G III APPAREL GROUP LTD /DE/
Form 10-Q
December 14, 2007

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 October 31, 2007

OR

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

For the transition period from to

Commission File Number 0-18183

G-III APPAREL GROUP, LTD.

(Exact name of registrant as specified in its charter)

Delaware

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of ‘‘accelerated filer and large accelerated filer’’ in Rule 12b-2 of the Exchange Act.

Large

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

Yes No

As of December 1, 2007, there were 16,419,118 shares of our common stock, par value $0.01 per share, outstanding.

TABLE OF CONTENTS

Page No. Part I FINANCIAL INFORMATION Item 1. Financial Statements (Unaudited) 3 Condensed Consolidated Balance Sheets – October 31, 2007, October 31, 2006 and January 31, 2007 3 Condensed Consolidated Statements of Operations – For the Three Months Ended October 31, 2007 and 2006 4 Condensed Consolidated Statements of Operations – For the Nine Months Ended October 31, 2007 and 2006 5 Condensed Consolidated Statements of Cash Flows – For the Nine Months Ended October 31, 2007 and 2006 6 Notes to Condensed Consolidated Financial Statements 7 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 13 Item 3. Quantitative and Qualitative Disclosures About Market Risk 18 Item 4. Controls and Procedures 18 Part II OTHER INFORMATION Item 1A. Risk Factors 20 Item 6. Exhibits 20

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	October 31, 2007 (unaudited)	October 31, 2006 (unaudited)	January 31, 2007
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 5,461	$ 5,918	$ 12,026
Accounts receivable, net of allowance for doubtful accounts and sales discounts of $27,241, $19,840 and $15,475, respectively	181,346	175,940	60,960
Inventories, net	79,881	63,337	38,111
Deferred income taxes	5,279	4,101	5,279
Prepaid expenses and other current assets	7,285	7,463	9,753
Total current assets	279,252	256,759	126,129
PROPERTY, PLANT AND EQUIPMENT, NET	5,721	5,355	5,641
DEFERRED INCOME TAXES	2,800	2,430	2,800
GOODWILL	26,486	18,787	25,006
OTHER INTANGIBLES, NET	12,037	12,799	11,971
OTHER ASSETS	1,151	1,990	1,983
	$ 327,447	$ 298,120	$ 173,530
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable	$ 71,795	$ 106,485	$ 10,942
Current maturities of obligations under capital leases		206	188
Income taxes payable	8,799	7,585	2,613
Accounts payable	45,719	41,132	12,430
Contingent purchase price payable	—	—	3,989
Accrued expenses	20,053	14,647	14,109
Total current liabilities	146,366	170,055	44,271
NOTES PAYABLE	8,144	16,800	13,143
OTHER NON-CURRENT LIABILITIES	464	476	474
TOTAL LIABILITIES	154,974	187,331	57,888
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY			
Preferred stock, 1,000,000 shares authorized; No shares issued and outstanding in all periods			
Common stock – $.01 par value; 40,000,000 shares Authorized; 16,786,343, 14,386,825 and 14,530,070 shares issued, respectively	168	144	145
Additional paid-in capital	96,770	52,352	56,686
Retained earnings	76,505	59,263	59,781
	173,443	111,759	116,612
Common stock held in treasury – 367,225 shares at cost	(970)	(970)	(970)
	172,473	110,789	115,642
	$ 327,447	$ 298,120	$ 173,530

The accompanying notes are an integral part of these statements.

3

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Three Months Ended October 31,	
(Unaudited)	2007	2006
Net sales	$ 271,195	$ 244,704
Cost of goods sold	190,932	172,360
Gross profit	80,263	72,344
Selling, general and administrative expenses	36,470	29,650
Depreciation and amortization	1,294	1,103
Operating income	42,499	41,591
Interest and financing charges, net	1,892	2,662
Income before income taxes	40,607	38,929
Income tax expense	16,852	15,671
Net income	$ 23,755	$ 23,258
INCOME PER COMMON SHARE:		
Basic		
Net income per share	$ 1.45	$ 1.68
Weighted average number of shares outstanding	16,393,000	13,859,000
Diluted		
Net income per share	$ 1.41	$ 1.59
Weighted average number of shares outstanding	16,850,000	14,613,000

The accompanying notes are an integral part of these statements.

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Nine Months Ended October 31,	
(Unaudited)	2007	2006
Net sales	$ 390,192	$ 328,175
Cost of goods sold	280,660	238,319
Gross profit	109,532	89,856
Selling, general and administrative expenses	75,019	61,467
Depreciation and amortization	4,135	3,300
Operating income	30,378	25,089
Interest and financing charges, net	2,304	4,573
Income before income taxes	28,074	20,516
Income tax expense	11,651	7,845
Net income	$ 16,423	$ 12,671
INCOME PER COMMON SHARE:		
Basic		
Net income per share	$ 1.03	$ 0.98
Weighted average number of shares outstanding	16,015,000	12,898,000
Diluted		
Net income per share	$ 0.99	$ 0.93
Weighted average number of shares outstanding	16,524,000	13,630,000

The accompanying notes are an integral part of these statements.

