

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

(MARK ONE)

/X/ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the quarterly period ended September 29, 1996

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 33-69236

-----  
GUESS ?, INC.  
-----

(Exact name of registrant as specified in its charter)

DELAWARE

95-3679695

-----  
(State or other jurisdiction of  
incorporation or organization)

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

1444 South Alameda Street  
Los Angeles, California, 90021  
-----

(Address of principal executive offices)

(213) 765-3100  
-----

(Registrant's telephone number, including area code)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
-----

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

As of October 22, 1996, the registrant had 42,681,819 shares of Common Stock, \$.01 par value, outstanding.

GUESS ?, INC.  
FORM 10-Q  
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GUESS ?, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)  
(unaudited)

	SEP 29, 1996	DEC 31, 1995*
	-----	-----
ASSETS		
Current assets:		
Cash.....	\$ 5,483	\$ 6,417
Short term investments.....	431	0
Receivables:		
Trade receivables, net of reserves.....	42,579	22,886
Royalties.....	13,008	9,975
Other.....	3,887	4,040
	-----	-----
Inventories.....	59,474	36,901
Prepaid expenses and other current assets.....	83,890	72,889
	9,241	5,557
	-----	-----
Total current assets.....	158,519	121,764
Property and equipment, at cost, net of accumulated depreciation and amortization.....	63,211	68,199
Long-term investments.....	2,953	3,394
Other assets, at cost, net of accumulated amortization.....	12,725	9,278
	-----	-----
	\$237,408	\$202,635
	-----	-----
	-----	-----

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current installments of notes payable and long-term debt.....	\$ 6,356	\$ 4,123
Accounts payable.....	39,301	40,701
Accrued expenses.....	20,569	18,332

Income taxes payable.....	5,778	1,036
	-----	-----
Total current liabilities.....	72,004	64,192
Notes payable and long-term debt, net of current		
installments.....	135,466	119,212
Minority interest.....	0	75
Other liabilities.....	8,778	8,159
	-----	-----
	216,248	191,638
Stockholders' equity:		
Preferred stock. Authorized 10,000,000 shares; no shares issued and outstanding.....	-	-
Common stock, \$.01 par value. Authorized 150,000,000 shares; issued 62,712,611, outstanding 42,681,819 and 32,681,819 shares respectively, including 20,030,792 shares in Treasury.....	135	35
Paid-in capital.....	153,347	181
Retained earnings.....	18,387	161,567
Foreign currency translation adjustment.....	67	(10)
Treasury stock, 20,030,792 shares repurchased..	(150,776)	(150,776)
	-----	-----
Net stockholders' equity.....	21,160	10,997
	-----	-----
	\$237,408	\$202,635
	-----	-----

See accompanying notes to condensed consolidated financial statements  
\*Condensed from Audited Balance Sheet

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GUESS ?, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(in thousands, except per share data)  
(unaudited)

	Third Quarter Ended		Nine Months Ended	
	SEP 29, 1996	OCT 1, 1995	SEP 29, 1996	OCT 1, 1995
	-----	-----	-----	-----
Net revenue:				
Product sales.....	\$139,511	\$121,325	\$371,622	\$327,904
Net royalties.....	14,987	11,804	40,282	34,877
	-----	-----	-----	-----
Cost of sales.....	154,498	133,129	411,904	362,781
	84,284	73,981	221,397	194,790
	-----	-----	-----	-----
Gross profit.....	70,214	59,148	190,507	167,991
Selling, general & administrative expenses..	39,490	37,916	112,319	104,384
Reorganization charge (note 5).....	-	-	3,559	-
	-----	-----	-----	-----
Earnings from operations.....	30,724	21,232	74,629	63,607
	-----	-----	-----	-----
Non-operating income (expense):				
Interest, net.....	(3,843)	(3,937)	(11,134)	(11,863)
Other, net.....	(618)	27	(765)	(153)
	-----	-----	-----	-----
	(4,461)	(3,910)	(11,899)	(12,016)
	-----	-----	-----	-----
Earnings before income taxes....	26,263	17,322	62,730	51,591
Income taxes.....	5,925	838	7,523	2,113

Net earnings.....	\$20,338	\$16,484	\$55,207	\$49,478
Supplemental pro forma financial information (note 2) * :				
Earnings before income taxes, as presented..	\$26,263	\$17,322	\$62,730	\$51,591
Pro forma provision for income taxes.....	10,637	6,927	25,092	20,635
Pro forma net earnings.....	\$15,626	\$10,395	\$37,638	\$30,956
Pro forma net earnings per share.....	\$ .40		\$ 1.08	
Weighted average common shares outstanding..	38,727		34,771	

\* For additional information on pro forma financial information, see note 6.

See accompanying notes to condensed consolidated financial statements

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GUESS ?, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Nine months ended	
	SEP 29, 1996	OCT 1, 1995
Cash flows from operating activities:		
Net earnings.....	\$55,207	\$49,478
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment.....	12,510	10,432
Amortization of deferred charges.....	852	1,190
Loss on disposition of property and equipment.....	1,194	676
Foreign currency translation adjustment.....	46	9
Minority interest.....	(75)	37
Undistributed equity method earnings.....	322	(136)
(Increase) decrease in:		
Receivables.....	(22,573)	(13,098)
Inventories.....	(11,001)	10,321
Prepaid expenses and other current assets.....	(21)	(1,693)
Other assets.....	(166)	649
Increase (decrease) in:		
Accounts payable.....	(1,399)	9,413
Accrued expenses.....	1,651	(20)
Income taxes payable.....	4,742	60
Net cash provided by operating activities....	41,289	67,318
Cash flows from investing activities:		
Purchases of property and equipment.....	(15,266)	(18,652)
Proceeds from the disposition of property and equipment..	6,640	138
Lease incentives granted.....	616	1,403
Purchases of short-term investments.....	(431)	-

Purchases of long-term investments.....	-	(23)
	-----	-----
Net cash used by investing activities.....	(8,441)	(17,134)
Cash flows from financing activities:		
Proceeds from notes payable and long-term debt.....	143,660	99,375
Repayments of notes payable and long-term debt.....	(125,173)	(101,277)
Proceeds from issuance of common stock.....	116,300	-
Repayments of S distribution notes.....	(129,000)	-
Distributions to stockholders.....	(39,600)	(51,800)
	-----	-----
Net cash used by financing activities.....	(33,813)	(53,702)
Effect of exchange rates changes on cash:.....	31	(7)
Net decrease in cash.....	(934)	(3,525)
Cash, beginning of period.....	6,417	5,994
	-----	-----
Cash, end of period.....	\$5,483	\$2,469
	-----	-----
Supplemental disclosures:		
Cash paid during the period for:		
Interest.....	\$13,393	\$14,233
Income taxes.....	2,947	1,764

See accompanying notes to condensed consolidated financial statements.

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GUESS ?, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 29, 1996

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position as of September 29, 1996, and the results of operations and cash flows for the nine months ended September 29, 1996. Operating results for the third quarter and nine months ended September 29, 1996, are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they have been condensed and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1995 and in the Company's Registration Statement on Form S-1 (File No. 333-4419) completed August 13, 1996.

(2) Summary of Significant Accounting Policies

Pro Forma Net Earnings

Pro forma net earnings represent the results of operations adjusted to reflect a provision for income taxes on historical earnings before income taxes, which gives effect to the change in the Company's income tax status to a C corporation as a result of the merger of Marciano International, Inc. ("Marciano International"), a company which was wholly owned by the trusts for the respective benefit of Maurice Marciano, Paul Marciano and Armand

Marciano (the "Marciano Trusts") with and into Guess (the "Marciano International Merger"), and the public sale of its common stock. Upon termination of the Company's S corporation status on August 12, 1996, it recorded an earnings benefit resulting from the establishment of net deferred tax assets (approximately \$7.4 million), which was based upon temporary book to tax differences existing at the date of termination of the Company's S corporation status. The principal difference between the pro forma income tax rate and Federal statutory rate of 35% relates primarily to state income taxes.

Pro forma net earnings per share have been computed by dividing pro forma net earnings by the weighted average number of shares of common stock outstanding during the period. The pro forma net earnings per share gives effect to the issuance of shares of common stock to generate sufficient cash to pay (i) a distribution to stockholders in an amount equal to the previously earned and undistributed taxable S corporation earnings (the "S Corporation Distribution") aggregating approximately \$185.0 million and (ii) the \$300,000 to be paid by the Company to the Marciano Trusts in connection with the Marciano International Merger (See also note 6).

Recently Issued Pronouncements

The Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of," in March 1995 which is effective for fiscal years beginning after December 15, 1995. SFAS No. 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to these assets and certain identifiable intangibles to be disposed of. The Company adopted the provisions of SFAS No.121 effective April 1, 1996 and has, accordingly, recorded a write-down aggregating \$2.4 million in the second quarter of 1996 related to certain operating assets to be disposed of and is included as a component of the \$3.6 million Reorganization Charge in the Company's statement of earnings. The Company does not anticipate that SFAS No. 121 will have a continuing impact on its financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 established a fair value-based method of accounting for compensation cost related to stock options and other forms of stock-based compensation plans. However, SFAS 123 allows an entity to continue to measure compensation costs using the principles of Accounting Principles Board pronouncement 25 if certain pro forma disclosures are made. SFAS 123 is effective for fiscal years beginning after December 15, 1995. The Company has adopted the provisions for pro forma disclosure requirements of SFAS 123 effective January 1, in fiscal 1996 and will incorporate the required per forma information in its 1996 report on form 10-K and anticipates that SFAS 123 will not have a material impact on its financial statements. As of September 29, 1996, the Company had not issued any exercisable stock options or other instruments under which SFAS 123 would apply.

(3) Inventories

The components of inventory consist of the following (in thousands):

	SEP 29, 1996	DEC 31, 1995
Raw materials.....	\$13,421	\$9,788
Work in Progress.....	8,423	11,264
Finished Goods.....	62,046	51,837
	-----	-----
	\$83,890	\$72,889
	-----	-----

(4) Reclassifications

Certain reclassifications have been made to the 1995 financial statements to conform to the 1996 presentation.

(5) Reorganization Charge

In the second quarter of 1996, the Company recorded a provision of \$3.6 million for certain non-recurring charges relating to the writedown to net realizable value of operating assets associated with the (i) disposal of two currently active remote warehouse and production facilities resulting in a net book loss of \$2.4 million, in contemplation of the public offering of

7,000,000 shares of the Company's common stock (the "Offering"), which are not expected to be used in the Company's operations after the Offering, and (ii) the net book loss of \$1.2 million incurred by the Company in connection with the sale of one of its aircraft in contemplation of the Offering.

(6) Initial Public Offering

On August 13, 1996, the Company completed the Offering, resulting in net proceeds to the Company of approximately \$116.3 million.

In connection with the Offering, (i) Marciano International, which was owned by the Marciano Trusts and held an interest in the subsidiaries of the Company, was merged with and into Guess, (ii) all of the capital stock of Guess Italia was contributed to Guess? Europe, B.V. ("GEBV"), (iii) the Company effected a 32.66 to 1 split of the common stock and (iv) as part of the S Corporation Distribution, the Company distributed to its stockholders \$54.0 million of Common Stock valued at \$18.00 per share (the "S Distribution Shares") with the balance of \$131.0 million being distributed in the form of promissory notes bearing interest at 8% per annum (the "S Distribution Notes"). During the third quarter of 1996, the Company paid \$129.0 million of the S Distribution Notes, funded primarily with proceeds from the Offering. The Company also paid the Marciano Trusts an aggregate of \$300,000 in connection with the merger of Marciano International, Inc. with and into the Company. Such \$300,000 payment was not included in the aggregate principal amount of the S Distribution Notes. All of such transactions are referred to as the "Reorganization." All references to the number of shares have been restated to give effect to the above referenced stock split.

Concurrent with the consummation of the transaction related to the Offerings (the "Closing Date"), the Company's S corporation status was terminated (the "S Termination Date"). Prior to the S Termination Date, the Company declared a distribution to its stockholders that included all of its previously earned and undistributed S corporation earnings through the date of termination of the Company's S corporation status. The S Corporation Distribution occurred prior to the S Termination Date and was comprised of the S Distribution Shares and the S Distribution Notes. As a result of the S Corporation Termination the Company is no longer treated as an S Corporation and, accordingly, is fully subject to federal and state income taxes that would apply to a C corporation.

Pursuant to the above transactions, the following pro forma operating results are presented to reflect adjustments to historical operating results for (a) the elimination of salaries and bonuses paid to the principal executive officers in excess of the salaries and bonuses to be paid to such officers under their respective employment agreements following the Offering, (b) the decreases in depreciation and operating costs associated with an aircraft owned by the Company which was sold prior to the Offering, (c) the elimination of the minority interest in GEBV and Guess Italia through the merger of Marciano International with and into the Company in connection with

the Reorganization (such amounts had previously been recorded as minority interest in the Company statements of earnings) and (d) adjustments for Federal and state income taxes as if the Company had been taxed as a C corporation rather than an S corporation. For comparison purposes only, earnings per share and weighted average common shares outstanding have been calculated on a full dilution basis, whereby all of the shares outstanding after the completion of the Offering and after giving effect to the S corporation distribution were

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considered to be outstanding for the entire period. Summarized below is the pro forma financial information for the third quarter and nine month periods ended September 29, 1996 and October 1, 1995 (in thousands, except per share data):

	Third quarter ended		Nine months ended	
	SEP 29, 1996	OCT 1, 1995	SEP 29, 1996	OCT 1, 1995
Total revenue	\$154,498	\$133,129	\$411,904	\$362,781
Earnings from operations	31,755	22,413	79,029(1)	68,230
Earnings before income taxes	27,457	18,591	67,450(1)	56,503
Income taxes	11,120	7,436	26,997	22,601
Net earnings	16,337	11,155	40,453(1)	33,902
Net earnings per share	\$.38	\$.26	\$.95	\$.79
Weighted average common shares outstanding	42,682	42,682	42,682	42,682

(1) Nine months ended September 29, 1996 includes a non-recurring reorganization charge of \$3.6 million (pretax) and \$2.1 million (after tax) or \$.05 per share (See also note 5).

Immediately prior to the Offering, the Company granted options to purchase 1,208,405 shares pursuant to the Company's 1996 Equity Incentive Plan with an exercise price equal to the initial public price of \$18.00 per share.

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

The following information should be read in conjunction with the condensed consolidated financial statements and notes thereto included herein. This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated. In this report, the words "anticipates," "believes," "expects," "intends," "future," and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

### OVERVIEW

The Company derives its revenue from the sale of Guess brand products through its domestic wholesale, international wholesale, retail and licensing operations.

### RESULTS OF OPERATIONS

**NET REVENUE.** Net revenue increased \$21.4 million or 16.1% to \$154.5 million in the quarter ended September 29, 1996 from \$133.1 million in the quarter



ended October 1, 1995. Net revenue from wholesale operations increased \$9.9 million or 13.8% to \$81.6 million from \$71.7 million, due principally to increased sales outside the United States of \$13.3 million partially offset by a \$3.4 million decline in domestic sales. The decline in domestic wholesale sales included a \$1.4 million decline due to closing certain accounts and a \$0.1 million decline due to the licensing out of certain apparel lines. Net revenue from retail operations increased \$8.3 million or 16.7% to \$57.9 million from \$49.6 million, primarily attributable to an increase of 5.9% in comparable store net revenue and from volume generated by ten new store openings, offset by the closing of three stores. The increase in comparable store net revenue was primarily attributable to a more favorable merchandise mix and the implementation of improved inventory management systems. Net royalties increased \$3.2 million or 27.0% in the quarter ended September 29, 1996 to \$15.0 million from \$11.8 million in the quarter ended October 1, 1995. Revenue from international operations comprised 15.3% and 7.5% of the Company's net revenue during the third quarter of 1996 and 1995, respectively.

Net revenue increased \$49.1 million or 13.5% to \$411.9 million in the nine months ended September 29, 1996 from \$362.8 million in the nine months ended October 1, 1995. Net revenue from wholesale operations increased \$12.2 million or 5.7% to \$226.3 million from \$214.1 million, due principally to increased sales outside the United States of \$25.4 million, partially offset by a \$13.2 million decline in domestic wholesale sales. The decline in domestic wholesale sales included a \$4.5 million decline due to closing certain accounts and a \$1.3 million decline due to the licensing out of certain apparel lines. In addition, the Company's domestic net sales declined during this period as a result of increased competition in branded basic denim apparel. Net revenue from retail operations increased \$31.5 million to \$145.3 million from \$113.8 million, primarily attributable to an increase of 10.9% in comparable store net revenue and from volume generated by ten new store

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openings, partially offset by the closing of three stores. The increase in comparable store net revenue was primarily attributable to a more favorable merchandise mix and the implementation of improved inventory management systems. Net royalties increased \$5.4 million or 15.5% in the nine months ended September 29, 1996 to \$40.3 million from \$34.9 million in the nine months ended October 1, 1995. Net revenue from international operations comprised 12.8% and 7.1% of the Company's net revenue during the first nine months of 1996 and 1995, respectively.

**GROSS PROFIT.** Gross profit increased 18.6% to \$70.2 million in the quarter ended September 29, 1996 from \$59.2 million in the quarter ended October 1, 1995. The increase in gross profit resulted from increased net revenue from product sales and increased net royalties. Gross profit from product sales increased 16.5% to \$55.2 million in the quarter ended September 29, 1996 from \$47.4 million in the quarter ended October 1, 1995. Gross profit as a percentage of net revenue increased to 45.4% in the quarter ended September 29, 1996 as compared to 44.5% in the quarter ended October 1, 1995. Gross profit from product sales as a percentage of net revenue from product sales increased to 39.6% in the quarter ended September 29, 1996 from 39.1% in the quarter ended October 1, 1995, which included a provision of \$2.9 million for store closing expenses. Without this provision, gross profit from product sales as a percentage of net revenue from product sales would have decreased to 39.6% from 41.5%. The decline was primarily the result of the growth in net revenue derived from international operations, which carry lower gross profit margins, as well as lower gross profit margins experienced in the company's factory outlet stores.

Gross profit increased 13.4% to \$190.5 million in the nine months ended September 29, 1996 from \$168.1 million in the nine months ended October 1, 1995. The increase in gross profit resulted from increased net revenue from product sales and increased net royalties. Gross profit from product sales

increased 12.8% to \$150.2 million in the nine months ended September 29, 1996 from \$133.2 million in the nine months ended October 1, 1995. Gross profit as a percentage of net revenue remained unchanged at 46.3% for both the 1996 and 1995 nine month periods. Gross profit from product sales as a percentage of net revenue decreased to 40.4% from 40.6% in the nine months ended October 1, 1995, which included a provision of \$2.9 million for store closing expenses recorded in the third quarter of 1995. Without this provision, gross profit from product sales as a percentage of net revenue from product sales would have decreased to 40.4% from 41.5%. The decline was primarily the result of the growth in net revenue derived from international operations, which carry lower gross profit margins, as well as lower profit margins experienced on off-price sales.

