who

how

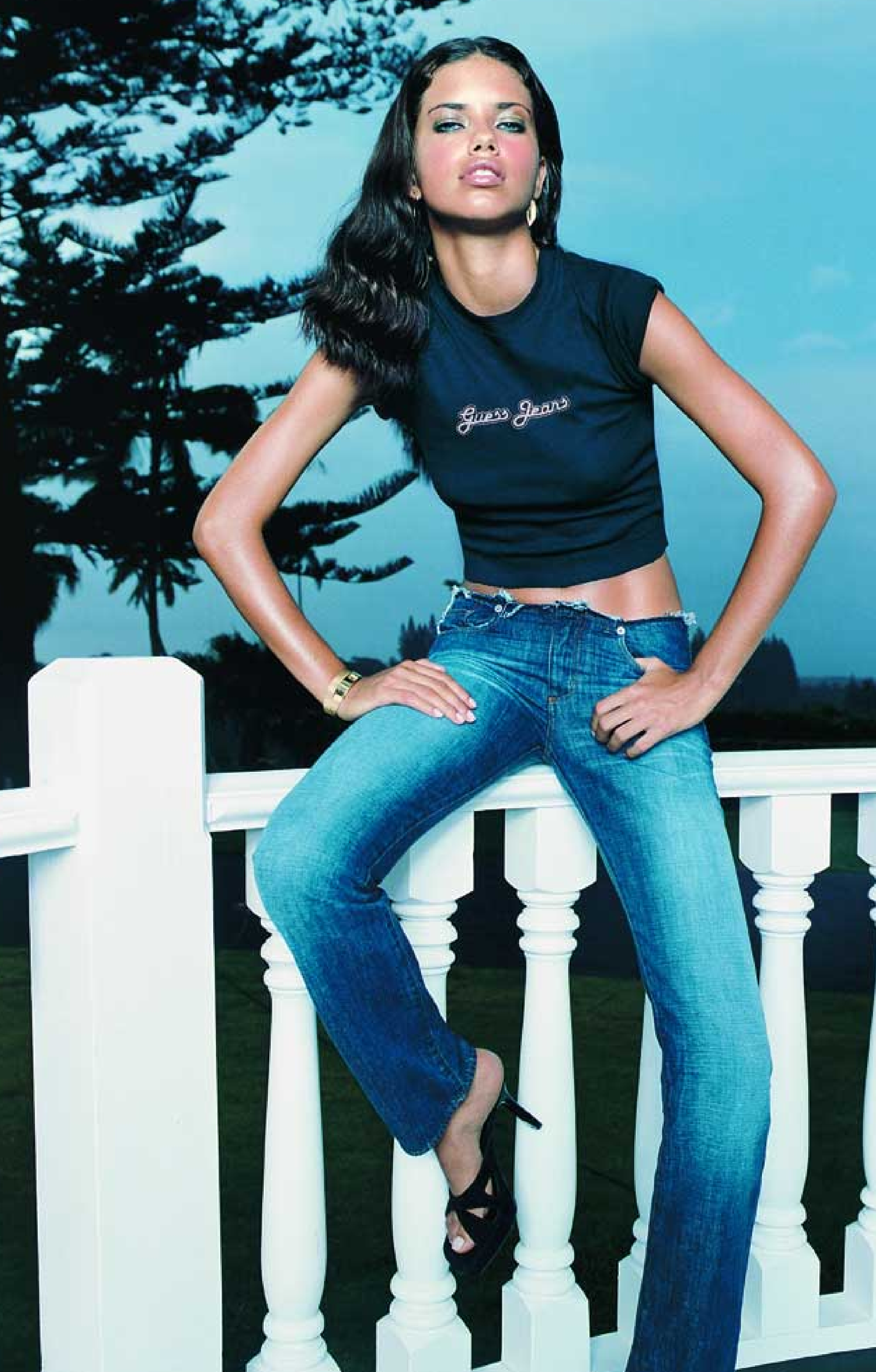
what

GUESS

2000 Annual Report

GUESS.com

where


Guess Jeans

GUESS

about GUESS?, Inc.

GUESS?, Inc. is one of the world's most recognized brands of jeanswear, apparel and accessories. Founded in 1981 as a jeanswear manufacturer, today our Company designs, markets and distributes full collections of women's, men's and children's apparel, as well as accessories, shoes, eyewear and watches under the GUESS? brand name.

Headquartered in Los Angeles, the Company currently employs more than 4,100 people worldwide. GUESS? stock is publicly traded on the NYSE under the symbol GES. For additional information about our Company, please visit us on the web at www.GUESS.com.

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what
our business is

global... strategic... focused...

GUESS? IS A GROWING, VERTICALLY INTEGRATED AND MULTI-FACETED OPERATION

GUESS? Retail (50% of revenues) We currently own and operate 108 Retail stores in the U.S. with the heaviest concentration in California, followed by New York, Texas and Florida. GUESS? also owns and operates 60 Factory outlet stores and 11 Kids stores.

GUESS? Wholesale (45% of revenues) Our Wholesale Division serves leading department stores and upscale specialty retailers. GUESS? products are sold directly through 2,800 store locations in the U.S. including approximately 1,470 Shop-in-Shops (an exclusive selling area within a department store).

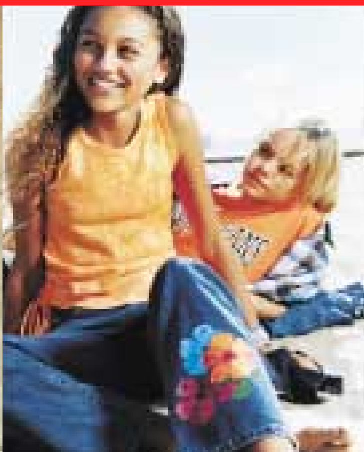
GUESS? Licensing (5% of revenues) GUESS? has Licensees and Distributors in North America, South America, Europe, Asia, Africa and Australia. Through these arrangements and our store network, our Company has attained a world-wide presence with 427 stores in 42 countries now featuring the GUESS? brand.

GUESS? Canada (revenues accounted for in Retail and Wholesale) GUESS? has a 60% share in GUESS? Canada. Through this subsidiary, we now operate 26 Retail stores and seven Factory stores. Our flagship property in the growing Canadian market is located in downtown Toronto. Canada also represents a growing customer base for the GUESS? Wholesale Division.

GUESS? E-commerce (revenues accounted for in Retail) In addition to providing convenient online shopping, our internet site (www.GUESS.com) enables customers to discover the latest information on GUESS? events, ad campaigns, models, fashion tips, product care, or find the nearest store anywhere in the world. E-commerce sales in 2000 placed our site among the top performing “stores” in the entire GUESS? chain.







playful... sexy... cool...

