

G III APPAREL GROUP LTD /DE/

Form 10-Q

June 07, 2010

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**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 April 30, 2010

**OR**

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

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

**Commission File Number 0-18183  
G-III APPAREL GROUP, LTD.**

(Exact name of registrant as specified in its charter)

Delaware

41-1590959

(State or other jurisdiction of incorporation or organization)

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

512 Seventh Avenue, New York, New York

10018

(Address of Principal Executive Offices)

(Zip Code)

(212) 403-0500

(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes  No

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

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

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

As of June 1, 2010, there were 19,099,214 shares of our common stock, par value \$0.01 per share, outstanding.



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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****G-III APPAREL GROUP, LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	April 30, 2010 (Unaudited)	April 30, 2009 (Unaudited)	January 31, 2010
	(In thousands, except share and per share amounts)		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 17,869	\$ 2,262	\$ 46,813
Accounts receivable, net of allowance for doubtful accounts and sales discounts of \$28,184, \$17,452 and \$29,092, respectively	82,887	52,307	73,456
Inventories	100,006	89,354	119,877
Prepaid income taxes		5,188	
Deferred income taxes	15,315	11,565	15,315
Prepaid expenses and other current assets	14,561	14,280	10,694
<b>Total current assets</b>	<b>230,638</b>	<b>174,956</b>	<b>266,155</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>11,585</b>	<b>9,755</b>	<b>7,539</b>
<b>DEFERRED INCOME TAXES</b>	<b>10,672</b>	<b>11,640</b>	<b>10,672</b>
<b>OTHER ASSETS</b>	<b>1,893</b>	<b>1,783</b>	<b>1,723</b>
<b>INTANGIBLES, NET</b>	<b>19,482</b>	<b>20,940</b>	<b>19,826</b>
<b>GOODWILL</b>	<b>26,100</b>	<b>25,494</b>	<b>26,100</b>
	<b>\$ 300,370</b>	<b>\$ 244,568</b>	<b>\$ 332,015</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Notes payable	\$	\$ 31,080	\$
Income taxes payable	602		10,874
Accounts payable	37,502	28,966	50,337
Accrued expenses	17,189	14,916	29,333
Contingent purchase price payable		4,935	
Deferred income taxes	1,529	1,578	1,529
<b>Total current liabilities</b>	<b>56,822</b>	<b>81,475</b>	<b>92,073</b>
<b>DEFERRED INCOME TAXES</b>	<b>6,495</b>	<b>6,648</b>	<b>6,495</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>1,877</b>	<b>620</b>	<b>1,237</b>
<b>TOTAL LIABILITIES</b>	<b>65,194</b>	<b>88,743</b>	<b>99,805</b>

**STOCKHOLDERS EQUITY**

Preferred stock; 1,000,000 shares authorized; No shares issued and outstanding			
Common stock \$.01 par value; 40,000,000 shares authorized; 19,466,439, 17,063,002 and 19,192,704 shares issued	195	171	192
Additional paid-in capital	142,104	99,901	137,764
Accumulated other comprehensive loss	(41)		(36)
Retained earnings	93,888	56,723	95,260
Common stock held in treasury 367,225 shares at cost	(970)	(970)	(970)
	235,176	155,825	232,210
	\$ 300,370	\$ 244,568	\$ 332,015

*The accompanying notes are an integral part of these statements.*

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**G-III APPAREL GROUP, LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended April 30,	
	2010	2009
	(Unaudited)	
	(In thousands, except per share amounts)	
Net sales	\$ 154,278	\$ 107,563
Cost of goods sold	105,241	76,348
Gross profit	49,037	31,215
Selling, general and administrative expenses	49,682	40,883
Depreciation and amortization	1,280	1,404
Operating loss	(1,925)	(11,072)
Interest and financing charges, net	362	685
Loss before income taxes	(2,287)	(11,757)
Income tax benefit	(915)	(4,938)
Net loss	\$ (1,372)	\$ (6,819)
<b>NET LOSS PER COMMON SHARE:</b>		
Basic and Diluted:		
Net loss per common share	\$ (0.07)	\$ (0.41)
Weighted average number of shares outstanding	18,903	16,696

