

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2019

or

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

For the transition period from ___ to ___

Commission File Number: 0-18183

G-III APPAREL GROUP, LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

512 Seventh Avenue, New York, New York
(Address of principal executive offices)

41-1590959
(I.R.S. Employer
Identification No.)

10018
(Zip Code)

(212) 403-0500

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	GIII	The Nasdaq Stock Market

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 every Interactive Data File required to be submitted 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 such files.) Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of September 3, 2019, there were 47,745,045 shares of issuer's common stock, par value \$0.01 per share, outstanding.

TABLE OF CONTENTS

	Page No.
<u>Part I</u> <u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets – July 31, 2019, July 31, 2018 and January 31, 2019</u>	3
<u>Condensed Consolidated Statements of Income and Comprehensive Income (Loss) - For the Three and Six Months Ended July 31, 2019 and 2018 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows - For the Six Months Ended July 31, 2019 and 2018 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4.</u> <u>Controls and Procedures</u>	27
<u>Part II</u> <u>OTHER INFORMATION</u>	
<u>Item 1A.</u> <u>Risk Factors</u>	28
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 6.</u> <u>Exhibits</u>	29

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

**G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	July 31, 2019 <u>(Unaudited)</u>	July 31, 2018 <u>(Unaudited)</u>	January 31, 2019 <u>(Unaudited)</u>
(In thousands, except per share amounts)			
ASSETS			
Current assets			
Cash and cash equivalents	\$ 39,568	\$ 42,306	\$ 70,138
Accounts receivable, net of allowance for doubtful accounts	464,663	447,576	502,133
Inventories	842,136	678,571	576,383
Prepaid income taxes	12,500	6,962	8,308
Prepaid expenses and other current assets	93,353	100,688	96,933
Total current assets	1,452,220	1,276,103	1,253,895
Investments in unconsolidated affiliates	63,773	59,048	66,587
Property and equipment, net	85,548	92,133	86,407
Operating lease assets	309,421	—	—
Other assets, net	35,681	34,242	35,459
Other intangibles, net	40,444	44,193	42,404
Deferred income tax assets, net	25,253	28,360	22,427
Trademarks	439,409	440,878	439,742
Goodwill	260,687	261,677	261,137
Total assets	<u>\$ 2,712,436</u>	<u>\$ 2,236,634</u>	<u>\$ 2,208,058</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Income tax payable	\$ 6,966	\$ —	\$ 8,859
Accounts payable	346,642	301,427	225,499
Accrued expenses	89,137	95,464	102,841
Customer refund liabilities	179,078	204,360	243,589
Current operating lease liabilities	74,297	—	—
Current portion of notes payable	683	—	—
Other current liabilities	425	—	—
Total current liabilities	697,228	601,251	580,788
Notes payable, net of discount and unamortized issuance costs	553,118	494,206	386,604
Deferred income tax liabilities, net	15,019	15,393	15,128
Noncurrent operating lease liabilities	272,632	—	—
Other noncurrent liabilities	6,619	38,567	36,529
Total liabilities	<u>1,544,616</u>	<u>1,149,417</u>	<u>1,019,049</u>
Stockholders' Equity			
Preferred stock; 1,000 shares authorized; no shares issued	—	—	—
Common stock - \$0.01 par value; 120,000 shares authorized; 49,394, 49,238 and, 49,387 shares issued, respectively	264	263	264
Additional paid-in capital	456,195	460,000	464,112
Accumulated other comprehensive loss	(16,848)	(13,587)	(15,194)
Retained earnings	772,463	640,774	758,881
Common stock held in treasury, at cost - 1,649, 59 and 678 shares, respectively	(44,254)	(233)	(19,054)
Total stockholders' equity	<u>1,167,820</u>	<u>1,087,217</u>	<u>1,189,009</u>
Total liabilities and stockholders' equity	<u>\$ 2,712,436</u>	<u>\$ 2,236,634</u>	<u>\$ 2,208,058</u>

The accompanying notes are an integral part of these statements.

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
	(Unaudited)			
	(In thousands, except per share amounts)			
Net sales	\$ 643,892	\$ 624,698	\$ 1,277,444	\$ 1,236,441
Cost of goods sold	412,123	393,154	809,611	770,370
Gross profit	231,769	231,544	467,833	466,071
Selling, general and administrative expenses	196,448	198,860	398,307	400,931
Depreciation and amortization	9,789	9,455	19,262	18,835
Gain on lease terminations	(1,393)	—	(2,222)	—
Operating profit	26,925	23,229	52,486	46,305
Other loss	(751)	(28)	(1,399)	(479)
Interest and financing charges, net	(10,785)	(10,210)	(21,105)	(19,830)
Income before income taxes	15,389	12,991	29,982	25,996
Income tax expense	4,270	2,914	6,820	6,034
Net income	<u>\$ 11,119</u>	<u>\$ 10,077</u>	<u>\$ 23,162</u>	<u>\$ 19,962</u>
NET INCOME PER COMMON SHARE:				
Basic:				
Net income per common share	<u>\$ 0.23</u>	<u>\$ 0.20</u>	<u>\$ 0.48</u>	<u>\$ 0.41</u>
Weighted average number of shares outstanding	<u>48,450</u>	<u>49,169</u>	<u>48,619</u>	<u>49,148</u>
Diluted:				
Net income per common share	<u>\$ 0.23</u>	<u>\$ 0.20</u>	<u>\$ 0.47</u>	<u>\$ 0.40</u>
Weighted average number of shares outstanding	<u>49,116</u>	<u>50,415</u>	<u>49,436</u>	<u>50,272</u>
Net income	\$ 11,119	\$ 10,077	\$ 23,162	\$ 19,962
Other comprehensive income:				
Foreign currency translation adjustments	1,573	(11,501)	(1,654)	(8,065)
Other comprehensive income (loss)	1,573	(11,501)	(1,654)	(8,065)
Comprehensive income (loss)	<u>\$ 12,692</u>	<u>\$ (1,424)</u>	<u>\$ 21,508</u>	<u>\$ 11,897</u>

The accompanying notes are an integral part of these statements.

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended July 31,	
	2019	2018
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 23,162	\$ 19,962
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	19,262	18,835
Loss on disposal of fixed assets	1,230	145
Non-cash operating lease costs	36,729	—
Gain on lease terminations	(2,222)	—
Dividend received from unconsolidated affiliate	1,960	—
Equity (gain)/loss in unconsolidated affiliates	(867)	1,817
Share-based compensation	9,349	9,440
Deferred financing charges and debt discount amortization	4,577	4,984
Changes in operating assets and liabilities:		
Accounts receivable, net	37,470	(153,396)
Inventories	(265,753)	(125,638)
Income taxes, net	(5,987)	(11,646)
Prepaid expenses and other current assets	3,321	(53,396)
Other assets, net	(1,164)	(2,427)
Customer refund liabilities	(64,512)	137,767
Operating lease liabilities	(38,300)	—
Accounts payable, accrued expenses and other liabilities	108,838	68,074
Net cash used in operating activities	<u>(132,907)</u>	<u>(85,479)</u>
Cash flows from investing activities		
Operating lease assets initial direct costs	(1,940)	—
Capital expenditures	(17,531)	(11,455)
Net cash used in investing activities	<u>(19,471)</u>	<u>(11,455)</u>
Cash flows from financing activities		
Repayment of borrowings - revolving facility	(942,973)	(899,720)
Proceeds from borrowings - revolving facility	1,102,973	999,143
Repayment of borrowings - unsecured term loan	(170)	—
Proceeds from borrowings - unsecured term loan	3,407	—
Proceeds from exercise of equity awards	116	56
Purchase of treasury shares	(35,216)	—
Taxes paid for net share settlements	(7,366)	(1,098)
Net cash provided by financing activities	<u>120,771</u>	<u>98,381</u>
Foreign currency translation adjustments	1,037	(4,917)
Net decrease in cash and cash equivalents	(30,570)	(3,470)
Cash and cash equivalents at beginning of period	70,138	45,776
Cash and cash equivalents at end of period	<u>\$ 39,568</u>	<u>\$ 42,306</u>
Supplemental disclosures of cash flow information		
Cash payments:		
Interest, net	\$ 15,735	\$ 16,648
Income tax payments, net	\$ 12,791	\$ 18,465

The accompanying notes are an integral part of these statements.

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

As used in these financial statements, the term “Company” or “G-III” refers to G-III Apparel Group, Ltd. and its subsidiaries. The Company designs, sources and markets an extensive range of apparel, including outerwear, dresses, sportswear, swimwear, women’s suits and women’s performance wear, as well as women’s handbags, footwear, small leather goods, cold weather accessories and luggage. The Company also operates retail stores and licenses its proprietary brands under several product categories.

The Company consolidates the accounts of its wholly-owned and majority-owned subsidiaries. KL North America B.V. (“KLNA”) and Fabco Holding B.V. (“Fabco”) are Dutch joint venture limited liability companies that are 49% owned by the Company. Karl Lagerfeld Holding B.V. (“KLH”) is a Dutch limited liability company that is 19% owned by the Company. These investments are accounted for using the equity method of accounting. All material intercompany balances and transactions have been eliminated.

Vilebrequin International SA (“Vilebrequin”), a Swiss corporation that is wholly-owned by the Company, KLH, KLNA and Fabco report results on a calendar year basis rather than on the January 31 fiscal year basis used by the Company. Accordingly, the results of Vilebrequin, KLH, KLNA and Fabco are, and will be, included in the financial statements for the quarter ended or ending closest to the Company’s fiscal quarter end. For example, with respect to the Company’s results for the six-month period ended July 31, 2019, the results of Vilebrequin, KLH, KLNA and Fabco are included for the six-month period ended June 30, 2019. The Company’s retail operations segment reports on a 52/53-week fiscal year. The Company’s three and six-month periods ended July 31, 2019 and 2018 were each a 13-week fiscal quarter and 26-week period, respectively, for the retail operations segment. For fiscal 2020 and 2019, the three and six-month periods for the retail operations segment ended on August 3, 2019 and August 4, 2018, respectively.