5

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Nine Months
Ended October 31, (Unaudited) 2007 2006 Cash flows from operating activities Net income $ 16,423 $ 12,671 Adjustments to reconcile net income to net cash used in operating activities, net of assets and liabilities acquired: Depreciation and amortization 4,135 3,300 Non-cash stock based compensation 447 297 Deferred financing charges 533 663 Deferred income taxes (15) Changes in operating assets and liabilities: Accounts receivable (120,386) (130,189) Inventories, net (37,945) (32,942) Income taxes, net 6,486 5,316 Prepaid expenses and other current assets 2,250 381 Other assets, net 517 43 Accounts payable, accrued expenses and other liabilities 39,339 35,081 Net cash used in operating activities (88,201) (105,394) Cash flows from investing activities Capital expenditures (1,512) (1,871) Acquisition of Jessica Howard/Industrial Cotton (8,322) Acquisition of Marvin Richards and Winlit 70 Contingent purchase price paid (3,741) (3,380) Net cash used in investing activities (13,575) (5,181) Cash flows from financing activities Increase in notes payable, net 62,860 99,115 Repayment of term loan (7,006) (4,950) Payments for capital lease obligations (303) (157) Proceeds from sale of common stock, net 36,514 15,013 Proceeds from exercise of stock options 1,030 441 Tax benefit from exercise of stock options 2,116 — Net cash provided by financing activities 95,211 109,462 Net decrease in cash and cash equivalents (6,565) (1,113) Cash and cash equivalents at beginning of period 12,026 7,031 Cash and cash equivalents at end of period $ 5,461 $ 5,918 Supplemental disclosures of cash flow information: Cash paid during the period for: Interest $ 1,110 $ 3,651 Income taxes 3,056 2,523 Supplemental disclosures of cash flow information: Fair value of shares issued in connection with the Marvin Richards acquisition $ 356
The accompanying notes are an integral part of these statements.

6

Table of Contents

G-III APPAREL GROUP, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — General Discussion

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 and nine month periods ended October 31, 2007 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 periods presented have been reflected.

The Company consolidates the accounts of 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, 2007.

Note 2 — Acquisition of Assets of Jessica Howard and Industrial Cotton

In May 2007, the Company entered into an Asset Purchase Agreement with Starlo Fashions, Inc., Jessica Howard, Ltd. and Industrial Cotton, Inc., Robert Glick and Mary Williams, pursuant to which the Company acquired certain assets of the business conducted by Jessica Howard and Industrial Cotton, two affiliated companies. The Company acquired certain assets of these two companies, consisting of inventory, trademarks and property and equipment. The total consideration paid by the Company in connection with the acquisition was $8.3 million, including associated fees and expenses. The cost to acquire these assets has been preliminarily allocated to the assets according to estimated fair values and is subject to adjustment when additional information concerning asset valuations is finalized. The preliminary allocation has resulted in acquired intangibles in the amount of $4.4 million which includes approximately $1.7 million of goodwill.

Jessica Howard designs and markets moderate and better dresses under the Jessica Howard and Eliza J brands, as well as under private label programs. Industrial Cotton is a mid-tier provider of a broad assortment of junior denim products.

The following unaudited pro forma information presents the results of operations of the Company as if the acquisition had taken place on February 1, 2006:

	Three Months ended October 31,		Nine Months ended October 31,	
	2007	2006	2007	2006
	(in thousands, except per share amounts)			
Net sales	$ 271,195	$ 257,837	$ 418,061	$ 382,394
Net income	23,755	22,506	16,749	13,425
Income per share:				
Basic	$ 1.45	$ 1.62	$ 1.05	$ 1.04
Diluted	$ 1.41	$ 1.54	$ 1.01	$ 0.98

The unaudited pro forma results shown above reflect the assumption that the Company would have financed the acquisitions under identical terms and conditions as the actual financing and do not reflect any anticipated cost savings that may result from combining the entities. The unaudited pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of February 1, 2006.

The operating results of Jessica Howard/Industrial Cotton have been included in the Company's financial statements since May 24, 2007, the date of acquisition.