GUESS? IS A GLOBAL BRAND THAT STANDS FOR SOMETHING

GUESS? is one of the most recognized and influential brand names in the world today. Our label stands for quality and our innovative, distinctive product designs have consistently hit the mark with our customers. For nearly two decades we have been on the cutting edge of fashion and style with industry-leading designs and unparalleled creativity in our advertising and marketing. Image is everything.

what makes us different

creative... unique... diverse...

GUESS? IS A TEAM OF TALENTED AND DEDICATED PEOPLE

At the heart of our organization is a committed workforce. GUESS? products are designed to enhance the casual yet diverse lifestyles of our customers. That's our brand promise. And the people who work so hard to deliver on this promise are a direct reflection of this lifestyle. Focused on best practices. Always finding better solutions. From product design to international licensing, we are guided by a common vision. Set the standard. Stay fresh. Lead the way. That's our formula for building shareholder value.


GUESS JEANS

why count on us

STRONG MANAGEMENT TEAM

As part of our renewed commitment to operational excellence, we strengthened our team this year by hiring several key executives with top-tier industry credentials. Leading them is Carlos Alberini, our new President and Chief Operating Officer.

SOLID STRATEGY

Our focus is to reposition our company for future growth. In 2001 we plan to reduce costs and capital spending, and to improve profitability and cash flow. We are increasing accountability and communication at all levels of the Company. We are strengthening our Company's infrastructure to ensure we have a solid foundation to support our growth plans.

EXPANDING RETAIL BASE

GUESS? opened 56 new stores in 2000 in strategic locations throughout the U.S. and Canada. Although we are currently scaling back our expansion plan to regain business momentum, improve investment returns and optimize our capital structure, GUESS? will remain strongly focused on growing this high margin area of our business in the future.

GROWING REVENUES

Driven by the enduring power of the GUESS? brand in the minds of our customers, sales continue to grow annually. In 2000, retail sales expanded 31% over 1999 and wholesale revenues increased by almost 34% this year. While market share growth is important to us, high profitability and strong shareholder returns are at the center of our mission. In 2001 we will concentrate on improving profitability as we reposition GUESS? for future growth.

how

FINANCIAL HIGHLIGHTS

OPERATING RESULTS

(in thousands except share data)	Year Ended December 31, 2000	1999	1998
Total net revenue	$779,217	$599,650	$471,931
Earnings from operations	43,349	93,776	57,046
Operating margin	5.6%	15.6%	12.1%
Net earnings	16,493	51,900	25,111
Earnings per share			
Basic	$ 0.38	$ 1.21	$ 0.59
Diluted	0.38	1.20	0.59

FINANCIAL POSITION

Balanca sheet data (in thousands except share data)	December 31, 2000	1999	1998
Working capital	$ 96,289	$ 97,944	$101,310
Total assets	419,683	369,036	263,772
Notes payable and long-term debt	103,781	83,363	99,000
Net shareholders' equity	175,156	167,355	100,409

NET REVENUE BY SEGMENT

(in thousands except share data)	Year Ended December 31, 2000		1999		1998	
Retail operations*	$392,539	50.4%	$299,384	50.0%	$222,624	47.2%
Wholesale operations	348,873	44.8	260,628	43.4	212,504	45.0
Net revenue from product sales	741,412	95.2	560,012	93.4	435,128	92.2
Net royalties	37,805	4.8	39,638	6.6	36,803	7.8
Total net revenue	$779,217	100.0%	$599,650	100.0%	471,931	100.0%

*Includes revenue from e-commerce.

we’re moving forward…

LETTER TO OUR SHAREHOLDERS

2000 was a challenging year for our company and our performance was disappointing. However, we are working on many fronts to leverage what we’ve learned and develop a solid action plan for moving GUESS? forward. Along with a focused strategy, there’s a new determination here and we are committed to getting our Company repositioned for growth and enhanced profitability.

Operating results For fiscal year 2000, GUESS? reported net income of $16.5 million. Diluted earnings per share amounted to $0.38.

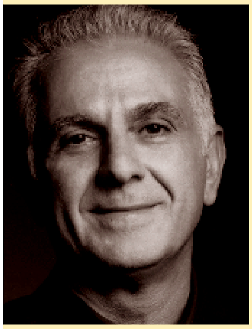
While annual revenues from our retail and wholesale businesses increased more than 32% over last year, our profitability declined significantly. Earnings from operations totalled $43.3 million or 5.6% of net revenues for the year, down from $93.8 million or 15.6% of net revenues reported in 1999.

Our gross margin performance was negatively impacted by several factors, notably excess inventory due to ambitious buying and slowing sales trends, particularly in the second half of the year. As a result, increased markdowns were required to reduce inventory in our retail and wholesale businesses.

In our retail stores, margin was also negatively impacted by higher occupancy costs due to a less productive store base, including our Kids and Canada stores, and higher shrinkage results. Also, logistics processing costs were negatively impacted by initial low productivity in our Kentucky distribution facility, further affecting margin. By year-end, the total gross margin deterioration reached 830 basis points.

SG&A expenses increased 36.4% in the year. Among the key contributing factors were start-up issues at our new distribution facility, new store expenses, increased expenses incurred by GUESS? Canada, higher advertising expenses and increased consulting fees. Fortunately, we believe that many of the issues we confronted last year are non-recurring.

Wholesale operations In FY2000 our domestic wholesale business grew by 33.9%. Most of the growth occurred in the Spring with solid bookings and significant in-season buys. Our Women’s business expanded by more than 30% and our Men’s business had an increase of over 20%. Our Kid’s business was strong in Girls but weak in Boys. During the year we sold an unusually large amount of merchandise to the off-price channel (primarily in the second and third quarters). The purpose was to dispose of excess inventory we manufactured with expectations for higher sales, mainly in our retail channels.



Maurice
Marciano

Paul
Marciano

Retail operations Sales trends decelerated in our retail business during the second half of the year. Comparable store sales, which increased in the double-digit range during the first half of the year, turned negative in September and remained negative through the fourth quarter. We ended the year with an increase in comparable store sales of 5.8%. The performance of our Young Contemporary Women's business, which represents about 50% of our total retail business, was soft relative to the rest of the Company.

Our domestic retail stores generated $419 of sales per square foot in 2000. While the productivity of the stores that had been open at the end of fiscal year 1999 was strong, the new stores, including Kids and Canada, did not perform as well as expected.