The results for the three and six-month periods ended July 31, 2019 are not necessarily indicative of the results expected for the entire fiscal year, given the seasonal nature of the Company’s business. The accompanying financial statements included herein are unaudited. All adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim period presented have been reflected.

The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2019 filed with the Securities and Exchange Commission (the “SEC”).

Assets and liabilities of the Company’s foreign operations, where the functional currency is not the U.S. Dollar (reporting currency), are translated from foreign currency into U.S. dollars at period-end rates, while income and expenses are translated at the weighted-average exchange rates for the period. The related translation adjustments are reflected as a foreign currency translation adjustment in accumulated other comprehensive loss within stockholders’ equity.

Note 2 – Inventories

Wholesale inventories, which comprise a significant portion of the Company’s inventory, are stated at the lower of cost (determined by the first-in, first-out method) or net realizable value. Retail inventories are valued at the lower of cost or market as determined by the retail inventory method. Vilebrequin inventories are stated at the lower of cost (determined by the weighted average method) or net realizable value. Substantially all of the Company’s inventories consist of finished goods.

[Table of Contents](#)

The inventory return asset, which consists of the amount of goods that are anticipated to be returned by customers, represented \$24.8 million, \$36.2 million and \$42.4 million as of July 31, 2019, July 31, 2018 and January 31, 2019 respectively. The inventory return asset is recorded within prepaid expenses and other current assets.

Inventory held on consignment by the Company's customers totaled \$3.9 million, \$3.7 million and \$4.9 million at July 31, 2019, July 31, 2018 and January 31, 2019, respectively. Consignment inventory is stored at the facilities of the Company's customers. The Company reflects this inventory on its Condensed Consolidated Balance Sheets.

Note 3 – Fair Value of Financial Instruments

Generally Accepted Accounting Principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy for a particular asset or liability depends on the inputs used in its valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally-derived (unobservable). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology based on quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology based on quoted prices for similar assets or liabilities in active markets for substantially the full term of the financial instrument; quoted prices for identical or similar instruments in markets that are not active for substantially the full term of the financial instrument; and model-derived valuations whose inputs or significant value drivers are observable.
- Level 3 — inputs to the valuation methodology based on unobservable prices or valuation techniques that are significant to the fair value measurement.

The following table summarizes the carrying values and the estimated fair values of the Company's debt instruments:

Financial Instrument	Level	Carrying Value			Fair Value		
		July 31, 2019	July 31, 2018	January 31, 2019	July 31, 2019	July 31, 2018	January 31, 2019
		(In thousands)					
Term loan	2	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Revolving credit facility	2	160,000	111,426	—	160,000	111,426	—
Note issued to LVMH	3	99,266	94,100	96,618	96,437	85,000	88,608
Unsecured loan	2	3,243	—	—	3,243	—	—

The Company's debt instruments are recorded at their carrying values in its condensed consolidated balance sheets, which may differ from their respective fair values. The carrying amount of the Company's variable rate debt approximates the fair value, as interest rates change with the market rates. Furthermore, the carrying value of all other financial instruments potentially subject to valuation risk (principally consisting of cash, accounts receivable and accounts payable) also approximates fair value due to the short-term nature of these accounts.

The 2% note issued to LVMH Moet Hennessy Louis Vuitton Inc. ("LVMH") in connection with the acquisition of Donna Karan International ("DKI") was issued at a discount of \$40.0 million in accordance with Accounting Standards Codification ("ASC") 820 – *Fair Value Measurements*. For purposes of this fair value disclosure, the Company based its fair value estimate for the note issued to LVMH on the initial fair value as determined at the date of the acquisition of DKI and records the amortization using the effective interest method over the term of the note.

Non-Financial Assets and Liabilities

The Company's non-financial assets, which primarily consist of operating lease assets, goodwill, other intangible assets and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value. However, whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial instruments are assessed for impairment and, if applicable, written down to and recorded at fair value, considering external market participant assumptions. During the first quarter of fiscal 2020, the Company recorded an impairment of \$9.6 million, net of tax, in connection with the adoption of ASC 842 – *Leases* (“ASC 842”) that was recognized through retained earnings.

Note 4 – Leases

On February 1, 2019, the Company adopted ASC 842 using the optional transition method to apply the standard as of the effective date and, therefore, the standard has not been applied retroactively to the comparative periods presented in its financial statements. The Company has elected the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification and initial direct costs. The hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of right-of-use assets, has not been elected. Further, the Company elected the short-term lease exception policy, permitting it to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component.

The Company determines whether an arrangement is, or contains, a lease at contract inception. The Company leases certain retail stores, warehouses, distribution centers, office space and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term.

Total rent payable is recorded during the lease term, including rent escalations in which the amount of future rent is certain or fixed on the straight-line basis over the term of the lease (including any rent holiday periods beginning upon control of the premises and any fixed payments stated in the lease). For leases with an initial term greater than 12 months, a lease liability is recorded on the balance sheet at the present value of future payments discounted at the incremental borrowing rate (discount rate) corresponding with the lease term. An operating lease asset is recorded based on the initial amount of the lease liability, plus any lease payments made to the lessor before or at the lease commencement date and any initial direct costs incurred, less any tenant improvement allowance incentives received. The difference between the minimum rents paid and the straight-line rent (deferred rent) is reflected within the associated operating lease asset.

The lease classification evaluation begins at the commencement date. The lease term used in the evaluation includes the non-cancellable period for which the Company has the right to use the underlying asset, together with renewal option periods when the exercise of the renewal option is reasonably certain or the failure to exercise such option would result in an economic penalty. All retail store, warehouse, distribution center and office leases are classified as operating leases. The Company does not have any finance leases. Operating lease expense is generally recognized on a straight-line basis over the lease term.

Certain leases contain provisions that require contingent rent payments based upon sales volume (variable lease cost). Contingent rent is accrued each period as the liabilities are incurred.

Most leases are for a term of one to ten years. Some leases include one or more options to renew, with renewal terms that can extend the lease term from one to ten years. Several of the Company's retail store leases include an option to terminate the lease based on failure to achieve a specified sales volume. The exercise of lease renewal options is generally at the Company's sole discretion. The exercise of lease termination options is generally by mutual agreement between the Company and the lessor.

Certain of the Company's lease agreements include rental payments based on a percentage of retail sales over contractual levels and others include rental payments adjusted periodically for inflation. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

[Table of Contents](#)

The Company's lease assets and liabilities as of July 31, 2019 consist of the following:

<u>Leases</u>	<u>Classification</u>	<u>July 31, 2019</u>
		<u>(In thousands)</u>
Assets		
Operating	Operating lease assets	\$ 309,421
Total lease assets		\$ 309,421
Liabilities		
Current operating	Current operating lease liabilities	\$ 74,297
Noncurrent operating	Noncurrent operating lease liabilities	272,632
Total lease liabilities		\$ 346,929

The Company's leases do not provide the rate of interest implicit in the lease. Therefore, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. For transition purposes, the incremental borrowing rate on February 1, 2019 was used for operating leases that commenced prior to that date.

The Company recorded lease costs of \$24.9 million and \$49.9 million during the three and six months ended July 31, 2019, respectively. Lease costs are recorded within selling, general and administrative expenses in the Company's condensed consolidated statements of income and comprehensive income. The Company recorded variable lease costs and short-term lease costs of \$2.7 million and \$5.0 million for the three and six months ended July 31, 2019, respectively. Short-term lease costs are immaterial.

As of July 31, 2019, the Company's maturity of operating lease liabilities in the years ending up to January 31, 2024 and thereafter are as follows:

<u>Year Ending January 31,</u>	<u>Amount</u>
	<u>(In thousands)</u>
2020	\$ 49,670
2021	88,868
2022	75,281
2023	66,147
2024	52,795
After 2024	95,291
Total lease payments	\$ 428,052
Less: Interest	81,123
Present value of lease liabilities	\$ 346,929

As of July 31, 2019, there are no material leases that are legally binding but have not yet commenced.

As of July 31, 2019, the weighted average remaining lease term related to operating leases is 5.3 years. The weighted average discount rate related to operating leases is 7.8%.

Cash paid for amounts included in the measurement of operating lease liabilities is \$51.9 million as of July 31, 2019. Right-of-use assets obtained in exchange for lease obligations were \$15.6 million as of July 31, 2019.

Note 5 – Net Income per Common Share

Basic net income per common share has been computed using the weighted average number of common shares outstanding during each period. Diluted net income per share is computed using the weighted average number of common shares and potential dilutive common shares, consisting of unvested restricted stock unit awards and unexercised stock options outstanding during the period. Approximately 794,400 and 327,000 unvested shares of common stock have been excluded from the diluted net income per share calculation for the three months ended July 31, 2019 and 2018, respectively. Approximately 606,500 and 322,000 unvested shares of common stock have been excluded from the diluted net income per share calculation for the six months ended July 31, 2019 and 2018, respectively. All share-based payments outstanding that vest based on the achievement of performance and/or market price conditions, and for which the respective performance and/or market price conditions have not been achieved, have been excluded from the diluted per share calculation.