Note 3 — Public Offering

On March 9, 2007, the Company completed a public offering of 4,500,000 shares of common stock, of which 1,621,000 shares were sold by the Company, and 2,879,000 shares were sold by certain selling stockholders, at a public offering price of $20.00 per share. The Company received net proceeds of $30.5 million from this offering after payment of the underwriting discount and expenses of the offering. On April 12, 2007, the Company received additional net proceeds of $6.0 million in connection with the sale of 313,334 shares of common stock pursuant to the exercise of the underwriters' overallotment option.

Note 4 — Stock Based Compensation

Effective February 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, ''Share Based Payment'' (''SFAS 123R''). The Company elected to use the modified prospective transition method. Accordingly, prior period results were not restated. Prior to the adoption of SFAS 123R, stock-based compensation expense related to stock options was not recognized in the results of operations if the exercise price was at least equal to the market value of the common stock on the grant date, in accordance with Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees.'' As a result, the recognition of stock-based compensation expense in prior periods was generally limited to the expense attributed to restricted stock awards.

SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. Under the modified prospective method, awards that were granted, modified, or settled on or after February 1, 2006 are measured and accounted for in accordance with SFAS 123R. Unvested equity-based awards that were granted prior to February 1, 2006 will continue to be accounted for in accordance with SFAS 123 and recognized in the results of operations over the remaining vesting periods. The impact of forfeitures that may occur prior to vesting is estimated and considered in the amount recognized. The realization of tax benefits in excess of amounts recognized for financial reporting purposes will be recognized in the Consolidated Statement of Cash Flows as a financing activity rather than an operating activity as it was classified in the past.

It is the Company's policy to grant stock options at prices not less than the fair market value on the date of the grant. Option terms, vesting and exercise periods vary, except that the term of an option may not exceed ten years.

The fair value of stock options was estimated using the Black-Scholes option-pricing model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. The assumptions for the current period grants were developed based on SFAS 123R and Securities and Exchange Commission guidance contained in Staff Accounting Bulletin (SAB) No. 107, ''Share-Based Payment.''

The following weighted average assumptions were used in the Black-Scholes option-pricing model for grants in fiscal 2008 and 2007, respectively:

	2008	2007
Expected stock price volatility	47.8% – 48.9%	48.4%
Expected lives of options		
Directors and officers	7 years	7 years
Employees	6 years	6 years
Risk-free interest rate	4.0% – 5.0%	5.0%
Expected dividend yield	0%	0%

The weighted average volatility for the current period was developed using historical volatility for periods equal to the expected term of the options. An increase in the weighted average volatility assumption will increase stock

compensation expense.

Table of Contents

The risk-free interest rate was developed using the U.S. Treasury yield curve for periods equal to the expected term of the options on the grant date. An increase in the risk-free interest rate will increase stock compensation expense.

The dividend yield is a ratio that estimates the expected dividend payments to shareholders. The Company has not declared a cash dividend and has estimated the dividend yield at 0%.

The expected term of stock option grants was developed after considering vesting schedules, life of the option, and historical experience. An increase in the expected holding period will increase stock compensation expense.

SFAS 123R requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As a result, for most awards, recognized stock compensation was reduced for estimated forfeitures prior to vesting primarily based on an historical annual forfeiture rate. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

The following table summarizes stock option and warrant activity for the nine months ended October 31, 2007:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,673,798	$ 6.16
Granted	240,600	$ 18.44
Exercised	(321,939)	3.20
Cancelled or forfeited	(23,250)	4.90
Outstanding at end of period	1,569,209	$ 8.67
Exercisable	1,015,609	$ 6.43

The weighted average remaining term for stock options outstanding was 5.6 years at October 31, 2007. The aggregate intrinsic value at October 31, 2007 was $12.4 million for stock options outstanding and $10.0 million for stock options exercisable. The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of the Company’s common stock as of October 31, 2007, the reporting date.

Proceeds received from the exercise of stock options were approximately $1.0 million and $441,000 during the nine months ended October 31, 2007 and 2006, respectively. The intrinsic value related to the exercise of stock options was $5.5 million and $1.2 million for the nine months ended October 31, 2007 and 2006, respectively. A portion of this amount is currently deductible for tax purposes.

As of October 31, 2007, approximately $3.0 million of unrecognized stock compensation related to unvested awards (net of estimated forfeitures) is expected to be recognized through the year ended January 31, 2013.

Table of Contents

Note 5 — Inventories

Inventories, which are stated at lower of cost (determined by the first-in, first out method) or market, consist of:

	October 31, 2007	October 31, 2006	January 31, 2007
	(in thousands)		
Finished goods	$ 77,193	$ 60,179	$ 36,098
Work-in-process	851	796	16
Raw materials	1,837	2,362	1,997
	$ 79,881	$ 63,337	$ 38,111

Note 6 — Intangibles

In July 2005, the Company acquired Marvin Richards and the operating assets of the Winlit Group. The former principals of each of Marvin Richards and the Winlit Group are entitled to receive additional purchase price based on the performance of these divisions through January 31, 2009. Contingent payments in the aggregate amount of $3.7 million and $3.3 million have been paid based upon the performance of these divisions with respect to the fiscal years ended January 31, 2007 and 2006, respectively. Goodwill is increased for any earn-out payments made.