SG&A EXPENSES. Selling, general and administrative ("SG&A") expenses increased 3.9% in the quarter ended September 29, 1996 to \$39.5 million, or 25.6% of net revenue, from \$38.0 million, or 28.5% of net revenue, in the quarter ended October 1, 1995. SG&A expenses increased 7.5% in the nine months ended September 29, 1996 to \$112.3 million, or 27.3% of net revenue, from \$104.4 million, or 28.8% of net revenue, in the nine months ended October 1, 1995. These increases were primarily the result of increased store expenses related to the expansion of the retail operations. The decrease in SG&A expenses as a percentage of net revenue was the result of fixed expenses being spread over a larger revenue base in the 1996 periods.

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REORGANIZATION CHARGE. In anticipation of the Offering, in the second quarter of 1996 the Company recorded reserves totaling \$3.6 million for certain non-recurring charges related to the writedowns of operating assets to be disposed of, which included: (i) the disposal of two currently active remote warehouse and production facilities not expected to be used in the Company's operations after the Offering, resulting in a net book loss of \$2.4 million, and (ii) the net book loss of \$1.2 million incurred by the Company in connection with the sale of one of its aircraft. The above charges are based upon the net book value of the related assets as of June 30, 1996. The Company intends to relocate the warehouse and production operations located at the remote facilities to its central facility in Los Angeles in an effort to centralize its operations and improve operating efficiencies.

EARNINGS FROM OPERATIONS. Earnings from operations increased 44.7% to \$30.7 million, or 19.9% of net revenue in the quarter ended September 29, 1996, from \$21.2 million, or 15.9% of net revenue, in the quarter ended October 1, 1995. Earnings from operations increased 17.3% to \$74.6 million, or 18.1% of net revenue in the nine months ended September 29, 1996, from \$63.6 million, or 17.5% of net revenue, in the nine months ended October 1, 1995. For the nine months ended September 29, 1996, excluding the aforementioned reorganization charge, earnings from operations would have increased 22.9% or \$14.6 million to \$78.1 million, from \$63.6 million in the comparable period. These increases are primarily related to increases in net revenue.

INTEREST EXPENSE, NET. Net interest expense decreased 2.4% to \$3.8 million in the quarter ended September 29, 1996 from \$3.9 million in the quarter ended October 1, 1995. For the quarter ending September 29, 1996, the average debt balance was \$179.7 million, with an average effective interest rate of 8.6%. For the quarter ending October 1, 1995, the average debt balance was \$162.8 million, with an average effective interest rate of 9.1%. Net interest expense decreased 6.1% to \$11.1 million in the nine months ended September 29, 1996 from \$11.9 million in the nine months ended October 1, 1995. This decrease resulted from lower outstanding debt and lower interest rates. For the first nine months of 1996, the average debt balance was \$160.5 million, with an average effective interest rate of 8.8%. For the first nine months of 1995, the average debt balance was \$165.7 million, with an average effective interest rate of 9.1%.

NET EARNINGS. Net earnings increased 23.4% to \$20.3 million, or 13.2% of net revenue, in the quarter ended September 29, 1996, from \$16.5 million, or

12.4% of net revenue, in the quarter ended October 1, 1995. Net earnings increased 11.6% to \$55.2 million, or 13.4% of net revenue, in the nine months ended September 29, 1996, from \$49.5 million, or 13.6% of net revenue, in the nine months ended October 1, 1995. For the nine months ended September 29, 1996, excluding the aforementioned reorganization charge, net earnings would have increased 13.7% or \$7.9 million to \$57.4 million, from \$49.5 million in the comparable period. These increases are primarily related to increases in revenue.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has relied primarily upon internally generated funds, trade credit and bank borrowings to finance its operations and expansion and to make periodic distributions to stockholders. At September 29, 1996, the Company had

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working capital of \$86.5 million compared to \$57.6 million at December 31, 1995. The \$28.9 million increase in working capital was due principally to an \$11.0 million increase in inventories and a \$22.6 million increase in receivables, partially offset by a \$4.7 million increase in income taxes payable. The increase in inventory relates to seasonal requirements and the buildup of initial inventory of the Company's Bare Basics line.

The Company's revolving credit agreement provides for a \$100.0 million revolving credit facility which includes a \$20.0 million facility for letters of credit. As of September 29, 1996, the Company had \$30.0 million in outstanding borrowings under the revolving credit facility and outstanding letters of credit of \$8.6 million. As of September 29, 1996, the Company had \$61.4 million available for future borrowings under such facility. The revolving credit facility will expire in December 1997. In addition to this revolving credit facility, the Company has a \$25.0 million letter of credit facility. As of September 29, 1996, the Company had \$8.6 million outstanding under this facility.

After application of net proceeds of the Offering repaying a substantial portion of the S Distribution Notes, approximately \$2.0 million of S Distribution Notes remain outstanding at September 29, 1996. The S Distribution Notes bear interest at 8% per annum and mature on January 1, 1997.

Capital expenditures, net of lease incentives granted, totaled \$14.7 million in the nine months ended September 29, 1996. The Company estimates that its capital expenditures for fiscal 1996 will be approximately \$20.0 million, primarily for the expansion of its retail stores and operations.

The Company anticipates that it will be able to satisfy its ongoing cash requirements through 1997, including retail and international expansion plans and interest on the Senior Subordinated Notes, primarily with cash flow from operations, supplemented, if necessary, by borrowing under its revolving credit agreement.

#### SEASONALITY

The Company's business is impacted by the general seasonal trends that are characteristic of the apparel and retail industries. The Company's wholesale operations generally experience stronger performance in the first and third quarters, while retail operations are generally stronger in the third and fourth quarters. As the timing of the shipment of products may vary from year to year, the results for any particular quarter may not be indicative of results for the full year. The Company has not had significant overhead and other costs generally associated with large seasonal variations.

#### INFLATION

The Company does not believe that the relatively moderate rates of inflation experienced in the United States over the last three years have had a significant effect on its net revenue or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which the Company's products are manufactured, the Company does not believe that they have had a material effect on the Company's net revenue or profitability.

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#### IMPACT OF RECENTLY ISSUED PRONOUNCEMENTS

The Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of," in March 1995 which is effective for fiscal years beginning after December 15, 1995. SFAS No. 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to these assets and certain identifiable intangibles to be disposed of. The Company adopted the provisions of SFAS No. 121 effective April 1, 1996 and has, accordingly, recorded a write-down aggregating \$2.4 million in the second quarter of 1996 related to certain operating assets to be disposed of and is included as a component of the \$3.6 million Reorganization Charge in the Company's statement of earnings for the nine months ended September 29, 1996. The Company does not anticipate that SFAS No. 121 will have a material impact on its financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 established a fair value-based method of accounting for compensation cost related to stock options and other forms of stock-based compensation plans. However, SFAS 123 allows an entity to continue to measure compensation costs using the principles of Accounting Principles Board pronouncement 25 if certain pro forma disclosures are made. SFAS 123 is effective for fiscal years beginning after December 15, 1995. The Company has adopted the provisions for pro forma disclosure requirements of SFAS 123 effective January 1, 1996 and will incorporate the required pro forma information in its 1996 report on Form 10-K. The Company anticipates that SFAS 123 will not have a material impact on its financial statements.

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#### PART II. OTHER INFORMATION

##### ITEM 1. Legal Proceedings

###### Litigation

On August 7, 1996, a purported class action complaint naming the Company and certain of its independent contractors was filed in the Superior Court of the State of California for the County of Los Angeles, styled as Brenda Figueroa et. al. v. Guess ?, Inc. et al. (Dist. Ct. Case No. 96-5485HLH(JGx)). The complaint, which seeks damages and injunctive relief, alleges, among other things, that the defendants' practices with respect to the employees of such independent contractors have violated various federal and state labor laws and regulations. Based upon the information available to the Company at this time, the Company does not believe that the outcome of such purported class action will have a material adverse effect on the Company's financial condition or results of operations.

The union of Needletrades, Industrial & Textile Employees has filed with the National Labor Relations Board several charges alleging that the Company has engaged and is engaging in unfair labor practices within the meaning of the National Labor Relations Act ("NLRB") (Cases 21-CA-31515, 21-CA-31524 and

21-CA-31561). The charges are currently being investigated by the NLRB. Based upon the information available to the Company at this time, the Company does not believe that the outcome of such investigation will have a material adverse effect on the Company's financial condition or results of operations.

Guess is also a party to various other claims, complaints and other legal actions that have arisen in the ordinary course of business from time to time. The Company believes that the outcome of such pending legal proceedings, in the aggregate, will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

On July 30, 1996, the stockholders of the Company, acting by unanimous written consent, (a) approved and adopted a Restated Certificate of Incorporation and new bylaws of the Company (each of which was filed as an exhibit to the Company's registration statement on Form S-1 (file no. 333-4419)); (b) approved a 32.664669-for-one stock split of each share of Common Stock issued and outstanding at such date; and (c) approved and adopted the Company's 1996 Equity Incentive Plan, 1996 Non-Employee Directors' Stock Option Plan and Annual Incentive Bonus Plan, each in the respective form adopted by the Board of Directors of the Company.

At a joint special meeting of the Company's stockholders and board of directors on August 8, 1996, the stockholders of the Company unanimously approved and adopted the Agreement and Plan of Merger whereby Marciano International, Inc. was merged with and into the Company.

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits:

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Exhibit Number	Description
10.1	Employment Agreement between the Registrant and Maurice Marciano.
10.2	Employment Agreement between the Registrant and Paul Marciano.
10.3	Employment Agreement between the Registrant and Armand Marciano.
10.14	Registration Rights Agreement among the Registrant and certain stockholders of the Registrant.
10.15	Indemnification Agreement among the Registrant and certain stockholders of the Registrant.
11.0	Computation of Net Earnings Per Share
27.1	Financial Data Schedule

b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the quarter ended September 29, 1996.

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SIGNATURES

Pursuant to the requirements of Rule 12b-15 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GUESS ?, INC.

Date: October 22, 1996

By: /s/ Maurice Marciano

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Maurice Marciano  
Chairman of the Board, Chief  
Executive Officer and Director  
(Principal Executive Officer)

Date: October 22, 1996

By: /s/ Roger Williams

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Roger Williams  
Executive Vice President and Chief  
Financial Officer (Principal  
Financial Officer)

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, made as of August 13, 1996, by and between Guess ?, Inc., a Delaware corporation (herein referred to as the "Company"), and Maurice Marciano (herein referred to as the "Executive").

W I T N E S S E T H:

WHEREAS, the Company intends to make an underwritten initial public offering of its common stock (the "Public Offering"); and

WHEREAS, in connection with the Public Offering, the Company and Executive deem it to be in their respective best interests to enter into an agreement providing for the Company's employment of Executive pursuant to the terms herein stated;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Employment; Position and Duties; Exclusive Services.

(a) Employment. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, for the Term provided in Section 2 below and upon the other terms and conditions hereinafter provided.

(b) Position and Duties. During the Term, the Executive (i) agrees to serve as the Chairman of the Board and Chief Executive Officer of the Company and to perform such reasonable duties as may be delineated in the By-Laws of the Company and as may be assigned to him from time to time by the Board of Directors of the Company (the "Board"), including, without limitation, primary responsibility for all design and finance functions of the Company, (ii) shall report, as Chief Executive Officer of the Company, only to the Board, (iii) shall be given such authority as is appropriate to carry out the duties described above, it being understood that, in his capacities as Chairman of the Board and Chief Executive Officer of the Company, his duties will be consistent in scope, prestige and authority with the duties of Chairman of the Board and Chief Executive Officer of the Company as demonstrated by the Company's existing practices as of the effective date of this Agreement, and (v) agrees to serve, if elected, at no additional compensation (if the other officers or directors (other than non-employee directors) of the Company also serve at no additional compensation) in the position of officer or director of any subsidiary or affiliate of the Company; provided, however, that such position shall be of no less status relative to such subsidiary or affiliate as the position that the Executive holds pursuant to clause (i) of this Section 1(b) is relative to the Company.

(c) Exclusive Services. During the Term, the Executive agrees to devote substantially all of his business time, attention, skill and efforts exclusively to the business and affairs of the Company and its subsidiaries and affiliates, and shall perform and discharge the duties which may be assigned to him from time to time by the Board.

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(d) Relocation. The Company shall not relocate the Executive's principal place of business outside of the Los Angeles metropolitan area without the written consent of the Executive.

2. Term of Agreement. The term of employment under this Agreement shall initially be the three-year period commencing on the date of the Public Offering (the "Effective Date") and ending on the third anniversary of the Effective Date, and shall be automatically extended without further action by

either party for a successive or successive one-year period or periods, unless written notice of either party's intention to terminate this Agreement has been given to the other party at least 90 days prior to the expiration of the Term (including any one-year extension thereof). As used in this Agreement, the "Term" shall mean the initial three-year term plus any extensions thereof as provided in this Section 2.

3. Salary and Annual Bonus. The Executive's cash compensation for all services to be rendered by him in any capacity hereunder shall consist of base salary as provided in Section 3(a) and bonus compensation as provided in Section 3(b).

(a) Salary. The Executive shall be paid a minimum base salary (the "Salary") at the rate of \$900,000 per annum. The Salary shall be payable in accordance with the customary payroll practices for executives of the Company. The amount of Executive's Salary will be reviewed not less often than annually by the Compensation Committee of the Board (the "Compensation Committee") and may be increased, but not decreased below such amount, on the basis of such review.

(b) Annual Bonus.

(i) General Terms. For each calendar year included in whole or in part within the Term, the Executive shall be eligible to earn an annual cash bonus (a "Bonus") based upon the achievement by the Company and its subsidiaries of performance targets established by the Compensation Committee in accordance with the terms of the Company's Annual Incentive Bonus Plan and any successor plan thereto (collectively, the "Bonus Plan"). The performance goals on the basis of which the Executive's bonus shall be determined shall be no less favorable to the Executive than the goals used to determine the bonus of any other executive of the Company whose annual bonus is based in whole or in part on corporate performance and who participates in the Bonus Plan, and the Compensation Committee shall establish objective criteria to be used to determine the extent to which such performance goals have been met. The Bonus, if any, payable to the Executive in respect of each calendar year will be paid at the same time that bonuses are paid to other participants in the Bonus Plan.

(ii) Amount of Target Bonus. For each calendar year included in whole or in part within the Term, there shall be a target Bonus (a "Target Bonus") for the Executive equal to at least 100% of Executive's Salary, at the annual rate in effect at the beginning of such calendar year (pro rated, if less than an entire year).

(iii) Determination of the Bonus Amount. The amount of the actual Bonus for any calendar year to be paid to the Executive will be determined, in the sole discretion of the Compensation Committee, based upon the performance

of the Company and its subsidiaries against the goals established by the Compensation Committee pursuant to the Bonus Plan.

4. Stock Options. Commencing as of the Effective Date, Executive shall be eligible for option grants under the Company's 1996 Equity Incentive Plan and any successor plan thereto for the Company's executive officers, in accordance with the terms and conditions thereof.

5. Pension and Welfare Benefits. During the Term, the Executive will participate in all pension and welfare plans, programs and benefits that are applicable to executives of the Company. The benefits provided to the Executive during the Term, when taken as a whole, shall be no less favorable than the benefits which, when taken as a whole, are provided to any other executive of the Company; provided that Executive shall continue to receive life insurance coverage in an amount equal to at least one (1) times his then



Salary. During the Term, the Executive shall also be entitled to all additional perquisites which the Company provides to its executives. Subject to subsection 7(a)(i) hereof, from and after the expiration of the Term or, if earlier, the date of termination of Executive's employment hereunder, Executive shall be entitled, during his lifetime, to full Company-paid health and life insurance for himself and his immediate family, at a level no less favorable than that in effect from time to time for the benefit of the Company's senior executive officers.

6. Other Benefits.

(a) Travel and Business-related Expenses. During the Term, the Executive shall be reimbursed in accordance with the policies of the Company for traveling and other expenses incurred in the performance of the business of the Company.

(b) Automobile. During the Term, the Executive shall be furnished with an automobile either owned or leased by the Company or an automobile allowance, at the discretion of the Company. The Company shall pay or reimburse the Executive for all reasonable expenses associated with the operation of such automobile, including, without limitation, all reasonable maintenance and insurance expenses.

(c) Aircraft. The Executive shall be provided with reasonable access to any aircraft leased or owned by the Company.

(d) Country Club Membership. During the Term, the Company shall pay the Executive's reasonable membership expenses (including fees, dues and related expenses) at such country club or clubs as approved by the Board.

(e) Consulting Agreement. Commencing on the expiration of the Term of this Agreement or, if earlier, the date of termination of Executive's employment hereunder for any reason other than death or for Cause (as defined below), and subject to the provisions of Sections 8 and 9 hereof, the Company and Executive shall enter into a two (2) year consulting agreement pursuant to which Executive shall render consulting services to the Company as Executive and the Company shall agree, for which the Company shall pay Executive a consulting fee at an annual rate equal to 50% of Executive's Salary, at the rate in effect immediately prior to the commencement of the consulting period, payable in accordance with the customary payroll practices for executives of the Company or at such other time or times as Executive and the Company shall agree. It is expressly understood that Executive's reporting obligations

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pursuant to such consulting agreement shall be limited to the Board, or such other person as Executive and the Company shall agree.

7. Termination of Employment.

(a) Termination for Cause, Resignation Without Good Reason.

(i) If the Executive's employment is terminated by the Company for Cause (as defined below) or if the Executive resigns from his employment without Good Reason (as defined below), prior to the expiration of the Term, the Executive shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination; (B) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs; and (C) any unreimbursed expenses. The Executive shall not accrue or otherwise be eligible to receive Salary payments or to participate in any plans, programs or benefits described in Section 5 hereof with respect to periods after the date of such termination or resignation, and shall not be eligible to receive any Bonus in respect of the year of such termination or resignation or any calendar year following the year in which such termination or resignation

occurs. Any Bonus in respect of a year prior to the year in which such termination or resignation occurs shall be payable at such time and in such manner as provided for in Section 3(b) hereof.

(ii) Termination for "Cause" shall mean termination by action of the Board because of: (A) Executive's willful and continued failure (other than by reason of the incapacity of Executive due to physical or mental illness) substantially to perform his duties hereunder; (B) a felony conviction of the Executive or the perpetration by the Executive of a serious dishonest act against the Company or any of its affiliates or subsidiaries; (C) any willful misconduct by the Executive that is materially injurious to the financial condition or business reputation of the Company or any of its affiliates or subsidiaries; or (D) chronic alcoholism or drug abuse which materially affects Executive's performance hereunder, provided, however, that no event or circumstance shall be considered to constitute Cause within the meaning of this clause (ii) unless the Executive has been given written notice of the events or circumstances constituting Cause and has failed to effect a cure thereof within 60 calendar days following the receipt of such notice.

(iii) Resignation for "Good Reason" shall mean the resignation of the Executive because of (A) a material reduction in Executive's responsibilities, duties, authority, status or titles as described in Section 1 above; or (B) failure by the Company to pay or provide Executive when due any compensation, benefits or perquisites to which Executive is entitled pursuant to this Agreement or any other plan, contract or arrangement in which Executive participates or is entitled to participate; provided, however, that no event or circumstance shall be considered to constitute Good Reason within the meaning of this clause (iii) unless the Company has been given written notice of the events or circumstances constituting Good Reason and has failed to effect a cure thereof within 60 calendar days following the receipt of such notice.