*The accompanying notes are an integral part of these statements.*

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

	Three Months Ended April 30,	
	2010	2009
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net loss	\$ (1,372)	\$ (6,819)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,280	1,404
Stock based compensation	661	415
Deferred financing charges	104	140
Changes in operating assets and liabilities:		
Accounts receivable, net	(9,431)	17,389
Inventories	19,871	27,258
Income taxes, net	(10,272)	(10,410)
Prepaid expenses and other current assets	(3,867)	(3,961)
Other assets, net	(274)	(64)
Accounts payable, accrued expenses and other liabilities	(24,339)	(26,800)
Net cash used in operating activities	(27,639)	(1,448)
Cash flows from investing activities		
Capital expenditures	(4,982)	(830)
Net cash used in investing activities	(4,982)	(830)
Cash flows from financing activities		
Proceeds from notes payable, net		2,032
Proceeds from exercise of stock options	1,113	
Tax benefit from exercise/vesting of equity awards	2,569	
Net cash provided by financing activities	3,682	2,032
Effect of exchange rate changes	(5)	
Net decrease in cash and cash equivalents	(28,944)	(246)
Cash and cash equivalents at beginning of period	46,813	2,508
Cash and cash equivalents at end of period	\$ 17,869	\$ 2,262



Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$	258	\$	751
Income taxes		6,788		5,446

*The accompanying notes are an integral part of these statements.*

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**G-III APPAREL GROUP, LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Basis of Presentation**

As used in these financial statements, the term Company refers to G-III Apparel Group, Ltd. and its wholly-owned subsidiaries. The results for the three month period ended April 30, 2010 are not necessarily indicative of the results expected for the entire fiscal year, given the seasonal nature of the Company's business. The accompanying financial statements included herein are unaudited. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim period presented have been reflected.

The Company consolidates the accounts of all its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated.

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 filed with the Securities and Exchange Commission for the fiscal year ended January 31, 2010.

**Note 2 Inventories**

Wholesale inventories are stated at the lower of cost (determined by the first-in, first out method) or market. Retail inventories are valued at the lower of cost or market as determined by the retail inventory method. Inventories consist of:

	April 30, 2010	April 30, 2009	January 31, 2010
	(In thousands)		
Finished goods	\$ 93,531	\$ 85,273	\$ 116,627
Raw materials and work-in-process	6,475	4,081	3,250
	\$ 100,006	\$ 89,354	\$ 119,877

**Note 3 Net Loss per Common Share**

Basic net loss per share has been computed using the weighted average number of common shares outstanding during each period. Diluted net income per share, when applicable, is computed using the weighted average number of common shares and potential dilutive common shares, consisting of stock options, stock purchase warrants and unvested restricted stock awards outstanding during the period. All stock options, warrants and restricted stock outstanding as of April 30, 2010 and 2009 have been excluded from the diluted per share calculation as their inclusion would be anti-dilutive. For the year ended January 31, 2010 and the three months ended April 30, 2010, 222,702 and 273,735 shares of common stock, respectively, were issued in connection with the exercise or vesting of equity awards.

**Note 4 Notes Payable**

The Company has a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The financing agreement is a senior secured revolving credit facility. The interest rate under this credit facility during the three month period ended April 30, 2010 was the prime rate plus 0.75%, or LIBOR plus 3.00%, at the Company's option. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires the Company, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined, and also limits payments for cash dividends and stock redemptions. As of April 30, 2010, the Company was in compliance with these covenants. The financing agreement is secured by all of the Company's assets.



**Table of Contents****Note 4 Notes Payable (continued)**

The financing agreement was amended in May 2010 to (a) increase the maximum line of credit from \$250 million to \$300 million; (b) reduce the interest rate on borrowings to, at the Company's option, the prime rate plus 0.50% or LIBOR plus 2.75%, (c) extend the maturity of the loan from July 11, 2011 to July 31, 2013, and (d) revise the maximum senior leverage ratio that must be maintained.