Licensing Our licensing business was strong in FY2000. We phased out several licenses that were not representing the brand appropriately or where the licensees were weak financially. This contributed to a decrease in 2000 revenue from royalties of almost $2 million versus 1999.

2000 accomplishments Although 2000 was a challenging year for GUESS?, our team accomplished a great deal:

- We opened a total of 56 new retail stores and closed 3 under-performing stores. A total of 53 stores were added to our base, representing a 29% growth in square footage for the year. At the end of 2000, we had 212 stores occupying 1.1 million square feet in the U.S. and Canada.

- As a result of the store expansion and a 5.8% increase in comparable store sales, our retail business grew by 31%, to represent 50% of GUESS? total revenues for 2000.

- During 2000 we also launched our new Kid's store strategy. While the business is in its development stage and several of our stores were unprofitable last year, we believe in the long-term potential of this business which is a natural extension of our brand. We currently have 11 Kid's stores and some of them are doing very well. We have identified several areas for improvement and are currently analyzing price point opportunities and considering specific marketing for the Kid's venture.

- We continue to support the expansion of our Canada operation. We currently own 60% of this business and have an option to acquire the remaining 40% at the end of 2001. While Canada was not profitable last year due to an oversized infrastructure and new stores pre-opening expenses, we are confident Canada will be profitable this year.

- Our Wholesale business expanded by almost 34% in 2000. We gained market share and built 270 shop-in-shops, adding over 120,000 square feet in department stores. We also concentrated on the credit worthy, more desirable accounts and reduced our overall number of accounts to gain a stronger customer portfolio.

- During 2000, we continued to strengthen our management team, recruiting very talented executives from some of the top retailers and manufacturers in the country. Our new head of Production comes from Reebok.

A former top executive from Ann Taylor now heads Logistics at GUESS?. And finally, our new President and COO, Carlos Alberini joined us from Footstar, a $2.6 billion footwear retailer. Our search for top talent continues, with recent executive hires in the Design and Finance areas.

• Also in 2000, we opened a world-class distribution facility in Louisville, Kentucky. There were some growing pains with the start-up, which resulted in significant additional costs, but our business was not interrupted during the transition. We are proud to say that the facility is currently running smoothly and productivity is increasing.

Future opportunities The GUESS? mission is to be a worldwide leader in the fashion industry. To support that mission, we are committed to building a strong infrastructure. Our brand currently enjoys high customer acceptance, our image is outstanding and our business model is very powerful. We are vertically integrated. We have multiple distribution channels for our products. And we currently have a worldwide presence and tremendous long-term opportunities for enhanced profitability and growth.

These opportunities can be classified into two groups: those that relate to revenue growth, and those involving operating efficiencies.

On the revenue side, GUESS? can expand significantly:

• Our retail store base is relatively small considering our current market penetration in the U.S., Canada, and Puerto Rico. Our current stores are productive and profitable, so the business model is attractive. We believe we can increase the sales productivity of our existing stores as well.

• The GUESS? brand can be extended into other merchandise categories such as fragrances, the GUESS? Collection business, cosmetics and others.

• Internationally, the GUESS? brand is available in 42 countries and there are 427 GUESS? stores worldwide. There is much untapped territory in the global marketplace, an opportunity we will approach with our licensing business model — which is extremely profitable and consumes little or no capital.

• Finally, our e-commerce business has been growing at a steady rate and now represents one of the top “stores” in the Company. We envision healthy growth for this business as well.

On the operational side, GUESS? has identified a number of key strategies for increasing efficiency and enhancing profitability:

• We launched a formal strategic planning process for goal-setting and accountability.

• We are strengthening the management team.

• We are restructuring operations to streamline our cost structure.

• We are planning to continue to upgrade our systems infrastructure.

• We are focusing on opportunities to improve our product development cycle.

• We are implementing new procedures to improve inventory turnover.

• Finally, we are committed to strengthening our capital structure as a result of improved cash flow and reduced capital expenditures.

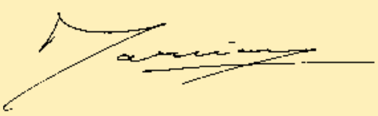
While we faced operational challenges last year, our franchise with the customer is still intact. In 2001, we are committed to repositioning GUESS? for growth.

Leveraging our brand As we look to the future, we are confident about our new strategy. Our plan provides a reliable roadmap for enhanced profitability and growth. After nearly twenty years as an industry leader, we know that our most important assets are our people and our brand. At GUESS? today, both are stronger than ever. We have a top-notch management team that is passionately dedicated to implementing our strategy. And our Company continues to benefit from the very strong global awareness of the GUESS? brand.

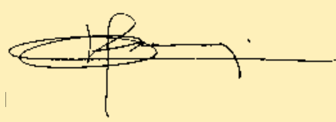
As we have stated, our team is committed to carefully growing our worldwide network of retail stores and further developing our licensing and e-commerce businesses. As part of our international retail strategy, we have an opportunity in 2001 to acquire the remaining interest in GUESS? Canada. And we believe that there is tremendous market potential to extend the power of the GUESS? brand deeper into other merchandise categories.

That potential exists because the GUESS? brand stands for something more than just a collection of products. It symbolizes our commitment to the people we interact with daily. For our customers, it means creating innovative, high quality products. For our employees, it means providing an exceptional work environment with opportunities for development. For the community, it means supporting worthy charitable organizations and activities through our GUESS? Foundation and GUESS? Community Outreach programs.

GUESS?'s vision remains very strong and the prognosis for the future of our Company is for healthy growth and increased profitability. And that translates to shareholder value for our investors. We will accomplish this through smart management and by continuing our tradition of bringing trend-setting products to market that meet the needs of our loyal and growing customer base. On behalf of all of us here at the GUESS? family, we thank you for your continued support in that effort.