Note 7 — Income per Common Share

Basic income per share has been computed using the weighted average number of common shares outstanding during each period excluding unvested restricted stock awards that have not met the market condition. Diluted income per share has been computed using the weighted average number of common shares and potential dilutive common shares, consisting of stock options and stock warrants outstanding during the period.

Note 8 — Notes Payable

The Company has a financing agreement with The CIT Group/Commercial Services, Inc., as Agent, for a consortium of banks. The financing agreement, which expires on July 11, 2008, is a senior collateralized credit facility that provided for borrowings in the aggregate principal amount of up to $195 million. As a result of required principal payments under the term loan portion of this facility, the maximum aggregate principal amount of borrowings was $179.7 million as of October 31, 2007. The facility consists of a revolving line of credit and a term loan.

The revolving line of credit provides for a maximum line ranging from $45 million to $165 million at specific times during the year, provided that there are no borrowings outstanding for at least 45 days during the period from December 1 through April 30 each year. This condition has been met for the current year. Amounts available under the line are subject to borrowing base formulas and over advances as specified in the financing agreement. Borrowings under the line of credit bear interest at the Company’s option at the prime rate less 0.25% or LIBOR plus 2.0%.

The term loan in the original principal amount of $30 million is payable over three years with eleven quarterly installments of principal in the amount of $1,650,000 and a balloon payment due on July 11, 2008, the maturity date of the loan. Mandatory prepayments are required under the term loan commencing with the fiscal year that ended January 31, 2007 to the extent of 50% of excess cash flow, as defined. In April 2007, the Company made a prepayment of $2.0 million for the year ended January 31, 2007. The term loan bears interest, at the Company’s option, at prime plus 0.75% or LIBOR plus 3.0%.

The financing agreement requires the Company, among other covenants, to maintain certain earnings, tangible net worth and minimum fixed charge coverage ratios as defined. It also limits payments for cash dividends and stock redemption to $1.5 million plus an additional amount based on

10

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the proceeds of sales of equity securities and limits annual capital expenditures. As of October 31, 2007, we were in compliance with these covenants. The financing agreement is collateralized by all of the assets of the Company.

Notes payable also includes a foreign note payable ($770,000) by PT Balihides, the Company's inactive Indonesian subsidiary.

Note 9 — Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, ''Accounting for Income Taxes'' (''SFAS 109''). On February 1, 2007, the Company adopted FASB Interpretation No. 48, ''Accounting for Uncertainty in Income Taxes'' (''FIN 48''). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a return, as well as guidance on derecognition, classification, interest and penalties and financial statement reporting disclosures.

Upon the adoption of FIN 48, the Company commenced a review of all open tax years in all jurisdictions. The Company does not believe it has included any ''uncertain tax positions'' in its Federal income tax return or any of the state income tax returns it is currently filing. As a result of the implementation of FIN 48, the Company recognized a $300,000 decrease in the liability for unrecognized tax benefits, which was accounted for as an increase to retained earnings. As of October 31, 2007, the Company had no material unrecognized tax benefits.

The Company's policy on classification is to include interest in ''interest and financing charges'' and penalties in ''selling, general and administrative expense'' in the accompanying condensed consolidated Statements of Income. The Company and certain of its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state, local, and foreign jurisdictions. U.S. federal income tax returns have been examined through January 31, 2005. In addition, an audit is currently being conducted by New York City for the year ended January 31, 2004.

Table of Contents

Note 10 — Segments

The Company's reportable segments are business units that offer different products and are managed separately. The Company operates in two segments, licensed and non-licensed apparel. The following information is presented for the three and nine month periods indicated below:

Three Months Ended October 31,	2007		2006	
	Licensed	Non-Licensed	Licensed	Non-Licensed
Net sales	$ 192,999	$ 78,196	$ 141,604	$ 103,100
Cost of goods sold	132,256	58,676	93,806	78,554
Gross profit	60,743	19,520	47,798	24,546
Selling, general and administrative, including depreciation and amortization	27,063	10,701	20,550	10,203
Operating income	$ 33,680	$ 8,819	$ 27,248	$ 14,343

Nine Months Ended October 31,	2007		2006	
	Licensed	Non-Licensed	Licensed	Non-Licensed
Net sales	$ 274,917	$ 115,275	$ 197,616	$ 130,559
Cost of goods sold	193,222	87,438	136,940	101,379
Gross profit	81,695	27,837	60,676	29,180
Selling, general and administrative, including depreciation and amortization	55,931	23,223	44,060	20,707
Operating income	$ 25,764	$ 4,614	$ 16,616	$ 8,473

Included in finished goods inventory at October 31, 2007 are approximately $56.4 million and $20.8 million of inventories for licensed and non-licensed apparel, respectively. Included in finished goods at October 31, 2006 are approximately $41.4 million and $18.8 million of inventories for licensed and non-licensed apparel, respectively. All other assets are commingled.