**Note 5 Segments**

The Company's reportable segments are business units that offer different products and are managed separately. The Company operates in three segments; wholesale licensed apparel, wholesale non-licensed apparel and retail operations. There is substantial intersegment cooperation, cost allocations and sharing of assets. As a result, the Company does not represent that these segments, if operated independently, would report the operating results below. The following information, in thousands, is presented for the three month period indicated below:

	Three Months Ended April 30,					
	Wholesale Licensed	2010 Wholesale Non- Licensed	Retail	Wholesale Licensed	2009 Wholesale Non- Licensed	Retail
Net sales <sup>(1)</sup>	\$ 92,432	\$ 40,265	\$ 30,006	\$ 59,997	\$ 28,779	\$ 27,157
Cost of goods sold <sup>(1)</sup>	68,271	28,587	16,808	45,229	22,836	16,653
Gross profit	24,161	11,678	13,198	14,768	5,943	10,504
Selling, general and administrative	26,666	9,078	13,938	19,246	7,406	14,231
Depreciation and amortization	154	815	311	209	919	276
Operating profit (loss)	\$ (2,659)	\$ 1,785	\$ (1,051)	\$ (4,687)	\$ (2,382)	\$ (4,003)

(1) Net sales and cost of goods sold for the wholesale licensed apparel and wholesale non-licensed apparel segments include an aggregate of \$8.4 million of intersegment sales to the Company's retail operations for

each of the three  
months ended  
April 30, 2010  
and 2009.

Included in finished goods inventory at April 30, 2010 are approximately \$52.6 million, \$16.6 million and \$24.3 million of inventories for wholesale licensed apparel, wholesale non-licensed apparel and retail operations, respectively. Included in finished goods inventory at April 30, 2009 are approximately \$46.9 million, \$17.5 million and \$20.9 million of inventories for wholesale licensed apparel, wholesale non-licensed apparel and retail operations, respectively. All other assets are commingled.

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

Unless the context otherwise requires, G-III, us, we and our refer to G-III Apparel Group, Ltd. and its subsidiaries.

References to fiscal years refer to the year ended or ending on January 31 of that year. For example, our fiscal year ending January 31, 2010 is referred to as fiscal 2010.

Statements in this Quarterly Report on Form 10-Q concerning our business outlook or future economic performance; anticipated revenues, expenses or other financial items; product introductions and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matter, are forward-looking statements as that term is defined under the Federal securities laws. Forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those stated in such statements. Such risks, uncertainties and factors include, but are not limited to, reliance on licensed product, reliance on foreign manufacturers, risks of doing business abroad, the current economic and credit environment, the nature of the apparel industry, including changing consumer demand and tastes, customer concentration, seasonality, risks of operating a retail business, customer acceptance of new products, the impact of competitive products and pricing, dependence on existing management, possible disruption from acquisitions and general economic conditions, as well as other risks detailed in the Company's filings with the Securities and Exchange Commission, including this Quarterly Report on Form 10-Q.

**Overview**

G-III designs, manufactures, and markets an extensive range of outerwear, sportswear and dresses, including coats, jackets, pants and women's suits. We sell our products under our own proprietary brands, which include the Andrew Marc, Marc New York and Marc Moto labels, licensed brands and private retail labels. G-III also operates retail stores, almost all of which are outlet stores operated under the Wilsons Leather name. While our products are sold at a variety of price points through a broad mix of retail partners and our own outlet stores, a majority of our sales are concentrated with our ten largest customers.

Our business is dependent on, among other things, retailer and consumer demand for our products. We believe that significant economic uncertainty and a slowdown in the global macroeconomic environment continue to negatively impact the level of consumer spending for discretionary items. The current uncertain economic environment has been characterized by a decline in consumer discretionary spending that has affected retailers and sellers of consumer goods, particularly those whose goods are viewed as discretionary purchases, such as fashion apparel and related products, such as ours. We cannot predict the direction in which the current economic environment will move. Continued uncertain macroeconomic conditions and concerns about the access of retailers and consumers to credit may have a negative impact on our results for fiscal 2011.

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 geographies 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 markets we serve, source the manufacture of our products on a competitive basis, and continue to diversify our product portfolio and the markets we serve.

We have expanded our portfolio of proprietary and licensed brands for more than 15 years through acquisitions and by entering into license agreements for new brands or for additional products under previously licensed brands. We have made five acquisitions since July 2005 that have helped to broaden our product offerings, expand our ability to serve different tiers of distribution and add a retail component to our business.