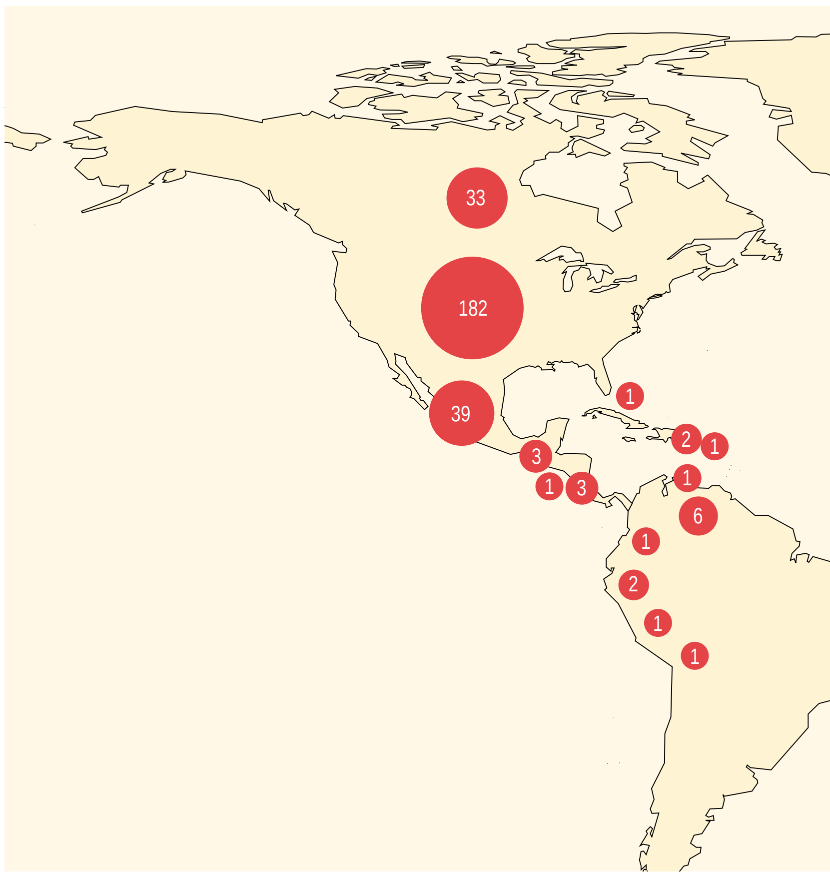


Co-Chairman of the Board, and
Co-Chief Executive Officer



Co-Chairman of the Board, and
Co-Chief Executive Officer

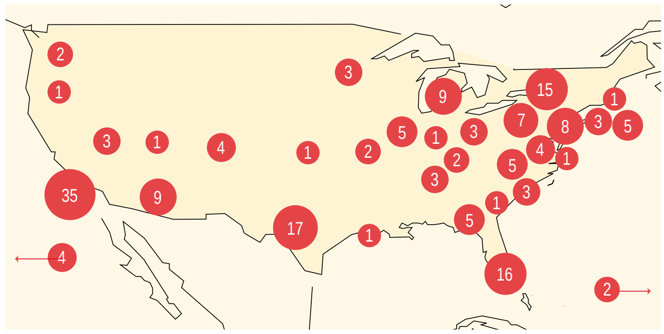
where to find us



427 stores in 42 countries now feature the GUESS? brand. To find the nearest GUESS? store, our customers may take advantage of the “store locator” function of our Web site at www.GUESS.com/GUESScorp/locator. For ease of use, selected store locations are sorted by country within the following geographic regions:

Asia	Canada
Central America	Europe
Other Regions	South America
U.S.A.	

worldwide locations



"There's definitely a tremendous awareness of the GUESS? brand. In the country I come from, the Philippines, the GUESS? name is like something gold. I've seen it first hand. I went to the mall and checked out the stores. And you could see the reaction of the people. They look up to it."

Clark Fuentes

Shipping Manager/GUESS? Distribution/Administration/Los Angeles

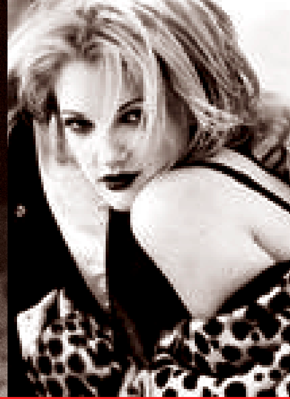
what sets us apart

consistent image

"The way GUESS? sees and understands the world is very different than most companies. I think the Company has really good instincts. One of the things that separates GUESS? from the pack is our passion about those instincts, and our ability to go with them, no matter what anyone else might think. It's all about being true to yourself, about taking risks and not being afraid to be unique."

Leslie Oki-Yoshimura
Art Director
GUESS? Advertising/Los Angeles





1981
2001

global recognition

"People everywhere like GUESS?. We have customers who come into our Los Angeles factory outlet store all the way from Panama… from Venezuela, and they just love GUESS?. Some come on a monthly basis. I'm from El Salvador and I go back there every year. I see people buying our products in the mall there. GUESS? has international appeal."

Roxanna Sarmiento

Factory Store Manager, GUESS? Cooper Building Store/Los Angeles

trendsetting style

"I wear the clothes. So do my children and my friends. I went to a baby shower recently where they were just raving about one of the gifts. And I was delighted to discover that this cute little outfit had a Baby GUESS? label on it. It's really kind of wild being a part of such a fashion-forward Company. We're first. We set the trends. And that's one of the reasons I truly enjoy the work I do."

Fredia Jackson

A/R Manager, GUESS? Accounting Credit & AR/Los Angeles

"One important part of my job is working with department stores. And we have some great partnerships there. They know GUESS? as a strong and recognizable brand that has a lot behind it. We are a fashion-forward Company that continually stays true to its roots — denim — while providing quality clothing and images that depict the young, sexy and adventurous style that GUESS? was founded on."

Nina Campo Flood

Retail Marketing Manager, GUESS? New York Showroom

who makes it happen

Alex Cerda
Cutting Room Manager
GUESS? Cutting Department
Los Angeles
8 years on the job

"This is a very aggressive Company in pursuit of our goals. We buy top grade fabric… hundreds of thousands of yards. So we work with the best mills in the country. We have to. We're GUESS?. There's a competitive mindset here. But it's a a team-oriented atmosphere. We all pull together. We all strive for the same thing."

Clark Fuentes
Shipping Manager
GUESS? Distribution/Administration
Los Angeles
15 years on the job

"One thing you will notice here is a sense of dedication and pride. The Company has seen its ups and downs… but I've seen it grow. I'm proud of what we do. You want to make it happen for the Company, so you work harder. When people ask me, 'Where do you work?' There's a sense of pride. The garment industry is very competitive. For GUESS? to be the leader for 20 years says something about us."

an experienced team

The people at GUESS? are as diverse as they are talented and we're pleased to introduce you to a few of them here. We believe that everyone in the GUESS? organization brings unique perspective and talent to the job. But we all have a few things in common, too. Dedication. Determination. Passion. And most importantly, we all believe in the team.