The following table reconciles the numerators and denominators used in the calculation of basic and diluted net income per share:

	<u>Three Months Ended July 31,</u>		<u>Six Months Ended July 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(In thousands, except per share amounts)			
Net income	\$ 11,119	\$ 10,077	\$ 23,162	\$ 19,962
Basic net income per share:				
Basic common shares	48,450	49,169	48,619	49,148
Basic net income per share	<u>\$ 0.23</u>	<u>\$ 0.20</u>	<u>\$ 0.48</u>	<u>\$ 0.41</u>
Diluted net income per share:				
Basic common shares	48,450	49,169	48,619	49,148
Diluted restricted stock unit awards and stock options	666	1,246	817	1,124
Diluted common shares	<u>49,116</u>	<u>50,415</u>	<u>49,436</u>	<u>50,272</u>
Diluted net income per share	<u>\$ 0.23</u>	<u>\$ 0.20</u>	<u>\$ 0.47</u>	<u>\$ 0.40</u>

Note 6 – Notes Payable

Long-term debt consists of the following:

	<u>July 31, 2019</u>	<u>July 31, 2018</u>	<u>January 31, 2019</u>
	(In thousands)		
Term loan	\$ 300,000	\$ 300,000	\$ 300,000
Revolving credit facility	160,000	111,426	—
Note issued to LVMH	125,000	125,000	125,000
Unsecured loan	3,243	—	—
Subtotal	588,243	536,426	425,000
Less: Net debt issuance costs ⁽¹⁾	(8,708)	(11,320)	(10,014)
Debt discount	(25,734)	(30,900)	(28,382)
Current portion of long-term debt	(683)	—	—
Total	<u>\$ 553,118</u>	<u>\$ 494,206</u>	<u>\$ 386,604</u>

(1) Does not include debt issuance costs, net of amortization, totaling \$5.8 million, \$8.3 million and \$7.1 million as of July 31, 2019, July 31, 2018 and January 31, 2019, respectively, related to the revolving credit facility. These debt issuance costs have been deferred and are classified in prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheets in accordance with Accounting Standards Update (“ASU”) 2015-15.

[Table of Contents](#)

Term Loan

In connection with the acquisition of DKI, the Company borrowed \$350.0 million under a senior secured term loan facility (the “Term Loan”). On December 1, 2016, the Company prepaid \$50.0 million in principal amount of the Term Loan. The Term Loan will mature in December 2022.

Interest on the outstanding principal amount of the Term Loan accrues at a rate equal to the London Interbank Offered Rate (“LIBOR”), subject to a 1% floor, plus an applicable margin of 5.25% or an alternate base rate (defined as the greatest of (i) the “prime rate” as published by the Wall Street Journal from time to time, (ii) the federal funds rate plus 0.5% or (iii) the LIBOR rate for a borrowing with an interest period of one month) plus 4.25%, per annum, payable in cash. As of July 31, 2019, interest under the Term Loan was being paid at an average rate of 7.73% per annum.

The Term Loan is secured by certain assets of the Company and certain of its subsidiaries. The Term Loan is required to be prepaid with the proceeds of certain asset sales if such proceeds are not applied as required by the Term Loan within specified deadlines. The Term Loan contains covenants that, among other things, restrict the Company’s ability, subject to certain exceptions, to incur additional debt; incur liens; sell or dispose of certain assets; merge with other companies; liquidate or dissolve the Company; acquire other companies; make loans, advances, or guarantees; and make certain investments. This loan also includes a mandatory prepayment provision based on excess cash flow as defined within the agreement. A first lien leverage covenant requires the Company to maintain a level of debt to EBITDA at a ratio as defined over the term of the agreement. As of July 31, 2019, the Company was in compliance with these covenants.

Revolving Credit Facility

Upon closing of the acquisition of DKI, the Company’s prior credit agreement was refinanced and replaced by a \$650 million amended and restated credit agreement (the “revolving credit facility”). Amounts available under the revolving credit facility are subject to borrowing base formulas and over advances as specified in the revolving credit facility agreement. Borrowings bear interest, at the Company’s option, at LIBOR plus a margin of 1.25% to 1.75% or an alternate base rate (defined as the greatest of (i) the “prime rate” of JPMorgan Chase Bank, N.A. from time to time, (ii) the federal funds rate plus 0.5% or (iii) the LIBOR rate for a borrowing with an interest period of one month) plus a margin of 0.25% to 0.75%, with the applicable margin determined based on the availability under the revolving credit facility agreement. As of July 31, 2019, interest under the revolving credit agreement was being paid at an average rate of 3.68% per annum. The revolving credit facility has a five-year term ending December 1, 2021. In addition to paying interest on any outstanding borrowings under the revolving credit facility, the Company is required to pay a commitment fee to the lenders under the credit agreement with respect to the unutilized commitments. The commitment fee accrues at a rate equal to 0.25% per annum on the average daily amount of the available commitments.

As of July 31, 2019, the Company had \$160.0 million of borrowings outstanding under the revolving credit facility, all of which are classified as long-term liabilities. As of July 31, 2019, there were outstanding trade and standby letters of credit amounting to \$10.0 million and \$3.4 million, respectively.

The revolving credit facility contains covenants that, among other things, restrict the Company’s ability, subject to specified exceptions, to incur additional debt; incur liens; sell or dispose of certain assets; merge with other companies; liquidate or dissolve the Company; acquire other companies; make loans, advances, or guarantees; and make certain investments. In certain circumstances, the revolving credit facility also requires the Company to maintain a fixed charge coverage ratio, as defined in the agreement, not less than 1.00 to 1.00 for each period of twelve consecutive fiscal months of the Company. As of July 31, 2019, the Company was in compliance with these covenants.

LVMH Note

As part of the consideration for the acquisition of DKI, the Company issued to LVMH a junior lien secured promissory note in the principal amount of \$125.0 million (the “LVMH Note”) that bears interest at the rate of 2% per year. \$75.0 million of the principal amount of the LVMH Note is due and payable on June 1, 2023 and \$50.0 million of such principal amount is due and payable on December 1, 2023. Accounting Standards Codification (“ASC”) 820 - *Fair Value Measurements* requires the note to be recorded at fair value at issuance. As a result, the Company recorded a \$40.0 million debt discount. This discount is being amortized as interest expense using the effective interest method over the term of the LVMH Note.

[Table of Contents](#)

Unsecured Loan

On April 15, 2019, T.R.B. International SA (“TRB”), a subsidiary of Vilebrequin, borrowed € 3.0 million under an unsecured loan with Banque du Leman S.A (the “Unsecured Loan”). The Unsecured Loan matures on April 15, 2024. During the term of the Unsecured Loan, TRB is required to make quarterly installment payments of €0.2 million. Interest on the outstanding principal amount of the Unsecured Loan accrues at a fixed rate equal to 1.50% per annum, payable in cash.

Note 7 – Revenue Recognition

Disaggregation of Revenue

In accordance with ASC 606 – *Revenue from Contracts with Customers*, the Company elected to disclose its revenues by segment. Each segment has its own characteristics with respect to the timing of revenue recognition and the type of customer. In addition, disaggregating revenues using a segment basis is consistent with how the Company’s Chief Operating Decision Maker manages the Company. The Company has identified the wholesale operations segment and the retail operations segment as distinct sources of revenue.

Wholesale Operations Segment. Wholesale revenues include sales of products to retailers under owned, licensed and private label brands, as well as sales related to the Vilebrequin business. Wholesale revenues from sales of products are recognized when control transfers to the customer. The Company considers control to have been transferred when the Company has transferred physical possession of the product, the Company has a right to payment for the product, the customer has legal title to the product and the customer has the significant risks and rewards of the product. Wholesale revenues are adjusted by variable considerations arising from implicit or explicit obligations. Wholesale revenues also include royalty revenues from license agreements related to our owned trademarks including DKNY, Donna Karan, Vilebrequin, G.H. Bass and Andrew Marc. As of July 31, 2019, revenues from license agreements represented an insignificant portion of wholesale revenues.

Retail Operations Segment. Retail store revenues are generated by direct sales to consumers through company-operated stores and product sales through the Company’s owned websites for the DKNY, Donna Karan, Wilsons, G.H. Bass, Andrew Marc and Karl Lagerfeld Paris businesses. Retail stores primarily consist of Wilsons Leather, G.H. Bass and DKNY retail stores, substantially all of which are operated as outlet stores, as well as a small number of Karl Lagerfeld Paris and Calvin Klein Performance stores. Retail operations segment revenues are recognized at the point of sale when the customer takes possession of the goods and tenders payment. E-commerce revenues primarily consist of sales to consumers through the Company’s e-commerce platforms. E-commerce revenue is recognized when a customer takes possession of the goods. Retail sales are recorded net of applicable sales tax.

Contract Liabilities

The Company’s contract liabilities, which are recorded within accrued expenses in the accompanying Condensed Consolidated Balance Sheets, primarily consist of gift card liabilities and advance payments from licensees. In some of its retail concepts, the Company also offers a limited loyalty program where customers accumulate points redeemable for cash discount certificates that expire 90 days after issuance. Total contract liabilities were \$6.6 million, \$5.2 million and \$6.4 million at July 31, 2019, July 31, 2018 and January 31, 2019, respectively. The Company recognized \$4.4 million in revenue for the three months ended July 31, 2019 related to contract liabilities that existed at April 30, 2019. The Company recognized \$5.2 million in revenue for the six months ended July 31, 2019 related to contract liabilities that existed at January 31, 2019. There were no contract assets recorded as of July 31, 2019, July 31, 2018 and January 31, 2019. Substantially all of the advance payments from licensees as of July 31, 2019 are expected to be recognized as revenue within the next twelve months.