(iv) The date of termination of employment by the Company pursuant to this Section 7(a) shall be the date specified in a written notice of termination from the Company to the Executive, which, in the case of a proposed termination to which the 60-day cure period provided for in

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subsection (ii) above applies shall be no less than 61 days after the delivery of such notice to the Executive. The date of a resignation by the Executive pursuant to this Section 7(a) shall be the date specified in the written notice of resignation from the Executive to the Company, which, in the case of a proposed resignation to which the 60-day cure period provided for in subsection (iii) above applies shall be no less than 61 days after the delivery of such notice to the Company, or, if no date is specified therein, 61 days after receipt by the Company of the written notice of resignation from the Executive.

(b) Termination Without Cause, Resignation for Good Reason.

(i) If the Executive's employment is terminated by the Company without Cause or if the Executive should resign for Good Reason, prior to the expiration of the Term, he shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination and continuing for the remainder of the then-effective Term (the "Continuation Period"); (B) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs; (C) any unreimbursed expenses and (D) a Bonus for the calendar year in which such termination or resignation occurs equal to the Executive's Target Bonus for such year and a Bonus for each subsequent year included in whole or in part within the Continuation Period equal to the Target Bonus for the calendar year in which such termination or resignation occurs, provided, however, that the amount of such Bonus payable in respect of any partial calendar year at the conclusion of the Continuation Period shall be prorated and shall equal the Executive's Bonus for such year

multiplied by a fraction, the numerator of which shall equal the number of days in such calendar year up to and including the last day of the Continuation Period and the denominator of which shall equal the lesser of 365 or the number of days in such final calendar year up to and including the last day of the Term.

During the Continuation Period, (X) Salary payments to the Executive shall be payable in accordance with the payroll practices of the Company, and (Y) Bonus payments shall be made in respect of each calendar year at the same time that bonuses are paid to participants in the Bonus Plan.

The Executive shall also be entitled to continued participation in the medical, dental and insurance plans and arrangements described in Section 5, on the same terms and conditions as are in effect immediately prior to such termination or resignation, until the earlier to occur of (i) the last day of the Continuation Period and (ii) such time as Executive is entitled to comparable benefits provided by a subsequent employer. Anything herein to the contrary notwithstanding, the Company shall have no obligation to continue to maintain during the Continuation Period any plan or program solely as a result of the provisions of this Agreement. If, during the Continuation Period, Executive is precluded from participating in a plan or program by its terms or applicable law or if the Company for any reason ceases to maintain such plan or program, the Company shall provide Executive with compensation or benefits the aggregate value of which, in the reasonable judgement of the Company, is no less than the aggregate value of the compensation or benefits that Executive would have received under such plan or program had he been eligible to participate therein or had such plan or program continued to be maintained by the Company.

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(ii) Except as may be provided under the terms of any applicable grants to the Executive, under any plan or arrangement in which the Executive participates under Section 5 or except as may be otherwise required by applicable law, including, without limitation, the provisions of Section 4980B(f) of the Internal Revenue Code of 1986, as amended (the "Code"), the Executive shall have no right under this Agreement or any other agreement to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation of employment. Except as otherwise provided in Section 9(d), in the event of a termination or resignation pursuant to this Section 7(b), the Executive shall have no duty of mitigation with respect to amounts payable to him pursuant to this Section 7(b) or other benefits to which he is entitled pursuant hereto; provided, however, that, in the event the Executive breaches any of the provisions of Sections 8 or 9 hereof, the amounts payable to the Executive pursuant to this Section 7(b), or other benefits to which he is entitled pursuant hereto, will be offset or reduced by any compensation, payments or benefits he may receive from a subsequent employer.

(iii) The date of termination of employment by the Company pursuant to this Section 7(b) shall be the date specified in the written notice of termination from the Company to the Executive or, if no date is specified therein, ten business days after receipt by the Executive of the written notice of termination from the Company. The date of a resignation by the Executive pursuant to this Section 7(b) shall be the date specified in the written notice of resignation from the Executive to the Company or, if no date is specified therein, ten business days after receipt by the Company of the written notice of resignation from the Executive.

(c) Death or Permanent Disability. If the Executive's employment hereunder terminates by reason of Executive's death or Permanent Disability prior to expiration of the Term, the Executive (or his beneficiary (or if no such beneficiary is designated, his estate), conservator or guardian, as the case may be) shall be entitled to receive: (i) the Salary provided for in Section 3(a) as accrued through the date of the Executive's death or Permanent Disability; (ii) any Bonus earned but not yet paid in respect of

any calendar year preceding the year in which the Executive's death or Permanent Disability occurs; (iii) a Bonus for the calendar year in which the Executive's death or Permanent Disability occurs equal to a pro rata portion of the Executive's Target Bonus for such year, determined on the basis of the number of days in such year through the date of Executive's death or Permanent Disability; and (iv) any unreimbursed expenses. Bonus payments provided for in this Section 7(c) shall be made at such time and in such manner as is provided in Section 3(b). As used in this Section, the term "beneficiary" includes both the singular and the plural of such term, as may be appropriate. For purposes of this Agreement, "Permanent Disability" shall be defined in the same manner as such term or a similar term is defined in any long-term disability policy maintained by the Company for the Executive and in effect on the date of the Executive's termination of employment with the Company, provided that, in the event that the Company does not maintain a long-term disability policy for the Executive, Permanent Disability shall mean a physical or mental incapacity that substantially prevents him from performing his duties hereunder for a period of 6 consecutive months and that can reasonably be expected to continue indefinitely. Any dispute as to whether or not Executive is disabled within the meaning of the preceding sentence shall be resolved by a physician reasonably satisfactory to Executive

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and the Company, and the determination of such physician shall be final and binding upon both Executive and the Company.

#### 8. Assignment of Intellectual Property Rights.

(a) Definition of "Inventions". As used herein, the term "Inventions" shall mean all inventions, discoveries, improvements, trade secrets, formulas, techniques, data, programs, systems, specifications, documentations, algorithms, flow charts, logic diagrams, source codes, processes, and other information, including works-in-progress, whether or not subject to patent, trademark, copyright, trade secret, or mask work protection, and whether or not reduced to practice, which are made, created, authored, conceived, or reduced to practice by Executive, either alone or jointly with others, during the period of employment with the Company (including, without limitation, all periods of employment with the Company prior to the Effective Date), whether or not performed on the Company's premises or property, which (A) relate to the actual or anticipated business, activities, research, or investigations of the Company or (B) result from or is suggested by work performed by Executive for the Company (whether or not made or conceived during normal working hours or on the premises of the Company), or (C) which result, to any extent, from use of the Company's premises or property.

(b) Work for Hire. Executive expressly acknowledges that all copyrightable aspects of the Inventions (as defined above) are to be considered "works made for hire" within the meaning of the Copyright Act of 1976, as amended (the "Act"), and that the Company is to be the "author" within the meaning of such Act for all purposes. All such copyrightable works, as well as all copies of such works in whatever medium, fixed or embodied, shall be owned exclusively by the Company as of the date of creation, and Executive hereby expressly disclaims any and all interest in any of such copyrightable works and waives any right of droit morale or similar rights.

(c) Assignment. Executive acknowledges and agrees that all Inventions constitute trade secrets of the Company and shall be the sole property of the Company or any other entity designated by the Company. In the event that title to any or all of the Inventions, or any part or element thereof, may not, by operation of law, vest in the Company, or such Inventions may be found as a matter of law not to be "works made for hire" within the meaning of the Act, Executive hereby conveys and irrevocably assigns to the Company, without further consideration, all his right, title and interest, throughout

the universe and in perpetuity, in all Inventions and all copies of them, in whatever medium, fixed or embodied, and in all written or computer records, graphics, diagrams, notes, or reports relating thereto in Executive's possession or under his control, including, with respect to any of the foregoing, all rights of copyright, patent, trademark, trade secret, mask work, and any and all other proprietary rights therein, the right to modify and create derivative works, the right to invoke the benefit of any priority under any international convention, and all rights to register and renew the same. Anything to the contrary notwithstanding, this subsection (c) shall not require Executive to assign any Invention that would cause this Section 8, or any portion thereof, to be void or unenforceable under Section 2870 of the California Labor Code, and Executive acknowledges receipt of the notification required by Section 2872 of the California Labor Code.

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(d) Proprietary Notices; No Filings; Waiver of Moral Rights. Executive acknowledges that all Inventions shall, at the sole option of the Company, bear the Company's patent, copyright, trademark, trade secret and mask work notices.

Executive agrees not to file any patent, copyright or trademark applications relating to any Invention except with prior written consent of an authorized representative of the Company (other than Executive).

Executive hereby expressly disclaims any and all interest in any Inventions and waives any right of droit morale or similar rights, such as rights of integrity or the right to be attributed as the creator of the Invention.

(e) Further Assurances. Executive agrees to assist the Company, or any party designated by the Company, promptly on the Company's request, whether before or after the termination of employment, however such termination may occur, in perfecting, registering, maintaining, and enforcing, in all jurisdictions, the Company's rights in the Inventions by performing all acts and executing all documents and instruments deemed necessary or convenient by the Company, including, by way of illustration and not limitation:

(i) Executing assignments, applications, and other documents and instruments in connection with (A) obtaining patents, copyrights, trademarks, mask works, or other proprietary protections for the Inventions and (B) confirming the assignment to the Company of all right, title and interest in the Inventions or otherwise establishing the Company's exclusive ownership rights therein.

(ii) Cooperating in the prosecution of patent, copyright, trademark and mask work applications, as well as in the enforcement of the Company's rights in the Inventions, including, but not limited to, testifying in court or before any patent, copyright, trademark or mask work registry office or any other administrative body.

Executive will be reimbursed for all out-of-pocket costs reasonably incurred in connection with the foregoing, if such assistance is requested by the Company after the termination of Executive's employment. In addition, to the extent that, after the termination of employment for whatever reason, Executive's technical expertise shall be required in connection with the fulfillment of the aforementioned obligations, the Company will compensate Executive at a reasonable rate for the time actually spent by Executive at the Company's request rendering such assistance.

(f) Power of Attorney. Executive hereby irrevocably appoints the Company to be his Attorney-in-Fact to execute any document and to take any action in his name and on his behalf and to generally use his name for the purpose of giving to the Company the full benefit of the assignment provisions set forth above.

(g) Disclosure of Inventions. Executive will make full and prompt disclosure to the Company of all Inventions subject to assignment to the Company, and all information relating thereto in Executive's possession or under his control as to possible applications and use thereof.

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9. No Competing Employment; No Interference; Confidentiality; Remedies.

(a) No Competing Employment. For so long as the Executive is employed by the Company or any of its affiliates and subsidiaries and continuing for the two-year period commencing at the expiration of the Term hereof or the earlier termination of Executive's employment for any reason other than death (such period being referred to hereinafter as the "Restricted Period"), the Executive shall not, unless he receives after the Effective Date the prior written consent of the Board, directly or indirectly, whether as owner, consultant, employee, partner, venturer, agent, through stock ownership, investment of capital, lending of money or property, rendering of services, or otherwise, compete with the Company or any of its affiliates or subsidiaries in any business in which any of them is engaged during the Term hereunder or at the time of the termination of the Executive's employment hereunder, including without limitation the design, manufacture and/or distribution of men's or women's sportswear or accessories (such businesses are hereinafter referred to as the "Business"), or assist, become interested in or be connected with any corporation, firm, partnership, joint venture, sole proprietorship or other entity which so competes with the Business, except that the provisions of this Section 9(a) will not be deemed breached merely because Executive owns equity in (i) Charles David of California, (ii) California Sunshine Active Wear, Inc.; or (iii) Nantucket Industries, Inc. or because Executive "beneficially owns", either individually or as a member of a "group" (as such terms are used in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), not more than five percent (5%) of the voting securities of any one or more companies that file reports pursuant to the Exchange Act. After the expiration of the Term hereof and during the two-year period referenced above, the restrictions imposed by this paragraph shall not apply to any business in which the Company or its affiliates and subsidiaries were not engaged at the time of termination of the Executive's employment hereunder or to any geographic area in which the Company or its affiliates and subsidiaries were not engaged in the Business at the time of termination.

(b) No Interference. During the Restricted Period, the Executive shall not, for the purpose of competing with the Business, directly or indirectly, whether for his own account or for the account of any other individual, partnership, firm, corporation or other business organization or entity (other than the Company), intentionally solicit, endeavor to entice away from the Company or any of its affiliates or subsidiaries, or otherwise intentionally interfere with the relationship of the Company or any of its affiliates or subsidiaries with any person who is employed by or otherwise engaged to perform services for the Company or any of its affiliates or subsidiaries or influence, or seek to influence, any person or entity who is a customer, client or supplier of the Company or any of its affiliates or subsidiaries to divert their business to any person or entity that competes with the Company or any of its affiliates or subsidiaries, nor shall the Executive participate in the efforts of any individual, partnership, firm, corporation or other business corporation or entity for which he provides services, by which he is employed, or in which he invests, to do so, except that the provisions of this Section 9(b) will not be deemed breached merely because Executive owns equity in (i) Charles David of California, (ii) California Sunshine Active Wear, Inc.; or (iii) Nantucket Industries, Inc. or because Executive "beneficially owns", either individually or as a member of a "group" (as such terms are used in Rule 13d-3 under the Exchange Act), not

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more than five percent (5%) of the voting securities of any one or more companies that file reports pursuant to the Exchange Act. After the expiration of the Term hereof and during the two-year period referenced in subsection 9(a), the restrictions imposed by this paragraph shall not apply to any business in which the Company or its affiliates and subsidiaries were not engaged at the time of termination of the Executive's employment hereunder or to any geographic area in which the Company or its affiliates and subsidiaries were not engaged in the Business at the time of termination.

(c) Confidential Information. The Executive recognizes that the services to be performed by him hereunder, and the services performed by him during prior periods of employment with the Company, are special, unique and extraordinary and that, by reason of such employment, he has acquired and will continue to acquire confidential information and trade secrets concerning the operations of the Company and its affiliates and subsidiaries. Accordingly, the Executive agrees that he will not, except with the prior written consent of the Board or as may be required by law, directly or indirectly, disclose during the Term or any time thereafter any secret or confidential information that he has learned by reason of his association with the Company or any of its affiliates or subsidiaries or use any such information to the detriment of the Company or its affiliates or subsidiaries so long as such confidential information or trade secrets have not been disclosed or are not otherwise in the public domain. The term "confidential information" means any information about the Company, its subsidiaries and affiliates, and their respective clients and customers, not previously disclosed to the public or to the trade by the Company's management, including, without limitation, any products, data, formulae, facilities and methods, trade secrets and other intellectual property, systems, records (including computer records), procedures, manuals, confidential reports, product price lists, client and customer lists, financial information (including the revenues, costs or profits associated with any of the Company's products), business plans, prospects or opportunities.

(d) Remedies; Survival of Agreement. In the event that the Executive materially breaches any of the covenants set forth in this Section 9 and fails to cure such breach to the reasonable satisfaction of the Company within 10 business days after receipt of written notice thereof to the Executive, any obligation of the Company to make any payment to the Executive pursuant to this Agreement, including without limitation any payments pursuant to Section 7(b) (other than payments of Salary or Bonus earned prior to the date of such breach and unreimbursed expenses), shall be cancelled. In addition, the Executive acknowledges that a breach of any of the covenants contained in this Section 9 may result in material irreparable injury to the Company or its affiliates or subsidiaries for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company shall be entitled, in addition to any other rights or remedies it may have, to seek an injunction enjoining or restraining the Executive from any violation or threatened violation of this Section 9. The Executive's agreement as set forth in this Section shall survive the termination of the Executive's employment under this Agreement.

10. Source of Payments. All payments provided under this Agreement, other than payments made pursuant to a benefit plan which may provide otherwise, shall be paid in cash from the general funds of the Company, and no special or separate fund shall be established, and no other

segregation of assets made, to assure payment. The Executive shall have no right, title, or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To

the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

11. Tax Withholding. Payments to the Executive of all compensation contemplated under this Agreement shall be subject to all applicable legal requirements with respect to the withholding of taxes.

12. Nonassignability; Binding Agreement. Neither this Agreement nor any right, duty, obligation or interest hereunder shall be assignable or delegable by the Executive without the Company's prior written consent; provided, however, that nothing in this Section shall preclude the Executive from designating any of his beneficiaries to receive any benefits payable hereunder upon his death or disability, or his executors, administrators, or other legal representatives, from assigning any rights hereunder to the person or persons entitled thereto. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate.

13. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner except by an instrument in writing signed by the parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Notices. Any notice hereunder by either party to the other shall be given in writing by personal delivery, telex, telecopy or certified mail, return receipt requested, to the applicable address set forth below:

(i) To the Company:           Guess ?, Inc.  
                                  1444 South Alameda Street  
                                  Los Angeles, California 90021  
                                  Attention: General Counsel  
                                  Telecopier: (213) 765-3100

(ii) To the Executive:       Mr. Maurice Marciano  
                                  Guess ?, Inc.  
                                  1444 South Alameda Street  
                                  Los Angeles, California 90021  
                                  Telecopier: (213) 744-7825

(or such other address as may from time to time be designated by notice by any party hereto for such purpose). Notice shall be deemed given, if by personal delivery, on the date of such delivery or, if by telex or telecopy, on the business day following receipt of answerback or telecopy confirmation or, if by certified mail, on the date shown on the applicable return receipt.

15. California Law. This Agreement is to be governed by and interpreted in accordance with the laws of the State of California, without giving effect to the choice-of-law provisions thereof. If, under such law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect and validity of the remaining portion hereof.

16. Arbitration. Any controversy or claim arising out of or relating to this Agreement, including, but not limited to, any claim relating to its validity, interpretation, enforceability or breach, or any other claim or controversy arising out of the employment relationship or the commencement or termination of that relationship, including, but not limited to, claims for breach of covenant, breach of implied covenant or intentional infliction of



emotional distress, which are not settled by agreement between the parties, shall be settled by arbitration in Los Angeles, California before a board of three arbitrators, one to be selected by the Company, one by Executive and the other by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect; provided, however, that the Company shall nevertheless be entitled to seek relief under Section 9 in accordance with Section 9(d). In consideration of the parties' agreement to submit to arbitration disputes with regard to this Agreement and with regard to any alleged contract or tort or other claim arising out of the employment relationship, and in consideration of the anticipated expedition and minimization of expense of this arbitration remedy, each party agrees that the arbitration provisions of this Agreement shall provide it with exclusive remedy, except as provided in the preceding sentence, and each party expressly waives any right it might have to seek redress in any other forum except as provided herein. The parties further agree that the arbitrators acting hereunder shall be empowered to assess no remedy other than the payment of compensatory damages or an order (including temporary, preliminary and permanent injunctive relief) enforcing the provisions of Section 9. Executive acknowledges that the Company would be irreparably injured by Executive's breach of his obligations under Section 9 and that monetary damages would be inadequate. Subject to the provisions of Section 17(b) hereof, the expenses of the third arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Company and Executive and each party shall bear the expense of the arbitrator selected by it and of any witnesses it calls. Any decision and award or order of the majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in any court having jurisdiction thereof.