Table of Contents

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.

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, dependence on licensed product, reliance on foreign manufacturers, risks of doing business abroad, the nature of the apparel industry, including changing consumer demand and tastes, seasonality, customer acceptance of new products, the impact of competitive products and pricing, dependence on existing management, possible business 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 and sportswear, including coats, jackets, pants, suits, dresses and other sportswear items under licensed brands, our own proprietary brands and private retail labels. Our products are distributed through a broad mix of retail partners at a variety of price points. The concentration of sales to our largest customers has increased over the past few years and we expect that our ten largest customers will continue to represent a majority of our sales.

We operate in fashion markets that are highly 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 and diversification of our product line 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, deliver products in a timely manner and continue to diversify our product portfolio and the markets we serve.

Our outerwear product offerings constitute the largest portion of our business. We have been engaged in the sale of outerwear throughout our history. While we continue to seek methods of expanding sales of outerwear, we are also focused on the continued diversification of our product offerings. In January 2006, we shipped our first women's suits and in September 2006 we shipped our first dresses, each under the Calvin Klein label. In July 2006, we began shipping to Wal-Mart an urban young men's and boy's brand of sportswear that we developed under their Exsto label. During March 2006, we entered into a license agreement with Sean John to design and develop a women's sportswear line. We began shipping Sean John women's sportswear in our first quarter of this fiscal year.

In May 2007, we acquired certain assets, including trademarks, inventory, and property and equipment of Jessica Howard, Ltd. and Industrial Cotton, Inc., two related companies. Jessica Howard designs and markets moderate and better dresses under the Jessica Howard and Eliza J brands, as well as under private label programs. Industrial Cotton is a mid-tier provider of a broad assortment of junior denim products. This acquisition is expected to expand our dress and junior sportswear capabilities. In July 2007, we expanded our relationship with Liz Claiborne by adding dresses and women's suits to our existing women's outerwear license for the Ellen Tracy label. We anticipate shipping dresses

for the Spring 2008 season and suits for the Fall 2009 season.

The recently acquired dress operations expand and complement our existing dress business which began shipping under the Calvin Klein label in September 2006. We believe that the capabilities of

our new Jessica Howard division will assist us in supporting additional dress licenses, such as our recently expanded Ellen Tracy license. We also intend to grow the existing Jessica Howard and Eliza J brands and expand their private label programs to further develop our dress business. This acquisition is consistent with our strategy to expand our product offerings beyond our core outerwear business and increase the portfolio of brands that we offer through different tiers of retail distribution.

We operate our business in two segments, licensed apparel and non-licensed apparel. The licensed apparel segment includes sales of apparel brands licensed by us from third parties. The non-licensed apparel segment includes sales of apparel under private label brands and our own proprietary brands.

The sale of licensed product has been a key element of our business strategy for many years. We believe that consumers prefer to buy brands they know, and we have continually sought licenses that would increase the portfolio of name brands we can offer through different tiers of retail distribution, for a wider array of products and at a variety of price points. We also believe that brand owners are looking to consolidate the number of licensees they engage to develop product and will continue to look for licensees with a successful track record of developing brands. We are continually having discussions with licensors regarding new opportunities.

Significant trends that are affecting the apparel industry include the continuing consolidation of retail chains, the desire on the part of retailers to consolidate vendors supplying them, the increased focus by department stores on prominent nationally recognized brand names and their own private label brands and a shift in consumer shopping preferences away from traditional department stores to other mid-tier and specialty store venues. There has also been continued downward pressure on average retail prices for many categories of apparel. We have responded 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 believe that our broad distribution capabilities help us to respond to the various shifts by consumers between distribution channels. We also believe 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 October 31, 2007 compared to three months ended October 31, 2006

Net sales for the three months ended October 31, 2007 increased to $271.2 million from $244.7 million in the same period last year. Net sales of licensed apparel increased to $193.0 million from $141.6 million in the same period last year, primarily as a result of an increase in net sales of Calvin Klein ($24.3 million), Kenneth Cole ($17.1 million) and Guess ($7.4 million) licensed product. This increase was primarily due to increased sales of women’s and men’s outerwear. Net sales of non-licensed apparel in the three months decreased to $78.2 million from $103.1 million in the same period last year, primarily due to the loss of women’s and men’s private label outerwear programs with several customers and a shift by some customers to purchasing our licensed product instead of purchasing our non-licensed product. This decrease in net sales of non-licensed apparel was offset, in part, by $17.5 million of net sales from the Jessica Howard/Industrial Cotton business we acquired in late May 2007, all of which constituted sales of proprietary brands or private label product.

