, to \$183.7 million for the quarter ended October 31, 2015, from \$214.0 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted gross profit by \$16.1 million.

The Company includes inbound freight charges, purchasing costs and related overhead, retail store occupancy costs, including rent and depreciation, and a portion of the Company's distribution costs related to its retail business in cost of product sales. The Company's gross margin may not be comparable to that of other entities since some entities include all of the costs related to their distribution in cost of product sales and others, like the Company, generally exclude wholesale-related distribution costs from gross margin, including them instead in SG&A expenses.

Additionally, some entities include retail store occupancy costs in SG&A expenses and others, like the Company, include retail store occupancy costs in cost of product sales.

**SG&A Rate.** The Company's SG&A rate decreased 80 basis points to 31.3% for the quarter ended October 31, 2015, from 32.1% in the same prior-year period, due primarily to lower asset impairment charges, partially offset by higher estimated performance-based compensation expense.

Table of Contents

**Selling, General and Administrative Expenses.** SG&A expenses decreased by \$26.3 million, or 13.9%, to \$162.8 million for the quarter ended October 31, 2015, from \$189.1 million in the same prior-year period. The decrease was driven by the favorable impact from currency translation fluctuations and lower asset impairment charges. Currency translation fluctuations relating to our foreign operations favorably impacted SG&A expenses by \$13.6 million.

**Operating Margin.** Operating margin decreased 20 basis points to 4.0% for the quarter ended October 31, 2015, from 4.2% in the same prior-year period. Currency exchange rate fluctuations negatively impacted operating margin by approximately 170 basis points.

**Earnings from Operations.** Earnings from operations decreased by \$4.0 million, or 16.2%, to \$20.8 million for the quarter ended October 31, 2015, from \$24.9 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted earnings from operations by \$2.5 million.

**Interest Expense, Net.** Interest expense, net was minimal for the quarter ended October 31, 2015, compared to \$0.2 million for the quarter ended November 1, 2014 and includes the impact of hedge ineffectiveness of foreign currency forward contracts designated as cash flow hedges.

**Other Income, Net.** Other income, net was \$0.2 million for the quarter ended October 31, 2015, compared to \$7.5 million in the same prior-year period. Other income, net in the quarter ended October 31, 2015 consisted primarily of net realized and unrealized gains on non-operating assets, partially offset by net unrealized mark-to-market revaluation losses on foreign currency balances. Other income, net in the quarter ended November 1, 2014 consisted primarily of net unrealized and realized mark-to-market revaluation gains on foreign currency contracts and net unrealized gains on non-operating assets.

**Income Tax Expense.** Income tax expense for the quarter ended October 31, 2015 was \$8.0 million, or a 38.0% effective tax rate, compared to \$10.6 million, or a 33.0% effective tax rate, in the same prior-year period. Generally, income taxes for the interim periods are computed using the effective tax rate estimated to be applicable for the full fiscal year which is subject to ongoing review and evaluation by management. The increase in effective tax rate was due primarily to the distribution of earnings between quarters and a larger mix of taxable income in higher taxable jurisdictions compared to the same prior-year period.

**Net Earnings Attributable to Noncontrolling Interests.** Net earnings attributable to noncontrolling interests for the quarter ended October 31, 2015 was \$0.6 million, net of taxes, compared to \$0.7 million, net of taxes, in the same prior-year period.

**Net Earnings Attributable to Guess?, Inc.** Net earnings attributable to Guess?, Inc. decreased by \$8.4 million, or 40.1%, to \$12.4 million for the quarter ended October 31, 2015, from \$20.8 million in the same prior-year period. Diluted earnings per share decreased to \$0.15 per share for the quarter ended October 31, 2015, compared to \$0.24 per share for the quarter ended November 1, 2014. We estimate that the negative impact from currency fluctuations on diluted earnings per common share for the quarter ended October 31, 2015 was approximately \$0.13 per share.

Table of Contents

## Information by Business Segment

The following table presents our net revenue and earnings (loss) from operations by segment for the three months ended October 31, 2015 and November 1, 2014 (dollars in thousands):

	Three Months Ended		Change	% Change	
	Oct 31, 2015	Nov 1, 2014			
Net revenue:					
Americas Retail(1)	\$226,599	\$243,238	\$(16,639 )	(6.8	%)
Europe	160,696	189,852	(29,156 )	(15.4	)
Asia	59,100	71,271	(12,171 )	(17.1	)
Americas Wholesale(1)	46,819	53,501	(6,682 )	(12.5	)
Licensing	27,750	31,972	(4,222 )	(13.2	)
Total net revenue	\$520,964	\$589,834	\$(68,870 )	(11.7	%)
Earnings (loss) from operations:					
Americas Retail(1)	\$(2,053 )	\$(10,517 )	\$8,464	80.5	%
Europe	6,150	7,660	(1,510 )	(19.7	)
Asia	2,794	2,126	668	31.4	
Americas Wholesale(1)	9,583	13,940	(4,357 )	(31.3	)
Licensing	24,842	28,157	(3,315 )	(11.8	)
Corporate Overhead	(20,478 )	(16,501 )	(3,977 )	24.1	
Total earnings from operations	\$20,838	\$24,865	\$(4,027 )	(16.2	%)
Operating margins:					
Americas Retail(1)	(0.9	%) (4.3	%)		
Europe	3.8	% 4.0	%		
Asia	4.7	% 3.0	%		
Americas Wholesale(1)	20.5	% 26.1	%		
Licensing	89.5	% 88.1	%		
Total Company	4.0	% 4.2	%		

In the second quarter of fiscal 2016, the Company changed the names of its “North American Retail” and “North American Wholesale” segments to “Americas Retail” and “Americas Wholesale” to better reflect that these segments are (1) inclusive of its operations in North America as well as Central and South America. There have been no changes to the underlying reporting in either segment.

## Americas Retail

Net revenue from our Americas Retail segment decreased by \$16.6 million, or 6.8%, to \$226.6 million for the quarter ended October 31, 2015, from \$243.2 million in the same prior-year period. In constant currency, net revenue decreased by 2.9%, driven primarily by the unfavorable impact from store closures and negative comparable store sales. Comparable store sales (including e-commerce) in the U.S. and Canada decreased 5.7% in U.S. dollars and 2.1% in constant currency, which excludes the unfavorable translation impact from currency fluctuations relating to our Canadian retail stores and e-commerce sites. E-commerce sales increased by \$3.1 million, or 18.3%, to \$20.1 million for the quarter ended October 31, 2015, from \$17.0 million in the same prior-year period. The inclusion of our e-commerce sales improved the comparable store sale percentage by 2.0% in U.S. dollars and 2.1% in constant currency. The store base for the U.S. and Canada decreased by an average of 31 net stores during the quarter ended October 31, 2015 compared to the same prior-year period, resulting in a 5.1% net decrease in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores and e-commerce sites unfavorably impacted net revenue by \$9.6 million.

Operating margin increased 340 basis points to negative 0.9% for the quarter ended October 31, 2015, compared to negative 4.3% in the same prior-year period, driven by a lower SG&A rate due primarily to lower asset impairment charges during the quarter ended October 31, 2015 compared to the same prior-year period.