17. Indemnity and Reimbursement of Legal Expenses.

(a) Indemnity. The Company will indemnify the Executive (and his legal representatives or other successors) to the fullest extent permitted (including payment of expenses in advance of final disposition of a proceeding) by the laws of the State of California, as in effect at the time of the subject act or omission, or by the Certificate of Incorporation and By-Laws of the Company, as in effect at such time, or by the terms of any indemnification agreement between the Company and the Executive, whichever affords greatest protection to the Executive, and the Executive shall be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and officers (and to the

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extent the Company maintains such an insurance policy or policies, the Executive shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company officer or director), against all costs, charges and expenses whatsoever incurred or sustained by him or his legal representatives at the time such costs, charges and expenses are incurred or sustained, in connection with any action, suit or proceeding to which he (or his legal representatives or other successors) may be made a party by reason of his being or having been a director, officer or employee of the Company or any subsidiary thereof, or his serving or having served any other enterprises as a director, officer or employee at the request of the Company.

(b) Legal Fees and Expenses. In the event of a dispute between the Executive and the Company with respect to any of the Executive's rights under this Agreement, the Company shall reimburse the Executive for any and all legal fees and related expenses reasonably incurred by him in connection with enforcing such rights if the Executive is successful in obtaining a money judgment against the Company in a final arbitration proceeding. In addition, the Company shall reimburse Executive for all reasonable legal expenses in connection with the negotiation and review of this Agreement and any amendments thereto.

18. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement this 13th day of August, 1996, effective as of the Effective Date.

GUESS ?, INC.

By:

Title:

Maurice Marciano

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EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, made as of August 13, 1996, by and between Guess ?, Inc., a Delaware corporation (herein referred to as the "Company"), and Paul Marciano (herein referred to as the "Executive").

W I T N E S S E T H:

WHEREAS, the Company intends to make an underwritten initial public offering of its common stock (the "Public Offering"); and

WHEREAS, in connection with the Public Offering, the Company and Executive deem it to be in their respective best interests to enter into an agreement providing for the Company's employment of Executive pursuant to the terms herein stated;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Employment; Position and Duties; Exclusive Services.

(a) Employment. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, for the Term provided in Section 2 below and upon the other terms and conditions hereinafter provided.

(b) Position and Duties. During the Term, the Executive (i) agrees to serve as the President and Chief Operating Officer of the Company and to perform such reasonable duties as may be delineated in the By-Laws of the Company and as may be assigned to him from time to time by the Board of Directors of the Company (the "Board"), including, without limitation, primary responsibility for all advertising, management information systems and legal functions of the Company, (ii) shall report, as President and Chief Operating Officer of the Company, only to the Board or to the Chairman of the Board and to the Chief Executive Officer of the Company, (iii) shall be given such authority as is appropriate to carry out the duties described above, it being understood that, in his capacities as President and Chief Operating Officer of the Company, his duties will be consistent in scope, prestige and authority with the duties of President and Chief Operating Officer of the Company as demonstrated by the Company's existing practices as of the effective date of this Agreement, and (v) agrees to serve, if elected, at no additional compensation (if the other officers or directors (other than non-employee directors) of the Company also serve at no additional compensation) in the position of officer or director of any subsidiary or affiliate of the Company; provided, however, that such position shall be of no less status relative to such subsidiary or affiliate as the position that the Executive holds pursuant to clause (i) of this Section 1(b) is relative to the Company.

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(c) Exclusive Services. During the Term, the Executive agrees to devote substantially all of his business time, attention, skill and efforts exclusively to the business and affairs of the Company and its subsidiaries and affiliates, and shall perform and discharge the duties which may be assigned to him from time to time by the Board or the Chief Executive Officer.

(d) Relocation. The Company shall not relocate the Executive's principal place of business outside of the Los Angeles metropolitan area without the written consent of the Executive.

2. Term of Agreement. The term of employment under this Agreement shall initially be the three-year period commencing on the date of the Public

Offering (the "Effective Date") and ending on the third anniversary of the Effective Date, and shall be automatically extended without further action by either party for a successive or successive one-year period or periods, unless written notice of either party's intention to terminate this Agreement has been given to the other party at least 90 days prior to the expiration of the Term (including any one-year extension thereof). As used in this Agreement, the "Term" shall mean the initial three-year term plus any extensions thereof as provided in this Section 2.

3. Salary and Annual Bonus. The Executive's cash compensation for all services to be rendered by him in any capacity hereunder shall consist of base salary as provided in Section 3(a) and bonus compensation as provided in Section 3(b).

(a) Salary. The Executive shall be paid a minimum base salary (the "Salary") at the rate of \$900,000 per annum. The Salary shall be payable in accordance with the customary payroll practices for executives of the Company. The amount of Executive's Salary will be reviewed not less often than annually by the Compensation Committee of the Board (the "Compensation Committee") and may be increased, but not decreased below such amount, on the basis of such review.

(b) Annual Bonus.

(i) General Terms. For each calendar year included in whole or in part within the Term, the Executive shall be eligible to earn an annual cash bonus (a "Bonus") based upon the achievement by the Company and its subsidiaries of performance targets established by the Compensation Committee in accordance with the terms of the Company's Annual Incentive Bonus Plan and any successor plan thereto (collectively, the "Bonus Plan"). The performance goals on the basis of which the Executive's bonus shall be determined shall be no less favorable to the Executive than the goals used to determine the bonus of any other executive of the Company whose annual bonus is based in whole or in part on corporate performance and who participates in the Bonus Plan, and the Compensation Committee shall establish objective criteria to be used to determine the extent to which such performance goals have been met. The Bonus, if any, payable to the Executive in respect of each calendar year will be paid at the same time that bonuses are paid to other participants in the Bonus Plan.

(ii) Amount of Target Bonus. For each calendar year included in whole or in part within the Term, there shall be a target Bonus (a "Target Bonus") for the Executive equal to at least 100% of Executive's Salary, at the

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annual rate in effect at the beginning of such calendar year (pro rated, if less than an entire year).

(iii) Determination of the Bonus Amount. The amount of the actual Bonus for any calendar year to be paid to the Executive will be determined, in the sole discretion of the Compensation Committee, based upon the performance of the Company and its subsidiaries against the goals established by the Compensation Committee pursuant to the Bonus Plan.

4. Stock Options. Commencing as of the Effective Date, Executive shall be eligible for option grants under the Company's 1996 Equity Incentive Plan and any successor plan thereto for the Company's executive officers, in accordance with the terms and conditions thereof.

5. Pension and Welfare Benefits. During the Term, the Executive will participate in all pension and welfare plans, programs and benefits that are applicable to executives of the Company. The benefits provided to the Executive during the Term, when taken as a whole, shall be no less favorable than the benefits which, when taken as a whole, are provided to any other executive of the Company; provided that Executive shall continue to receive

life insurance coverage in an amount equal to at least one (1) times his then Salary. During the Term, the Executive shall also be entitled to all additional perquisites which the Company provides to its executives. Subject to subsection 7(a)(i) hereof, from and after the expiration of the Term or, if earlier, the date of termination of Executive's employment hereunder, Executive shall be entitled, during his lifetime, to full Company-paid health and life insurance for himself and his immediate family, at a level no less favorable than that in effect from time to time for the benefit of the Company's senior executive officers.

6. Other Benefits.

(a) Travel and Business-related Expenses. During the Term, the Executive shall be reimbursed in accordance with the policies of the Company for traveling and other expenses incurred in the performance of the business of the Company.

(b) Automobile. During the Term, the Executive shall be furnished with an automobile either owned or leased by the Company or an automobile allowance, at the discretion of the Company. The Company shall pay or reimburse the Executive for all reasonable expenses associated with the operation of such automobile, including, without limitation, all reasonable maintenance and insurance expenses.

(c) Aircraft. The Executive shall be provided with reasonable access to any aircraft leased or owned by the Company.

(d) Country Club Membership. During the Term, the Company shall pay the Executive's reasonable membership expenses (including fees, dues and related expenses) at such country club or clubs as approved by the Board.

(e) Consulting Agreement. Commencing on the expiration of the Term of this Agreement or, if earlier, the date of termination of Executive's employment hereunder for any reason other than death or for Cause (as defined below), and subject to the provisions of Sections 8 and 9 hereof, the Company and Executive shall enter into a two (2) year consulting agreement pursuant to which Executive shall render consulting services to the Company as Executive

and the Company shall agree, for which the Company shall pay Executive a consulting fee at an annual rate equal to 50% of Executive's Salary, at the rate in effect immediately prior to the commencement of the consulting period, payable in accordance with the customary payroll practices for executives of the Company or at such other time or times as Executive and the Company shall agree. It is expressly understood that Executive's reporting obligations pursuant to such consulting agreement shall be limited to the Board and the Chief Executive Officer of the Company, or such other person as Executive and the Company shall agree.

7. Termination of Employment.

(a) Termination for Cause, Resignation Without Good Reason.

(i) If the Executive's employment is terminated by the Company for Cause (as defined below) or if the Executive resigns from his employment without Good Reason (as defined below), prior to the expiration of the Term, the Executive shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination; (B) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs; and (C) any unreimbursed expenses. The Executive shall not accrue or otherwise be eligible to receive Salary payments or to participate in any plans, programs or benefits described in Section 5 hereof with respect to periods after the date of such termination or resignation, and shall not be eligible to receive

any Bonus in respect of the year of such termination or resignation or any calendar year following the year in which such termination or resignation occurs. Any Bonus in respect of a year prior to the year in which such termination or resignation occurs shall be payable at such time and in such manner as provided for in Section 3(b) hereof.

(ii) Termination for "Cause" shall mean termination by action of the Board because of: (A) Executive's willful and continued failure (other than by reason of the incapacity of Executive due to physical or mental illness) substantially to perform his duties hereunder; (B) a felony conviction of the Executive or the perpetration by the Executive of a serious dishonest act against the Company or any of its affiliates or subsidiaries; (C) any willful misconduct by the Executive that is materially injurious to the financial condition or business reputation of the Company or any of its affiliates or subsidiaries; or (D) chronic alcoholism or drug abuse which materially affects Executive's performance hereunder, provided, however, that no event or circumstance shall be considered to constitute Cause within the meaning of this clause (ii) unless the Executive has been given written notice of the events or circumstances constituting Cause and has failed to effect a cure thereof within 60 calendar days following the receipt of such notice.

(iii) Resignation for "Good Reason" shall mean the resignation of the Executive because of (A) a material reduction in Executive's responsibilities, duties, authority, status or titles as described in Section 1 above; or (B) failure by the Company to pay or provide Executive when due any compensation, benefits or perquisites to which Executive is entitled pursuant to this Agreement or any other plan, contract or arrangement in which Executive participates or is entitled to participate; provided, however, that no event or circumstance shall be considered to constitute Good Reason within the meaning of this clause (iii) unless the Company has been given written notice of the events or circumstances constituting Good Reason and has failed

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to effect a cure thereof within 60 calendar days following the receipt of such notice.

(iv) The date of termination of employment by the Company pursuant to this Section 7(a) shall be the date specified in a written notice of termination from the Company to the Executive, which, in the case of a proposed termination to which the 60-day cure period provided for in subsection (ii) above applies shall be no less than 61 days after the delivery of such notice to the Executive. The date of a resignation by the Executive pursuant to this Section 7(a) shall be the date specified in the written notice of resignation from the Executive to the Company, which, in the case of a proposed resignation to which the 60-day cure period provided for in subsection (iii) above applies shall be no less than 61 days after the delivery of such notice to the Company, or, if no date is specified therein, 61 days after receipt by the Company of the written notice of resignation from the Executive.

(b) Termination Without Cause, Resignation for Good Reason.

(i) If the Executive's employment is terminated by the Company without Cause or if the Executive should resign for Good Reason, prior to the expiration of the Term, he shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination and continuing for the remainder of the then-effective Term (the "Continuation Period"); (B) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs; (C) any unreimbursed expenses and (D) a Bonus for the calendar year in which such termination or resignation occurs equal to the Executive's Target Bonus for such year and a Bonus for each subsequent year included in whole or in part within the Continuation Period equal to the Target Bonus for the calendar year in which such termination or resignation

occurs, provided, however, that the amount of such Bonus payable in respect of any partial calendar year at the conclusion of the Continuation Period shall be prorated and shall equal the Executive's Bonus for such year multiplied by a fraction, the numerator of which shall equal the number of days in such calendar year up to and including the last day of the Continuation Period and the denominator of which shall equal the lesser of 365 or the number of days in such final calendar year up to and including the last day of the Term.

During the Continuation Period, (X) Salary payments to the Executive shall be payable in accordance with the payroll practices of the Company, and (Y) Bonus payments shall be made in respect of each calendar year at the same time that bonuses are paid to participants in the Bonus Plan.

The Executive shall also be entitled to continued participation in the medical, dental and insurance plans and arrangements described in Section 5, on the same terms and conditions as are in effect immediately prior to such termination or resignation, until the earlier to occur of (i) the last day of the Continuation Period and (ii) such time as Executive is entitled to comparable benefits provided by a subsequent employer. Anything herein to the contrary notwithstanding, the Company shall have no obligation to continue to maintain during the Continuation Period any plan or program solely as a result of the provisions of this Agreement. If, during the Continuation Period, Executive is precluded from participating in a plan or program by its terms or applicable law or if the Company for any reason ceases to maintain such plan or program, the Company shall provide Executive with compensation or benefits

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the aggregate value of which, in the reasonable judgement of the Company, is no less than the aggregate value of the compensation or benefits that Executive would have received under such plan or program had he been eligible to participate therein or had such plan or program continued to be maintained by the Company.

(ii) Except as may be provided under the terms of any applicable grants to the Executive, under any plan or arrangement in which the Executive participates under Section 5 or except as may be otherwise required by applicable law, including, without limitation, the provisions of Section 4980B(f) of the Internal Revenue Code of 1986, as amended (the "Code"), the Executive shall have no right under this Agreement or any other agreement to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation of employment. Except as otherwise provided in Section 9(d), in the event of a termination or resignation pursuant to this Section 7(b), the Executive shall have no duty of mitigation with respect to amounts payable to him pursuant to this Section 7(b) or other benefits to which he is entitled pursuant hereto; provided, however, that, in the event the Executive breaches any of the provisions of Sections 8 or 9 hereof, the amounts payable to the Executive pursuant to this Section 7(b), or other benefits to which he is entitled pursuant hereto, will be offset or reduced by any compensation, payments or benefits he may receive from a subsequent employer.

(iii) The date of termination of employment by the Company pursuant to this Section 7(b) shall be the date specified in the written notice of termination from the Company to the Executive or, if no date is specified therein, ten business days after receipt by the Executive of the written notice of termination from the Company. The date of a resignation by the Executive pursuant to this Section 7(b) shall be the date specified in the written notice of resignation from the Executive to the Company or, if no date is specified therein, ten business days after receipt by the Company of the written notice of resignation from the Executive.

(c) Death or Permanent Disability. If the Executive's employment hereunder terminates by reason of Executive's death or Permanent Disability

prior to expiration of the Term, the Executive (or his beneficiary (or if no such beneficiary is designated, his estate), conservator or guardian, as the case may be) shall be entitled to receive: (i) the Salary provided for in Section 3(a) as accrued through the date of the Executive's death or Permanent Disability; (ii) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which the Executive's death or Permanent Disability occurs; (iii) a Bonus for the calendar year in which the Executive's death or Permanent Disability occurs equal to a pro rata portion of the Executive's Target Bonus for such year, determined on the basis of the number of days in such year through the date of Executive's death or Permanent Disability; and (iv) any unreimbursed expenses. Bonus payments provided for in this Section 7(c) shall be made at such time and in such manner as is provided in Section 3(b). As used in this Section, the term "beneficiary" includes both the singular and the plural of such term, as may be appropriate. For purposes of this Agreement, "Permanent Disability" shall be defined in the same manner as such term or a similar term is defined in any long-term disability policy maintained by the Company for the Executive and in effect on the date of the Executive's termination of employment with the Company, provided that, in the event that the Company does not maintain a long-term disability policy for the Executive, Permanent Disability shall mean

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a physical or mental incapacity that substantially prevents him from performing his duties hereunder for a period of 6 consecutive months and that can reasonably be expected to continue indefinitely. Any dispute as to whether or not Executive is disabled within the meaning of the preceding sentence shall be resolved by a physician reasonably satisfactory to Executive and the Company, and the determination of such physician shall be final and binding upon both Executive and the Company.

#### 8. Assignment of Intellectual Property Rights.

(a) Definition of "Inventions". As used herein, the term "Inventions" shall mean all inventions, discoveries, improvements, trade secrets, formulas, techniques, data, programs, systems, specifications, documentations, algorithms, flow charts, logic diagrams, source codes, processes, and other information, including works-in-progress, whether or not subject to patent, trademark, copyright, trade secret, or mask work protection, and whether or not reduced to practice, which are made, created, authored, conceived, or reduced to practice by Executive, either alone or jointly with others, during the period of employment with the Company (including, without limitation, all periods of employment with the Company prior to the Effective Date), whether or not performed on the Company's premises or property, which (A) relate to the actual or anticipated business, activities, research, or investigations of the Company or (B) result from or is suggested by work performed by Executive for the Company (whether or not made or conceived during normal working hours or on the premises of the Company), or (C) which result, to any extent, from use of the Company's premises or property.

(b) Work for Hire. Executive expressly acknowledges that all copyrightable aspects of the Inventions (as defined above) are to be considered "works made for hire" within the meaning of the Copyright Act of 1976, as amended (the "Act"), and that the Company is to be the "author" within the meaning of such Act for all purposes. All such copyrightable works, as well as all copies of such works in whatever medium, fixed or embodied, shall be owned exclusively by the Company as of the date of creation, and Executive hereby expressly disclaims any and all interest in any of such copyrightable works and waives any right of droit morale or similar rights.

(c) Assignment. Executive acknowledges and agrees that all Inventions constitute trade secrets of the Company and shall be the sole property of the Company or any other entity designated by the Company. In the event that



title to any or all of the Inventions, or any part or element thereof, may not, by operation of law, vest in the Company, or such Inventions may be found as a matter of law not to be "works made for hire" within the meaning of the Act, Executive hereby conveys and irrevocably assigns to the Company, without further consideration, all his right, title and interest, throughout the universe and in perpetuity, in all Inventions and all copies of them, in whatever medium, fixed or embodied, and in all written or computer records, graphics, diagrams, notes, or reports relating thereto in Executive's possession or under his control, including, with respect to any of the foregoing, all rights of copyright, patent, trademark, trade secret, mask work, and any and all other proprietary rights therein, the right to modify and create derivative works, the right to invoke the benefit of any priority under any international convention, and all rights to register and renew the same. Anything to the contrary notwithstanding, this subsection (c) shall not

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require Executive to assign any Invention that would cause this Section 8, or any portion thereof, to be void or unenforceable under Section 2870 of the California Labor Code, and Executive acknowledges receipt of the notification required by Section 2872 of the California Labor Code.

(d) Proprietary Notices; No Filings; Waiver of Moral Rights. Executive acknowledges that all Inventions shall, at the sole option of the Company, bear the Company's patent, copyright, trademark, trade secret and mask work notices.