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In February 2008, we acquired Andrew Marc, a supplier of fine outerwear for both men and women to upscale specialty and department stores. As a result of this acquisition, we added Andrew Marc and Marc New York as additional company-owned brands and Levi's and Dockers as additional licensed brands. We believe that the Andrew Marc brand can be leveraged into a variety of new categories to become a meaningful lifestyle brand for us. Since we acquired Andrew Marc, we have entered into agreements to license the Andrew Marc and Marc New York brands for women's footwear, men's accessories, women's handbags and men's cold weather accessories. In May 2010, we entered into a license agreement with the Jones Jeanswear Division of Jones Apparel Group for the design, marketing and distribution of Andrew Marc, Marc New York and Marc Moto men's denim and related sportswear. The initial launch of these products under our Marc Moto label is expected to commence in the fourth quarter of 2010. We also launched Andrew Marc and Marc New York dress lines utilizing our own in-house designers and our manufacturing sources. In July 2008, we acquired certain assets of Wilsons The Leather Experts, which had been a national retailer of outerwear and accessories. The assets acquired included 116 outlet store leases, inventory, distribution center operations and the Wilsons name and other related trademarks and trade names. Our retail operations segment, which consists almost entirely of our Wilsons retail outlet store business, had an operating loss during fiscal 2009 and fiscal 2010, as well as during the first quarter of fiscal 2011. During fiscal 2010, we undertook the following initiatives to improve the performance of our retail outlet business:

- Improve the merchandise mix of outerwear at our stores, with increased emphasis on leather outerwear and a stronger assortment of private label product;

- Emphasize presentation of product in our stores and training of our sales associates;

- Incorporate an improved mix of private label and branded accessories; and

- Reduce overhead costs at the distribution center for our retail operations by reducing our leased space by one-half at that distribution center.

As a result, the amount of the operating loss in our retail segment was reduced in fiscal 2010, as well as in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010. We continue to believe that operation of the Wilsons retail stores is part of our core competency, as outerwear comprised about one-half of our net sales at Wilsons in fiscal 2010, the first full year of operation for us. We expect to continue to implement and refine these initiatives with a view to creating a store concept that is capable of building growth and profitability.

Our acquisitions are part of our strategy to expand our product offerings and increase the portfolio of proprietary and licensed brands that we offer through different tiers of retail distribution and at a variety of price points. We believe that both Andrew Marc and the Wilsons retail outlet business leverage our core strength in outerwear and provide us with new avenues for growth. We also believe that these acquisitions complement our other licensed brands, G-III owned labels and private label programs.

We market our products to department, specialty and mass merchant retail stores in the United States. We also supply our outerwear to our Wilsons outlet stores and to our Wilsons e-commerce business.

We operate our business in three segments, wholesale licensed apparel, wholesale non-licensed apparel and retail operations. The wholesale licensed apparel segment includes sales of apparel brands licensed by us from third parties. The wholesale non-licensed apparel segment includes sales of apparel under our own brands and private label brands. The retail operations segment consists almost entirely of the Wilsons retail outlet stores we acquired in July 2008, now operating as AM Retail Group, Inc.

The sale of licensed product has been a key element of our business strategy for many years. As part of this strategy, we continue to add new fashion and sports apparel licenses. In May 2010, we added licenses for Calvin Klein better luggage and for Calvin Klein better women's handbags and small leather goods. First shipment of these products is expected to commence in 2011.

We believe that consumers prefer to buy brands they know and we have continually sought licenses that would increase the portfolio of name brands we offer through different tiers of retail distribution, for a wide array of products and at a variety of price points. We believe that brand owners will look to consolidate the number of licensees they engage to develop product and they will seek licensees with a successful track record of developing brands. We are continually having discussions with licensors regarding new opportunities.





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Significant trends that affect the apparel industry include the continuing consolidation of retail chains, the desire on the part of retailers to consolidate vendors supplying them, a shift in consumer shopping preferences away from traditional department stores to other mid-tier and specialty store venues and increases in raw material and transportation costs.

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

The weakness in the economy and financial markets has reduced consumer confidence and consumer spending. There has also been significant downward pressure on average retail prices for many categories of apparel, in large part as a result of the weakness of the economy.

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

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

**Results of Operations*****Three months ended April 30, 2010 compared to three months ended April 30, 2009***

Net sales for the three months ended April 30, 2010 increased to \$154.3 million from \$107.6 million in the same period last year. Net sales of wholesale licensed apparel increased to \$92.4 million from \$60.0 million primarily as a result of an increase of \$31.7 million in net sales of Calvin Klein licensed product, primarily due to increased sales of women's dresses and sportswear. Net sales of wholesale non-licensed apparel in the three months ended April 30, 2010 increased to \$40.3 million from \$28.8 million primarily due to a \$6.6 million increase in net sales of our Jessica Howard dress division. Net sales of our retail operations were \$30.0 million for the three months ended April 30, 2010 compared to \$27.2 million in the same period last year primarily as a result of an increase in outerwear sales.