Loss from operations from our Americas Retail segment decreased by \$8.5 million, or 80.5%, to \$2.1 million for the quarter ended October 31, 2015, from \$10.5 million in the same prior-year period. The improvement

Table of Contents

reflects the impact on earnings from lower asset impairment charges during the quarter ended October 31, 2015 compared to the same prior-year period.

As of October 31, 2015, we directly operated 460 stores in the U.S. and Canada, comprised of 159 full-priced GUESS? retail stores, 150 GUESS? factory outlet stores, 63 G by GUESS stores, 45 GUESS? Accessories stores and 43 MARCIANO stores. This compares to 492 directly operated stores at November 1, 2014.

#### Europe

Net revenue from our Europe segment decreased by \$29.2 million, or 15.4%, to \$160.7 million for the quarter ended October 31, 2015, from \$189.9 million in the same prior-year period. In constant currency, net revenue decreased by 1.7%, driven primarily by lower shipments in our European wholesale business, partially offset by a percentage increase in the low double digits for comparable store sales in our directly operated retail stores versus the same prior-year period. As of October 31, 2015, we directly operated 274 stores in Europe compared to 265 stores at November 1, 2014, excluding concessions, which represents a 3.4% increase over the prior-year third quarter end. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue by \$25.9 million.

Operating margin decreased 20 basis points to 3.8% for the quarter ended October 31, 2015, from 4.0% in the same prior-year period, due to lower gross margins, partially offset by a lower SG&A rate. Gross margins were negatively impacted by currency exchange rate fluctuations, partially offset by higher initial mark-ups. The lower SG&A rate was due primarily to the favorable impact on the fixed cost structure resulting from positive comparable store sales and lower asset impairment charges, partially offset by the unfavorable impact from lower wholesale shipments. Earnings from operations from our Europe segment decreased by \$1.5 million, or 19.7%, to \$6.2 million for the quarter ended October 31, 2015, from \$7.7 million in the same prior-year period. Currency translation fluctuations relating to our European operations unfavorably impacted earnings from operations by \$1.2 million.

#### Asia

Net revenue from our Asia segment decreased by \$12.2 million, or 17.1%, to \$59.1 million for the quarter ended October 31, 2015, from \$71.3 million in the same prior-year period. In constant currency, net revenue decreased by 9.5%, driven primarily by South Korea as we phase out of our G by GUESS concept in the region. As of October 31, 2015, we and our partners operated 475 stores and 428 concessions in Asia, compared to 491 stores and 500 concessions at November 1, 2014. Currency translation fluctuations relating to our Asian operations unfavorably impacted net revenue by \$5.4 million.

Operating margin increased 170 basis points to 4.7% for the quarter ended October 31, 2015, compared to 3.0% in the same prior-year period. The increase in operating margin was due to higher gross margins and a lower SG&A rate driven by overall leveraging of expenses as we phase out of our G by GUESS concept in South Korea.

Earnings from operations from our Asia segment increased by \$0.7 million, or 31.4%, to \$2.8 million for the quarter ended October 31, 2015, compared to \$2.1 million in the same prior-year period. The increase was driven by lower store occupancy costs and lower SG&A expenses as we phase out of our G by GUESS concept in South Korea.

#### Americas Wholesale

Net revenue from our Americas Wholesale segment decreased by \$6.7 million, or 12.5%, to \$46.8 million for the quarter ended October 31, 2015, from \$53.5 million in the same prior-year period. In constant currency, net revenue decreased by 3.4% compared to the same prior-year period, driven primarily by lower shipments in our U.S. wholesale business. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted net revenue by \$4.9 million.

Operating margin decreased 560 basis points to 20.5% for the quarter ended October 31, 2015, from 26.1% in the same prior-year period. The decrease in operating margin was due to lower gross margins driven primarily by lower initial mark-ups and the unfavorable impact from currency exchange rate fluctuations on product costs.

Table of Contents

Earnings from operations from our Americas Wholesale segment decreased by \$4.4 million, or 31.3%, to \$9.6 million for the quarter ended October 31, 2015, from \$13.9 million in the same prior-year period. The decrease was driven by the negative impact on earnings from lower gross margins. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted earnings from operations by \$1.1 million.

Licensing

Net royalty revenue from our Licensing segment decreased by \$4.2 million, or 13.2%, to \$27.8 million for the quarter ended October 31, 2015, from \$32.0 million in the same prior-year period. The decrease was driven primarily by lower sales in our watch and outerwear categories.

Earnings from operations from our Licensing segment decreased by \$3.3 million, or 11.8%, to \$24.8 million for the quarter ended October 31, 2015, from \$28.2 million in the same prior-year period. The decrease was driven primarily by the unfavorable impact to earnings from lower revenue, partially offset by lower advertising expenses.

Corporate Overhead

Unallocated corporate overhead increased by \$4.0 million to \$20.5 million for the quarter ended October 31, 2015, compared to \$16.5 million in the same prior-year period. The increase was driven primarily by higher estimated performance-based compensation expense.

Nine months ended October 31, 2015 and November 1, 2014

Consolidated Results

Net Revenue. Net revenue decreased by \$174.9 million, or 10.2%, to \$1.55 billion for the nine months ended October 31, 2015, from \$1.72 billion for the nine months ended November 1, 2014. In constant currency, net revenue decreased by 1.6% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue by \$147.9 million compared to the same prior-year period.

Gross Margin. Gross margin was relatively flat at 35.4% for the nine months ended October 31, 2015, compared to 35.3% in the same prior-year period. The favorable impact from higher initial mark-ups in Europe and Americas Retail was mostly offset by the negative impact from currency exchange rate fluctuations on product costs and the negative impact on the Company's fixed cost structure resulting from negative comparable store sales in Americas Retail.

Gross Profit. Gross profit decreased by \$59.7 million, or 9.8%, to \$547.3 million for the nine months ended October 31, 2015, from \$607.0 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted gross profit by \$52.7 million.

SG&A Rate. The Company's SG&A rate was relatively flat at 32.1% for the nine months ended October 31, 2015, compared to 32.2% in the same prior-year period. The favorable impact from lower asset impairment charges was mostly offset by charges related to legal matters of \$7.0 million during the nine months ended October 31, 2015.

Selling, General and Administrative Expenses. SG&A expenses decreased by \$58.3 million, or 10.5%, to \$495.9 million for the nine months ended October 31, 2015, from \$554.2 million in the same prior-year period. The decrease was driven by the favorable impact from currency translation fluctuations and lower asset impairment charges, partially offset by charges related to legal matters of \$7.0 million during the nine months ended October 31, 2015. Currency translation fluctuations relating to our foreign operations favorably impacted SG&A expenses by \$46.9 million.

Operating Margin. Operating margin increased 20 basis points to 3.3% for the nine months ended October 31, 2015, compared to 3.1% in the same prior-year period. Currency exchange rate fluctuations negatively impacted operating margin by approximately 130 basis points.