Note 8 – Segments

The Company has two reportable segments: wholesale operations and retail operations. The wholesale operations segment includes sales of products under the Company's owned, licensed and private label brands, as well as sales related to the Vilebrequin business. Wholesale revenues also include royalty revenues from license agreements related to our owned trademarks including Donna Karan, DKNY, Vilebrequin, G.H. Bass and Andrew Marc. The retail operations segment consists primarily of the Wilsons Leather, G.H. Bass and DKNY stores, substantially all of which are operated as outlet stores, as well as a smaller number of Karl Lagerfeld Paris and Calvin Klein Performance stores. Sales through the Company's owned websites, with the exception of Vilebrequin, are also included in the retail operations segment.

The following segment information is presented for the three and six-month periods indicated below:

	Three Months Ended July 31, 2019			
	Wholesale	Retail	Elimination ⁽¹⁾	Total
	(In thousands)			
Net sales	\$ 588,601	\$ 83,706	\$ (28,415)	\$ 643,892
Cost of goods sold	395,728	44,810	(28,415)	412,123
Gross profit	192,873	38,896	—	231,769
Selling, general and administrative expenses	141,540	54,908	—	196,448
Depreciation and amortization	7,763	2,026	—	9,789
Gain on lease terminations	—	(1,393)	—	(1,393)
Operating profit (loss)	<u>\$ 43,570</u>	<u>\$ (16,645)</u>	<u>\$ —</u>	<u>\$ 26,925</u>
	Three Months Ended July 31, 2018			
	Wholesale	Retail	Elimination ⁽¹⁾	Total
	(In thousands)			
Net sales	\$ 544,597	\$ 106,662	\$ (26,561)	\$ 624,698
Cost of goods sold	362,756	56,959	(26,561)	393,154
Gross profit	181,841	49,703	—	231,544
Selling, general and administrative expenses	136,178	62,682	—	198,860
Depreciation and amortization	7,348	2,107	—	9,455
Operating profit (loss)	<u>\$ 38,315</u>	<u>\$ (15,086)</u>	<u>\$ —</u>	<u>\$ 23,229</u>
	Six Months Ended July 31, 2019			
	Wholesale	Retail	Elimination ⁽¹⁾	Total
	(In thousands)			
Net sales	\$ 1,159,240	\$ 165,610	\$ (47,406)	\$ 1,277,444
Cost of goods sold	767,308	89,709	(47,406)	809,611
Gross profit	391,932	75,901	—	467,833
Selling, general and administrative expenses	288,797	109,510	—	398,307
Depreciation and amortization	15,284	3,978	—	19,262
Gain on lease terminations	—	(2,222)	—	(2,222)
Operating profit (loss)	<u>\$ 87,851</u>	<u>\$ (35,365)</u>	<u>\$ —</u>	<u>\$ 52,486</u>
	Six Months Ended July 31, 2018			
	Wholesale	Retail	Elimination ⁽¹⁾	Total
	(In thousands)			
Net sales	\$ 1,072,270	\$ 211,181	\$ (47,010)	\$ 1,236,441
Cost of goods sold	704,331	113,049	(47,010)	770,370
Gross profit	367,939	98,132	—	466,071
Selling, general and administrative expenses	272,591	128,340	—	400,931
Depreciation and amortization	14,483	4,352	—	18,835
Operating profit (loss)	<u>\$ 80,865</u>	<u>\$ (34,560)</u>	<u>\$ —</u>	<u>\$ 46,305</u>

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

[Table of Contents](#)

The total assets for each of the Company's reportable segments, as well as assets not allocated to a segment, are as follows:

	July 31, 2019	July 31, 2018	January 31, 2019
	(In thousands)		
Wholesale	\$ 2,109,198	\$ 1,880,348	\$ 1,834,610
Retail	362,595	205,268	190,996
Corporate	240,643	151,018	182,452
Total assets	<u>\$ 2,712,436</u>	<u>\$ 2,236,634</u>	<u>\$ 2,208,058</u>

Note 9 – Stockholders' Equity

The changes in stockholders' equity for the three and six months ended July 31, 2019 and 2018 are as follows (in thousands):

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Common Stock Held In Treasury	Total
Balance as of April 30, 2019	\$ 264	\$ 456,835	\$ (18,421)	\$ 761,344	\$ (13,196)	\$ 1,186,826
Equity awards exercised/vested, net	—	(4,082)	—	—	4,158	76
Share-based compensation expense	—	5,122	—	—	—	5,122
Taxes paid for net share settlements	—	(1,680)	—	—	—	(1,680)
Other comprehensive gain, net	—	—	1,573	—	—	1,573
Repurchases of common stock	—	—	—	—	(35,216)	(35,216)
Net income	—	—	—	11,119	—	11,119
Balance as of July 31, 2019	<u>\$ 264</u>	<u>\$ 456,195</u>	<u>\$ (16,848)</u>	<u>\$ 772,463</u>	<u>\$ (44,254)</u>	<u>\$ 1,167,820</u>

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Common Stock Held In Treasury	Total
Balance as of April 30, 2018	\$ 262	\$ 454,398	\$ (2,086)	\$ 630,633	\$ (283)	\$ 1,082,924
Equity awards exercised/vested, net	1	(51)	—	—	50	—
Share-based compensation expense	—	5,666	—	—	—	5,666
Taxes paid for net share settlements	—	(13)	—	—	—	(13)
Other comprehensive loss, net	—	—	(11,501)	64	—	(11,437)
Net income	—	—	—	10,077	—	10,077
Balance as of July 31, 2018	<u>\$ 263</u>	<u>\$ 460,000</u>	<u>\$ (13,587)</u>	<u>\$ 640,774</u>	<u>\$ (233)</u>	<u>\$ 1,087,217</u>

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Common Stock Held In Treasury	Total
Balance as of January 31, 2019	\$ 264	\$ 464,112	\$ (15,194)	\$ 758,881	\$ (19,054)	\$ 1,189,009
Equity awards exercised/vested, net	—	(9,900)	—	—	10,016	116
Share-based compensation expense	—	9,349	—	—	—	9,349
Taxes paid for net share settlements	—	(7,366)	—	—	—	(7,366)
Other comprehensive loss, net	—	—	(1,654)	—	—	(1,654)
Repurchases of common stock	—	—	—	—	(35,216)	(35,216)
Cumulative effect of adoption of ASC 842	—	—	—	(9,580)	—	(9,580)
Net income	—	—	—	23,162	—	23,162
Balance as of July 31, 2019	<u>\$ 264</u>	<u>\$ 456,195</u>	<u>\$ (16,848)</u>	<u>\$ 772,463</u>	<u>\$ (44,254)</u>	<u>\$ 1,167,820</u>

[Table of Contents](#)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Common Stock Held In Treasury	Total
Balance as of January 31, 2018	\$ 245	\$ 451,844	\$ (5,522)	\$ 674,542	\$ (420)	\$ 1,120,689
Equity awards exercised/vested, net	18	(149)	—	—	187	56
Share-based compensation expense	—	9,440	—	—	—	9,440
Taxes paid for net share settlements	—	(1,098)	—	—	—	(1,098)
Other comprehensive loss, net	—	(37)	(8,065)	(2)	—	(8,104)
Cumulative effect of adoption of ASC 606	—	—	—	(53,728)	—	(53,728)
Net income	—	—	—	19,962	—	19,962
Balance as of July 31, 2018	<u>\$ 263</u>	<u>\$ 460,000</u>	<u>\$ (13,587)</u>	<u>\$ 640,774</u>	<u>\$ (233)</u>	<u>\$ 1,087,217</u>

For three months ended July 31, 2019, the Company issued 1,651 shares of common stock and utilized 148,025 shares of treasury stock in connection with the exercise or vesting of equity awards. For the three months ended July 31, 2018, the Company issued 13,276 shares of common stock and utilized 12,738 shares of treasury stock in connection with the vesting of equity awards. For the six months ended July 31, 2019, the Company issued 7,651 shares of common stock and utilized 356,550 shares of treasury stock in connection with the exercise or vesting of equity awards. For the six months ended July 31, 2018, the Company issued 19,276 shares of common stock and utilized 47,253 shares of treasury stock in connection with the exercise or vesting of equity awards.

Note 10 – Canadian Customs Duty Examination

In October 2017, the Canada Border Service Agency (“CBSA”) issued a final audit report to G-III Apparel Canada ULC (“G-III Canada”), a wholly-owned subsidiary of the Company. The report challenged the valuation used by G-III Canada for certain goods imported into Canada. The period covered by the examination is February 1, 2014 through the date of the final report, October 27, 2017. The CBSA has requested G-III Canada to reassess its customs entries for that period using the price paid or payable by the Canadian retail customers for certain imported goods rather than the price paid by G-III Canada to the vendor. The CBSA has also requested that G-III Canada change the valuation method used to pay duties with respect to goods imported in the future.

In March 2018, G-III Canada provided a bond to guarantee payment to the CBSA for additional duties payable as a result of the reassessment required by the final audit report. The Company secured a bond in the amount of CAD\$26.9 million (\$20.9 million) representing customs duty and interest through December 31, 2017 that is claimed to be owed to the CBSA. In March 2018, the Company amended the duties filed for the month of January 2018 based on the new valuation method. This amount was paid to the CBSA. Beginning February 1, 2018, the Company began paying duties based on the new valuation method. Amounts paid and deferred for the three and six months ended July 31, 2019, related to the higher dutiable values, were CAD\$0.6 million (\$0.5 million) and CAD\$2.2 million (\$1.7 million), respectively. Cumulative amounts paid and deferred through July 31, 2019, related to the higher dutiable values, were CAD\$12.7 million (\$9.7 million).

G-III Canada, based on the advice of counsel, believes it has positions that support its ability to receive a refund of amounts claimed to be owed to the CBSA on appeal and intends to vigorously contest the findings of the CBSA. G-III Canada filed its appeal with the CBSA in May 2018.