Executive agrees not to file any patent, copyright or trademark applications relating to any Invention except with prior written consent of an authorized representative of the Company (other than Executive).

Executive hereby expressly disclaims any and all interest in any Inventions and waives any right of droit morale or similar rights, such as rights of integrity or the right to be attributed as the creator of the Invention.

(e) Further Assurances. Executive agrees to assist the Company, or any party designated by the Company, promptly on the Company's request, whether before or after the termination of employment, however such termination may occur, in perfecting, registering, maintaining, and enforcing, in all jurisdictions, the Company's rights in the Inventions by performing all acts and executing all documents and instruments deemed necessary or convenient by the Company, including, by way of illustration and not limitation:

(i) Executing assignments, applications, and other documents and instruments in connection with (A) obtaining patents, copyrights, trademarks, mask works, or other proprietary protections for the Inventions and (B) confirming the assignment to the Company of all right, title and interest in the Inventions or otherwise establishing the Company's exclusive ownership rights therein.

(ii) Cooperating in the prosecution of patent, copyright, trademark and mask work applications, as well as in the enforcement of the Company's rights in the Inventions, including, but not limited to, testifying in court or before any patent, copyright, trademark or mask work registry office or any other administrative body.

Executive will be reimbursed for all out-of-pocket costs reasonably incurred in connection with the foregoing, if such assistance is requested by the Company after the termination of Executive's employment. In addition, to the extent that, after the termination of employment for whatever reason, Executive's technical expertise shall be required in connection with the fulfillment of the aforementioned obligations, the Company will compensate Executive at a reasonable rate for the time actually spent by Executive at the Company's request rendering such assistance.

(f) Power of Attorney. Executive hereby irrevocably appoints the Company to be his Attorney-in-Fact to execute any document and to take any action in his name and on his behalf and to generally use his name for the purpose of giving to the Company the full benefit of the assignment provisions set forth above.

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(g) Disclosure of Inventions. Executive will make full and prompt disclosure to the Company of all Inventions subject to assignment to the Company, and all information relating thereto in Executive's possession or under his control as to possible applications and use thereof.

9. No Competing Employment; No Interference; Confidentiality; Remedies.

(a) No Competing Employment. For so long as the Executive is employed by the Company or any of its affiliates and subsidiaries and continuing for the two-year period commencing at the expiration of the Term hereof or the earlier termination of Executive's employment for any reason other than death (such period being referred to hereinafter as the "Restricted Period"), the Executive shall not, unless he receives after the Effective Date the prior written consent of the Board, directly or indirectly, whether as owner, consultant, employee, partner, venturer, agent, through stock ownership, investment of capital, lending of money or property, rendering of services, or otherwise, compete with the Company or any of its affiliates or subsidiaries in any business in which any of them is engaged during the Term hereunder or at the time of the termination of the Executive's employment hereunder, including without limitation the design, manufacture and/or distribution of men's or women's sportswear or accessories (such businesses are hereinafter referred to as the "Business"), or assist, become interested in or be connected with any corporation, firm, partnership, joint venture, sole proprietorship or other entity which so competes with the Business, except that the provisions of this Section 9(a) will not be deemed breached merely because Executive owns equity in (i) Charles David of California, (ii) California Sunshine Active Wear, Inc.; or (iii) Nantucket Industries, Inc. or because Executive "beneficially owns", either individually or as a member of a "group" (as such terms are used in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), not more than five percent (5%) of the voting securities of any one or more companies that file reports pursuant to the Exchange Act. After the expiration of the Term hereof and during the two-year period referenced above, the restrictions imposed by this paragraph shall not apply to any business in which the Company or its affiliates and subsidiaries were not engaged at the time of termination of the Executive's employment hereunder or to any geographic area in which the Company or its affiliates and subsidiaries were not engaged in the Business at the time of termination.

(b) No Interference. During the Restricted Period, the Executive shall not, for the purpose of competing with the Business, directly or indirectly, whether for his own account or for the account of any other individual, partnership, firm, corporation or other business organization or entity (other than the Company), intentionally solicit, endeavor to entice away from the Company or any of its affiliates or subsidiaries, or otherwise intentionally interfere with the relationship of the Company or any of its affiliates or subsidiaries with any person who is employed by or otherwise engaged to perform services for the Company or any of its affiliates or subsidiaries or influence, or seek to influence, any person or entity who is a customer, client or supplier of the Company or any of its affiliates or subsidiaries to divert their business to any person or entity that competes with the Company or any of its affiliates or subsidiaries, nor shall the Executive participate in the efforts of any individual, partnership, firm, corporation or other business corporation or entity for which he provides services, by which he is employed, or in which he invests, to do so, except

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that the provisions of this Section 9(b) will not be deemed breached merely because Executive owns equity in (i) Charles David of California, (ii) California Sunshine Active Wear, Inc.; or (iii) Nantucket Industries, Inc. or because Executive "beneficially owns", either individually or as a member of a "group" (as such terms are used in Rule 13d-3 under the Exchange Act), not more than five percent (5%) of the voting securities of any one or more companies that file reports pursuant to the Exchange Act. After the expiration of the Term hereof and during the two-year period referenced in subsection 9(a), the restrictions imposed by this paragraph shall not apply to any business in which the Company or its affiliates and subsidiaries were not engaged at the time of termination of the Executive's employment hereunder or to any geographic area in which the Company or its affiliates and subsidiaries were not engaged in the Business at the time of termination.

(c) Confidential Information. The Executive recognizes that the services to be performed by him hereunder, and the services performed by him during prior periods of employment with the Company, are special, unique and extraordinary and that, by reason of such employment, he has acquired and will continue to acquire confidential information and trade secrets concerning the operations of the Company and its affiliates and subsidiaries. Accordingly, the Executive agrees that he will not, except with the prior written consent of the Board or as may be required by law, directly or indirectly, disclose during the Term or any time thereafter any secret or confidential information that he has learned by reason of his association with the Company or any of its affiliates or subsidiaries or use any such information to the detriment of the Company or its affiliates or subsidiaries so long as such confidential information or trade secrets have not been disclosed or are not otherwise in the public domain. The term "confidential information" means any information about the Company, its subsidiaries and affiliates, and their respective clients and customers, not previously disclosed to the public or to the trade by the Company's management, including, without limitation, any products, data, formulae, facilities and methods, trade secrets and other intellectual property, systems, records (including computer records), procedures, manuals, confidential reports, product price lists, client and customer lists, financial information (including the revenues, costs or profits associated with any of the Company's products), business plans, prospects or opportunities.

(d) Remedies; Survival of Agreement. In the event that the Executive materially breaches any of the covenants set forth in this Section 9 and fails to cure such breach to the reasonable satisfaction of the Company within 10 business days after receipt of written notice thereof to the Executive, any obligation of the Company to make any payment to the Executive pursuant to this Agreement, including without limitation any payments pursuant to Section 7(b) (other than payments of Salary or Bonus earned prior to the date of such breach and unreimbursed expenses), shall be cancelled. In addition, the Executive acknowledges that a breach of any of the covenants contained in this Section 9 may result in material irreparable injury to the Company or its affiliates or subsidiaries for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company shall be entitled, in addition to any other rights or remedies it may have, to seek an injunction enjoining or restraining the Executive from any violation or threatened violation of this Section 9. The Executive's agreement as set forth in this Section shall survive the termination of the Executive's employment under this Agreement.

10. Source of Payments. All payments provided under this Agreement, other than payments made pursuant to a benefit plan which may provide otherwise, shall be paid in cash from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of

assets made, to assure payment. The Executive shall have no right, title, or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

11. Tax Withholding. Payments to the Executive of all compensation contemplated under this Agreement shall be subject to all applicable legal requirements with respect to the withholding of taxes.

12. Nonassignability; Binding Agreement. Neither this Agreement nor any right, duty, obligation or interest hereunder shall be assignable or delegable by the Executive without the Company's prior written consent; provided, however, that nothing in this Section shall preclude the Executive from designating any of his beneficiaries to receive any benefits payable hereunder upon his death or disability, or his executors, administrators, or other legal representatives, from assigning any rights hereunder to the person or persons entitled thereto. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate.

13. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner except by an instrument in writing signed by the parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

14. Notices. Any notice hereunder by either party to the other shall be given in writing by personal delivery, telex, telecopy or certified mail, return receipt requested, to the applicable address set forth below:

(i) To the Company:           Guess ?, Inc.  
                                  1444 South Alameda Street  
                                  Los Angeles, California 90021  
                                  Attention: General Counsel  
                                  Telecopier: (213) 765-3100

(ii) To the Executive:       Mr. Paul Marciano  
                                  Guess ?, Inc.  
                                  1444 South Alameda Street  
                                  Los Angeles, California 90021  
                                  Telecopier: (213) 744-7825

(or such other address as may from time to time be designated by notice by any party hereto for such purpose). Notice shall be deemed given, if by personal

delivery, on the date of such delivery or, if by telex or telecopy, on the business day following receipt of answerback or telecopy confirmation or, if by certified mail, on the date shown on the applicable return receipt.

15. California Law. This Agreement is to be governed by and interpreted in accordance with the laws of the State of California, without giving effect to the choice-of-law provisions thereof. If, under such law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not

affect the force, effect and validity of the remaining portion hereof.

16. Arbitration. Any controversy or claim arising out of or relating to this Agreement, including, but not limited to, any claim relating to its validity, interpretation, enforceability or breach, or any other claim or controversy arising out of the employment relationship or the commencement or termination of that relationship, including, but not limited to, claims for breach of covenant, breach of implied covenant or intentional infliction of emotional distress, which are not settled by agreement between the parties, shall be settled by arbitration in Los Angeles, California before a board of three arbitrators, one to be selected by the Company, one by Executive and the other by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect; provided, however, that the Company shall nevertheless be entitled to seek relief under Section 9 in accordance with Section 9(d). In consideration of the parties' agreement to submit to arbitration disputes with regard to this Agreement and with regard to any alleged contract or tort or other claim arising out of the employment relationship, and in consideration of the anticipated expedition and minimization of expense of this arbitration remedy, each party agrees that the arbitration provisions of this Agreement shall provide it with exclusive remedy, except as provided in the preceding sentence, and each party expressly waives any right it might have to seek redress in any other forum except as provided herein. The parties further agree that the arbitrators acting hereunder shall be empowered to assess no remedy other than the payment of compensatory damages or an order (including temporary, preliminary and permanent injunctive relief) enforcing the provisions of Section 9. Executive acknowledges that the Company would be irreparably injured by Executive's breach of his obligations under Section 9 and that monetary damages would be inadequate. Subject to the provisions of Section 17(b) hereof, the expenses of the third arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Company and Executive and each party shall bear the expense of the arbitrator selected by it and of any witnesses it calls. Any decision and award or order of the majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in any court having jurisdiction thereof.

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17. Indemnity and Reimbursement of Legal Expenses.

(a) Indemnity. The Company will indemnify the Executive (and his legal representatives or other successors) to the fullest extent permitted (including payment of expenses in advance of final disposition of a proceeding) by the laws of the State of California, as in effect at the time of the subject act or omission, or by the Certificate of Incorporation and By-Laws of the Company, as in effect at such time, or by the terms of any indemnification agreement between the Company and the Executive, whichever affords greatest protection to the Executive, and the Executive shall be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and officers (and to the extent the Company maintains such an insurance policy or policies, the Executive shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company officer or director), against all costs, charges and expenses whatsoever incurred or sustained by him or his legal representatives at the time such costs, charges and expenses are incurred or sustained, in connection with any action, suit or proceeding to which he (or his legal representatives or other successors) may be made a party by reason of his being or having been a director, officer or employee of the Company or any subsidiary thereof, or his serving or having served any other enterprises as a director, officer or employee at the request of the Company.

(b) Legal Fees and Expenses. In the event of a dispute between the Executive and the Company with respect to any of the Executive's rights under this Agreement, the Company shall reimburse the Executive for any and all

legal fees and related expenses reasonably incurred by him in connection with enforcing such rights if the Executive is successful in obtaining a money judgment against the Company in a final arbitration proceeding. In addition, the Company shall reimburse Executive for all reasonable legal expenses in connection with the negotiation and review of this Agreement and any amendments thereto.

18. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement this 13th day of August, 1996, effective as of the Effective Date.

GUESS ?, INC.

By:

Title:

Paul Marciano

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EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, made as of August 13, 1996, by and between Guess ?, Inc., a Delaware corporation (herein referred to as the "Company"), and Armand Marciano (herein referred to as the "Executive").

W I T N E S S E T H:

WHEREAS, the Company intends to make an underwritten initial public offering of its common stock (the "Public Offering"); and

WHEREAS, in connection with the Public Offering, the Company and Executive deem it to be in their respective best interests to enter into an agreement providing for the Company's employment of Executive pursuant to the terms herein stated;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Employment; Position and Duties; Exclusive Services.

(a) Employment. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, for the Term provided in Section 2 below and upon the other terms and conditions hereinafter provided.

(b) Position and Duties. During the Term, the Executive (i) agrees to serve as the Senior Executive Vice President and Secretary of the Company and to perform such reasonable duties as may be delineated in the By-Laws of the Company and as may be assigned to him from time to time by the Board of Directors of the Company (the "Board"), including, without limitation, primary responsibility for all production functions of the Company, (ii) shall report, as Senior Executive Vice President and Secretary of the Company, only to the Board or to the Chairman of the Board and to the Chief Executive Officer of the Company, (iii) shall be given such authority as is appropriate to carry out the duties described above, it being understood that, in his capacities as Senior Executive Vice President and Secretary of the Company, his duties will be consistent in scope, prestige and authority with the duties of Senior Executive Vice President and Secretary of the Company as demonstrated by the Company's existing practices as of the effective date of this Agreement, and (v) agrees to serve, if elected, at no additional compensation (if the other officers or directors (other than non-employee directors) of the Company also serve at no additional compensation) in the position of officer or director of any subsidiary or affiliate of the Company; provided, however, that such position shall be of no less status relative to such subsidiary or affiliate as the position that the Executive holds pursuant to clause (i) of this Section 1(b) is relative to the Company.

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(c) Exclusive Services. During the Term, the Executive agrees to devote substantially all of his business time, attention, skill and efforts exclusively to the business and affairs of the Company and its subsidiaries and affiliates, and shall perform and discharge the duties which may be assigned to him from time to time by the Board or the Chief Executive Officer.

(d) Relocation. The Company shall not relocate the Executive's principal place of business outside of the Los Angeles metropolitan area without the written consent of the Executive.

2. Term of Agreement. The term of employment under this Agreement shall initially be the three-year period commencing on the date of the Public

Offering (the "Effective Date") and ending on the third anniversary of the Effective Date, and shall be automatically extended without further action by either party for a successive or successive one-year period or periods, unless written notice of either party's intention to terminate this Agreement has been given to the other party at least 90 days prior to the expiration of the Term (including any one-year extension thereof). As used in this Agreement, the "Term" shall mean the initial three-year term plus any extensions thereof as provided in this Section 2.

3. Salary and Annual Bonus. The Executive's cash compensation for all services to be rendered by him in any capacity hereunder shall consist of base salary as provided in Section 3(a) and bonus compensation as provided in Section 3(b).

(a) Salary. The Executive shall be paid a minimum base salary (the "Salary") at the rate of \$650,000 per annum. The Salary shall be payable in accordance with the customary payroll practices for executives of the Company. The amount of Executive's Salary will be reviewed not less often than annually by the Compensation Committee of the Board (the "Compensation Committee") and may be increased, but not decreased below such amount, on the basis of such review.

(b) Annual Bonus.

(i) General Terms. For each calendar year included in whole or in part within the Term, the Executive shall be eligible to earn an annual cash bonus (a "Bonus") based upon the achievement by the Company and its subsidiaries of performance targets established by the Compensation Committee in accordance with the terms of the Company's Annual Incentive Bonus Plan and any successor plan thereto (collectively, the "Bonus Plan"). The performance goals on the basis of which the Executive's bonus shall be determined shall be no less favorable to the Executive than the goals used to determine the bonus of any other executive of the Company whose annual bonus is based in whole or in part on corporate performance and who participates in the Bonus Plan, and the Compensation Committee shall establish objective criteria to be used to determine the extent to which such performance goals have been met. The Bonus, if any, payable to the Executive in respect of each calendar year will be paid at the same time that bonuses are paid to other participants in the Bonus Plan.

(ii) Amount of Target Bonus. For each calendar year included in whole or in part within the Term, there shall be a target Bonus (a "Target Bonus") for the Executive equal to at least 100% of Executive's Salary, at the

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annual rate in effect at the beginning of such calendar year (pro rated, if less than an entire year).

(iii) Determination of the Bonus Amount. The amount of the actual Bonus for any calendar year to be paid to the Executive will be determined, in the sole discretion of the Compensation Committee, based upon the performance of the Company and its subsidiaries against the goals established by the Compensation Committee pursuant to the Bonus Plan.

4. Stock Options. Commencing as of the Effective Date, Executive shall be eligible for option grants under the Company's 1996 Equity Incentive Plan and any successor plan thereto for the Company's executive officers, in accordance with the terms and conditions thereof.

5. Pension and Welfare Benefits. During the Term, the Executive will participate in all pension and welfare plans, programs and benefits that are applicable to executives of the Company. The benefits provided to the Executive during the Term, when taken as a whole, shall be no less favorable than the benefits which, when taken as a whole, are provided to any other executive of the Company; provided that Executive shall continue to receive



life insurance coverage in an amount equal to at least one (1) times his then Salary. During the Term, the Executive shall also be entitled to all additional perquisites which the Company provides to its executives. Subject to subsection 7(a)(i) hereof, from and after the expiration of the Term or, if earlier, the date of termination of Executive's employment hereunder, Executive shall be entitled, during his lifetime, to full Company-paid health and life insurance for himself and his immediate family, at a level no less favorable than that in effect from time to time for the benefit of the Company's senior executive officers.

6. Other Benefits.

(a) Travel and Business-related Expenses. During the Term, the Executive shall be reimbursed in accordance with the policies of the Company for traveling and other expenses incurred in the performance of the business of the Company.

(b) Automobile. During the Term, the Executive shall be furnished with an automobile either owned or leased by the Company or an automobile allowance, at the discretion of the Company. The Company shall pay or reimburse the Executive for all reasonable expenses associated with the operation of such automobile, including, without limitation, all reasonable maintenance and insurance expenses.

(c) Aircraft. The Executive shall be provided with reasonable access to any aircraft leased or owned by the Company.

(d) Country Club Membership. During the Term, the Company shall pay the Executive's reasonable membership expenses (including fees, dues and related expenses) at such country club or clubs as approved by the Board.

(e) Consulting Agreement. Commencing on the expiration of the Term of this Agreement or, if earlier, the date of termination of Executive's employment hereunder for any reason other than death or for Cause (as defined below), and subject to the provisions of Sections 8 and 9 hereof, the Company and Executive shall enter into a two (2) year consulting agreement pursuant to

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which Executive shall render consulting services to the Company as Executive and the Company shall agree, for which the Company shall pay Executive a consulting fee at an annual rate equal to 50% of Executive's Salary, at the rate in effect immediately prior to the commencement of the consulting period, payable in accordance with the customary payroll practices for executives of the Company or at such other time or times as Executive and the Company shall agree. It is expressly understood that Executive's reporting obligations pursuant to such consulting agreement shall be limited to the Board and the Chief Executive Officer of the Company, or such other person as Executive and the Company shall agree.