Roxanna Sarmiento
Factory Store Manager
GUESS? Cooper Building Store
Los Angeles
17 years on the job

"I started out as a sales person sixteen years ago and today I'm a manager. Some of my customers have been coming to the store since 1984. I'm really proud that we have so much more merchandise in the store now: t-shirts, long-sleeve shirts, hats, belts, eyewear and Baby GUESS?. And our handbags are selling like crazy right now. I think there's a spirit here. That's why our customers come back again and again. What can I say? I love GUESS?."

Fredia Jackson
A/R Manager
GUESS? Accounting Credit & AR
Los Angeles
13 years on the job

"GUESS? has always been forward as far as technology is concerned. We want to be first. That's always been our mission. So now we're putting the latest accounting systems in place. And as far as getting merchandise out the door, getting our customers what they want… we have always tried to be at the forefront."

Thomas Andreasen
Human Resources Manager
GUESS? Corporate & Retail Divisions
Los Angeles
9 years on the job

"This Company has a very entrepreneurial spirit. The people who tend to do well here, are those who want to be challenged. I think that is one of the things that makes us cutting edge. Sometimes I hear us characterized as a 'young' culture. After twenty years, we've been able to retain that youthful spirit, while building an experienced work force. It's an unusual combination."

Leslie Oki-Yoshimura
Art Director
GUESS? Advertising
Los Angeles
10 years on the job

"The GUESS? Advertising team collaborates with many talented people from all over the Company. The Design, Merchandising and Public Relations teams are all part of a very large lineup of capable people who contribute to our success. Working in GUESS? Advertising can be very demanding. It's a job that often tests your strength and courage. But I like that. In fact, I wouldn't want to work for a Company that offered anything less."

our commitment

our mission

GUESS? is committed to being a worldwide leader in the fashion industry by adhering to the core values that have guided our Company since its inception.

Products. We will deliver products and services of uncompromised quality and integrity consistent with our brand image.

People. We will listen and respond to the needs of our customers, associates and business partners.

Environment. We will provide a work environment that supports the personal and professional enrichment of our people, embraces diversity and respects the communities in which we do business.

Shareholder value. By focusing on profitability and growth, we will leverage our entrepreneurial spirit and the power of our brand to expand our Company and generate best-in-class returns for our shareholders.

looking ahead

"As we look to the future, I envision GUESS? to be a worldwide Company that commands respect at all levels of the value chain… starting with our associates and including our customers, suppliers, business partners and shareholders. We're committed to having the best people in the industry on our team. We're going to have full control over the distribution of our products and protect the value of the brand. And I envision us earning the highest return in the industry for our shareholders. I believe there's a lot of value in this Company and I'm proud to play a part in taking it to the next level of profitability and growth."

Carlos Alberini
President & Chief Operating Officer

financial contents

(in thousands, except per share data)	Year Ended December 31, 2000	1999	1998	1997	1996
STATEMENT OF EARNINGS DATA:					
Net revenue	$779,217	$599,650	$471,931	$515,372	$551,162
Earnings from operations	43,349	93,776	57,046	70,646	98,095
Earnings before interest and income taxes	43,349	96,485	56,183	68,605	97,106
Net earnings	16,493	51,900	25,111	37,511	66,741
SUPPLEMENTAL STATEMENTS OF EARNINGS DATA:[1]					
Earnings before income taxes and change in accounting principle[2]	29,593	87,100	43,291	54,887	82,567
Income taxes	13,100	35,200	18,180	21,337	33,241
Net earnings	16,493	51,900	25,111	37,511	49,326
EARNINGS PER SHARE:[3]					
Basic	0.38	1.21	0.59	0.87	1.18
Diluted	0.38	1.20	0.59	0.87	1.18
Weighted number of shares outstanding — basic[3]	43,464	43,005	42,904	42,898	41,906
Weighted number of shares outstanding — diluted[3]	43,819	43,366	42,919	42,902	41,908

	December 31, 2000	1999	1998	1997	1996
BALANCE SHEET DATA:					
Working capital	$ 96,289	$ 97,944	$101,310	$106,670	$ 76,821
Total assets	419,683	369,036	263,772	287,814	239,306
Notes payable and long-term debt	103,781	83,363	99,000	141,517	127,316
Net stockholders' equity	175,156	167,355	100,409	75,330	34,928

1 Reflects pro forma adjustments for 1996 for federal and state income taxes as if the Company had been taxed as a C corporation rather than an S corporation. Prior to the Company's IPO in August 1996, the Company had elected to be taxed as an S corporation for federal income tax purposes. In certain states, the Company was taxed as an S corporation; in other states, the Company was taxed as a C corporation. Effective January 1, 1991, the Company elected to be treated as an S corporation for California tax purposes. As a result of the Company's IPO, all S corporation elections were terminated.

2 Effective January 1, 1997, the Company changed its method of accounting for product display fixtures located in its wholesale customers' retail stores, whereby the costs for such fixtures are capitalized and amortized over five years using the straight-line method. In prior years, these costs had been expensed as incurred. The Company believes that this new method more closely matches the long-term benefit that the product display fixtures provide with the expected future revenue from such fixtures. The cumulative effect of the change in accounting principle, recorded in the first quarter of 1997, is calculated based upon the retroactive effect of applying the new accounting method to prior year fixture acquisitions. The cumulative effect of the change in accounting principle of $4.0 million ($0.09 per share after reduction for income tax expense of $2.7 million) is included in earnings for the year ended December 31, 1997. Excluding the cumulative effect of the change in accounting principle, the effect of the change during 1997 was to increase net earnings by approximately $6.2 million or $0.14 per share.

3 The weighted number of shares outstanding at December 31, 1996 reflects (i) 32,681,819 shares of Common Stock outstanding prior to the IPO and the assumed issuance of 8,730,000 shares of Common Stock at the IPO price ($18.00 per share) to generate sufficient cash to pay a distribution of retained earnings to its then existing stockholders as part of the termination of its S corporation status in an amount equal to retained earnings as of the IPO date and (ii) an average of 42,682,000 shares outstanding subsequent to the IPO, representing the actual shares outstanding.

GENERAL

We derive our net revenue from the sale of GUESS? men's, women's, boys' and girls' apparel and our licensees' products through our network of retail and factory outlet stores primarily in the United States, from the sale of GUESS? men's, women's, boys' and girls' apparel worldwide to wholesale customers and distributors, from net royalties from worldwide licensing activities, from the sale of GUESS? apparel through the retail and wholesale channels of our 60% owned Canadian subsidiary, GUESS? Canada Corporation ("GUESS? Canada"), and from the sale of GUESS? men's, women's, boys' and girls' apparel and our licensee products through our on-line store at www.GUESS.com.

The business segments of the Company are wholesale, retail and licensing operations. Management evaluates segment performance based primarily on revenue and earnings from operations.