Gross profit increased to \$49.0 million, or 31.8% of net sales, for the three month period ended April 30, 2010, from \$31.2 million, or 29.0% of net sales, in the same period last year. The gross profit percentage in our wholesale licensed apparel segment was 26.1% in the three month period ended April 30, 2010 compared to 24.6% in the same period last year primarily as a result of increased sales volume in our Calvin Klein dress division which typically has a higher gross margin percentage than other Calvin Klein products sold by us. The gross profit percentage in our wholesale non-licensed apparel segment increased to 29.0% in the three month period ended April 30, 2010 from 20.6% in the same period last year primarily as a result of improved margins on increased sales volume of our Jessica Howard division. The gross profit percentage for our retail operations segment was 44.0% for the three months ended April 30, 2010 compared to 38.7% for the comparable period last year as a result of higher initial margins and less markdown activity across substantially all product categories.

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Selling, general and administrative expenses increased \$8.8 million to \$49.7 million in the three month period ended April 30, 2010 from \$40.9 million in the same period last year. This increase is primarily a result of increases in personnel costs (\$4.5 million), advertising and promotion expenses (\$1.9 million) and outside warehousing (\$924,000). Personnel costs increased due to an increase in accrued bonuses as a result of expected profitability for the year and as a result of salaries in the prior comparable period being reduced as part of cost cutting measures taken by us that were in effect for the first six months of fiscal 2010. Advertising costs increased because sales of licensed product, primarily Calvin Klein, increased and we typically pay an advertising fee under our license agreements based on a percentage of sales of licensed product. Outside warehousing costs increased as a result of increased shipping volume.

Depreciation and amortization decreased to \$1.3 million in the three months ended April 30, 2010 from \$1.4 million in the same period last year primarily as a result of certain intangible assets that became fully amortized during fiscal 2010.

Interest and finance charges, net for the three months ended April 30, 2010 were approximately \$362,000 compared to \$685,000 for the comparable period last year. Our charges were lower because we did not draw on our credit facility in the first fiscal quarter due to application of the proceeds from our public offering in December 2009 to temporarily pay down debt under the facility.

Income tax benefit for the three months ended April 30, 2010 was \$915,000 compared to \$4.9 million for the same period last year. Income tax benefit decreased because our loss before income taxes was significantly less in the three months ended April 30, 2010. The effective tax rate for the three month period ended April 30, 2010 was 40.0% compared to an effective tax rate of 42.0% in the same period last year. The effective tax rate in the prior comparable period is higher primarily due to not being able to recognize the benefit of certain state losses incurred by our AM Retail Group, Inc. subsidiary that operates our Wilsons retail outlet stores.

**Liquidity and Capital Resources**

Our primary cash requirements are to fund our seasonal build up in inventories and accounts receivable, primarily during our second and third fiscal quarters each year. Due to the seasonality of our business, we generally reach our maximum borrowing under our asset-based credit facility during our third fiscal quarter. The primary sources to meet our cash requirements have been borrowings under our credit facility, cash generated from operations and proceeds from offerings of our common stock.

The amount borrowed under our line of credit varies based on our seasonal requirements. At April 30, 2010, we had cash and cash equivalents of \$17.9 million and no outstanding borrowings. At April 30, 2009, we had cash and cash equivalents of \$2.3 million and outstanding borrowings of \$31.1 million. The primary reason for our improved cash and borrowing positions compared to last year was the receipt of \$34.7 million in net proceeds from our public offering of common stock in December 2009.

Our contingent liability under open letters of credit was approximately \$26.5 million as of April 30, 2010 compared to \$23.5 million as of April 30, 2009.

*Financing Agreement*

We have a financing agreement with JPMorgan Chase Bank, N.A. as Agent for a consortium of banks. The financing agreement is a senior secured revolving credit facility. The interest rate under this credit facility during the three month period ended April 30, 2010 was the prime rate plus 0.75%, or LIBOR plus 3.00%, at our option. Amounts available under this facility are subject to borrowing base formulas and over advances as specified in the financing agreement.