7. Termination of Employment.

(a) Termination for Cause, Resignation Without Good Reason.

(i) If the Executive's employment is terminated by the Company for Cause (as defined below) or if the Executive resigns from his employment without Good Reason (as defined below), prior to the expiration of the Term, the Executive shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination; (B) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs; and (C) any unreimbursed expenses. The Executive shall not accrue or otherwise be eligible to receive Salary payments or to participate in any plans, programs or benefits described in Section 5 hereof with respect to periods after the date of such termination or resignation, and shall not be eligible to receive

any Bonus in respect of the year of such termination or resignation or any calendar year following the year in which such termination or resignation occurs. Any Bonus in respect of a year prior to the year in which such termination or resignation occurs shall be payable at such time and in such manner as provided for in Section 3(b) hereof.

(ii) Termination for "Cause" shall mean termination by action of the Board because of: (A) Executive's willful and continued failure (other than by reason of the incapacity of Executive due to physical or mental illness) substantially to perform his duties hereunder; (B) a felony conviction of the Executive or the perpetration by the Executive of a serious dishonest act against the Company or any of its affiliates or subsidiaries; (C) any willful misconduct by the Executive that is materially injurious to the financial condition or business reputation of the Company or any of its affiliates or subsidiaries; or (D) chronic alcoholism or drug abuse which materially affects Executive's performance hereunder, provided, however, that no event or circumstance shall be considered to constitute Cause within the meaning of this clause (ii) unless the Executive has been given written notice of the events or circumstances constituting Cause and has failed to effect a cure thereof within 60 calendar days following the receipt of such notice.

(iii) Resignation for "Good Reason" shall mean the resignation of the Executive because of (A) a material reduction in Executive's responsibilities, duties, authority, status or titles as described in Section 1 above; or (B) failure by the Company to pay or provide Executive when due any compensation, benefits or perquisites to which Executive is entitled pursuant to this Agreement or any other plan, contract or arrangement in which Executive participates or is entitled to participate; provided, however, that no event or circumstance shall be considered to constitute Good Reason within

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the meaning of this clause (iii) unless the Company has been given written notice of the events or circumstances constituting Good Reason and has failed to effect a cure thereof within 60 calendar days following the receipt of such notice.

(iv) The date of termination of employment by the Company pursuant to this Section 7(a) shall be the date specified in a written notice of termination from the Company to the Executive, which, in the case of a proposed termination to which the 60-day cure period provided for in subsection (ii) above applies shall be no less than 61 days after the delivery of such notice to the Executive. The date of a resignation by the Executive pursuant to this Section 7(a) shall be the date specified in the written notice of resignation from the Executive to the Company, which, in the case of a proposed resignation to which the 60-day cure period provided for in subsection (iii) above applies shall be no less than 61 days after the delivery of such notice to the Company, or, if no date is specified therein, 61 days after receipt by the Company of the written notice of resignation from the Executive.

(b) Termination Without Cause, Resignation for Good Reason.

(i) If the Executive's employment is terminated by the Company without Cause or if the Executive should resign for Good Reason, prior to the expiration of the Term, he shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination and continuing for the remainder of the then-effective Term (the "Continuation Period"); (B) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs; (C) any unreimbursed expenses and (D) a Bonus for the calendar year in which such termination or resignation occurs equal to the Executive's Target Bonus for such year and a Bonus for each subsequent year included in whole or in part within the Continuation Period equal to the Target Bonus for the calendar year in which such termination or resignation

occurs, provided, however, that the amount of such Bonus payable in respect of any partial calendar year at the conclusion of the Continuation Period shall be prorated and shall equal the Executive's Bonus for such year multiplied by a fraction, the numerator of which shall equal the number of days in such calendar year up to and including the last day of the Continuation Period and the denominator of which shall equal the lesser of 365 or the number of days in such final calendar year up to and including the last day of the Term.

During the Continuation Period, (X) Salary payments to the Executive shall be payable in accordance with the payroll practices of the Company, and (Y) Bonus payments shall be made in respect of each calendar year at the same time that bonuses are paid to participants in the Bonus Plan.

The Executive shall also be entitled to continued participation in the medical, dental and insurance plans and arrangements described in Section 5, on the same terms and conditions as are in effect immediately prior to such termination or resignation, until the earlier to occur of (i) the last day of the Continuation Period and (ii) such time as Executive is entitled to comparable benefits provided by a subsequent employer. Anything herein to the contrary notwithstanding, the Company shall have no obligation to continue to maintain during the Continuation Period any plan or program solely as a result of the provisions of this Agreement. If, during the Continuation Period,

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Executive is precluded from participating in a plan or program by its terms or applicable law or if the Company for any reason ceases to maintain such plan or program, the Company shall provide Executive with compensation or benefits the aggregate value of which, in the reasonable judgement of the Company, is no less than the aggregate value of the compensation or benefits that Executive would have received under such plan or program had he been eligible to participate therein or had such plan or program continued to be maintained by the Company.

(ii) Except as may be provided under the terms of any applicable grants to the Executive, under any plan or arrangement in which the Executive participates under Section 5 or except as may be otherwise required by applicable law, including, without limitation, the provisions of Section 4980B(f) of the Internal Revenue Code of 1986, as amended (the "Code"), the Executive shall have no right under this Agreement or any other agreement to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation of employment. Except as otherwise provided in Section 9(d), in the event of a termination or resignation pursuant to this Section 7(b), the Executive shall have no duty of mitigation with respect to amounts payable to him pursuant to this Section 7(b) or other benefits to which he is entitled pursuant hereto; provided, however, that, in the event the Executive breaches any of the provisions of Sections 8 or 9 hereof, the amounts payable to the Executive pursuant to this Section 7(b), or other benefits to which he is entitled pursuant hereto, will be offset or reduced by any compensation, payments or benefits he may receive from a subsequent employer.

(iii) The date of termination of employment by the Company pursuant to this Section 7(b) shall be the date specified in the written notice of termination from the Company to the Executive or, if no date is specified therein, ten business days after receipt by the Executive of the written notice of termination from the Company. The date of a resignation by the Executive pursuant to this Section 7(b) shall be the date specified in the written notice of resignation from the Executive to the Company or, if no date is specified therein, ten business days after receipt by the Company of the written notice of resignation from the Executive.

(c) Death or Permanent Disability. If the Executive's employment hereunder terminates by reason of Executive's death or Permanent Disability

prior to expiration of the Term, the Executive (or his beneficiary (or if no such beneficiary is designated, his estate), conservator or guardian, as the case may be) shall be entitled to receive: (i) the Salary provided for in Section 3(a) as accrued through the date of the Executive's death or Permanent Disability; (ii) any Bonus earned but not yet paid in respect of any calendar year preceding the year in which the Executive's death or Permanent Disability occurs; (iii) a Bonus for the calendar year in which the Executive's death or Permanent Disability occurs equal to a pro rata portion of the Executive's Target Bonus for such year, determined on the basis of the number of days in such year through the date of Executive's death or Permanent Disability; and (iv) any unreimbursed expenses. Bonus payments provided for in this Section 7(c) shall be made at such time and in such manner as is provided in Section 3(b). As used in this Section, the term "beneficiary" includes both the singular and the plural of such term, as may be appropriate. For purposes of this Agreement, "Permanent Disability" shall be defined in the same manner as such term or a similar term is defined in any

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long-term disability policy maintained by the Company for the Executive and in effect on the date of the Executive's termination of employment with the Company, provided that, in the event that the Company does not maintain a long-term disability policy for the Executive, Permanent Disability shall mean a physical or mental incapacity that substantially prevents him from performing his duties hereunder for a period of 6 consecutive months and that can reasonably be expected to continue indefinitely. Any dispute as to whether or not Executive is disabled within the meaning of the preceding sentence shall be resolved by a physician reasonably satisfactory to Executive and the Company, and the determination of such physician shall be final and binding upon both Executive and the Company.

#### 8. Assignment of Intellectual Property Rights.

(a) Definition of "Inventions". As used herein, the term "Inventions" shall mean all inventions, discoveries, improvements, trade secrets, formulas, techniques, data, programs, systems, specifications, documentations, algorithms, flow charts, logic diagrams, source codes, processes, and other information, including works-in-progress, whether or not subject to patent, trademark, copyright, trade secret, or mask work protection, and whether or not reduced to practice, which are made, created, authored, conceived, or reduced to practice by Executive, either alone or jointly with others, during the period of employment with the Company (including, without limitation, all periods of employment with the Company prior to the Effective Date), whether or not performed on the Company's premises or property, which (A) relate to the actual or anticipated business, activities, research, or investigations of the Company or (B) result from or is suggested by work performed by Executive for the Company (whether or not made or conceived during normal working hours or on the premises of the Company), or (C) which result, to any extent, from use of the Company's premises or property.

(b) Work for Hire. Executive expressly acknowledges that all copyrightable aspects of the Inventions (as defined above) are to be considered "works made for hire" within the meaning of the Copyright Act of 1976, as amended (the "Act"), and that the Company is to be the "author" within the meaning of such Act for all purposes. All such copyrightable works, as well as all copies of such works in whatever medium, fixed or embodied, shall be owned exclusively by the Company as of the date of creation, and Executive hereby expressly disclaims any and all interest in any of such copyrightable works and waives any right of droit morale or similar rights.

(c) Assignment. Executive acknowledges and agrees that all Inventions constitute trade secrets of the Company and shall be the sole property of the Company or any other entity designated by the Company. In the event that

title to any or all of the Inventions, or any part or element thereof, may not, by operation of law, vest in the Company, or such Inventions may be found as a matter of law not to be "works made for hire" within the meaning of the Act, Executive hereby conveys and irrevocably assigns to the Company, without further consideration, all his right, title and interest, throughout the universe and in perpetuity, in all Inventions and all copies of them, in whatever medium, fixed or embodied, and in all written or computer records, graphics, diagrams, notes, or reports relating thereto in Executive's possession or under his control, including, with respect to any of the

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foregoing, all rights of copyright, patent, trademark, trade secret, mask work, and any and all other proprietary rights therein, the right to modify and create derivative works, the right to invoke the benefit of any priority under any international convention, and all rights to register and renew the same. Anything to the contrary notwithstanding, this subsection (c) shall not require Executive to assign any Invention that would cause this Section 8, or any portion thereof, to be void or unenforceable under Section 2870 of the California Labor Code, and Executive acknowledges receipt of the notification required by Section 2872 of the California Labor Code.

(d) Proprietary Notices; No Filings; Waiver of Moral Rights. Executive acknowledges that all Inventions shall, at the sole option of the Company, bear the Company's patent, copyright, trademark, trade secret and mask work notices.

Executive agrees not to file any patent, copyright or trademark applications relating to any Invention except with prior written consent of an authorized representative of the Company (other than Executive).

Executive hereby expressly disclaims any and all interest in any Inventions and waives any right of droit morale or similar rights, such as rights of integrity or the right to be attributed as the creator of the Invention.

(e) Further Assurances. Executive agrees to assist the Company, or any party designated by the Company, promptly on the Company's request, whether before or after the termination of employment, however such termination may occur, in perfecting, registering, maintaining, and enforcing, in all jurisdictions, the Company's rights in the Inventions by performing all acts and executing all documents and instruments deemed necessary or convenient by the Company, including, by way of illustration and not limitation:

(i) Executing assignments, applications, and other documents and instruments in connection with (A) obtaining patents, copyrights, trademarks, mask works, or other proprietary protections for the Inventions and (B) confirming the assignment to the Company of all right, title and interest in the Inventions or otherwise establishing the Company's exclusive ownership rights therein.

(ii) Cooperating in the prosecution of patent, copyright, trademark and mask work applications, as well as in the enforcement of the Company's rights in the Inventions, including, but not limited to, testifying in court or before any patent, copyright, trademark or mask work registry office or any other administrative body.

Executive will be reimbursed for all out-of-pocket costs reasonably incurred in connection with the foregoing, if such assistance is requested by the Company after the termination of Executive's employment. In addition, to the extent that, after the termination of employment for whatever reason, Executive's technical expertise shall be required in connection with the fulfillment of the aforementioned obligations, the Company will compensate Executive at a reasonable rate for the time actually spent by Executive at the Company's request rendering such assistance.

(f) Power of Attorney. Executive hereby irrevocably appoints the Company to be his Attorney-in-Fact to execute any document and to take any action in his name and on his behalf and to generally use his name for the purpose of giving to the Company the full benefit of the assignment provisions set forth above.

(g) Disclosure of Inventions. Executive will make full and prompt disclosure to the Company of all Inventions subject to assignment to the Company, and all information relating thereto in Executive's possession or under his control as to possible applications and use thereof.

9. No Competing Employment; No Interference; Confidentiality; Remedies.

(a) No Competing Employment. For so long as the Executive is employed by the Company or any of its affiliates and subsidiaries and continuing for the two-year period commencing at the expiration of the Term hereof or the earlier termination of Executive's employment for any reason other than death (such period being referred to hereinafter as the "Restricted Period"), the Executive shall not, unless he receives after the Effective Date the prior written consent of the Board, directly or indirectly, whether as owner, consultant, employee, partner, venturer, agent, through stock ownership, investment of capital, lending of money or property, rendering of services, or otherwise, compete with the Company or any of its affiliates or subsidiaries in any business in which any of them is engaged during the Term hereunder or at the time of the termination of the Executive's employment hereunder, including without limitation the design, manufacture and/or distribution of men's or women's sportswear or accessories (such businesses are hereinafter referred to as the "Business"), or assist, become interested in or be connected with any corporation, firm, partnership, joint venture, sole proprietorship or other entity which so competes with the Business, except that the provisions of this Section 9(a) will not be deemed breached merely because Executive owns equity in (i) Charles David of California, (ii) California Sunshine Active Wear, Inc.; or (iii) Nantucket Industries, Inc. or because Executive "beneficially owns", either individually or as a member of a "group" (as such terms are used in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), not more than five percent (5%) of the voting securities of any one or more companies that file reports pursuant to the Exchange Act. After the expiration of the Term hereof and during the two-year period referenced above, the restrictions imposed by this paragraph shall not apply to any business in which the Company or its affiliates and subsidiaries were not engaged at the time of termination of the Executive's employment hereunder or to any geographic area in which the Company or its affiliates and subsidiaries were not engaged in the Business at the time of termination.

(b) No Interference. During the Restricted Period, the Executive shall not, for the purpose of competing with the Business, directly or indirectly, whether for his own account or for the account of any other individual, partnership, firm, corporation or other business organization or entity (other than the Company), intentionally solicit, endeavor to entice away from the Company or any of its affiliates or subsidiaries, or otherwise intentionally interfere with the relationship of the Company or any of its affiliates or subsidiaries with any person who is employed by or otherwise engaged to perform services for the Company or any of its affiliates or

subsidiaries or influence, or seek to influence, any person or entity who is a customer, client or supplier of the Company or any of its affiliates or subsidiaries to divert their business to any person or entity that competes with the Company or any of its affiliates or subsidiaries, nor shall the

Executive participate in the efforts of any individual, partnership, firm, corporation or other business corporation or entity for which he provides services, by which he is employed, or in which he invests, to do so, except that the provisions of this Section 9(b) will not be deemed breached merely because Executive owns equity in (i) Charles David of California, (ii) California Sunshine Active Wear, Inc.; or (iii) Nantucket Industries, Inc. or because Executive "beneficially owns", either individually or as a member of a "group" (as such terms are used in Rule 13d-3 under the Exchange Act), not more than five percent (5%) of the voting securities of any one or more companies that file reports pursuant to the Exchange Act. After the expiration of the Term hereof and during the two-year period referenced in subsection 9(a), the restrictions imposed by this paragraph shall not apply to any business in which the Company or its affiliates and subsidiaries were not engaged at the time of termination of the Executive's employment hereunder or to any geographic area in which the Company or its affiliates and subsidiaries were not engaged in the Business at the time of termination.

(c) Confidential Information. The Executive recognizes that the services to be performed by him hereunder, and the services performed by him during prior periods of employment with the Company, are special, unique and extraordinary and that, by reason of such employment, he has acquired and will continue to acquire confidential information and trade secrets concerning the operations of the Company and its affiliates and subsidiaries. Accordingly, the Executive agrees that he will not, except with the prior written consent of the Board or as may be required by law, directly or indirectly, disclose during the Term or any time thereafter any secret or confidential information that he has learned by reason of his association with the Company or any of its affiliates or subsidiaries or use any such information to the detriment of the Company or its affiliates or subsidiaries so long as such confidential information or trade secrets have not been disclosed or are not otherwise in the public domain. The term "confidential information" means any information about the Company, its subsidiaries and affiliates, and their respective clients and customers, not previously disclosed to the public or to the trade by the Company's management, including, without limitation, any products, data, formulae, facilities and methods, trade secrets and other intellectual property, systems, records (including computer records), procedures, manuals, confidential reports, product price lists, client and customer lists, financial information (including the revenues, costs or profits associated with any of the Company's products), business plans, prospects or opportunities.

(d) Remedies; Survival of Agreement. In the event that the Executive materially breaches any of the covenants set forth in this Section 9 and fails to cure such breach to the reasonable satisfaction of the Company within 10 business days after receipt of written notice thereof to the Executive, any obligation of the Company to make any payment to the Executive pursuant to this Agreement, including without limitation any payments pursuant to Section 7(b) (other than payments of Salary or Bonus earned prior to the date of such breach and unreimbursed expenses), shall be cancelled. In addition, the Executive acknowledges that a breach of any of the covenants contained in this Section 9 may result in material irreparable injury to the

Company or its affiliates or subsidiaries for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company shall be entitled, in addition to any other rights or remedies it may have, to seek an injunction enjoining or restraining the Executive from any violation or threatened violation of this Section 9. The Executive's agreement as set forth in this Section shall survive the termination of the Executive's employment under this Agreement.

10. Source of Payments. All payments provided under this Agreement, other than payments made pursuant to a benefit plan which may provide otherwise, shall be paid in cash from the general funds of the Company, and

no special or separate fund shall be established, and no other segregation of assets made, to assure payment. The Executive shall have no right, title, or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

11. Tax Withholding. Payments to the Executive of all compensation contemplated under this Agreement shall be subject to all applicable legal requirements with respect to the withholding of taxes.

12. Nonassignability; Binding Agreement. Neither this Agreement nor any right, duty, obligation or interest hereunder shall be assignable or delegable by the Executive without the Company's prior written consent; provided, however, that nothing in this Section shall preclude the Executive from designating any of his beneficiaries to receive any benefits payable hereunder upon his death or disability, or his executors, administrators, or other legal representatives, from assigning any rights hereunder to the person or persons entitled thereto. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate.

13. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner except by an instrument in writing signed by the parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

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14. Notices. Any notice hereunder by either party to the other shall be given in writing by personal delivery, telex, telecopy or certified mail, return receipt requested, to the applicable address set forth below:

(i) To the Company:           Guess ?, Inc.  
                                  1444 South Alameda Street  
                                  Los Angeles, California 90021  
                                  Attention: General Counsel  
                                  Telecopier: (213) 765-3100

(ii) To the Executive:       Mr. Armand Marciano  
                                  Guess ?, Inc.  
                                  1444 South Alameda Street  
                                  Los Angeles, California 90021  
                                  Telecopier: (213) 744-7840

(or such other address as may from time to time be designated by notice by any party hereto for such purpose). Notice shall be deemed given, if by personal delivery, on the date of such delivery or, if by telex or telecopy, on the business day following receipt of answerback or telecopy confirmation or, if by certified mail, on the date shown on the applicable return receipt.

15. California Law. This Agreement is to be governed by and interpreted in accordance with the laws of the State of California, without giving effect to the choice-of-law provisions thereof. If, under such law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect and validity of the remaining portion hereof.



16. Arbitration. Any controversy or claim arising out of or relating to this Agreement, including, but not limited to, any claim relating to its validity, interpretation, enforceability or breach, or any other claim or controversy arising out of the employment relationship or the commencement or termination of that relationship, including, but not limited to, claims for breach of covenant, breach of implied covenant or intentional infliction of emotional distress, which are not settled by agreement between the parties, shall be settled by arbitration in Los Angeles, California before a board of three arbitrators, one to be selected by the Company, one by Executive and the other by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect; provided, however, that the Company shall nevertheless be entitled to seek relief under Section 9 in accordance with Section 9(d). In consideration of the parties' agreement to submit to arbitration disputes with regard to this Agreement and with regard to any alleged contract or tort or other claim arising out of the employment relationship, and in consideration of the anticipated expedition and minimization of expense of this arbitration remedy, each party agrees that the arbitration provisions of this Agreement shall provide it with exclusive remedy, except as provided in the preceding sentence, and each party expressly waives any right it might have to seek redress in any other forum except as provided herein. The parties further agree that the arbitrators acting hereunder shall be empowered to assess no remedy other than the payment of compensatory damages or an order (including temporary, preliminary and permanent injunctive relief) enforcing the

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provisions of Section 9. Executive acknowledges that the Company would be irreparably injured by Executive's breach of his obligations under Section 9 and that monetary damages would be inadequate. Subject to the provisions of Section 17(b) hereof, the expenses of the third arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Company and Executive and each party shall bear the expense of the arbitrator selected by it and of any witnesses it calls. Any decision and award or order of the majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in any court having jurisdiction thereof.

17. Indemnity and Reimbursement of Legal Expenses.

(a) Indemnity. The Company will indemnify the Executive (and his legal representatives or other successors) to the fullest extent permitted (including payment of expenses in advance of final disposition of a proceeding) by the laws of the State of California, as in effect at the time of the subject act or omission, or by the Certificate of Incorporation and By-Laws of the Company, as in effect at such time, or by the terms of any indemnification agreement between the Company and the Executive, whichever affords greatest protection to the Executive, and the Executive shall be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and officers (and to the extent the Company maintains such an insurance policy or policies, the Executive shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company officer or director), against all costs, charges and expenses whatsoever incurred or sustained by him or his legal representatives at the time such costs, charges and expenses are incurred or sustained, in connection with any action, suit or proceeding to which he (or his legal representatives or other successors) may be made a party by reason of his being or having been a director, officer or employee of the Company or any subsidiary thereof, or his serving or having served any other enterprises as a director, officer or employee at the request of the Company.

(b) Legal Fees and Expenses. In the event of a dispute between the Executive and the Company with respect to any of the Executive's rights under this Agreement, the Company shall reimburse the Executive for any and all

legal fees and related expenses reasonably incurred by him in connection with enforcing such rights if the Executive is successful in obtaining a money judgment against the Company in a final arbitration proceeding. In addition, the Company shall reimburse Executive for all reasonable legal expenses in connection with the negotiation and review of this Agreement and any amendments thereto.

18. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement this 13th day of August, 1996, effective as of the Effective Date.

GUESS ?, INC.

By:

Title:

Armand Marciano

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT is made and entered into as of August 1, 1996, between Guess ?, Inc., a Delaware corporation (the "Company"), and the stockholders of the Company indicated on the signature pages hereto (being referred to herein from time to time, collectively, as the "Trusts", and each individually, as a "Trust").

R E C I T A L S

WHEREAS, on the date hereof, each Trust is the owner of the respective number of shares of the Company's Common Stock, par value \$.01 per share (the "Common Stock"), set forth opposite the name of such Trust on the signature pages hereto;

WHEREAS, the Trusts have approved various actions in connection with a proposed initial public offering of up to 10,580,000 shares of the Common Stock, including the approval of a Restated Certificate of Incorporation;

WHEREAS, the parties hereto desire to provide for the registration under the Securities Act of 1933, as amended (the "Securities Act"), of the shares of Common Stock owned by the Trusts as of the date hereof, on the terms and conditions set forth herein; and

WHEREAS, the Board of Directors of the Company has authorized the officers of the Company to execute and deliver this Agreement in the name of and on behalf of the Company.

NOW, THEREFORE, in consideration of the mutual covenants, promises, representations, warranties and conditions set forth in this Agreement, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions.

For purposes of this Agreement, in addition to the definitions set forth above and elsewhere herein, the following terms shall have the following respective meanings:

"Affiliate" of a Holder shall mean a person who controls, is controlled by or is under common control with such Holder or, the spouse or children (or a trust exclusively for the benefit of a spouse and/or children) of such Holder or, in the case of a Holder which is a trust, the trustee and the beneficiaries of such trust.

"Clearance Notice" shall have the meaning specified in the last paragraph of Section 5.

"Commission" shall mean the United States Securities and Exchange Commission and any successor agency thereto.

"Common Stock" shall have the meaning specified in the first Recital.

"Company" shall have the meaning specified in the Preamble.

"Demand Notice" shall have the meaning specified in Section 2(a).

"Demand Registration" shall have the meaning specified in Section 2(a).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Holder" shall mean a Trust or any transferee or assignee to whom the rights under this Agreement are assigned in accordance with the provisions of Section 10 hereof.

"Maximum Offering Size" shall have the meaning specified in Section 3(b)(ii).

"Occurrence Notice" shall have the meaning specified in the last paragraph of Section 5.

"Person" shall mean an individual, partnership, corporation, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or agency or political subdivision thereof, or other entity.

"Registrable Stock" shall mean; (i) the Common Stock beneficially owned by the Trusts on the date hereof; (ii) any Common Stock issued as (or issuable upon the conversion or exercise of any warrant, right, option or other convertible security which is issued as) a dividend or other distribution with respect to, or in exchange for, or in replacement of, the Common Stock owned by the Trusts on the date hereof and (iii) any Common Stock issued by way of a stock split of the Common Stock referred to in clauses (i) or (ii) above. For purposes of this Agreement, any Registrable Stock shall cease to be Registrable Stock when (x) a registration statement covering such Registrable Stock has been declared effective and such Registrable Stock has been disposed of pursuant to such effective registration statement or (y) such Registrable Stock is sold or distributed pursuant to Rule 144 (or any similar or successor provision (but not Rule 144A)) under the Securities Act.

"Requesting Holders" shall have the meaning specified in Section 2(a).

"Securities Act" shall have the meaning specified in the third Recital.

"Shelf Registration" shall have the meaning specified in Section 2(b)(i).

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"Shelf Registration Statement" shall have the meaning specified in Section 2(b)(ii).

"Trust" or "Trusts" shall have the meaning specified in the Preamble.

"Underwritten Offering" or "Underwritten Registration" shall mean a registration in which securities of the Company are sold to an underwriter or underwriters for reoffering to the public.

## 2. Demand Registration.

(a) At any time commencing 180 days after the date of this Agreement, the Holders of at least [10%] of the then outstanding Registrable Stock (the "Requesting Holders") may request, in a written notice to the Company (a "Demand Notice"), that the Company file a registration statement under the Securities Act covering the registration of at least [10%] of the Registrable Stock then outstanding in the manner specified in such notice (a "Demand

Registration"). Promptly following receipt of a Demand Notice (such request to state the number of shares of Registrable Stock to be so included and the intended method of distribution), the Company shall (x) within twenty (20) days notify all other Holders of such request in writing and (y) use its best efforts to cause to be registered under the Securities Act all Registrable Stock that the Requesting Holders and such other Holders have, within ten (10) days after the Company has given such notice, requested be registered in accordance with the manner of distribution specified in the Demand Notice by the Requesting Holders.

(b) (i) If any Demand Registration is requested to be a "shelf" registration by the Requesting Holders of the Registrable Stock to be included in such Demand Registration, the Company shall cause to be filed pursuant to Rule 415 under the Securities Act a shelf Registration Statement (a "Shelf Registration Statement") with respect to the number of shares of Registrable Stock requested to be so registered (a "Shelf Registration"). The Company shall keep such Shelf Registration Statement continuously effective for a period of at least one year following the date on which the Commission declares such Shelf Registration Statement effective under the Securities Act (subject to extension pursuant to Section 4(a) and the last paragraph of Section 5 hereof), or such shorter period ending when all of the shares of Registrable Stock covered by such Shelf Registration Statement have been sold.

(ii) Upon the occurrence of any event that would cause the Shelf Registration Statement (A) to contain a material misstatement or omission or (B) to be not effective and usable for resale of Registrable Securities during the period that such Shelf Registration Statement is required to be effective and usable, the Company shall promptly file an amendment to the Shelf Registration Statement, in the case of clause (A), correcting any such misstatement or omission and, in the case of either clause (A) or (B), use its best efforts to cause such amendment to be declared effective and such Shelf Registration Statement to become usable as soon as practicable thereafter.

(c) If the Requesting Holders intend to have the Registrable Stock distributed by means of an Underwritten Offering, the Company shall include such information in the written notice referred to in clause (x) of

Section 2(a) above. In such event, the right of any Holder to include its Registrable Stock in such registration shall be conditioned upon such Holder's participation in such Underwritten Offering and the inclusion of such Holder's Registrable Stock in the Underwritten Offering (unless otherwise mutually agreed by a majority in interest of the Requesting Holders and such Holder) to the extent provided below. All Holders proposing to distribute Registrable Stock through such Underwritten Offering shall enter into an underwriting agreement in customary form with the underwriter or underwriters. Such underwriter or underwriters shall be selected by a majority in interest of the Requesting Holders and shall be approved by the Company, which approval shall not be unreasonably withheld; provided, that (i) all of the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of such Holders of Registrable Stock, (ii) any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement shall be conditions precedent to the obligations of such Holders of Registrable Stock, and (iii) no Holder shall be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding such Holder, the Registrable Stock of such Holder and such Holder's intended method of distribution and any other representations required by law or reasonably required by the underwriter. If any Holder of Registrable Stock disapproves of the terms of the underwriting, such Holder may elect to withdraw all its Registrable Stock by written notice to the Company, the managing underwriter and the Initiating Holders. The securities

so withdrawn shall also be withdrawn from registration and shall remain Registrable Stock.

(d) Notwithstanding any provision of this Agreement to the contrary,

(i) the Company shall not be required to effect a Demand Registration during the period starting 30 days prior to the estimated date of filing by the Company of, and ending on a date 180 days following the effective date of, a registration statement pertaining to a public offering of equity securities of the Company;

(ii) the Company shall not be required to effect more than one Demand Registration in any six-month period;

(iii) if, in the written opinion of the managing underwriter of any Underwritten Offering, the total amount of Registrable Stock to be registered in connection with a Demand Registration will exceed the maximum amount of the Company's securities that can be marketed (1) at a price reasonably related to the then current market value of such securities or (2) without otherwise materially and adversely affecting the entire offering, then the Company shall include in such Demand Registration the number of shares of Registrable Stock that in the opinion of such managing underwriter can be sold within a price range acceptable to the Holders of a majority of the Registrable Stock requested to be included in such Demand Registration by the Requesting Holders pursuant to Section 2(a), allocated pro rata among the Requesting Holders on the basis of the relative number of shares of Registrable Stock each such Holder has requested to be included in such registration; and

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(iv) if the Company shall furnish to the Requesting Holders a certificate signed by the president of the Company stating that in the good faith opinion of a majority of the Board of Directors of the Company such registration would interfere with any material transaction then being pursued by the Company, then the Company's obligation to use its best efforts to file a registration statement shall be deferred for a period not to exceed 60 days.

(e) The Company shall not be obligated to effect more than three Demand Registrations; PROVIDED, HOWEVER, that a Demand Registration shall not be deemed to have been effected for purposes of this Section 2(e) unless: (i) it has been declared effective by the Commission; (ii) it has remained effective for the period set forth in Section 5(a) and (iii) the offering of Registrable Stock pursuant to such registration is not subject to any stop order, injunction or other order or requirement of the Commission (other than any such stop order, injunction or other requirement of the Commission prompted by any act or omission of a Requesting Holder).

### 3. Incidental Registration.

(a) Subject to Section 8 and the other terms and conditions set forth in this Section 3, if at any time the Company determines that it shall file a registration statement under the Securities Act (other than a registration statement on Form S-4 or S-8 or filed in connection with an exchange offer or an offering of securities solely to the Company's existing stockholders) on any form that would also permit the registration of the Registrable Stock and such filing is to be on the Company's behalf and/or on behalf of selling holders (including Requesting Holders) of its securities for the sale of shares of Common Stock, the Company shall each such time promptly give each Holder written notice of such determination setting forth the date on which the Company proposes to file such registration statement, which date shall be no earlier than 30 days from the date of such notice, and advising such Holders of their right to have Registrable Stock included in such registration. Upon the written request of any Holder received by the Company

no later than 30 days after the date of the Company's notice, the Company shall use its best efforts to cause to be registered under the Securities Act all of the Registrable Stock that each such Holder has so requested to be registered.

(b) The Company's obligation to include Registrable Stock in a registration statement pursuant to Section 3(a) above is subject to the following limitations, conditions and qualifications:

(i) If, at any time after giving written notice of its determination to register its securities and prior to the effective date of any registration statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company may, at its election, give written notice of such determination to the Holders and thereupon the Company shall be relieved of its obligation to use any efforts to register any Registrable Stock in connection with such aborted registration; provided, that the provisions of this clause (i) shall not affect the obligations of the Company with respect to a Demand Registration.

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(ii) If, in the written opinion of the managing underwriter (or, in the case of a non-Underwritten Offering, in the opinion of a majority of the directors of the Company), the total amount of such securities to be so registered, including such Registrable Stock, will exceed the maximum amount (the "Maximum Offering Size") of the Company's securities that can be marketed (1) at a price reasonably related to the then current market value of such securities or (2) without otherwise materially and adversely affecting the entire offering, then the Company shall include in such registration, in the following priority up to the Maximum Offering Size: (x) first, all of the securities proposed to be registered for offer and sale by the Company, (y) second, all of the Registrable Stock requested to be included in such registration by the Holders pursuant to this Section, allocated, if necessary for such offering not to exceed the Maximum Offering Size, pro rata among the Holders requesting registration of such Registrable Stock on the basis of the relative number of shares of Registrable Stock each such Holder has requested to be included in such registration, and (z) third, any other securities of the Company requested to be registered by any other parties.

#### 4. Holdback Agreements.

(a) Each Holder of Registrable Stock agrees, if so required (pursuant to a timely notice) by the Company or the managing underwriter in any Underwritten Offering, not to effect any public sale or distribution of securities of the Company of the same class as the securities included in such Underwritten Registration, or any securities convertible into or exchangeable to exercisable therefor, during the 30 days prior to and the 180 days after any Underwritten Registration pursuant to Section 2 or Section 3 has become effective, except as part of such Underwritten Registration. Notwithstanding the foregoing sentence, each Holder of Registrable Stock subject to the foregoing sentence shall be entitled to sell securities during the foregoing period in a private sale. If a request is made pursuant to this Section 4(a), then the time period during which a Shelf Registration is required to remain continuously effective for such Holders of Registrable Stock pursuant to the terms of this Agreement shall be extended 210 days.

None of the foregoing provisions of this Section 4(a) shall apply to any Holder of Registrable Stock if such Holder is prevented by applicable statute or regulation from entering into any such agreement; provided, that any such Holder shall undertake not to effect any public sale or distribution of the Registrable Stock unless such Holder has provided 45 days' prior written notice of such sale or distribution to the underwriter or underwriters.

(b) The Company agrees (i) if so required by the managing underwriter of any Underwritten Offering, not to effect any public sale or distribution of securities of the same class as the securities included in such Underwritten Registration or securities convertible into or exchangeable or exercisable therefor during the 30 days prior to and the 90 days after any Underwritten Registration pursuant to Section 2 or Section 3 has become effective, except as part of such Underwritten Registration and except pursuant to registrations on Form S-4 or S-8 or any successor form to such Forms, and (ii) to use its best efforts to cause each holder of equity securities included in any Underwritten Registration or any securities

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convertible into or exchangeable or exercisable therefor, in each case purchased from the Company at any time after the date of this Agreement (other than in a public offering) to agree not to effect any public sale or distribution of or otherwise dispose of shares of equity securities (or such other securities) during such period except as part of such Underwritten Registration.

5. Registration Procedures. Whenever required under Section 2 or Section 3 of this Agreement to use its best efforts to effect the registration of any Registrable Stock, the Company shall, as expeditiously as possible:

(a) prepare and file with the Commission a registration statement with respect to such Registrable Stock and use its best efforts to cause such registration statement to become and remain effective for the period of the distribution contemplated thereby;

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Stock covered by such registration statement;

(c) furnish to each Holder such numbers of copies of the registration statement and each prospectus included therein (including each preliminary prospectus and any amendments or supplements thereto) in conformity with the requirements of the Securities Act and such other documents and information as they may reasonably request;

(d) use its best efforts to register or qualify the Registrable Stock covered by such registration statement under the securities or blue sky laws of such jurisdictions as shall be reasonably appropriate for the distribution of the Registrable Stock covered by the registration statement; PROVIDED, HOWEVER, that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business in or to file a general consent to service of process in any jurisdiction wherein it would not but for the requirements of this paragraph (d) be obligated to do so;

(e) promptly notify (but in any event within five business days) the selling Holders of Registrable Stock, their counsel and the managing underwriters, if any, and confirm such notice in writing, (i) when a prospectus or any prospectus supplement has been filed and, with respect to a registration statement or any post-effective amendment, when the same has become effective, (ii) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to a registration statement or related prospectus or for additional information, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of a registration statement or of any order preventing or suspending the use of any prospectus or the initiation of any proceedings by an Person for that purpose, (iv) if at any time the representations and warranties of the Company contained in any agreement (including any underwriting agreement) contemplated by



Section 6(1) below ease to be true and correct, (v) of the receipt by the Company of any notification with respect to the suspension of the

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qualification of exempting from qualification of a registration statement or any of the Registrable Stock for offer or sale under the securities or blue sky laws of any jurisdiction, or the contemplation, initiation or threatening of any proceeding for such purpose, (vi) of the happening of any event that makes any statement made in such registration statement or related prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in such registration statement, prospectus or documents so that it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made (in the case of the prospectus only) not misleading, and (vii) of the Company's reasonable determination that a post-effective amendment to a registration statement would be appropriate;

(f) furnish, at the request of any Holder requesting registration of Registrable Stock pursuant to Section 2, if the method of distribution is by means of an Underwritten Offering, on the date that the shares of Registrable Stock are delivered to the underwriters for sale pursuant to such registration, or if such Registrable Stock is not being sold through underwriters, on the date that the registration statement with respect to such shares of Registrable Stock becomes effective: (i) a signed opinion, dated such date, of the independent legal counsel representing the Company for the purpose of such registration, addressed to the underwriters, if any, and if such Registrable Stock is not being sold through underwriters, then to the Holders making such request, as to such matters as such underwriters or the Holders holding a majority of the Registrable Stock included in such registration, as the case may be, may reasonably request and as would be customary in such a transaction and (ii) letters dated such date and the date the offering is priced from the independent certified public accountants of the Company, addressed to the underwriters, if any, and if such Registrable Stock is not being sold through underwriters, then to the Holders making such request (1) stating that they are independent certified public accountants within the meaning of the Securities Act and that, in the opinion of such accountants, the financial statements and other financial data of the Company included in the registration statement or the prospectus, or any amendment or supplement thereto, comply as to form in all material respects with the applicable accounting requirements of the Securities Act and (2) covering such other financial matters (including information as to the period ending not more than five business days prior to the date of such letters) as such underwriters or the Holders holding a majority of the Registrable Stock included in such registration, as the case may be, may reasonably request and as would be customary in such a transaction;

(g) enter into customary agreements (including, if the method of distribution is by means of an Underwritten Offering an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Stock to be so included in the registration statement;

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(h) As promptly as practicable upon the occurrence of any event contemplated by paragraph (e)(vi) above, prepare a supplement or post-effective amendment to the registration statement or a supplement to the related prospectus or any documents incorporated or deemed to be

incorporated therein by reference, or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Stock being sold thereunder, such prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances;

(i) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission; and

(j) use its best efforts to list the Registrable Stock covered by such registration statement with any securities exchange on which the Common Stock of the Company is then listed.