Effective June 1, 2019, G-III commenced paying based on the dutiable value of G-III Canada’s imports based on the pre-audit levels. G-III continued to defer the additional duty paid through the month of May 2019 pending the final outcome of the appeal.

Note 11 – Recent Adopted and Issued Accounting Pronouncements

Recently Adopted Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” ASU 2016-02 requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to certain adjustments. The Company adopted ASU 2016-02 during the first quarter of fiscal 2020 using the optional transition method to apply the standard as of the effective date. As a result of adopting this standard, as of February 1, 2019, the Company recognized operating lease liabilities of \$384.5 million and corresponding operating lease assets of \$341.2 million. In addition, the Company recorded a \$9.6 million impairment of the operating lease assets, net of tax, at adoption. The impairment was recorded as a reduction to retained earnings.

In June 2018, the FASB issued ASU 2018-07, “FASB Simplifies Guidance on Nonemployee Share-Based Payments,” which supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most of its requirements related to classification and measurement, applies to nonemployee share-based payment arrangements. The Company adopted ASU 2018-07 during the first quarter of fiscal 2020. The adoption did not have an impact on the Company’s condensed consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate (or portion thereof) in the Tax Cut and Jobs Act is recorded. The Company adopted ASU 2018-02 during the first quarter of fiscal 2020. The adoption did not have an impact on the Company’s condensed consolidated financial statements.

Issued Accounting Guidance Being Evaluated for Adoption

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” Subsequently, the FASB issued amendments to clarify the codification, in addition to also clarifying the implementation dates and the items that fall within the scope of the pronouncement. This pronouncement will change how entities account for credit impairment for trade and other receivables, as well as for certain financial assets and other instruments. ASU 2016-13 will replace the current “incurred loss” model with an “expected loss” model. Under the “incurred loss” model, a loss (or allowance) is recognized only when an event has occurred (such as a payment delinquency) that causes the entity to believe that a loss is probable (i.e., that it has been “incurred”). Under the “expected loss” model, an entity will recognize a loss (or allowance) upon initial recognition of the asset that reflects all future events that may lead to a loss being realized, regardless of whether it is probable that the future event will occur. The “incurred loss” model considers past events and current conditions, while the “expected loss” model includes expectations for the future which have yet to occur. The new standard will require entities to record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2016-13 on its condensed consolidated financial statements.

[Table of Contents](#)

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,” which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement among or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. The amendments in ASU 2018-13 modify the disclosure requirements with respect to fair value measurements based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting —Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2018-13 on its condensed consolidated financial statements.

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

Unless the context otherwise requires, “G-III,” “us,” “we” and “our” refer to G-III Apparel Group, Ltd. and its subsidiaries. References to fiscal years refer to the year ended or ending on January 31 of that year. For example, our fiscal year ending January 31, 2020 is referred to as “fiscal 2020.” Vilebrequin, KLH, KLNA and Fabco report results on a calendar year basis rather than on the January 31 fiscal year basis used by G-III. Accordingly, the results of Vilebrequin, KLH, KLNA and Fabco are, and will be, included in our financial statements for the quarter ended or ending closest to G-III’s fiscal quarter end. For example, with respect to our results for the six-month period ended July 31, 2019, the results of Vilebrequin, KLH, KLNA and Fabco are included for the six-month period ended June 30, 2019. We account for our investment in each of KLH, KLNA and Fabco using the equity method of accounting. The Company’s retail operations segment uses a 52/53-week fiscal year. The Company’s three and six-month periods ended July 31, 2019 and 2018 were each a 13-week fiscal quarter and 26-week period, respectively, for the retail operations segment. For fiscal 2020 and 2019, the retail operations segment three month periods ended on August 3, 2019 and August 4, 2018, respectively.

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

- our dependence on licensed products;
- our dependence on the strategies and reputation of our licensors;
- costs and uncertainties with respect to expansion of our product offerings;
- the performance of our products at retail and customer acceptance of new products;
- retail customer concentration;
- risks of doing business abroad;
- price, availability and quality of materials used in our products;
- the need to protect our trademarks and other intellectual property;
- risks relating to our retail business;
- dependence on existing management;
- our ability to make strategic acquisitions and possible disruptions from acquisitions;
- need for additional financing;
- seasonal nature of our business;
- our reliance on foreign manufacturers;
- the need to successfully upgrade, maintain and secure our information systems;
- data security or privacy breaches;
- the impact of the current economic and credit environment on us, our customers, suppliers and vendors;
- the effects of competition in the markets in which we operate, including from e-commerce retailers;
- the redefinition of the retail store landscape in light of widespread retail store closings, the bankruptcy of a number of prominent retailers and the impact of online apparel purchases and innovations by e-commerce retailers;
- consolidation of our retail customers;
- the impact on our business of the imposition of tariffs by the United States government and the escalation of trade tensions between countries;
- additional legislation and/or regulation in the United States or around the world;
- our ability to import products in a timely and cost effective manner;
- our ability to continue to maintain our reputation;
- fluctuations in the price of our common stock;
- potential effect on the price of our common stock if actual results are worse than financial forecasts;
- the effect of regulations applicable to us as a U.S. public company; and

[Table of Contents](#)

- our ability to successfully implement our business strategies to realize the anticipated benefits of the acquisition of Donna Karan International Inc. (“DKI”).

Any forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2019. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

G-III designs, sources and markets an extensive range of apparel, including outerwear, dresses, sportswear, swimwear, women’s suits and women’s performance wear, as well as women’s handbags, footwear, small leather goods, cold weather accessories and luggage. G-III has a substantial portfolio of more than 30 licensed and proprietary brands, anchored by five global power brands: DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld Paris. We are not only licensees, but also brand owners, and we distribute our products through multiple brick and mortar and online channels.

Our own proprietary brands include DKNY, Donna Karan, Vilebrequin, G.H. Bass, Eliza J, Jessica Howard, Andrew Marc and Marc New York. We sell products under an extensive portfolio of well-known licensed brands, including Calvin Klein, Tommy Hilfiger, Karl Lagerfeld Paris, Kenneth Cole, Cole Haan, Guess?, Vince Camuto, Levi’s and Dockers. Through our team sports business, we have licenses with the National Football League, National Basketball Association, Major League Baseball, National Hockey League, Starter and over 150 U.S. colleges and universities. We also source and sell to retailers products under their private retail labels.

We operate in fashion markets that are intensely competitive. Our ability to continuously evaluate and respond to changing consumer demands and tastes, across multiple market segments, distribution channels and geographic areas is critical to our success. Although our portfolio of brands is aimed at diversifying our risks in this regard, misjudging shifts in consumer preferences could have a negative effect on our business. Our success in the future will depend on our ability to design products that are accepted in the marketplace, source the manufacture of our products on a competitive basis, and continue to diversify our product portfolio and the markets we serve.

Segments

We report based on two segments: wholesale operations and retail operations.

Our wholesale operations segment includes sales of products to retailers under owned, licensed and private label brands, as well as sales related to the Vilebrequin business. Wholesale revenues also include royalty revenues from license agreements related to our owned trademarks including DKNY, Donna Karan, Vilebrequin, G.H. Bass and Andrew Marc.

Our retail operations segment includes direct sales to consumers through company-operated stores and product sales through our owned websites for the DKNY, Donna Karan, Wilsons, G.H. Bass, Andrew Marc and Karl Lagerfeld Paris businesses. Our retail operations segment consists primarily of our Wilsons Leather, G.H. Bass and DKNY stores, substantially all of which are operated as outlet stores, as well as a smaller number of Karl Lagerfeld Paris and Calvin Klein Performance stores. As of July 31, 2019, we operated 132 Wilsons Leather stores, 106 G.H. Bass stores, 38 DKNY stores, 12 Karl Lagerfeld Paris stores and 4 Calvin Klein Performance stores.

Licensed Products

For more than 25 years, the sale of licensed products has been a key element of our strategy. We have continually sought to increase our portfolio of name brands, product offerings and tiers of distribution because we believe that consumers prefer to buy brands that they know and brand owners prefer to engage licensees who have a successful track record of developing brands.

[Table of Contents](#)

Our most significant licensor is Calvin Klein with whom we have eleven different license agreements in the United States and Canada. We also have distribution agreements with respect to Calvin Klein luggage in a number of foreign countries. In June 2019, we expanded our relationship with Calvin Klein by entering into a license agreement with an initial term of five years for the design, production and wholesale distribution of *Calvin Klein Jeans* women's jeanswear in the United States and Canada. This was our eleventh license agreement with Calvin Klein. Shipments of our first *Calvin Klein Jeans* women's jeanswear line are expected to begin this holiday season.

We also have a significant relationship with Tommy Hilfiger, with whom we have a multi-category womenswear license in the United States and Canada. This license for women's sportswear, dresses, suit separates, performance and denim is in addition to our Tommy Hilfiger men's and women's outerwear license and Tommy Hilfiger luggage license, both also in the United States and Canada.

Licensing of Proprietary Brands

We currently license our proprietary brands in a variety of categories and continue to seek new licensing opportunities for these brands to broaden the reach of these brands.

We have strong relationships with category leading license partners, including, but not limited to, Estee Lauder, Fossil, Marchon, Komar and PVH Corp. The DKNY and Donna Karan brands have worldwide license agreements for a broad array of products including fragrance, hosiery, intimates, eyewear, jewelry, bedding and bath products and women's sleepwear and loungewear. Additionally, we license the DKNY brand in the United States and internationally for children's clothing, men's and women's watches, men's tailored clothing, men's sportswear, men's dress shirts, men's neckwear, men's underwear, men's loungewear, men's swimwear, men's belts and small leather goods, women's belts and cold weather accessories and men's and women's socks. We have also licensed the DKNY and Donna Karan brands for men's and women's apparel and accessories in China pursuant to a long-term license agreement with a joint venture of which we are a 49% owner. In July 2019, we signed a new license for DKNY furniture in the United States, Canada, Mexico and China.