Gross profit increased to $80.3 million for the three months ended October 31, 2007 from $72.3 million in the same period last year. The gross profit percentage of 29.6% was the same for both three month periods. The gross profit percentage in our licensed apparel segment decreased to 31.5% for the three month period ended October 31, 2007 compared to 33.8% in the prior comparable period. The decrease in the gross margin percentage for licensed apparel is primarily due to low margins on sales of Sean John sportswear and Calvin Klein suits. Sales of Sean John sportswear

were not sufficient to cover fixed costs associated with this new line and the gross margin on Calvin Klein women's suits declined as the retail environment for this product category has weakened. The gross profit percentage in our non-licensed segment increased to 25.0% in the three month period ended October 31, 2007 compared to 23.8% in the same period last year. This percentage was favorably impacted by improved gross margins on sales of Exsto product as a result of executing our production earlier and reducing our freight costs to import this product.

Selling, general and administrative expenses increased $6.8 million to $36.5 million in the three months ended October 31, 2007 from $29.7 million in the same period last year. Selling, general and administrative expenses increased primarily as a result of increases in personnel costs ($3.4 million), advertising and promotion ($1.6 million) and facility costs ($712,000). Personnel expenses and facility costs increased primarily as a result of the business we acquired in May 2007. Personnel costs also increased due to increased staffing of our Calvin Klein women's suits and dress divisions and our new Sean John sportswear division. Advertising and promotion increased primarily due to the increase in net sales of licensed product as the amount of spending on advertising that is required under our license agreements is generally based on a percentage of net sales. We expect that our selling, general and administrative expenses will continue to increase during the remainder of the fiscal year as a result of our recent acquisition, as well as the continued expansion of our business.

Depreciation and amortization increased to $1.3 million in the three months ended October 31, 2007 from $1.1 million in the comparable period last year primarily as a result of the amortization of intangibles from the Jessica Howard/Industrial Cotton acquisition.

Interest and finance charges, net for the three-months ended October 31, 2007 were $1.9 million compared to $2.7 million for the comparable period last year. Interest expense decreased due to lower average borrowings in the current quarter resulting from the use of proceeds from our sale of common stock in March 2007.

Income tax expense for the three months ended October 31, 2007 was $16.9 million compared to $15.7 million in the comparable period last year. The effective rate for the current period was 41.5% compared to 40.3% for the comparable prior period. The effective rate was lower in the prior comparable period due to a reversal of tax reserves of approximately $950,000 as a result of the completion of a Federal income tax audit.

Nine months ended October 31, 2007 compared to nine months ended October 31, 2006

Net sales for the nine months ended October 31, 2007 increased to $390.2 million from $328.2 million in the same period last year. Sales of licensed product in the nine months ended October 31, 2007 accounted for 70.5% of our net sales compared to 60.2% of our net sales in the comparable period last year as net sales of licensed apparel increased to $274.9 million from $197.6 million. This increase in net sales of licensed apparel was primarily the result of an increase in net sales of Calvin Klein ($45.1 million), Kenneth Cole ($16.7 million) and Guess ($11.6 million) licensed product. Our Calvin Klein licensed product consists of men's and women's outerwear, women's suits and dresses. Dresses began shipping in the third quarter of our prior fiscal year and women's suits began shipping in January 2006. The Kenneth Cole and Guess licensed product consists of men's and women's outerwear.. Net sales of non-licensed apparel in the nine months decreased to $115.3 million from $130.6 million, primarily due to the loss of women's and men's private label outerwear programs with several customers and a shift by some customers to purchasing our licensed product instead of purchasing our non-licensed product. This decrease in net sales of non-licensed apparel was offset, in part, by $27.4 million of net sales from the Jessica Howard/Industrial Cotton business we acquired in late May 2007, all of which constituted sales of proprietary brands or private label product.

Gross profit increased to $109.5 million, or 28.1% of net sales, for the nine months ended October 31, 2007, from $89.9 million, or 27.4% of net sales, in the same period last year. The gross profit percentage in our licensed apparel segment was 29.7% in the nine month period ended October 31, 2007 compared to 30.7% in the same period last year. The decrease in the gross margin percentage for licensed apparel is primarily due to low margins on sales of Sean John sportswear and Calvin Klein suits. Sales of Sean John sportswear were not sufficient to cover fixed costs associated with this new line and the gross margin on Calvin Klein women's suits declined as the retail environment for this product category has weakened. The gross profit percentage in our non-licensed segment was 24.1% in the

nine month period ended October 31, 2007 compared to 22.4% in the same period last year. This percentage was favorably impacted by improved gross margins on sales of Exsto product as a result of executing our production earlier and reducing our freight costs to import this product.