Table of Contents

**Earnings from Operations.** Earnings from operations decreased by \$1.4 million, or 2.6%, to \$51.4 million for the nine months ended October 31, 2015, from \$52.7 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted earnings from operations by \$5.7 million.

**Interest Expense, Net.** Interest expense, net was \$0.7 million for the nine months ended October 31, 2015, compared to \$0.8 million for the nine months ended November 1, 2014 and includes the impact of hedge ineffectiveness of foreign currency forward contracts designated as cash flow hedges.

**Other Income, Net.** Other income, net was \$6.6 million for the nine months ended October 31, 2015, compared to \$11.1 million in the same prior-year period. Other income, net in the nine months ended October 31, 2015 consisted primarily of net realized and unrealized gains on non-operating assets and net unrealized and realized mark-to-market revaluation gains on foreign currency contracts. Other income, net in the nine months ended November 1, 2014 consisted primarily of net unrealized and realized mark-to-market revaluation gains on foreign currency contracts and net unrealized gains on non-operating assets.

**Income Tax Expense.** Income tax expense for the nine months ended October 31, 2015 was \$21.8 million, or a 38.0% effective tax rate, compared to \$21.5 million, or a 34.0% effective tax rate, in the same prior-year period. Generally, income taxes for the interim periods are computed using the effective tax rate estimated to be applicable for the full fiscal year which is subject to ongoing review and evaluation by management. The increase in effective tax rate was due primarily to the distribution of earnings between quarters, a larger mix of taxable income in higher taxable jurisdictions and higher non-deductible compensation costs during the nine months ended October 31, 2015 compared to the same prior-year period.

**Net Earnings Attributable to Noncontrolling Interests.** Net earnings attributable to noncontrolling interests for the nine months ended October 31, 2015 was \$1.5 million, net of taxes, compared to \$1.0 million, net of taxes, in the same prior-year period.

**Net Earnings Attributable to Guess?, Inc.** Net earnings attributable to Guess?, Inc. decreased by \$6.5 million, or 16.2%, to \$34.1 million for the nine months ended October 31, 2015, from \$40.6 million in the same prior-year period. Diluted earnings per share decreased to \$0.40 per share for the nine months ended October 31, 2015, compared to \$0.47 per share for the nine months ended November 1, 2014. We estimate that the negative impact from currency fluctuations on diluted earnings per common share for the nine months ended October 31, 2015 was approximately \$0.24 per share.

Table of Contents

## Information by Business Segment

The following table presents our net revenue and earnings (loss) from operations by segment for the nine months ended October 31, 2015 and November 1, 2014 (dollars in thousands):

	Nine Months Ended		Change	% Change	
	Oct 31, 2015	Nov 1, 2014			
Net revenue:					
Americas Retail(1)	\$673,304	\$715,582	\$(42,278 )	(5.9	%)
Europe	497,468	584,270	(86,802 )	(14.9	)
Asia	179,880	205,656	(25,776 )	(12.5	)
Americas Wholesale(1)	116,458	131,061	(14,603 )	(11.1	)
Licensing	78,942	84,377	(5,435 )	(6.4	)
Total net revenue	\$1,546,052	\$1,720,946	\$(174,894 )	(10.2	%)
Earnings (loss) from operations:					
Americas Retail(1)	\$(4,018 )	\$(23,578 )	\$19,560	83.0	%
Europe	20,668	25,541	(4,873 )	(19.1	)
Asia	8,294	7,743	551	7.1	
Americas Wholesale(1)	21,202	26,860	(5,658 )	(21.1	)
Licensing	70,282	75,787	(5,505 )	(7.3	)
Corporate Overhead	(65,036 )	(59,607 )	(5,429 )	9.1	
Total earnings from operations	\$51,392	\$52,746	\$(1,354 )	(2.6	%)
Operating margins:					
Americas Retail(1)	(0.6	%)	(3.3	%)	
Europe	4.2	%	4.4	%	
Asia	4.6	%	3.8	%	
Americas Wholesale(1)	18.2	%	20.5	%	
Licensing	89.0	%	89.8	%	
Total Company	3.3	%	3.1	%	

In the second quarter of fiscal 2016, the Company changed the names of its “North American Retail” and “North American Wholesale” segments to “Americas Retail” and “Americas Wholesale” to better reflect that these segments are (1) inclusive of its operations in North America as well as Central and South America. There have been no changes to the underlying reporting in either segment.

## Americas Retail

Net revenue from our Americas Retail segment decreased by \$42.3 million, or 5.9%, to \$673.3 million for the nine months ended October 31, 2015, from \$715.6 million in the same prior-year period. In constant currency, net revenue decreased by 2.7%, driven primarily by negative comparable store sales and store closures. Comparable store sales (including e-commerce) in the U.S. and Canada decreased 4.8% in U.S. dollars and 1.9% in constant currency, which excludes the unfavorable translation impact from currency fluctuations relating to our Canadian retail stores and e-commerce sites. E-commerce sales increased by \$8.4 million, or 17.4%, to \$56.6 million for the nine months ended October 31, 2015, from \$48.2 million in the same prior-year period. The inclusion of our e-commerce sales improved the comparable store sale percentage by 1.7% in U.S. dollars and 1.8% in constant currency. The store base for the U.S. and Canada decreased by an average of 25 net stores during the nine months ended October 31, 2015 compared to the same prior-year period, resulting in a 3.9% net decrease in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores and e-commerce sites unfavorably impacted net revenue by \$22.7 million.

Operating margin increased 270 basis points to negative 0.6% for the nine months ended October 31, 2015, compared to negative 3.3% in the same prior-year period, due to a lower SG&A rate and higher gross margins. The lower SG&A rate was due primarily to lower asset impairment charges during the nine months ended October 31, 2015 compared to the same prior-year period. The higher gross margins were driven primarily by higher initial mark-ups, partially offset

by the negative impact on the fixed cost structure resulting from negative comparable store sales and the unfavorable impact from currency exchange rate fluctuations in Canada.

39

---

Table of Contents

Loss from operations from our Americas Retail segment decreased by \$19.6 million, or 83.0%, to \$4.0 million for the nine months ended October 31, 2015, from \$23.6 million in the same prior-year period. The improvement reflects the impact on earnings from lower asset impairment charges, lower store occupancy costs and higher product margins, partially offset by the negative impact on earnings from negative comparable store sales.

## Europe

Net revenue from our Europe segment decreased by \$86.8 million, or 14.9%, to \$497.5 million for the nine months ended October 31, 2015, from \$584.3 million in the same prior-year period. In constant currency, net revenue increased by 3.0%, driven primarily by the favorable impact on revenue from productivity improvements in our directly operated retail stores versus the same prior-year period, partially offset by lower shipments in our European wholesale business. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue by \$104.3 million.

Operating margin decreased 20 basis points to 4.2% for the nine months ended October 31, 2015, from 4.4% in the same prior-year period, due to lower gross margins, partially offset by a lower SG&A rate. The lower gross margins were driven primarily by the unfavorable impact from currency exchange rate fluctuations on product costs, partially offset by higher initial mark-ups. The lower SG&A rate was due primarily to the favorable impact on the fixed cost structure resulting from positive comparable store sales and lower asset impairment charges, partially offset by the unfavorable impact from lower wholesale shipments.