We intend to continue to focus on expanding licensing opportunities for the DKNY and Donna Karan brands. We believe that we can capitalize on significant, untapped global licensing potential for these brands in a number of categories and we intend to grow royalty streams by expanding existing licenses, as well as through new categories with new licensees.

We license the G.H. Bass brand in the United States and internationally for men's, women's and children's footwear, men's sportswear, men's socks, women's hosiery and men's accessories, men's belts and small leather goods, men's underwear and loungewear and bedding and bath products.

We license the Vilebrequin brand internationally for a denim line and the Andrew Marc brand in North America for men's and boy's tailored clothing.

Retail Operations

Given the current retail environment, we remain committed to eliminating the losses from our own retail operations as swiftly and efficiently as possible. Our strategy includes termination or renegotiation of long-term leases as they approach renewal, implementing cost-cutting initiatives, revising our merchandising strategy to drive additional sales and repurposing certain Wilsons and G.H. Bass stores for the Karl Lagerfeld Paris or DKNY brands. To lead this effort, in January 2019, we hired a new President of our retail business who is an industry veteran with a proven track record at leading retailers. We are moving in a parallel path of trying to improve the products offered by and the results of our retail businesses, while also reducing our store count more aggressively than we have in the past. Looking ahead for the fall and holiday season, we anticipate some performance benefits from product enhancements we have implemented. At the same time, we continue to focus on reducing our expense base. We recognize the need to be more aggressive in addressing the issues related to our own retail operations. In July 2019, we engaged outside advisors to assist us with this process.

Trends

Significant trends that affect the apparel industry include retail chains closing unprofitable stores, an increased focus by retail chains and others on expanding e-commerce sales and providing convenience-driven fulfillment options, the continued consolidation of retail chains and the desire on the part of retailers to consolidate vendors supplying them. In addition, consumer shopping preferences have continued to shift from physical stores to online shopping and retail traffic remains under pressure. All of these factors have led to a more promotional retail environment that includes aggressive markdowns in an attempt to offset declines caused by a reduction in physical store traffic.

We sell our products over the web through retail partners such as macys.com and nordstrom.com, each of which has a substantial online business. As e-commerce sales of apparel continue to increase, we are developing additional digital marketing initiatives on our web sites and through social media. We are investing in digital personnel, marketing, logistics, planning and distribution to help us expand our online opportunities going forward. Our e-commerce business consists of our own web platforms at www.dkny.com, www.donnakaran.com, www.wilsonsleather.com, www.ghbass.com, www.vilebrequin.com and www.andrewmarc.com. We also sell Karl Lagerfeld Paris products on our website, www.karllagerfeldparis.com. In addition, we sell to pure play online retail partners such as Amazon and Fanatics.

A number of retailers are experiencing financial difficulties, which in some cases have resulted in bankruptcies, liquidations and/or store closings, such as the bankruptcy of Bon-Ton last year. The financial difficulties of a retail customer of ours could result in reduced business with that customer. We may also assume higher credit risk relating to receivables of a retail customer experiencing financial difficulty that could result in higher reserves for doubtful accounts or increased write-offs of accounts receivable. We attempt to mitigate credit risk from our customers by closely monitoring accounts receivable balances and shipping levels, as well as the ongoing financial performance and credit standing of customers.

Retailers are seeking to differentiate their offerings by devoting more resources to the development of exclusive products, whether by focusing on their own private label products or on products produced exclusively for a retailer by a national brand manufacturer. Exclusive brands are only made available to a specific retailer, and thus customers loyal to their brands can only find them in the stores of that retailer.

We have attempted to respond to trends in our industry by continuing to focus on selling products with recognized brand equity, by attention to design, quality and value and by improving our sourcing capabilities. We have also responded with the strategic acquisitions made by us and new license agreements entered into by us that added to our portfolio of licensed and proprietary brands and helped diversify our business by adding new product lines and expanding distribution channels. We believe that our broad distribution capabilities help us to respond to the various shifts by consumers between distribution channels and that our operational capabilities will enable us to continue to be a vendor of choice for our retail partners.

Tariffs

The apparel and accessories industry has been impacted by tariffs implemented by the United States government on goods imported from China. Tariffs on handbags and leather outerwear imported from China were effective beginning in September 2018, and were initially in the amount of 10% of the merchandise cost to us. The level of tariffs on these product categories was increased to 25% beginning May 10, 2019.

The initial tariffs imposed on products imported by us from China primarily impacted our handbag and leather outerwear categories. These specific categories represented approximately 7% of our net sales in fiscal 2019. If the incremental 15% increase in tariffs on these categories remain in place for the remainder of fiscal 2020, we estimate that our costs would increase by approximately \$6.0 million.

On August 1, 2019, the United States government announced new 10% tariffs that will cover the remaining estimated \$300 billion of inbound trade from China, including most of our apparel products. On August 23, 2019, the United States government announced that the new tariffs to go into effect would increase from 10% to 15%. The new 15% tariffs went into effect on September 1, 2019, although the additional tariffs on certain categories of products were delayed until December 15, 2019. The announcement follows an earlier proposal by the United States government that would have imposed 25% tariffs on the balance of inbound trade from China, but that were suspended pending trade negotiations with China. It is difficult to accurately estimate the impact on our business from these tariff actions or similar actions or when additional tariffs may become effective. For fiscal 2019, approximately 61% of the products that we sold were manufactured in China. Assuming no offsets from price increases, sourcing changes or other changes to regulatory rulings, all of which are currently under review, we estimate that the additional 15% tariff effective as of September 1, 2019 will increase our costs in the second half of fiscal 2020 by approximately \$12.0 million.

The United States government continues to negotiate with China with respect to a trade deal, which could lead to the removal or postponement of the additional tariffs. If the U.S. and China are not able to resolve their differences, additional tariffs may be put in place and additional products may become subject to tariffs. Tariffs on additional products imported by us from China would increase our costs, could require us to increase prices to our customers and would cause us to seek price concessions from our vendors. If we are unable to increase prices to offset an increase in tariffs, this would result in our realizing lower gross margins on the products sold by us and could harm our operating results. We have engaged in a number of efforts to mitigate the effect on our results of operations of increases in tariffs on products imported by us from China, including accelerating the receipt of inventory, diversifying our sourcing network by arranging to move production out of China, negotiating with our vendors in China to receive vendor support to lessen the impact of increased tariffs on our cost of goods sold, and discussing with our customers the implementation of price increases that we believe our products can absorb because of the strength of our portfolio of brands.

Results of Operations

Three months ended July 31, 2019 compared to three months ended July 31, 2018

Net sales for the three months ended July 31, 2019 increased to \$643.9 million from \$624.7 million in the same period last year. Net sales of our segments are reported before intercompany eliminations.

Net sales of our wholesale operations segment increased to \$588.6 million for the three months ended July 31, 2019 from \$544.6 million in the comparable period last year. This increase is primarily the result of a \$23.8 million increase in net sales of Tommy Hilfiger licensed products and a \$17.1 million increase in net sales of our DKNY and Donna Karan products. The Tommy Hilfiger increase was primarily related to the sportswear, outerwear, dress and suits product lines and the DKNY/Donna Karan increase was primarily related to the handbag, outerwear, sportswear, footwear and suit separates product lines. Net sales of Calvin Klein licensed products increased \$14.4 million primarily related to the sportswear, outerwear and handbag product lines. These increases were offset, in part, by a \$10.8 million decrease in sales of Ivanka Trump product in connection with the expiration of that license.

Net sales of our retail operations segment were \$83.7 million for the three months ended July 31, 2019 compared to \$106.7 million in the same period last year. Net sales decreased \$12.3 million at our G.H. Bass store chain, \$8.9 million at our Wilsons retail stores and \$2.1 million at our DKNY retail stores. Same store sales decreased by 20.5% at Wilsons stores and 15.8% at G.H. Bass stores compared to the same period in the prior year. Same store sales increased by 2.8% at DKNY stores compared to the same period in the prior year. Net sales of our retail operations segment were negatively affected by the decrease in the number of stores operated by us from 347 at July 31, 2018 to 292 at July 31, 2019.

Gross profit was \$231.8 million, or 36.0% of net sales, for the three months ended July 31, 2019, compared to \$231.5 million, or 37.1% of net sales, in the same period last year. Retail sales generally have a higher gross profit percentage than wholesale sales. Accordingly, there is a negative impact on the gross profit percentage of our business as a whole as retail sales constitute a reduced percentage of our total sales. The gross profit percentage in our wholesale operations segment was 32.8% in the three months ended July 31, 2019 compared to 33.4% in the same period last year. The gross profit percentage in our retail operations segment was 46.5% for the three months ended July 31, 2019 compared to 46.6% for the same period last year.

[Table of Contents](#)

Selling, general and administrative expenses decreased to \$196.4 million in the three months ended July 31, 2019 from \$198.9 million in the same period last year. The decrease in expenses was primarily due to a decrease of \$6.2 million in rent and personnel costs resulting from store closures, which were offset, in part, by an increase of \$2.3 million in the accrual for annual incentive bonuses and additional advertising of \$1.0 million.

Depreciation and amortization were \$9.8 million for the three months ended July 31, 2019 compared to \$9.5 million in the same period last year. The increase in expense is primarily due to depreciation related to additional capital expenditures.