RESULTS OF OPERATIONS

The following table sets forth actual operating results for the 2000, 1999 and 1998 fiscal years as a percentage of net revenue:

	Year Ended December 31,		
	2000	1999	1998
Product sales	95.2%	93.4%	92.2%
Net royalties	4.8	6.6	7.8
Total net revenue	100.0	100.0	100.0
Cost of sales	63.6	55.3	57.7
Gross profit	36.4	44.7	42.3
Selling, general and administrative expenses	29.9	28.5	30.2
Severance (recovery) related to distribution facility relocation	(0.2)	0.5	—
Restructuring and impairment charges	1.1	—	—
Earnings from operations	5.6	15.7	12.1
Gain on disposition of property and equipment	—	(0.6)	—
Interest, net	1.8	1.6	2.7
Other, net	—	0.2	0.2
Earnings before income taxes	3.8	14.5	9.2
Income taxes	1.7	5.9	3.9
Net earnings	2.1%	8.6%	5.3%

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Net Revenue

Net revenue increased $179.5 million or 29.9% to $779.2 million for the year ended December 31, 2000 from $599.7 million for the year ended December 31, 1999.

Net revenue from retail operations increased $93.1 million or 31.1% to $392.5 million for the year ended December 31, 2000 from $299.4 million for the year ended December 31, 1999. The increase in net revenues was attributable to the volume generated by 56 new stores coupled with a 5.8% increase in comparable store sales. While comparable store sales were strong during the first six months of 2000, increasing 14.2%, our sales trends decelerated in the third quarter, and comparable store sales declined 3.7% in the fourth quarter of 2000, partly due to a challenging retail environment. These lower than expected sales trends also impacted our new stores, including the new stores in Canada and the GUESS? Kids stores.

Net revenue from wholesale operations increased $88.3 million or 33.9% to $348.9 million for the year ended December 31, 2000, from $260.6 million for the year ended December 31, 1999. Domestic and international wholesale operations net revenue increased, for the year ended December 31, 2000, by $61.0 million to $289.9 million and by $27.3 million to $59.0 million, respectively. Our domestic wholesale net revenue increased primarily as a result of the increased demand for fashion products in both our women's and men's lines. International wholesale operations net revenue increased primarily as a result of higher sales in Asia and the full-year inclusion of GUESS? Canada's operations which contributed $20.4 million in international wholesale net revenue for the 2000 year.

Net royalties decreased by $1.8 million or 4.6% to $37.8 million for the year ended December 31, 2000 from $39.6 million for the year ended December 31, 1999. The decrease in net royalties was related to the discontinuation of certain licenses and the impact of currency devaluation in European and Asian markets. Net revenue from international operations comprised 1.7% and 6.7% of net product royalties during 2000 and 1999, respectively.

Gross Profit

Gross profit increased 5.8% to $283.6 million for the year ended December 31, 2000 from $268.0 million for the year ended December 31, 1999. The increase in gross profit resulted from higher net revenue from product sales. Gross profit from product sales increased 7.6% to $245.8 million for the 2000 fiscal year from $228.4 million for the 1999 fiscal year.

Gross margin (gross profit as a percentage of total net revenue) decreased to 36.4% for the year ended December 31, 2000 from 44.7% for the year ended December 31, 1999. Gross margin from product sales decreased to 33.2% for the year ended December 31, 2000 from 40.8% for the year ended December 31, 1999.

The decrease in gross margin from product sales was experienced in both our retail and wholesale operations. Gross margin in our retail operation in fiscal year 2000 was negatively impacted by increased promotional markdowns to reduce excess inventory, inventory write-downs, higher shrinkage results and higher occupancy costs due to the lower sales productivity of new stores and rent expenses for stores not opened. Royalty revenues as a percentage of total net revenue decreased from 6.6% in 1999 to 4.8% in 2000. This reduced overall gross margins as royalty revenue has no associated cost of sales.

Gross margin in our wholesale domestic and international operations in fiscal year 2000 was negatively impacted by higher markdown and return allowances to department and specialty stores and sales to the off-price channels at prices below cost, or reduced margin in an effort to reduce excess inventory. In addition, the Company recorded special charges of approximately $10.3 million to reduce inventories to the lower of cost or market.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased to $233.2 million, or 29.9% of net revenues for the year ended December 31, 2000, from $171.0 million, or 28.5% of net revenues for the year ended December 31, 1999.

SG&A expenses increased 36.4% in 2000 compared to 1999 as a result of expenses necessary to operate new stores, higher costs at the new distribution facility, including start-up expenses and higher payroll due to lower productivity and higher unit volume, increased expenses incurred by GUESS? Canada, higher advertising expenses and consulting fees. During the first six months of 2000, we incurred start-up and other non-recurring pre-tax costs of $5.3 million relating to the relocation of our distribution operation to Kentucky. Additionally, at the beginning of the first quarter 2000, we revised our vacation pay policies to enhance employee benefits, which resulted in a one-time pre-tax charge of $1.3 million.

Severance (Recovery) Related to Distribution Facility Relocation

In accordance with the requirements of EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," the Company recorded a $3.2 million charge, in the second quarter ended June 26, 1999, for future severance costs of 460 employees related to the relocation of its distribution operations from Los Angeles to Louisville, Kentucky. As a result of employee transfers and attrition of 228 employees, the severance costs actually incurred for Los Angeles-based employees was $1.7 million which has resulted in a recovery of $1.5 million of the severance charge in the second quarter of 2000. The Company successfully completed the transition of all product lines to the new distribution center during the second quarter of 2000. Because distribution operations were transferred to Kentucky, the Company does not expect to experience significant reduced employee expenses.

Restructuring and Impairment Charges

During the fourth quarter ended December 31, 2000, the Company recorded restructuring charges including store closure costs primarily related to rent paid and estimated rent to be paid on idle leased facilities, lease exit costs and construction costs of stores abandoned during construction in the amount of $4.5 million. This is inclusive of charges of $0.8 million of asset impairments for under-performing stores that the Company plans to close. Cash payments of approximately $1.7 million consisting primarily of estimated rent to be paid on idle leased facilities and lease exit costs are anticipated to be paid during 2001. Annual rental savings from these closures should approximate $1.7 million per year. Annual depreciation expense savings from these closures is not expected to be significant.

The Company also recorded an additional $4.1 million of charges to write-down the value of certain impaired assets, including fixed assets related to unprofitable stores and an investment the Company has in an internet company. Related annual depreciation is expected to be reduced by approximately $0.3 million.