Earnings from operations from our Europe segment decreased by \$4.9 million, or 19.1%, to \$20.7 million for the nine months ended October 31, 2015, from \$25.5 million in the same prior-year period. Currency translation fluctuations relating to our European operations unfavorably impacted earnings from operations by \$4.2 million.

## Asia

Net revenue from our Asia segment decreased by \$25.8 million, or 12.5%, to \$179.9 million for the nine months ended October 31, 2015, from \$205.7 million in the same prior-year period. In constant currency, net revenue decreased by 7.2%, driven primarily by negative comparable store sales in South Korea versus the same prior-year period and lower revenue as we phase out of our G by GUESS concept in the region. Currency translation fluctuations relating to our Asian operations unfavorably impacted net revenue by \$11.0 million.

Operating margin increased 80 basis points to 4.6% for the nine months ended October 31, 2015, compared to 3.8% in the same prior-year period. The increase was driven primarily by a lower SG&A rate due primarily to overall leveraging of expenses as we phase out of our G by GUESS concept in South Korea.

Earnings from operations from our Asia segment increased by \$0.6 million, or 7.1%, to \$8.3 million for the nine months ended October 31, 2015, compared to \$7.7 million in the same prior-year period. The increase was driven by lower store occupancy costs and lower SG&A expenses as we phase out of our G by GUESS concept in South Korea.

## Americas Wholesale

Net revenue from our Americas Wholesale segment decreased by \$14.6 million, or 11.1%, to \$116.5 million for the nine months ended October 31, 2015, from \$131.1 million in the same prior-year period. In constant currency, net revenue decreased by 3.6% compared to the same prior-year period, driven primarily by lower shipments in our U.S. wholesale business. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted net revenue by \$9.9 million.

Operating margin decreased 230 basis points to 18.2% for the nine months ended October 31, 2015, from 20.5% for the same prior-year period, driven by lower gross margins due primarily to lower initial mark-ups.

Earnings from operations from our Americas Wholesale segment decreased by \$5.7 million, or 21.1%, to \$21.2 million for the nine months ended October 31, 2015, from \$26.9 million in the same prior-year period. The decrease was driven by the negative impact on earnings from lower gross margins. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted earnings from operations by \$2.1 million.

Table of Contents

Licensing

Net royalty revenue from our Licensing segment decreased by \$5.4 million, or 6.4%, to \$78.9 million for the nine months ended October 31, 2015, from \$84.4 million in the same prior-year period. The decrease was driven primarily by lower sales in our watch category.

Earnings from operations from our Licensing segment decreased by \$5.5 million, or 7.3%, to \$70.3 million for the nine months ended October 31, 2015, from \$75.8 million in the same prior-year period. The decrease was driven primarily by the unfavorable impact to earnings from lower revenue.

Corporate Overhead

Unallocated corporate overhead increased by \$5.4 million to \$65.0 million for the nine months ended October 31, 2015, from \$59.6 million in the same prior-year period. The increase was driven primarily by charges related to legal matters of \$7.0 million during the nine months ended October 31, 2015.

Non-GAAP Measures

The Company's reported financial results are presented in accordance with GAAP. Our discussion and analysis herein also includes certain "non-GAAP" constant currency financial information. The Company believes that these "non-GAAP" financial measures are useful as an additional means for investors to evaluate the comparability of the Company's operating results when reviewed in conjunction with the Company's GAAP financial statements. The non-GAAP measures are provided in addition to, and not as alternatives for, the Company's reported GAAP results. Foreign currency exchange rate fluctuations affect the amount reported from translating the Company's foreign revenue, expenses and balance sheet amounts into U.S. dollars. These rate fluctuations can have a significant effect on reported operating results under GAAP. The Company provides constant currency information to enhance the visibility of underlying business trends, excluding the effects of changes in foreign currency translation rates. To calculate net revenue, comparable store sales and earnings (loss) from operations on a constant currency basis, operating results for the current-year period are translated into U.S. dollars at the average exchange rates in effect during the comparable period of the prior year. To calculate balance sheet amounts on a constant currency basis, the current period balance sheet amount is translated into U.S. dollars at the exchange rate in effect at the comparable prior-year period end. The constant currency calculations do not adjust for the impact of revaluing specific transactions denominated in a currency that is different to the functional currency of that entity when exchange rates fluctuate. The constant currency information presented may not be comparable to similarly titled measures reported by other companies.

Liquidity and Capital Resources

We need liquidity primarily to fund our working capital, the remodeling and expansion of our retail stores, shop-in-shop programs, concessions, systems, infrastructure, other existing operations, international growth, potential acquisitions, potential share repurchases and payment of dividends to our stockholders. During the nine months ended October 31, 2015, the Company relied primarily on trade credit, available cash, real estate and other operating leases, short-term lines of credit and internally generated funds to finance our operations, dividends, share repurchases and expansion. The Company anticipates that we will be able to satisfy our ongoing cash requirements during the next twelve months for working capital, capital expenditures, interest and principal payments on our debt, potential acquisitions, potential share repurchases and any dividend payments to stockholders, primarily with cash flow from operations and existing cash balances supplemented by borrowings, as necessary, under our existing Credit Facility and bank facilities in Europe, as described below under "—Credit Facilities."

As of October 31, 2015, the Company had cash and cash equivalents of \$402.4 million. Approximately 78% of the Company's cash and cash equivalents were held outside of the U.S. As of October 31, 2015, we have not provided for U.S. federal and state income taxes on the undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the U.S. If in the future we decide to repatriate such earnings, we would incur incremental U.S. federal and state income taxes, reduced by allowable foreign tax



Table of Contents

credits. However, our intent is to keep these funds indefinitely reinvested outside of the U.S. and our current plans do not indicate a need to repatriate them to fund our U.S. operations. Due to the complexities associated with the hypothetical calculation, including the availability of foreign tax credits, it is not practicable to determine the unrecognized deferred tax liability related to the undistributed earnings.

Excess cash and cash equivalents, which represent the majority of our outstanding cash and cash equivalents balance, are held primarily in overnight deposit and short-term time deposit accounts and a diversified money market fund. The money market fund is AAA rated by national credit rating agencies and is generally comprised of high-quality, liquid investments. Please see “—Important Factors Regarding Forward-Looking Statements” and “Part I, Item 1A. Risk Factors” contained in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended January 31, 2015 for a discussion of risk factors which could reasonably be likely to result in a decrease of internally generated funds available to finance capital expenditures and working capital requirements.

The Company has presented below the cash flow performance comparison of the nine months ended October 31, 2015, versus the nine months ended November 1, 2014.

**Operating Activities**

Net cash provided by operating activities was \$64.7 million for the nine months ended October 31, 2015, compared to net cash used in operating activities of \$4.9 million for the nine months ended November 1, 2014, or an increase of \$69.6 million. The increase was driven primarily by the favorable impact of changes in working capital, partially offset by lower non-cash adjustments for the nine months ended October 31, 2015 versus the same prior-year period. The change in working capital was driven primarily by the favorable impact from timing of payments during the nine months ended October 31, 2015 compared to the same prior-year period.