Other loss was \$0.8 million in the three months ended July 31, 2019 compared to less than \$0.1 million in the same period last year. This increase is primarily the result of recording \$0.4 million of foreign currency losses during the three months ended July 31, 2019 compared to \$0.4 million of foreign currency gains recorded during the three months ended July 31, 2019. In addition, we recorded a \$0.4 million loss from unconsolidated affiliates during the three months ended July 31, 2019 compared to \$0.5 million in the same period last year.

Interest and financing charges, net, for the three months ended July 31, 2019 were \$10.8 million compared to \$10.2 million for the same period last year. This increase was due to higher interest rates and higher average borrowings.

Income tax expense was \$4.3 million for the three months ended July 31, 2019 compared to \$2.9 million for the same period last year primarily as a result of recording additional pre-tax book income. Our effective tax rate increased to 27.7% in the current year's quarter from 22.4% in last year's comparable quarter. Our effective tax rate includes the effect of an income tax charge of \$0.2 million in the three months ended July 31, 2019 and an income tax benefit of \$0.1 million in the three months ended July 31, 2018 in connection with the vesting of equity awards. In addition, our effective tax rate for the three months ended July 31, 2018 includes a \$0.3 million income tax benefit in connection with changes to state tax legislatures that increased our deferred tax assets.

Six months ended July 31, 2019 compared to six months ended July 31, 2018

Net sales for the six months ended July 31, 2019 increased to \$1.28 billion from \$1.24 billion in the same period last year. Net sales of our segments are reported before intercompany eliminations.

Net sales of our wholesale operations segment increased to \$1.16 billion for the six months ended July 31, 2019 from \$1.07 billion in the comparable period last year. This increase is primarily the result of a \$67.4 million increase in net sales of Tommy Hilfiger licensed products and a \$32.6 million increase in net sales of our DKNY and Donna Karan products. The Tommy Hilfiger increase was primarily related to the performance, sportswear, dress, suit separates and denim product lines and the DKNY/Donna Karan increase was primarily related to the handbag, women's outerwear, performance, sportswear and footwear product lines. Net sales of Calvin Klein licensed products increased \$14.5 million primarily related to the handbag, performance and outerwear product lines. These increases were offset, in part, by a \$20.9 million decrease in sales of Ivanka Trump product in connection with the expiration of that license.

Net sales of our retail operations segment were \$165.6 million for the six months ended July 31, 2019 compared to \$211.2 million in the same period last year. Net sales decreased \$20.6 million at each of our G.H. Bass store chain and our Wilsons retail stores and \$4.2 million at our DKNY retail stores. Same store sales decreased by 21.9% at Wilsons stores and 13.6% at G.H. Bass stores compared to the same period in the prior year. Same store sales increased by 1.0% at DKNY stores compared to the same period in the prior year. Net sales of our retail operations segment were negatively affected by the decrease in the number of stores operated by us from 347 at July 31, 2018 to 292 at July 31, 2019.

Gross profit was \$467.8 million, or 36.6% of net sales, for the six months ended July 31, 2019, compared to \$466.1 million, or 37.7% of net sales, in the same period last year. Retail sales generally have a higher gross profit percentage than wholesale sales. Accordingly, there is a negative impact on the gross profit percentage of our business as a whole as retail sales constitute a reduced percentage of our total sales. The gross profit percentage in our wholesale operations segment was 33.8% in the six months ended July 31, 2019 compared to 34.3% in the same period last year. The gross profit percentage in our retail operations segment was 45.8% for the six months ended July 31, 2019 compared to 46.5% for the same period last year.

[Table of Contents](#)

Selling, general and administrative expenses decreased to \$398.3 million in the six months ended July 31, 2019 from \$400.9 million in the same period last year. The decrease in expenses was primarily due to a \$14.2 million decrease in rent, personnel costs and other benefits primarily as a result of store closures. The decrease was offset, in part, by increases of \$5.4 million for third-party warehouse expenses, \$3.3 million in the accrual for annual incentive bonuses and \$2.3 million of advertising expenses.

Depreciation and amortization were \$19.3 million for the six months ended July 31, 2019 compared to \$18.8 million in the same period last year. The increase in expense is primarily due to depreciation related to additional capital expenditures.

Other loss was \$1.4 million in the six months ended July 31, 2019 compared to \$0.5 million in the same period last year. This increase is primarily the result of recording \$1.0 million of foreign currency losses during the six months ended July 31, 2019 compared to \$1.3 million of foreign currency gains recorded during the six months ended July 31, 2019. In addition, we recorded a \$0.4 million loss from unconsolidated affiliates during the six months ended July 31, 2019 compared to \$1.8 million in the same period last year.

Interest and financing charges, net, for the six months ended July 31, 2019 were \$21.1 million compared to \$19.8 million for the same period last year. This increase was due to higher interest rates and higher average borrowings.

Income tax expense was \$6.8 million for the six months ended July 31, 2019 compared to \$6.0 million for the same period last year. Our effective tax rate decreased to 22.7% in the current period from 23.2% in the same period last year. Our effective tax rate includes the effect of an income tax benefit of \$1.3 million in the six months ended July 31, 2019 and \$0.4 million in the six months ended July 31, 2018 in connection with the vesting of equity awards.

Liquidity and Capital Resources

Term Loan

On December 1, 2016, we borrowed \$350.0 million under a senior secured term loan facility (the “Term Loan”). Additionally, on December 1, 2016, we prepaid \$50.0 million in principal amount of the Term Loan, reducing the principal balance of the Term Loan to \$300.0 million. The Term Loan will mature in December 2022.

Interest on the outstanding principal amount of the Term Loan accrues at a rate equal to the London Interbank Offered Rate (“LIBOR”), subject to a 1% floor, plus an applicable margin of 5.25% or an alternate base rate (defined as the greatest of (i) the “prime rate” as published by the Wall Street Journal from time to time, (ii) the federal funds rate plus 0.5% and (iii) the LIBOR rate for a borrowing with an interest period of one month) plus 4.25%, per annum, payable in cash. As of July 31, 2019, interest under the Term Loan was being paid at the average rate of 7.73% per annum.

The Term Loan is secured (i) on a first-priority basis by a lien on, among other things, our real estate assets, equipment and fixtures, equity interests and intellectual property and certain related rights owned by us and by certain of our subsidiaries and (ii) by a second-priority security interest in our and certain of our subsidiaries other assets, which will secure on a first-priority basis our asset-based loan facility described below under the caption “Revolving Credit Facility.”

The Term Loan is required to be prepaid with the proceeds of certain asset sales if such proceeds are not applied as required by the agreement within specified deadlines. The Term Loan is also required to be prepaid in an amount equal to 75% of our Excess Cash Flow (as defined in the agreement) with respect to each fiscal year ending on or after January 31, 2018. The percentage of Excess Cash Flow that must be so applied is reduced to 50% if our senior secured leverage ratio is less than 3.00 to 1.00, to 25% if our senior secured leverage ratio is less than 2.75 to 1.00 and to 0% if our senior secured leverage ratio is less than 2.25 to 1.00.

The Term Loan contains covenants that, among other things, restrict our ability, subject to certain exceptions, to incur additional debt; incur liens; sell or dispose of certain assets; merge with other companies; liquidate or dissolve G-III; acquire other companies; make loans, advances, or guarantees; and make certain investments. As described above, the Term Loan also includes a mandatory prepayment provision with respect to Excess Cash Flow. A first lien leverage covenant requires the Company to maintain a level of debt to EBITDA at a ratio as defined over the term of the agreement. As of July 31, 2019, we were in compliance with these covenants.

Revolving Credit Facility

On December 1, 2016, our previous credit agreement was refinanced and replaced by a five-year senior secured revolving credit facility providing for borrowings in the aggregate principal amount of up to \$650 million (the “revolving credit facility”). Amounts available under the revolving credit facility are subject to borrowing base formulas and over advances as specified in the revolving credit facility agreement. Borrowings bear interest, at our option, at LIBOR plus a margin of 1.25% to 1.75% or an alternate base rate (defined as the greatest of (i) the “prime rate” of JPMorgan Chase Bank, N.A. from time to time, (ii) the federal funds rate plus 0.5% and (iii) the LIBOR rate for a borrowing with an interest period of one month) plus a margin of 0.25% to 0.75%, with the applicable margin determined based on the availability under the revolving credit facility agreement. As of July 31, 2019, interest under the revolving credit agreement was being paid at the average rate of 3.68% per annum. The revolving credit facility is secured by specified assets of us and certain of our subsidiaries. In addition to paying interest on any outstanding borrowings under the revolving credit facility, we are required to pay a commitment fee to the lenders under the revolving credit facility agreement with respect to the unutilized commitments. The commitment fee accrues at a rate equal to 0.25% per annum on the average daily amount of the available commitment.

The revolving credit facility contains covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur liens; sell or dispose of certain assets; merge with other companies; liquidate or dissolve G-III; acquire other companies; make loans, advances, or guarantees; and make certain investments. In certain circumstances, the revolving credit facility also requires us to maintain a fixed charge coverage ratio, as defined in the agreement, that may not be less than 1.00 to 1.00 for each period of twelve consecutive fiscal months. As of July 31, 2019, we were in compliance with these covenants.

LVMH Note

On December 1, 2016, we issued to LVMH Moët Hennessy Louis Vuitton Inc. (“LVMH”), as a portion of the consideration for the acquisition of DK1, a junior lien secured promissory note in the principal amount of \$125.0 million (the “LVMH Note”) that bears interest at the rate of 2% per year. \$75.0 million of the principal amount of the LVMH Note is due and payable on June 1, 2023 and \$50.0 million of such principal amount is due and payable on December 1, 2023. Based on an independent valuation, it was determined that the LVMH Note should be treated as having been issued at a discount of \$40.0 million in accordance with ASC 820 – *Fair Value Measurements*. This discount is being amortized as interest expense using the effective interest method over the term of the LVMH Note.