Earnings From Operations

Earnings from operations were $43.3 million in 2000 as compared to $93.8 million in 1999, a decrease of $50.5 million or 53.8%. The decrease in earnings from operations for the retail operating segment to $3.4 million in 2000, from $37.1 million in 1999 resulted principally from store restructuring and impairment charges of $6.2 million as discussed above, higher occupancy costs and higher new store expenses. The decrease in earnings from operations for the wholesale operating segment to $9.2 million in 2000 from $25.1 million in 1999 resulted principally from increased markdown and return allowances, start-up and other non-recurring costs related to the relocation of our distribution operation and increased SG&A expenses. Earnings from operations for the licensing operating segment decreased to $30.8 million in 2000, from $31.6 million in 1999 principally due to fewer licenses in 2000.

Interest Expense, Net

Interest expense, net, increased to $13.8 million for the year ended December 31, 2000 from $9.4 million for the year ended December 31, 1999. This increase resulted from higher outstanding average debt, due to higher inventory levels throughout the year and significant capital expenditures during 2000. For the year ended December 31, 2000, the average debt balance was $131.6 million, with an average effective interest rate of 9.0%. For the year ended December 31, 1999, the average debt balance was $93.1 million, with an average effective interest rate of 9.5%.

Income Taxes

The income tax provision for the year ended December 31, 2000 was $13.1 million, or a 44.3% effective tax rate. The income tax provision for the year ended December 31, 1999 was $35.2 million, or a 40.4% effective tax rate. The effective tax rate for 2000 was negatively impacted by a foreign subsidiary loss and potential income tax liabilities as a result of federal and certain state income tax audits.

Net Earnings

Net earnings decreased to $16.5 million for the year ended December 31, 2000 from $51.9 million for the year ended December 31, 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Net Revenue

Net revenue increased $127.7 million or 27.1% to $599.7 million for the year ended December 31, 1999 from $471.9 million for the year ended December 31, 1998. Net revenue from retail operations increased $76.7 million or 34.5% to $299.4 million for the year ended December 31, 1999 from $222.6 million for the year ended December 31, 1998, from a 26.8% increase in comparable store net revenue and from the volume generated by our new store openings. The strong increase in comparable store net revenue was primarily attributable to our improved merchandising and our fashioned-focused product mix. The retail segment is benefiting from our improved customer service levels resulting from our enhanced personnel training and incentive programs that have been offered to our associates.

Net revenue from wholesale operations increased $48.1 million or 22.6% to $260.6 million for the year ended December 31, 1999 from $212.5 million for the year ended December 31, 1998. Domestic and international wholesale operations net revenue increased, for the year ended December 31, 1999, by $40.6 million to $228.7 million and by $7.4 million to $31.9 million, respectively. Our domestic wholesale net revenue increased primarily as a result of the increased demand for fashion products in both of our women's and men's lines. International wholesale operations net revenue increased due primarily to increased sales from the European market, partially offset by soft performance in the Asian and South American markets. GUESS? Canada contributed $12.1 million in international net revenues during the second half for the year ended December 31, 1999. Net royalties increased $2.8 million or 7.7%, to $39.6 million for the year ended December 31, 1999 from $36.8 million for the year ended December 31, 1998. The increase in net royalties was primarily due to settlements and adjustments related to us terminating licensees, partially offset by us discontinuing certain licenses that were brought back in-house and the continuing economic turmoil and currency devaluation in Asian markets. Net revenue from international operations comprised 6.7% and 5.6% of net product revenue during 1999 and 1998, respectively.

Gross Profit

Gross profit increased 34.1% to $268.0 million for the year ended December 31, 1999 from $199.9 million for the year ended December 31, 1998. The increase in gross profit resulted from higher net revenue from product sales. Gross profit from product sales increased 40.1% to $228.4 million for the year ended December 31, 1999 from $163.0 million for the year ended December 31, 1998. Gross margin (gross profit as a percentage of total net revenue) increased to 44.7% for the year ended December 31, 1999 as compared to 42.3% for the year ended December 31, 1998. Gross margin from product sales increased to 40.8% for the year ended December 31, 1999 compared to 37.5% for the year ended December 31, 1998.

The increase in our gross margin from product sales was primarily the result of fixed store occupancy costs being spread over a larger comparable store revenue base, a favorable mix in retail net revenue, which generally carries a higher gross margin rate, lower off-price sales and a decrease in wholesale markdowns and allowances as a percentage of wholesale net revenues.

Furthermore, during the fourth quarter of 1999, we enhanced our ability to estimate reserves through improved processes and more current and accurate data. As a result, we revised our estimate of certain reserves. This resulted in a reduction of cost of sales of $2.3 million and an increase in gross margin of $2.3 million or 2.4%.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses of $171.0 million for the year ended December 31, 1999 decreased to 28.5% of net revenue, from 30.3% of net revenue or $142.8 million, in the year ended December 31, 1998. The decrease in SG&A expenses as a percentage of net revenue was due to our ability to leverage certain expenses against a higher revenue base, as well as the success of our ongoing cost containment programs.

Gain on Disposition of Property and Equipment

We realized a non-recurring pre-tax gain of $3.8 million on the disposition of property and equipment.

Severance (Recovery) Related to Distribution Facility Relocation

In accordance with the requirements of EITF 94-3, "Liability for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," we recorded a $3.2 million charge for future severance costs related to the relocation of our distribution operations from Los Angeles, California to Louisville, Kentucky.

Earnings from Operations

Earnings from operations increased 64.4% to $93.8 million, or 15.6% of net revenue, for the year ended December 31, 1999 from $57.0 million, or 12.1% of net revenue, for the year ended December 31, 1998. The increase was primarily due to higher revenue.

Interest Expense, Net

Net interest expense decreased 27.1% to $9.4 million for the year ended December 31, 1999 from $12.9 million for the year ended December 31, 1998. This decrease resulted primarily from a lower outstanding average debt. For the year ended December 31, 1999, the average debt balance was $93.1 million, with an average effective interest rate of 9.5%. For the year ended December 31, 1998, the average debt balance was $135.5 million, with an average effective interest rate of 9.0%.

Income Taxes

The income tax provision for the year ended December 31, 1999 was $35.2 million, or a 40.4% effective tax rate. The income tax provision for the year ended December 31, 1998 was $18.2 million, or a 42.0% effective tax rate. The effective tax for 1998 was adversely impacted by Federal and state income taxes related to a dividend declared to us by one of our foreign subsidiaries.