**Investing Activities**

Net cash used in investing activities was \$30.5 million for the nine months ended October 31, 2015, compared to \$48.1 million for the nine months ended November 1, 2014. Cash used in investing activities related primarily to capital expenditures incurred on existing store remodeling programs and new store openings. In addition, the cost of any business acquisitions, the settlement of forward currency contracts and proceeds from the maturity and sale of investments are also included in cash flows used in investing activities.

The decrease in cash used in investing activities was driven primarily by lower level of spending on existing store remodeling programs and higher cash receipts from the settlement of forward currency contracts during the nine months ended October 31, 2015 compared to the same prior-year period. During the nine months ended October 31, 2015, the Company opened 31 directly operated stores compared to 34 directly operated stores that were opened in the comparable prior-year period. During the nine months ended October 31, 2015, the Company also acquired eight stores from certain of its European licensees compared to five stores from certain of its European licensees in the comparable prior-year period.

**Financing Activities**

Net cash used in financing activities was \$108.0 million for the nine months ended October 31, 2015, compared to \$59.5 million for the nine months ended November 1, 2014. Cash used in financing activities related primarily to the payment of dividends and repurchases of shares of the Company’s common stock during the nine months ended October 31, 2015. In addition, capital distributions to noncontrolling interests, payments related to capital lease obligations and other borrowings, debt issuance costs, issuance of common stock under our equity plans, and proceeds from borrowings and excess tax benefits from share-based compensation are also included in cash flows used in financing activities.

The increase in cash used in financing activities was driven primarily by the repurchase of two million shares of the Company’s common stock at an aggregate cost of \$44.0 million during the nine months ended October 31, 2015.

Table of Contents

Effect of Exchange Rates on Cash and Cash Equivalents

During the nine months ended October 31, 2015, changes in foreign currency translation rates decreased our reported cash and cash equivalents balance by \$7.3 million. This compares to a decrease of \$15.6 million in cash and cash equivalents driven by changes in foreign currency translation rates during the nine months ended November 1, 2014.

Working Capital

As of October 31, 2015, the Company had net working capital (including cash and cash equivalents) of \$723.1 million compared to \$809.4 million at January 31, 2015 and \$821.8 million at November 1, 2014. The Company's primary working capital needs are for accounts receivable and inventory. Accounts receivable decreased by \$40.2 million, or 17.0%, to \$195.8 million as of October 31, 2015, compared to \$236.1 million at November 1, 2014. The accounts receivable balance relates primarily to the Company's wholesale business in Europe, and to a lesser extent, to its wholesale businesses in the Americas and Asia and its international licensing business. On a constant currency basis, accounts receivable decreased by \$19.3 million, or 8.2%, when compared to November 1, 2014. The decrease was driven primarily by lower European wholesale shipments during the nine months ended October 31, 2015 compared to the same prior-year period. As of October 31, 2015, approximately 49% of our total net trade receivables and 64% of our European net trade receivables were subject to credit insurance coverage, certain bank guarantees or letters of credit for collection purposes. Our credit insurance coverage contains certain terms and conditions specifying deductibles and annual claim limits. Inventory decreased by \$39.5 million, or 9.6%, to \$373.1 million as of October 31, 2015, compared to \$412.6 million at November 1, 2014. On a constant currency basis, inventory decreased by \$8.0 million, or 1.9%, when compared to November 1, 2014.

Dividends

During the first quarter of fiscal 2008, the Company announced the initiation of a quarterly cash dividend of \$0.06 per share of the Company's common stock. Since that time, the Company has continued to pay a quarterly cash dividend, which has subsequently increased to \$0.225 per common share.

On November 24, 2015, the Company announced a regular quarterly cash dividend of \$0.225 per share on the Company's common stock. The cash dividend will be paid on December 24, 2015 to shareholders of record as of the close of business on December 9, 2015.

The payment of cash dividends in the future will be at the discretion of our Board of Directors and will be based upon a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service and covenant requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and liquidity.

Capital Expenditures

Gross capital expenditures totaled \$40.3 million, before deducting lease incentives of \$5.7 million, for the nine months ended October 31, 2015. This compares to gross capital expenditures of \$53.2 million, before deducting lease incentives of \$5.3 million, for the nine months ended November 1, 2014. The Company's investments in capital for the full fiscal year 2016 are planned between \$55 million and \$65 million (after deducting estimated lease incentives of approximately \$6 million). The planned investments in capital are primarily for store remodeling programs, targeted new store openings and investments in maintaining and improving our infrastructure (primarily information and operating systems). In addition, subsequent to the quarter ended October 31, 2015, the Company entered into an agreement to purchase, for approximately \$29 million, the facility that the Company currently leases to house its U.S. distribution center. The purchase is expected to be completed during the fourth quarter of fiscal 2016. The Company is evaluating whether it will finance this purchase with cash, borrowings (through current credit facilities or new arrangements) or a combination thereof.

We will periodically evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives.

Table of Contents**Credit Facilities and Capital Lease Obligations**

On June 23, 2015, the Company entered into a five-year senior secured asset-based revolving credit facility with Bank of America, N.A. and the other lenders party thereto (the "Credit Facility"). The Credit Facility provides for a borrowing capacity in an amount up to \$150 million, including a Canadian sub-facility up to \$50 million, subject to a borrowing base. Based on applicable accounts receivable, inventory and eligible cash balances as of October 31, 2015, the Company could have borrowed up to \$150 million under the Credit Facility. The Credit Facility has an option to expand the borrowing capacity by up to \$150 million subject to certain terms and conditions, including the willingness of existing or new lenders to assume such increased amount. The Credit Facility is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits, and may be used for working capital and other general corporate purposes. The Credit Facility replaced the Company's previous \$300 million credit facility, which was scheduled to mature in July 2016. No principal or interest was outstanding or accrued and unpaid under the prior credit facility on its termination date.

All obligations under the Credit Facility are unconditionally guaranteed by the Company and the Company's existing and future domestic and Canadian subsidiaries, subject to certain exceptions, and are secured by a first priority lien on substantially all of the assets of the Company and such domestic and Canadian subsidiaries, as applicable.

Direct borrowings under the Credit Facility made by the Company and its domestic subsidiaries shall bear interest at the U.S. base rate plus an applicable margin (varying from 0.25% to 0.75%) or at LIBOR plus an applicable margin (varying from 1.25% to 1.75%). The U.S. base rate is based on the greater of (i) the U.S. prime rate, (ii) the federal funds rate, plus 0.5%, and (iii) LIBOR for a 30 day interest period, plus 1.0%. Direct borrowings under the Credit Facility made by the Company's Canadian subsidiaries shall bear interest at the Canadian prime rate plus an applicable margin (varying from 0.25% to 0.75%) or at the Canadian BA rate plus an applicable margin (varying from 1.25% to 1.75%). The Canadian prime rate is based on the greater of (i) the Canadian prime rate, (ii) the Bank of Canada overnight rate, plus 0.5%, and (iii) the Canadian BA rate for a one month interest period, plus 1.0%. The applicable margins are calculated quarterly and vary based on the average daily availability of the aggregate borrowing base. The Company is also obligated to pay certain commitment, letter of credit and other fees customary for a credit facility of this size and type. As of October 31, 2015, the Company had \$1.7 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Credit Facility requires the Company to comply with a fixed charge coverage ratio on a trailing four-quarter basis if a default or an event of default occurs under the Credit Facility or if the borrowing capacity falls below certain levels. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company and certain of its subsidiaries' ability to: incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the Credit Facility, the lenders may cease making loans, terminate the Credit Facility and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Credit Facility allows for both secured and unsecured borrowings outside of the Credit Facility up to specified amounts.