Selling, general and administrative expenses increased $13.5 million to $75.0 million in the nine months ended October 31, 2007 from $61.5 million in the same period last year. Selling, general and administrative expenses increased primarily as a result of increases in personnel costs ($7.9 million), advertising and promotion ($2.4 million), facility costs ($1.9 million) and design and product development costs ($1.1 million). Personnel costs increased primarily due to the additional staff resulting from the business we acquired in late May 2007 and increased staffing of our Calvin Klein women's suits and dress divisions and our new Sean John sportswear division. Advertising and promotion increased primarily due to sales of Calvin Klein suits and dresses as the amount of spending on advertising that is required under our license agreements is generally based on a percentage of net sales of the licensed product. Facility costs increased primarily as a result of third party warehousing and rent associated with the business acquired in May 2007 and rent and utility costs associated with our new warehouse. Design and product development costs increased as a result of costs associated with developing our new dress and sportswear businesses. We expect that our selling, general and administrative expenses will continue to increase during the remainder of the fiscal year as a result of our recent acquisition, as well as the continued expansion of our business.

Depreciation and amortization increased to $4.1 million in the nine months ended October 31, 2007 from $3.3 million in the comparable period last year primarily as a result of the acceleration of amortization on leasehold improvements ($439,000) and the amortization of intangibles from the Jessica Howard/Industrial Cotton acquisition ($161,000). The leasehold improvements related to office space under a lease that was terminated.

Interest and finance charges, net for the nine-months ended October 31, 2007 were $2.3 million compared to $4.6 million for the comparable period last year. Interest expense decreased due to interest income earned on higher average cash balances in the beginning of the fiscal year and lower average borrowings during our third fiscal quarter resulting from the use of proceeds from our sales of common stock in July 2006 and March 2007.

Income tax expense for the nine months ended October 31, 2007 was $11.7 million compared to $7.8 million in the comparable period last year. The effective rate for the current period was 41.5% compared to 38.2% for the comparable prior period. The effective rate was lower in the prior comparable period due to a reversal of tax reserves of approximately $950,000 as a result of the completion of a Federal income tax audit.

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. Historically, the primary sources to meet our cash requirements during the course of a year are short-term borrowings under this credit facility and cash generated from operations. We also raised cash from a public offering of our common stock in March 2007 and a private placement of our common stock and warrants to purchase common stock in July 2006. At October 31, 2007, we had cash and cash equivalents of $5.5 million and outstanding short-term borrowings of $71.8 million compared to cash and cash equivalents of $5.9 million and outstanding short-term borrowings of $106.5 million at October 31, 2006.

Public Offering

On March 9, 2007, we completed a public offering of 4,500,000 shares of common stock, of which 1,621,000 shares were sold by us and 2,879,000 shares were sold by certain selling stockholders, at a public offering price of $20.00 per share. We received net proceeds of $30.5 million from this offering after payment of the underwriting discount and expenses of the offering. On April 12, 2007, we received additional net proceeds of $6.0 million in connection with

the sale of 313,334 shares of common stock pursuant to the exercise of the underwriters' overallotment option. A portion of the proceeds was used to fund the acquisition of the Jessica Howard/Industrial Cotton business.

16

Financing Agreement

We have a financing agreement with The CIT Group/Commercial Services, Inc., as Agent, for a consortium of banks. The financing agreement, which expires on July 11, 2008, is a senior secured credit facility that provided for borrowings in the aggregate principal amount of up to $195.0 million. As a result of required principal payments under the term loan portion of this facility, the maximum aggregate principal amount of borrowings was $179.7 million as of October 31, 2007. The facility consists of a revolving line of credit and a term loan.

The revolving line of credit provides for a maximum line ranging from $45 million to $165 million at specific times during the year, provided that there are no borrowings outstanding for at least 45 days during the period from December 1 through July 31 each year. We satisfied this requirement for the most recent period. Amounts available under the line are subject to borrowing base formulas and over advances as specified in the financing agreement. Borrowings under the line of credit bear interest at our option at the prime rate less 0.25% or LIBOR plus 2.0%.

The amount borrowed under the line of credit varies based on our seasonal requirements. As of October 31, 2007, there were $64.4 of short-term outstanding borrowings compared to $99.1 million outstanding as of October 31, 2006. Our contingent liability under open letters of credit was approximately $13.6 million as of October 31, 2007 compared to $16.4 million as of October 31, 2006.