For purposes of Sections 5(a) and 5(b), the period of distribution of Registrable Stock in a firm commitment Underwritten Offering shall be deemed to extend until each underwriter has completed the distribution of all securities purchased by it, and the period of distribution of Registrable Stock in any other registration shall be deemed to extend until the earlier of the sale of all Registrable Stock covered thereby and three months after the effective date thereof.

Each Holder of Registrable Stock agrees that, upon receipt of written notice from the Company of the happening of any event of the kind described in Section 5(e) (ii), 5(e) (iii), 5(e) (v), 5(e) (vi) or 5(e) (vii) (an "Occurrence Notice"), such Holder will forthwith discontinue disposition of such Registrable Stock covered by such registration statement or prospectus until such Holder's receipt of the copies of the supplemented or amended registration statement or prospectus contemplated by Section 5(h), or until it receives notice in writing (a "Clearance Notice") from the Company that the use of the applicable prospectus may be resumed, and has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such prospectus, and, if so directed by the Company, such Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the prospectus covering such Registrable Stock current at the time of receipt of such notice. If the Company shall deliver an Occurrence Notice in connection with any registered sale of Registered Stock, the time periods mentioned in Section 2 hereof shall be extended by the number of days during such periods from and including the date of delivery of such Occurrence Notice to and including the date when each seller of Registrable Stock covered by such registration statement receives (x) the copies of the supplemented or amended prospectus contemplated by Section 5(h) hereof or (y) a Clearance Notice, as the case may be.

6. **Furnish Information.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement that the Holders shall furnish to the Company such information regarding themselves, the Registrable Stock held by them, and the intended method of disposition of such securities as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company.

7. **Expenses of Registration.** All expenses incurred in connection with each registration pursuant to Section 2 and Section 3 of this Agreement, excluding underwriters' discounts and commissions, but including without limitation all registration, filing and qualification fees, word processing, duplicating, printers' and accounting fees (including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance), fees of the National Association of Securities Dealers, Inc. or listing fees, messenger and delivery expenses, all fees and expenses of complying with state securities or blue sky laws, fees and disbursements of counsel for the Company, and the fees and disbursements of one counsel for the selling Holders (which counsel shall be selected by the Holders holding a majority in interest of the Registrable Stock being

registered), shall be paid by the Company; PROVIDED, HOWEVER, that if a registration request pursuant to Section 2 of this Agreement is subsequently withdrawn at the request of the Holders of a number of shares of Registrable Stock such that the remaining Holders requesting registration would not have been able to request registration under the provisions of Section 2 of this Agreement, such withdrawing Holders shall bear such expenses unless such withdrawing Holders shall forfeit their right to one Demand Registration pursuant to Section 2 of this Agreement. The Holders shall bear and pay the underwriting commissions and discounts applicable to securities offered for their account in connection with any registrations, filings and qualifications made pursuant to this Agreement.

8. Underwriting Requirements. In connection with any Underwritten Offering, the Company shall not be required under Section 3 to include shares of Registrable Stock in such Underwritten Offering unless the Holders of such Registrable Stock accept the terms of the underwriting of such offering that have been reasonably agreed upon between the Company and the underwriters selected by the Company.

9. Rule 144 and Rule 144A Information. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Registrable Stock to the public without registration,

(a) at all times after ninety (90) days after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, the Company agrees to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act;

(ii) use its best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(iii) furnish to each Holder of Registrable Stock promptly upon request a written statement by the Company as to its compliance with the reporting requirements of such Rule 144 and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as such Holder may reasonably request in availing itself of

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any rule or regulation of the Commission allowing such Holder to sell any Registrable Stock without registration; and

(b) at all times during which the Company is neither subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, it will provide, upon the written request of any Holder of Registrable Stock in written form (as promptly as practicable and in any event within 15 business days), to any prospective buyer of such stock designated by such Holder, all information required by Rule 144A(d)(4)(i) of the General Regulations promulgated by the Commission under the Securities Act.

10. Indemnification. In the event any Registrable Stock is included in a registration statement under this Agreement:

(a) The Company shall indemnify and hold harmless each Holder and its directors and officers, each person who participates in the offering of such Registrable Stock, including underwriters (as defined in the Securities Act), and each person, if any, who controls such Holder or participating person within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, as

incurred, to which they may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based on any untrue or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each such Holder and its directors and officers, such participating person or controlling person for any legal or other expenses as reasonably incurred by them (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the indemnity agreement contained in this Section 10(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company; PROVIDED, FURTHER, that the Company shall not be liable to any Holder or its directors and officers, participating person or controlling person in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, its directors and officers, participating person or controlling person. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any such Holder, its directors and officers, participating person or controlling person, and shall survive the transfer of such securities by such Holder.

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(b) Each Holder requesting or joining in a registration shall, severally and not jointly, indemnify and hold harmless the Company, each of its directors and officers, each person, if any, who controls the Company within the meaning of the Securities Act, and any underwriter against any losses, claims, damages or liabilities, joint or several, to which the Company or any such director, officer, controlling person or underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with information furnished by or on behalf of such Holder expressly for use in connection with such registration; and each such Holder shall reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person or underwriter (but not in excess of expenses incurred in respect of one counsel for all of them unless there is an actual conflict of interest between any indemnified parties, which indemnified parties may be represented by separate counsel) in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the indemnity agreement contained in this Section 10(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Holder, and provided, further, that the liability of each Holder hereunder shall be limited to

the proportion of any such loss, claim, damage, liability or expense which is equal to the proportion that the net proceeds from the sale of the Registrable Stock sold by such Holder under such registration statement bears to the total net proceeds from the sale of all securities sold thereunder, but not in any event to exceed the net proceeds received by such Holder from the sale of Registrable Stock covered by such registration statement.

(c) Promptly after receipt by an indemnified party under this Section 10 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 10, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in and assume the defense thereof with counsel selected by the indemnifying party and reasonably satisfactory to the indemnified party; PROVIDED, HOWEVER, that an indemnified party shall have the right to retain its own counsel, with all fees and expenses thereof to be paid by such indemnified party, and to be apprised of all progress in any proceeding the defense of which has been assumed by the indemnifying party. The failure to notify an indemnifying party promptly of the commencement of any such action, if and to the extent prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section, but the omission so to notify the

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indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section.

(d) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages or liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 10(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

11. Transfer of Registration Rights. The registration rights of any Holder under this Agreement with respect to any Registrable Stock may be transferred to (a) any transferee of such Registrable Stock who at any time acquires at least twenty per cent (20%) of such Holder's shares of Registrable Stock (adjusted for stock splits and stock consolidations after the effective date of this Agreement) or (b) any Affiliate of such Holder;

PROVIDED, HOWEVER, that (i) the transferring Holder shall give the Company written notice at or prior to the time of such transfer stating the name and address of the transferee and identifying the securities with respect to which the rights under this Agreement are being transferred; (ii) such transferee shall agree in writing, in form and substance reasonably satisfactory to the Company, to be bound as a Holder by the provisions of this Agreement; and (iii) immediately following such transfer the further disposition of such securities by such transferee is restricted under the Securities Act. Except as set forth in this Section 11, no transfer of Registrable Stock shall cause such Registrable Stock to lose such status.

12. Securities Held by the Company or its Affiliates. Whenever the consent or approval of Holders of a specified percentage of Registrable Stock is required hereunder, Registrable Stock held by the Company or its affiliates (as such term is defined in Rule 405 under the Securities Act)

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(other than the Trusts) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

13. Successors and Assigns. Subject to Section 11, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto. Except as expressly provided in this Agreement, nothing in this Agreement, express or implied, is intended to confer upon any person other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

15. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

16. Titles. The titles of the Sections of this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

17. Notices. Any notice required or permitted under this Agreement shall be in writing and shall be delivered in person or mailed by certified or registered mail, return receipt requested, or faxed to (a) the Company at the address set forth below its signature hereof, (b) to each Holder at the address set forth below its signature hereof or (c) to a Holder at the address therefor as set forth in the Company's records or, in any such case, at such other address or addresses as shall have been furnished in writing by such party to the others. The giving of any notice required hereunder may be waived in writing by the parties hereto. Every notice or other communication hereunder shall be deemed to have been duly given or served on the date on which personally delivered, or on the date actually received, if sent by mail or fax, with receipt acknowledged.

18. Amendments and Waivers. Any provision of this Agreement may be amended and the observance of any provision of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and each Holder of Registrable Stock. Any amendment or waiver effected in accordance with this Section 17 shall be binding upon each Holder of Registrable Securities, each future Holder and the Company.

19. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provisions shall be excluded from this Agreement and the balance of this Agreement shall be interpreted as if such provisions were so excluded and shall be enforceable in accordance with its terms.

20. Entire Agreement. All prior agreements of the parties concerning the subject matter of this Agreement are expressly superseded by this Agreement. This Agreement contains the entire Agreement of the parties concerning the subject matter hereof. Any oral representations or modifications of this Agreement shall be of no effect.

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[Signature pages follow]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

GUESS ?, INC.

By: /s/ ROGER A. WILLIAMS

-----  
Name: Roger A. Williams  
Title: Executive Vice President and  
Chief Financial Officer

1444 South Alameda Street  
Los Angeles, California 90021

14,480,153 shares of Common Stock

MAURICE MARCIANO TRUST  
(1995 RESTATEMENT)

By: /s/ MAURICE MARCIANO

-----  
Maurice Marciano  
Trustee

c/o Guess ?, Inc.  
1444 South Alameda Street  
Los Angeles, California 90021

11,633,149 shares of Common Stock

PAUL MARCIANO TRUST  
DATED FEBRUARY 20, 1986

By: /s/ PAUL MARCIANO

-----  
Paul Marciano  
Trustee

c/o Guess ?, Inc.  
1444 South Alameda Street  
Los Angeles, California 90021

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5,913,437 shares of Common Stock

ARMAND MARCIANO TRUST  
DATED FEBRUARY 20, 1986

By: /s/ ARMAND MARCIANO

-----  
Armand Marciano

Trustee

c/o Guess ?, Inc.  
1444 South Alameda Street  
Los Angeles, California 90021

1,728,276 shares of Common Stock

MAURICE MARCIANO 1996 GRANTOR  
RETAINED ANNUITY TRUST

By: /s/ PAUL MARCIANO

-----  
Paul Marciano  
Co-Trustee

By: /s/ GARY W. HAMPAR

-----  
Gary W. Hampar  
Co-Trustee

c/o Guess ?, Inc.  
1444 South Alameda Street  
Los Angeles, California 90021

1,212,149 shares of Common Stock

PAUL MARCIANO 1996 GRANTOR  
RETAINED ANNUITY TRUST

By: /s/ MAURICE MARCIANO

-----  
Maurice Marciano  
Co-Trustee

By: /s/ JOSEPH H. SUGERMAN

-----  
Joseph H. Sugerman  
Co-Trustee

c/o Guess ?, Inc.  
1444 South Alameda Street  
Los Angeles, California 90021

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714,655 shares of Common Stock

ARMAND MARCIANO 1996 GRANTOR RETAINED  
ANNUITY TRUST

By: /s/ MAURICE MARCIANO

-----  
Maurice Marciano  
Co-Trustee

By: /s/ MARC E. PETAS

-----  
Marc E. Petas  
Co-Trustee

c/o Guess ?, Inc.  
1444 South Alameda Street  
Los Angeles, California 90021

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INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT (the "Agreement"), dated as of August 7, 1996, among the following parties (the "Parties"): Guess ?, Inc., a Delaware corporation (the "Company"), the stockholders of the Company indicated on the signature pages hereto (such stockholders being referred to herein, collectively, as the "Principal Stockholders").

R E C I T A L S

WHEREAS, the Parties, together with Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, as representatives of the U.S. Underwriters named therein (the "U.S. Underwriters"), are parties to a U.S. Purchase Agreement of even date herewith (the "U.S. Purchase Agreement") and, together with Merrill Lynch International and Morgan Stanley & Co. International Limited, as representatives of the Managers named therein (the "Managers"), are parties to an International Purchase Agreement of even date herewith (the "International Purchase Agreement," and, together with the U.S. Purchase Agreement, being referred to herein, collectively, as the "Purchase Agreements");

WHEREAS, pursuant to the terms of the Purchase Agreements, the Principal Stockholders may be required to indemnify the U.S. Underwriters or the Managers (as the case may be) with respect to, or contribute to, certain liabilities arising out of the offering of the common stock of the Company, par value \$.01 per share, contemplated by the Purchase Agreements;

WHEREAS, the Company wishes to indemnify and advance expenses to the Principal Stockholders in connection with any proceedings and liabilities arising from the obligation of the Principal Stockholders under the Purchase Agreements in the manner provided for herein.

NOW, THEREFORE, in consideration of the foregoing recitals, the agreements contained herein and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the Parties hereby agree as follows:

Section 1. Indemnification and Advancement of Expenses. In respect of any proceeding by any Indemnified Party (as defined in the U.S. Purchase Agreement or the International Purchase Agreement, as the case may be) against a Principal Stockholder in respect of (i) any breach of a representation or warranty contained in Section 1 of each of the Purchase Agreements and (ii) indemnification under Section 6 or contribution under Section 7 of each of the Purchase Agreements:

(a) Subject to the provisions of paragraph (b) of this Section 1,

(i) the Company agrees to advance the reasonable expenses incurred by such Principal Stockholder in respect of such proceeding including those incurred by such Principal Stockholder for separate counsel and to reimburse any such reasonable expenses not advanced by the Company in the first instance;

(ii) the Company agrees to indemnify such Principal Stockholder in respect of any liability incurred in or as a result of such proceeding; and

(iii) the authorization by the Company's stockholders of the agreement to indemnify contained herein and the execution of this Agreement constitute a conclusive determination that indemnification is due to such Principal Stockholder in such circumstances and the specific stockholder authorization for such indemnification.

(b) The Company shall not indemnify such Principal Stockholder from or on account of:

(i) such stockholder's acts or omissions finally adjudged to be intentional misconduct or a knowing violation of law;

(ii) such stockholder's conduct finally adjudged to be in violation of Section 174 of the General Corporation Law of the State of Delaware; or

(iii) any transaction with respect to which it was finally adjudged that such stockholder personally received a benefit in money, property, or services to which such stockholder was not legally entitled.

Section 2. Successors and Assigns. This Agreement and all obligations, rights and remedies of the Parties hereunder shall be binding upon and inure to the benefit of their respective legal representatives, successors and assigns.

Section 3. Entire Agreement. Each of the Parties acknowledge that there are no other agreements or representations, either oral or written, express or implied, not embodied or referenced in this Agreement, which represents a complete integration of all prior and contemporaneous agreements and understandings of the parties hereto with respect to the subject matter hereof.

Section 4. Governing Law. This agreement shall be construed in accordance with the laws of the State of New York, without regard to the choice of law rules thereof, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 5. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument.

[Signature pages follow]

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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

GUESS ?, INC.

By: /s/ ROGER A. WILLIAMS

-----  
Name: Roger A. Williams  
Title: Executive Vice President and  
Chief Financial Officer

MAURICE MARCIANO TRUST  
(1995 RESTATEMENT)

By: /s/ MAURICE MARCIANO

-----  
Maurice Marciano  
Trustee

PAUL MARCIANO TRUST  
UNDER TRUST DATED FEBRUARY 20, 1986

By: /s/ PAUL MARCIANO

-----  
Paul Marciano  
Trustee

ARMAND MARCIANO TRUST  
UNDER TRUST DATED FEBRUARY 20, 1986

By: /s/ ARMAND MARCIANO

-----  
Armand Marciano  
Trustee

Exhibit 11

GUESS ?, INC. AND SUBSIDIARIES  
 COMPUTATION OF NET EARNINGS PER SHARE  
 (in thousands, except per share data)

	September 29, 1996	
	----- Three months ended -----	----- Nine months ended -----
Weighted averages shares outstanding during the period	32,682	32,682
Shares issued to Principal stockholders in connection with the Initial Public Offering	1,780	593
Shares issued to public in connection with the Initial Public Offering	4,154	1,385
Equivalent shares issuable for the outstanding S distribution notes	111	111
	----- 38,727 -----	----- 34,771 -----
Pro forma net earnings	\$15,626	\$37,638
Pro forma net earnings per share	\$.40	\$1.08

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<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		55,207
<EPS-PRIMARY>		0
<EPS-DILUTED>		0
<FN>		

<F1> INCLUDES NET ROYALTIES OF \$40.3 MILLION

<F2> INCLUDES NON-RECURRING CHARGES RELATED TO THE WRITEDOWN OF OPERATING ASSETS TO BE DISPOSED OF IN CONTEMPLATION OF THE OFFERINGS AGGREGATING \$3.6 MILLION RELATING TO (A) DISPOSAL OF TWO CURRENTLY ACTIVE REMOVE WAREHOUSE AND PRODUCTION FACILITIES, WHICH ARE NOT EXPECTED TO BE USED IN THE COMPANY'S OPERATIONS AFTER THE OFFERINGS, RESULTING IN A NET BOOK LOSS OF \$2.4 MILLION, AND (B) THE NET BOOK LOSS OF \$1.2 MILLION INCURRED BY THE COMPANY IN CONNECTION WITH THE SALE OF ONE OF ITS AIRCRAFT TO AN UNAFFILIATED THIRD PARTY FOR \$6.0 MILLION IN CONTEMPLATION OF THE OFFERINGS.