The Company, through its European subsidiaries, maintains short-term uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. The majority of the borrowings under these agreements are secured by specific accounts receivable balances. Based on the applicable accounts receivable balances as of October 31, 2015, the Company could have borrowed up to \$68.0 million under these agreements. As of October 31, 2015, the Company had no outstanding borrowings and \$1.9 million in outstanding documentary letters of credit under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 0.9% to 6.7%. The maturities of any short-term borrowings under these arrangements are generally linked to the credit terms of the underlying accounts receivable that secure the

Table of Contents

borrowings. With the exception of one facility for up to \$38.5 million that has a minimum net equity requirement, there are no other financial ratio covenants.

The Company leases a building in Florence, Italy under a capital lease which provides for minimum lease payments through May 1, 2016. As of October 31, 2015, the capital lease obligation was \$4.5 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument that resulted in a swap fixed rate of 3.55%. This interest rate swap agreement matures on February 1, 2016 and converts the nature of the capital lease obligation from Euribor floating-rate debt to fixed-rate debt. The fair value of the interest rate swap liability as of October 31, 2015 was approximately \$0.1 million.

From time-to-time, the Company will obtain other financing in foreign countries for working capital to finance its local operations.

**Share Repurchases**

On June 26, 2012, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock. Repurchases under the program 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, which may be discontinued at any time, without prior notice. During the three and nine months ended October 31, 2015, the Company repurchased 2,000,000 shares under the program at an aggregate cost of \$44.0 million. There were no share repurchases during the three and nine months ended November 1, 2014. As of October 31, 2015, the Company had remaining authority under the program to purchase \$451.8 million of its common stock.

**Supplemental Executive Retirement Plan**

On August 23, 2005, the Board of Directors of the Company adopted a Supplemental Executive Retirement Plan ("SERP") which became effective January 1, 2006. The SERP provides select employees who satisfy certain eligibility requirements with certain benefits upon retirement, termination of employment, death, disability or a change in control of the Company, in certain prescribed circumstances.

In July 2015, the SERP was amended in connection with Paul Marciano's planned transition from Chief Executive Officer to Executive Chairman of the Board and Chief Creative Officer. The amendment effectively eliminated any future salary progression by finalizing compensation levels for future benefits. Mr. Marciano will continue to be eligible to receive SERP benefits in the future in accordance with the amended terms of the SERP. Subsequent to the amendment, there are no employees considered actively participating under the terms of the SERP.

As a result, the Company included an actuarial gain of \$11.4 million before taxes in accumulated other comprehensive income (loss) during the nine months ended October 31, 2015. In addition, the Company also recognized a curtailment gain of \$1.7 million before taxes related to the accelerated amortization of the remaining prior service credit during the nine months ended October 31, 2015. The actuarial and curtailment gains were recorded during the three months ended August 1, 2015.

As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has made periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The amount of any future payments into the insurance policies, if any, may vary depending on investment performance of the trust. The cash surrender values of the insurance policies were \$55.1 million and \$53.6 million as of October 31, 2015 and January 31, 2015, respectively, and were included in other assets in the Company's condensed consolidated balance sheets. As a result of changes in the value of the insurance policy investments, the Company recorded unrealized gains (losses) of \$(0.8) million and \$0.8 million in other income and expense during the three and nine months ended October 31, 2015, respectively, and unrealized gains of \$0.8 million and \$3.0 million in other income during the three and nine months ended November 1, 2014, respectively. During the nine months ended October 31, 2015, the Company also recorded realized gains of \$0.7 million in other income resulting from payout on the insurance policies. The realized gains were recorded during the three months ended May 2, 2015. The projected benefit obligation was \$50.7 million and \$61.9 million as of



Table of Contents

October 31, 2015 and January 31, 2015, respectively, and was included in accrued expenses and other long-term liabilities in the Company's condensed consolidated balance sheets depending on the expected timing of payments. SERP benefit payments of \$0.4 million and \$1.3 million were made during the three and nine months ended October 31, 2015, respectively. SERP benefit payments of \$0.6 million and \$0.8 million were made during the three and nine months ended November 1, 2014.

**Inflation**

The Company does not believe that inflation trends in the U.S. and internationally over the last three years have had a significant effect on net revenue or profitability.

**Seasonality**

The Company's business is impacted by the general seasonal trends characteristic of the apparel and retail industries. The retail operations in the Americas and Europe are generally stronger during the second half of the fiscal year, and the wholesale operations in the Americas generally experience stronger performance from July through November. The European wholesale businesses operate with two primary selling seasons: the Spring/Summer season, which ships from November to April and the Fall/Winter season, which ships from May to October. The Company's goal in the European wholesale business is to take advantage of early-season demand and potential reorders by offering a pre-collection assortment which ships at the beginning of each season. Customers retain the ability to request early shipment of backlog orders or delay shipment of orders depending on their needs.

**Wholesale Backlog**

We generally receive orders for fashion apparel three to six months prior to the time the products are delivered to our customers' stores. The backlog of wholesale orders at any given time is affected by various factors, including seasonality, cancellations, the scheduling of market weeks, the timing of the receipt of orders and the timing of the shipment of orders and may include orders for multiple seasons. Accordingly, a comparison of backlogs of wholesale orders from period-to-period is not necessarily meaningful and may not be indicative of eventual actual shipments. U.S. and Canada Backlog. Our U.S. and Canadian wholesale backlog as of November 30, 2015, consisting primarily of orders for fashion apparel, was \$45.3 million in constant currency, compared to \$53.5 million at December 1, 2014, a decrease of 15.4%.

Europe Backlog. As of November 29, 2015, the European wholesale backlog was €205.0 million, compared to €224.1 million at November 30, 2014, a decrease of 8.6%. The backlog as of November 29, 2015 is comprised of sales orders for the Fall/Winter 2015, Spring/Summer 2016 and Fall/Winter 2016 seasons.

**Application of Critical Accounting Policies**

Our critical accounting policies reflecting our estimates and judgments are described in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended January 31, 2015 filed with the SEC on March 27, 2015. There have been no significant changes to our critical accounting policies during the nine months ended October 31, 2015.

**Recently Issued Accounting Guidance**

In May 2014, the Financial Accounting Standards Board ("FASB") issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2017, which will be the

Table of Contents

Company's first quarter of fiscal 2019, and allows for either full retrospective or modified retrospective adoption. Early adoption is permitted for fiscal periods beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements, including the choice of application method upon adoption.