The financing agreement requires us, among other things, to maintain a maximum senior leverage ratio and minimum fixed charge coverage ratio, as defined, and also limits payments for cash dividends and stock redemptions. As of April 30, 2010, we were in compliance with these covenants. The financing agreement is secured by all of our assets.

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The financing agreement was amended in May 2010 to (a) increase the maximum line of credit from \$250 million to \$300 million, (b) reduce the interest rate on borrowings by 0.25% to, at our option, the prime rate plus 0.50% or LIBOR plus 2.75%, (c) extend the maturity of the loan from July 11, 2011 to July 31, 2013, and (d) revise the maximum senior leverage ratio that we must maintain.

*Cash from Operating Activities*

We used \$27.6 million of cash from operating activities during the three months ended April 30, 2010, primarily as a result of a decrease in accounts payable and accrued expenses of \$24.3 million, a net decrease in our income tax payable of \$10.3 million, and an increase of \$9.4 million in accounts receivable, offset in part by a decrease of \$19.9 million in inventory.

The decrease in accounts payable is primarily attributable to vendor payments made in the first quarter as we collected our accounts receivable from the fall shipping season. The decrease in income taxes payable is attributable to income taxes paid subsequent to year end as a result of our fiscal 2010 income. The increase in accounts receivable resulted primarily from an increase in sales in our women's dress and sportswear businesses. Growth in our dress and sportswear businesses reversed our typical seasonal trend of having lower accounts receivable in our first quarter. Our inventory decreased because we experience lower sales levels in our first and second fiscal quarters than in our third and fourth fiscal quarters.

*Cash from Investing Activities*

We used \$5.0 million of cash in investing activities in the three months ended April 30, 2010 for capital expenditures. In December 2009, we entered into a lease for a new warehouse facility. In March 2010, we amended our leases for our existing corporate showrooms and offices to extend the leases and add additional office space. We expect our capital expenditures for fiscal 2011 to be an aggregate of approximately \$13.0 million, net of landlord contributions, for the build out and renovation of the additional warehouse facility and office space, as well as of additional retail outlet stores.

*Cash from Financing Activities*

Cash from financing activities provided \$3.7 million in the three months ended April 30, 2010, as a result of \$2.6 million in tax benefits recognized from equity compensation and \$1.1 million of proceeds from the exercise of stock options.

*Financing Needs*

We believe that our cash on hand and cash generated from operations, together with funds available from our line of credit and our public offering of common stock in December 2009, are sufficient to meet our expected operating and capital expenditure requirements. We may seek to acquire other businesses in order to expand our product offerings. We may need additional financing in order to complete one or more acquisitions. We cannot be certain that we will be able to obtain additional financing, if required, on acceptable terms or at all.

**Critical Accounting Policies**

Our discussion of results of operations and financial condition relies on our consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. We believe that investors need to be aware of these policies and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While we believe that these accounting policies are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts. The accounting policies and related estimates described in our Annual Report on Form 10-K for the year ended January 31, 2010 are those that depend most heavily on these judgments and estimates. As of April 30, 2010, there have been no material changes to our critical accounting policies.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There are no material changes to the disclosure made with respect to these matters in our Annual Report on Form 10-K for the year ended January 31, 2010.

**Item 4. Controls and Procedures.**

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

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

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**PART II OTHER INFORMATION**

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended January 31, 2010, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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**Item 6. Exhibits.**

- 10.1 Amendment No. 4 (as revised), dated May 13, 2010, to Amended and Restated Financing Agreement, by and among G-III Leather Fashions, Inc., J. Percy for Marvin Richards, Ltd., CK Outerwear, LLC, A. Marc &Co., Inc., Andrew & Suzanne Company Inc. AM Retail Group, Inc. and the Lenders that are parties thereto and JPMorgan Chase Bank, N.A., as Agent.
- 31.1 Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2010.
- 31.2 Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2010.
- 32.1 Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2010.
- 32.2 Certification by Neal S. Nackman, Chief Financial Officer of G-III Apparel Group, Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with G-III Apparel Group, Ltd. s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2010.

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**SIGNATURES**

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

G-III APPAREL GROUP, LTD.  
(Registrant)

Date: June 7, 2010

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

Date: June 7, 2010

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