The term loan in the original principal amount of $30 million is payable over three years with eleven quarterly installments of principal in the amount of $1,650,000. Payment of quarterly installments began on December 31, 2005, with the remaining balance due on maturity of the loan. Mandatory prepayments are required under the term loan commencing with the fiscal year that ended January 31, 2007 to the extent of 50% of excess cash flow, as defined. In the quarter ended April 30, 2007, a mandatory prepayment in the amount of $2.0 million was made with respect to the fiscal year ended January 31, 2007. The term loan bears interest, at our option, at prime plus 0.75% (8.25% at November 1, 2007) or LIBOR plus 3.0% (7.9% at November 1, 2007). The balance due on the term loan at October 31, 2007 was $14.7 million.

The financing agreement requires us, among other things, to maintain tangible net worth at specified levels, achieve specified earnings before interest, taxes, depreciation and amortization and maintain minimum fixed charge coverage ratios as defined. It also limits capital expenditures and payments for cash dividends and stock redemption to $1.5 million plus an additional amount based on the proceeds of sales of equity securities. As of October 31, 2007, we were in compliance with these covenants. The financing agreement is collateralized by all of our assets.

Subsidiary Loan

PT Balihides, our inactive Indonesian subsidiary, had a separate credit facility with an Indonesian bank. In December 2002, we closed the manufacturing facility operated by this subsidiary. The notes payable under this facility represent borrowings as of October 31, 2007 of approximately $770,000. The loan is collateralized by the property, plant, and equipment of this subsidiary. No other G-III entity has guaranteed this loan. We continue to be in discussions with the bank regarding settlement of this debt.

Cash from Operating Activities

We used $88.2 million of cash in operating activities during the nine months ended October 31, 2007, primarily as a result of increases of $120.4 million in accounts receivable and $37.9 million in inventory, offset, in part, by an increase in accounts payable and accrued expenses of $39.3 million and our net income of $16.4 million. The

increases in these operating cash flow items are consistent with our seasonal pattern. Our accounts receivable increased because a majority of our sales occur during our fall shipping season. The increase in inventory is a result of anticipated fourth quarter orders which constitutes the latter part of our fall shipping season. It also includes inventory for our less seasonal sportswear businesses. The increase in accounts payable and accrued expenses is primarily attributable to our increased purchasing activity for the fall season.

Cash from Investing Activities

We used $13.6 million of cash in investing activities in the nine months ended October 31, 2007. We used $8.3 million in connection with the acquisition of the Jessica Howard/Industrial Cotton business. We paid $3.7 million during the period in connection with contingent payments earned as a result of the operating results of the two businesses we acquired in 2005. All contingent earnouts with respect to fiscal 2007 were paid in the first quarter and there will be no further payments under these earnouts during the remainder of fiscal 2008. The sellers are entitled to contingent payments based on the operating results of those two businesses in the fiscal years ending January 31, 2008 and 2009. We also used cash for capital expenditures of $1.5 million in the nine months ended October 31, 2007, primarily for renovation of our back office space which was relocated as a result of a lease termination and the completion of our renovation of our new warehouse facility in South Brunswick, NJ.

Cash from Financing Activities

Cash from financing activities provided $95.2 million in the nine months ended October 31, 2007 primarily from net proceeds of $36.5 million from our public offering in March 2007 and an increase in net amounts borrowed from our credit facility of $62.9 million offset, in part, by repayments of $7.0 million under our term loan. During the nine months ended October 31, 2007, we paid three installment payments of $1.65 million under our term loan and were also required to make a prepayment of $2.0 million based on excess cash flow as defined in the loan agreement.

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, 2007 are those that depend most heavily on these judgments and estimates. As of October 31, 2007, there have been no material changes to our critical accounting policies.

Effects of Recently Issued Accounting Pronouncements

On February 1, 2007, we adopted FASB Interpretation No. 48, ''Accounting for Uncertainty in Income Taxes'' (''FIN 48''). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in our financial statements in accordance with FASB Statement No. 109 ''Accounting for Income Taxes.'' FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a return, as well as guidance on derecognition, classification, interest and penalties and financial statement reporting disclosures. The implementation of FIN 48 did not have a material effect on our results of operations or our financial position.

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, 2007.

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

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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. 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.

Table of Contents

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, 2007, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits.

31 .1
Certification by Morris Goldfarb, Chief Executive Officer of G-III Apparel Group, Ltd., pursuant to 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 October 31, 2007. 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 October 31, 2007. 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 October 31, 2007. 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 October 31, 2007.
20

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: December 14, 2007 By: /s/ Morris Goldfarb Morris Goldfarb
Chief Executive Officer Date: December 14, 2007 By: /s/ Neal S. Nackman Neal S. Nackman
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
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