In August 2014, the FASB issued authoritative guidance that requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and requires additional disclosures if certain criteria are met. This guidance is effective for fiscal periods ending after December 15, 2016, which will be the Company's fourth quarter of fiscal 2017, with early adoption permitted. The adoption of this guidance is not expected to impact the Company's consolidated financial statements or related disclosures.

In February 2015, the FASB issued authoritative guidance which modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This guidance is effective for fiscal periods beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and allows for either full retrospective or modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements, including the choice of application method upon adoption.

In April 2015, the FASB issued authoritative guidance to simplify the presentation of debt issuance costs by requiring such costs to be presented as a deduction from the corresponding debt liability. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and requires retrospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In April 2015, the FASB issued authoritative guidance which would permit an entity to measure its defined benefit plan assets and obligations using the calendar month-end that is closest to the entity's fiscal period-end for interim and annual periods. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and requires prospective adoption, with early adoption permitted. The Company is currently evaluating whether it will adopt this guidance, but if adopted, this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In April 2015, the FASB issued authoritative guidance which provides clarification on accounting for cloud computing arrangements which include a software license. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and allows for either prospective or retrospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In July 2015, the FASB issued authoritative guidance to simplify the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. This guidance is effective for fiscal years beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, and requires prospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In September 2015, the FASB issued authoritative guidance that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. This guidance is effective for fiscal years beginning after December 15, 2015, which will be the Company's first quarter of fiscal 2017, and requires prospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In November 2015, the FASB issued authoritative guidance to simplify the presentation of deferred income taxes by requiring that all deferred tax liabilities and assets be classified as long-term on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, and allows for either prospective or retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements, including the choice of application method upon adoption.





Table of Contents

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

## Exchange Rate Risk

More than half of product sales and licensing revenue recorded for the nine months ended October 31, 2015 were denominated in currencies other than the U.S. dollar. The Company's primary exchange rate risk relates to operations in Europe, Canada, South Korea and Mexico. Changes in currencies affect our earnings in various ways. For further discussion on currency-related risk, please refer to our risk factors under "Part I, Item 1A. Risk Factors" contained in the Company's most recent Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

Various transactions that occur primarily in Europe, Canada, South Korea and Mexico are denominated in U.S. dollars and British pounds and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar denominated purchases of merchandise and U.S. dollar and British pound denominated intercompany liabilities. In addition, certain operating expenses, tax liabilities and pension-related liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company is also subject to certain translation and economic exposures related to its net investment in certain of its international subsidiaries. The Company enters into derivative financial instruments to offset some but not all of its exchange risk. In addition, some of the derivative contracts in place will create volatility during the fiscal year as they are marked-to-market according to the accounting rules and may result in revaluation gains or losses in different periods from when the currency impact on the underlying transactions are realized.

## Derivatives Designated as Hedging Instruments

## Cash Flow Hedges

During the nine months ended October 31, 2015, the Company purchased U.S. dollar forward contracts in Europe and Canada totaling US\$110.6 million and US\$70.6 million, respectively, to hedge forecasted merchandise purchases and intercompany royalties that were designated as cash flow hedges. As of October 31, 2015, the Company had forward contracts outstanding for its European and Canadian operations of US\$107.4 million and US\$55.6 million, respectively, which are expected to mature over the next 18 months. The Company's derivative financial instruments are recorded in its condensed consolidated balance sheet at fair value based on quoted market rates. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted merchandise purchases, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in cost of product sales in the period which approximates the time the hedged merchandise inventory is sold. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted intercompany royalties, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in other income and expense in the period in which the royalty expense is incurred.

As of October 31, 2015, accumulated other comprehensive income (loss) included a net unrealized gain of approximately \$4.0 million, net of tax, of which \$3.2 million will be recognized in cost of product sales or other income over the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values. As of October 31, 2015, the net unrealized gain of the remaining open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$4.3 million.

At January 31, 2015, the Company had forward contracts outstanding for its European and Canadian operations of US\$50.8 million and US\$24.5 million, respectively, that were designated as cash flow hedges. At January 31, 2015, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$6.6 million.

## Derivatives Not Designated as Hedging Instruments

The Company also has foreign currency contracts that are not designated as hedging instruments for accounting purposes. Changes in fair value of foreign currency contracts not designated as hedging instruments are reported in net earnings as part of other income and expense. For the nine months ended October 31, 2015,

Table of Contents

the Company recorded a net gain of \$2.4 million for its euro and Canadian dollar foreign currency contracts not designated as hedges, which has been included in other income. As of October 31, 2015, the Company had euro foreign currency contracts to purchase US\$67.5 million expected to mature over the next 11 months and Canadian dollar foreign currency contracts to purchase US\$19.9 million expected to mature over the next ten months. As of October 31, 2015, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$1.9 million.

At January 31, 2015, the Company had euro foreign currency contracts to purchase US\$59.3 million and Canadian dollar foreign currency contracts to purchase US\$19.9 million. At January 31, 2015, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$8.9 million.

**Sensitivity Analysis**

As of October 31, 2015, a sensitivity analysis of changes in foreign currencies when measured against the U.S. dollar indicates that, if the U.S. dollar had uniformly weakened by 10% against all of the U.S. dollar denominated foreign exchange derivatives totaling US\$250.4 million, the fair value of the instruments would have decreased by \$27.8 million. Conversely, if the U.S. dollar uniformly strengthened by 10% against all of the U.S. dollar denominated foreign exchange derivatives, the fair value of these instruments would have increased by \$22.8 million. Any resulting changes in the fair value of the hedged instruments may be partially offset by changes in the fair value of certain balance sheet positions (primarily U.S. dollar denominated liabilities in our foreign operations) impacted by the change in the foreign currency rate. The ability to reduce the exposure of currencies on earnings depends on the magnitude of the derivatives compared to the balance sheet positions during each reporting cycle.

**Interest Rate Risk**

As of October 31, 2015, approximately 67% of the Company's total indebtedness related to a capital lease obligation, which is covered by a separate interest rate swap agreement with a swap fixed interest rate of 3.55% that matures on February 1, 2016. Changes in the related interest rate that result in an unrealized gain or loss on the fair value of the swap are reported in other income or expense. The change in the unrealized fair value of the interest swap increased other income, net by \$0.1 million during the nine months ended October 31, 2015. The majority of the Company's remaining indebtedness is at variable rates of interest. Accordingly, changes in interest rates would impact the Company's results of operations in future periods. A 100 basis point increase in interest rates would have had an insignificant effect on interest expense for the nine months ended October 31, 2015.

The fair value of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. As of October 31, 2015 and January 31, 2015, the carrying value of all financial instruments was not materially different from fair value, as the interest rate on the Company's debt approximates rates currently available to the Company.

**ITEM 4. Controls and Procedures.**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the quarterly period covered by this report.