In connection with the issuance of the LVMH Note, LVMH entered into (i) a subordination agreement providing that our obligations under the LVMH Note are subordinate and junior to our obligations under the revolving credit facility and the Term Loan, and (ii) a pledge and security agreement with us and our subsidiary, G-III Leather Fashions, Inc. (“G-III Leather”), pursuant to which we and G-III Leather granted to LVMH a security interest in specified collateral to secure our payment and performance of our obligations under the LVMH Note that is subordinate and junior to the security interest granted by us with respect to our obligations under the revolving credit facility and the Term Loan.

Unsecured Loan

On April 15, 2019, T.R.B. International SA (“TRB”), a subsidiary of Vilebrequin, borrowed €3.0 million under an unsecured loan with Banque du Leman S.A (the “Unsecured Loan”). The Unsecured Loan matures on April 15, 2024. During the term of the Unsecured Loan, TRB is required to make quarterly installment payments of €0.2 million. Interest on the outstanding principal amount of the Unsecured Loan accrues at a fixed rate equal to 1.50% per annum, payable in cash.

Outstanding Borrowings

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

[Table of Contents](#)

We incurred significant additional debt in connection with our acquisition of DKI. We had borrowings outstanding under the revolving credit facility of \$160.0 million and \$111.4 million at July 31, 2019 and 2018, respectively. In addition, we had \$300.0 million in borrowings outstanding under the Term Loan at both July 31, 2019 and 2018. Our contingent liability under open letters of credit was approximately \$13.4 million and \$15.8 million at July 31, 2019 and 2018, respectively. In addition to the amounts outstanding under these two loan agreements, at July 31, 2019 and 2018, we had \$125.0 million of face value principal amount outstanding under the LVMH Note. As of June 30, 2019, we also had €2.9 million (\$3.3 million) outstanding under the Unsecured Loan.

We had cash and cash equivalents of \$39.6 million on July 31, 2019 and \$42.3 million on July 31, 2018.

Share Repurchase Program

Our Board of Directors has authorized a share repurchase program of 5,000,000 shares. The timing and actual number of shares repurchased, if any, will depend on a number of factors, including market conditions and prevailing stock prices, and are subject to compliance with certain covenants contained in our loan agreement. Share repurchases may take place on the open market, in privately negotiated transactions or by other means, and would be made in accordance with applicable securities laws. We repurchased 1,327,566 shares of our common stock during the three months ended July 31, 2019 for an aggregate purchase price of \$35.2 million. We have 2,949,362 authorized shares remaining under this program. As of September 3, 2019, we had 47,745,045 shares of common stock outstanding.

Cash from Operating Activities

We used \$132.9 million of cash in operating activities during the six months ended July 31, 2019, primarily due to an increase of \$265.8 million in inventories and decreases of \$64.5 million in customer refund liabilities and \$38.3 million in operating lease liabilities. These items were offset, in part, by net income of \$23.2 million, non-cash depreciation and amortization of \$19.3 million, non-cash operating lease costs of \$36.7 million, an increase in accounts payable and accrued expenses of \$109.0 million and a decrease of \$37.5 million in accounts receivable.

The changes in operating cash flow items are consistent with our seasonal pattern of building up inventory for the fall shipping season resulting in the increases in inventory and accounts payable. The fall shipping season begins during the latter half of our second quarter. In addition, we accelerated inventory receipts in anticipation of expected increases in tariffs on apparel products imported from China. Our accounts receivable and customer refund liabilities decreased because we experience lower sales levels in our first and second quarters than in our third and fourth quarters.

Cash from Investing Activities

We used \$19.5 million of cash in investing activities during the six months ended July 31, 2019 for capital expenditures and operating lease assets initial direct costs. Capital expenditures in the period primarily related to information technology expenditures and additional fixturing costs at department stores. Operating lease assets initial direct costs in the period primarily related to payments of key money and broker fees.

Cash from Financing Activities

Net cash provided by financing activities was \$120.8 million during the six months ended July 31, 2019 primarily as a result of the net proceeds of \$160.0 million in borrowings under the revolving credit facility offset, in part, by \$35.2 million of cash used to repurchase shares under our share repurchase program and \$7.4 million for taxes paid in connection with net share settlements.

Financing Needs

We believe that our cash on hand and cash generated from operations over the full fiscal year, together with funds available under our revolving credit facility, are sufficient to meet our expected operating and capital expenditure requirements. We may seek to acquire other businesses in order to expand our business. We may need additional financing in order to complete one or more acquisitions. We cannot be certain that we will be able to obtain additional financing, if required, on acceptable terms or at all.

Critical Accounting Policies

Our discussion of results of operations and financial condition relies on our consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. We believe that investors need to be aware of these policies and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While we believe that these accounting policies are based on sound measurement criteria, actual future events can, and often do, result in outcomes that can be materially different from these estimates or forecasts.

The accounting policies and related estimates described in our Annual Report on Form 10-K for the year ended January 31, 2019 are those that depend most heavily on these judgments and estimates. As of July 31, 2019, there have been no material changes to our critical accounting policies, other than the adoption of new lease accounting standards as discussed in Note 4 to the Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There are no material changes to the disclosure made with respect to these matters in our Annual Report on Form 10-K for the year ended January 31, 2019.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and thus, are effective in making known to them material information relating to G-III required to be included in this report.

During our last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2019 (the “Annual Report”), which could materially affect our business, financial condition or future results. There have been no material changes to these risk factors as of July 31, 2019. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to the Company’s common stock that the Company repurchased during the three months ended July 31, 2019. Included in this table are shares withheld during June and July 2019 in connection with the settlement of vested restricted stock units to satisfy tax withholding requirements.

<u>Date Purchased</u>	<u>Total Number of Shares Purchased ⁽¹⁾ ₍₂₎</u>	<u>Average Price Paid Per Share ⁽¹⁾</u>	<u>Total Number of Share Purchased as Part of Publicly Announced Program ₍₂₎</u>	<u>Maximum Number of Shares that may yet be Purchased Under the Program ⁽²⁾</u>
May 1 - May 31, 2019	—	\$ —	—	4,276,928
June 1 - June 30, 2019	745,788	25.57	703,486	3,573,442
July 1 - July 31, 2019	625,349	27.62	624,080	2,949,362
	<u>1,371,137</u>	<u>\$ 26.50</u>	<u>1,327,566</u>	<u>2,949,362</u>

(1) Included are 43,571 shares withheld during June and July 2019 in connection with the settlement of vested restricted stock units to satisfy tax withholding requirements. The 2015 Long-Term Incentive Plan provides that shares withheld are valued at the closing price per share on the date withheld.

(2) In December 2015, our Board of Directors reapproved and increased a previously authorized share repurchase program from the 3,750,000 shares remaining under that plan to 5,000,000 shares. This program has no expiration date. Repurchases under the program may be made from time to time over the period through open market purchases, accelerated share repurchase programs, privately negotiated transactions or other methods, as we deem appropriate.

Item 6. Exhibits.

- 31.1 [Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to Rule 13a - 14\(a\) or Rule 15d - 14\(a\) of the Securities Exchange Act of 1934, as amended, in connection with G-III Apparel Group, Ltd.'s Quarterly Report on Form 10Q for the fiscal quarter ended July 31, 2019.](#)
- 31.2 [Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to Rule 13a - 14\(a\) or Rule 15d - 14\(a\) of the Securities Exchange Act of 1934, as amended, in connection with G-III Apparel Group, Ltd.'s Quarterly Report on Form 10Q for the fiscal quarter ended July 31, 2019.](#)
- 32.1 [Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd.'s Quarterly Report on Form 10Q for the fiscal quarter ended July 31, 2019.](#)
- 32.2 [Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd.'s Quarterly Report on Form 10Q for the fiscal quarter ended July 31, 2019.](#)
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Schema Document.
- 101.CAL XBRL Calculation Linkbase Document.
- 101.DEF XBRL Extension Definition.
- 101.LAB XBRL Label Linkbase Document.
- 101.PRE XBRL Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

G-III APPAREL GROUP, LTD.
(Registrant)

Date: September 6, 2019

By: /s/ Morris Goldfarb
Morris Goldfarb
Chief Executive Officer

Date: September 6, 2019

By: /s/ Neal S. Nackman
Neal S. Nackman
Chief Financial Officer

CERTIFICATION PURSUANT TO
RULE 13a - 14(a) OR RULE 15d - 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Morris Goldfarb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of G-III Apparel Group, Ltd.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2019

/s/ Morris Goldfarb
Morris Goldfarb
Chief Executive Officer

CERTIFICATION PURSUANT TO
RULE 13a - 14(a) OR RULE 15d - 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Neal S. Nackman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of G-III Apparel Group, Ltd.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2019

/s/ Neal S. Nackman

Neal S. Nackman
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of G-III Apparel Group, Ltd. (the “Company”) on Form 10-Q for the quarterly period ended July 31, 2019, as filed with the Securities and Exchange Commission (the “Report”), I, Morris Goldfarb, Chief Executive Officer of the Company, hereby certify that, to my knowledge, (a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Morris Goldfarb

Morris Goldfarb
Chief Executive Officer

Date: September 6, 2019

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of G-III Apparel Group, Ltd. (the "Company") on Form 10-Q for the quarterly period ended July 31, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Neal S. Nackman, Chief Financial Officer of the Company, hereby certify that, to my knowledge, (a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Neal S. Nackman

Neal S. Nackman
Chief Financial Officer

Date: September 6, 2019

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