There was no change in our internal control over financial reporting during the third quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

## ITEM 1. Legal Proceedings.

On May 6, 2009, Gucci America, Inc. filed a complaint in the U.S. District Court for the Southern District of New York against Guess?, Inc. and certain third party licensees for the Company asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint sought injunctive relief, compensatory damages, including treble damages, and certain other relief. Complaints similar to those in the above action have also been filed by Gucci entities against the Company and certain of its subsidiaries in the Court of Milan, Italy, the Intermediate People's Court of Nanjing, China and the Court of Paris, France. The three-week bench trial in the U.S. matter concluded on April 19, 2012, with the court issuing a preliminary ruling on May 21, 2012 and a final ruling on July 19, 2012. Although the plaintiff was seeking compensation in the U.S. matter in the form of damages of \$26 million and an accounting of profits of \$99 million, the final ruling provided for monetary damages of \$2.3 million against the Company and \$2.3 million against certain of its licensees. The court also granted narrow injunctions in favor of the plaintiff for certain of the claimed infringements. On August 20, 2012, the appeal period expired without any party having filed an appeal, rendering the judgment final. On May 2, 2013, the Court of Milan ruled in favor of the Company in the Milan, Italy matter. In the ruling, the Court rejected all of the plaintiff's claims and ordered the cancellation of three of the plaintiff's Italian and four of the plaintiff's European Community trademark registrations. On June 10, 2013, the plaintiff appealed the Court's ruling in the Milan matter. On September 15, 2014, the Court of Appeal of Milan affirmed the majority of the lower Court's ruling in favor of the Company, but overturned the lower Court's finding with respect to an unfair competition claim. That portion of the matter is now in a damages phase based on the ruling. On October 16, 2015, the plaintiff appealed the remainder of the Court of Appeal of Milan's ruling in favor of the Company to the Italian Supreme Court of Cassation. In the China matter, the Intermediate People's Court of Nanjing, China issued a ruling on November 8, 2013 granting an injunction in favor of the plaintiff for certain of the claimed infringements on handbags and small leather goods and awarding the plaintiff statutory damages in the amount of approximately \$80,000. The Company strongly disagrees with the Court's decision and has appealed the ruling. The judgment in the China matter is stayed pending the appeal, which was heard in May 2014. On January 30, 2015, the Court of Paris ruled in favor of the Company, rejecting all of the plaintiff's claims and partially canceling two of the plaintiff's community trademark registrations and one of the plaintiff's international trademark registrations. On February 17, 2015, the plaintiff appealed the Court of Paris' ruling.

On August 25, 2006, Franchez Isaguirre, a former employee of the Company, filed a complaint in the Superior Court of California, County of Los Angeles alleging violations by the Company of California wage and hour laws. The complaint was subsequently amended, adding a second former employee as an additional named party. The plaintiffs purport to represent a class of similarly situated employees in California who allegedly had been injured by not being provided adequate meal and rest breaks. The complaint seeks unspecified compensatory damages, statutory penalties, attorney's fees and injunctive and declaratory relief. On June 9, 2009, the Court certified the class but immediately stayed the case pending the resolution of a separate California Supreme Court case on the standards of class treatment for meal and rest break claims. Following the Supreme Court ruling, the Superior Court denied the Company's motions to decertify the class and to narrow the class in January 2013 and June 2013, respectively. The Company subsequently petitioned to have the Court's decision not to narrow the class definition reviewed. That petition was ultimately denied by the California Supreme Court in April 2014. In July 2015, the parties entered into a Memorandum of Understanding to settle the matter for \$5.25 million, subject to certain limited offsets. The settlement was preliminarily approved by the Court in October 2015, but still remains subject to further review and final approval of the Court.

The Company has received customs tax assessment notices from the Italian Customs Agency regarding its customs tax audit of one of the Company's European subsidiaries for the period from July 2010 through December 2012. Such assessments totaled €9.8 million (\$10.8 million), including potential penalties and interest. The Company strongly disagrees with the positions that the Italian Customs Agency has taken and therefore filed appeals with the Milan First Degree Tax Court ("MFDTC"). On May 5, 2015, the MFDTC issued a judgment in favor of the Company in relation to the first set of appeals (covering the period through September 2010) and



Table of Contents

canceled the related assessments totaling €1.7 million (\$1.8 million). In November 2015, the Italian Customs Agency notified the Company of its intent to appeal the MFDTC judgment. While the initial judgment was favorable to the Company, there can be no assurances that the Company's remaining appeals for October 2010 through December 2012 will be successful or that the Italian Customs Agency will not be successful in its appeal of the MFDTC judgment. It also continues to be possible that the Company will receive similar or even larger assessments for periods subsequent to December 2012 or other claims or charges related to the matter in the future.

Although the Company believes that it has a strong position and will continue to vigorously defend each of the remaining matters, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcomes will have a material impact on the Company's financial position or results of operations. The Company is also involved in various other claims and other matters incidental to the Company's business, the resolutions of which are not expected to have a material adverse effect on the Company's financial position or results of operations.

## ITEM 1A. Risk Factors.

There have not been any material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended January 31, 2015, filed with the SEC on March 27, 2015.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Items (a) and (b) are not applicable.

## Item (c). Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
August 2, 2015 to August 29, 2015				
Repurchase program(1)	—	—	—	\$ 495,786,484
Employee transactions(2)	3,614	\$20.92	—	
August 30, 2015 to October 3, 2015				
Repurchase program(1)	2,000,000	\$22.00	2,000,000	\$ 451,783,109
Employee transactions(2)	—	—	—	
October 4, 2015 to October 31, 2015				
Repurchase program(1)	—	—	—	\$ 451,783,109
Employee transactions(2)	—	—	—	
Total				
Repurchase program(1)	2,000,000	\$22.00	2,000,000	
Employee transactions(2)	3,614	\$20.92	—	

On June 26, 2012, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock. Repurchases under (1) the program 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, which may be discontinued at any time, without prior notice.

Consists of shares surrendered to, or withheld by, the Company in satisfaction of employee tax withholding (2) obligations that occur upon vesting of restricted stock awards/units granted under the Company's 2004 Equity Incentive Plan, as amended.



Table of Contents

## ITEM 6. Exhibits.

Exhibit Number	Description
3.1.	Restated Certificate of Incorporation of the Registrant (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed July 30, 1996).
3.2.	Second Amended and Restated Bylaws of the Registrant (incorporated by reference from the Registrant's Current Report on Form 8-K filed December 4, 2007).
4.1.	Specimen Stock Certificate (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed July 30, 1996).
†10.1.	Third Amendment to Lease Agreement dated as of August 2, 2015 between the Registrant and 1444 Partners, Ltd. with respect to the Registrant's corporate headquarters.
†31.1.	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2.	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†32.1.	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.2.	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†101.INS	XBRL Instance Document
†101.SCH	XBRL Taxonomy Extension Schema Document
†101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
†101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
†101.LAB	XBRL Taxonomy Extension Label Linkbase Document
†101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

---

† Filed herewith

Table of Contents

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.

Guess?, Inc.

Date: December 2, 2015

By: /s/ VICTOR HERRERO  
Victor Herrero  
Chief Executive Officer

Date: December 2, 2015

By: /s/ SANDEEP REDDY  
Sandeep Reddy  
Chief Financial Officer  
(Principal Financial Officer)