Net Earnings

Net earnings increased to $51.9 million for the year ended December 31, 1999, from $25.1 million for the year ended December 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

During our fiscal year 2000, we relied primarily on borrowings under our $125.0 million Credit Agreement ("Credit Facility"), trade credit and internally generated funds to finance our operations and expansion. Net cash provided by operating activities decreased $57.1 million to $30.2 million for the year ended December 31, 2000, from $87.3 million for the year ended December 31, 1999. The decrease in the current year was primarily due to lower earnings. At December 31, 2000, we had working capital of $96.3 million compared to $97.9 million at December 31, 1999. The net decrease in working capital was primarily attributable to decreases in short-term investments and receivables, increases in inventories and other current assets, partially offset by increases in accounts payable and an increase in current installments of notes payable and long-term debt. The most significant changes were represented by short-term investments, which decreased by $26.2 million due to the sale of investments to fund the business expansion, inventories, which increased $37.6 million due to new stores and growth in the wholesale business and accounts payable, which increased $22.3 million as a result of increased inventories.

On December 3, 1999, we entered into a Credit Facility with Chase Manhattan Bank that replaced our $100.0 million revolving credit facility entered into in March 1997. The Credit Facility provides us with a $125.0 million revolving credit facility subject to a borrowing base calculation and is secured by inventory and accounts receivable including a $50.0 million sub-limit for letters of credit. The Credit Facility bears interest at the London Interbank Offered Rate ("LIBOR") plus a range as defined or the greater of the Prime rate, the base

CD rate plus 100 basis points or the Federal Funds Effective Rate (collectively "ABR") plus a range as defined depending on the duration and type of loan facility. The Credit Facility expires on October 31, 2002. Borrowings under the Credit Facility primarily funded capital projects and growth in inventories. At December 31, 2000, we had $22.4 million outstanding borrowings under the Credit Facility, $17.6 million in outstanding documentary letters of credit and $4.0 million in standby letters of credit. At December 31, 2000, we had $81.0 million available for future borrowings under the Credit Facility. The Credit Facility contains restrictive covenants requiring, among other things, the maintenance of certain financial ratios. As a result of lower than expected financial results in the fourth quarter and fiscal year 2000, the Company was in non-compliance with the terms of the Credit Facility regarding the fixed charge coverage ratio required for the twelve-month period ended December 31, 2000. On March 27, 2001 the Company's bank lenders agreed to amend the Credit Facility Agreement to cure all past non-compliance and revise certain terms, including modifications to the financial covenants, the addition of a liquidity ratio and an amendment to the range of interest rates based on the leverage ratio as follows: LIBOR plus 100 basis points to LIBOR plus 225 basis points, ABR to ABR plus 125 basis points and commitment fees of 25 basis points to 62.5 basis points. Accordingly, the Company is presently in full compliance with all the terms of the Credit Facility, as amended.

The Company has also agreed to provide long-term financing of up to $13.4 million to GUESS? Canada to expand its retail operations, of which $12.3 million was outstanding as of December 31, 2000. The remaining funding is being provided on an as-needed basis.

Capital expenditures, net of lease incentives granted, totaled $79.1 million for 2000 and $62.0 million for 1999. The increase in capital expenditures was due primarily to our increase in store openings and remodels, the retail expansion of GUESS? Canada, our expansion of shop-in-shops in department stores and investments in our systems infrastructure. Capital expenditures by our retail operating segment increased to $57.3 million in 2000 from $26.5 million in 1999 primarily due to retail store expansion and store remodels. Capital expenditures by our wholesale operating segment decreased to $21.8 million in 2000 from $35.5 million in 1999 as the distribution facility construction costs were primarily incurred in 1999. Our capital expenditures planned for 2001 are approximately $40.0 million, primarily for retail store expansion, including our expansion in Canada, store remodelings, investments in systems and shop-in-shop expansion and enhancements.

We anticipate we will be able to satisfy our ongoing cash requirements through 2001, including retail expansion plans and interest payments on our senior subordinated notes due 2003 (such interest payments paid by us during 2000 amounted to $7.6 million), primarily with cash flow from operations, supplemented by borrowings under our Credit Facility.

IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

Various forward-looking statements have been made in this Annual Report. Forward-looking statements may also be in our other reports filed under the Securities Exchange Act of 1934, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements.

Forward-looking statements are only expectations, and involve known and unknown risks and uncertainties, which may cause actual results in future periods and other future events to differ materially from what is currently anticipated. Certain statements in this Annual Report, including those relating to our expected results, the accuracy of data relating to, and anticipated levels of, our future inventory and gross margins, our anticipated cash requirements and sources, our cost containment efforts, our plans regarding store openings and closings and our business seasonality, are forward-looking statements. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. In addition to the factors discussed below, the economic and other factors identified elsewhere in this Annual Report, as well as the risk factors discussed in our previously filed public documents, could affect the forward-looking statements contained herein and therein.

Forward-looking statements generally refer to future plans and performance, and are identified by the words "believe," "expect," "anticipate," "optimistic," "intend," "aim," "will" or the negative thereof and similar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

Important factors which could have a material adverse effect on our financial condition and results of operations and could cause actual results in future periods to differ materially from our forward-looking statements, as well as affect our ability to achieve our financial and other goals, include, but are not limited to, the following:

- The lack of continued availability of sufficient working capital.
- Our inability to integrate new stores into existing operations.
- The decline in continued desirability and customer acceptance of our existing and future products.

- Possible cancellation of wholesale orders.
- The success of our competitive products.
- Our inability to strengthen our inventory cost accounting controls and procedures.
- Our inability to identify and respond appropriately to changing consumer demands and fashion trends.
- A decision by the controlling owner of a group of department stores or any other significant customer to decrease the amount purchased from us or to cease carrying GUESS? products.
- Our inability to control the quality, focus, image, financial stability or distribution of our licensed products, which could impact consumer receptivity to our products.
- Our failure to continue to enhance operating control systems.
- The outcomes of pending and future litigation.
- Factors beyond our control, which could have a material adverse effect on our ability to expand our network of retail stores. Our general failure to maintain and control our existing distribution and licensing arrangements or to procure additional distribution and licensing relationships.
- Changes in the economy.
- The extended loss of the services of one or more of our principal executive officers.
- Political instability resulting in the disruption of trade with the countries in which our contractors, suppliers or customers are located, the imposition of additional regulations relating to imports, the imposition of additional duties, taxes and other charges on imports, significant fluctuations in the value of the dollar against foreign currencies or restrictions on the transfer of funds. Also, a substantial increase in customs duties, which could have an adverse effect on our financial condition or results of operations. These factors may be exacerbated by our increasing use of packaged purchase sourcing from non-United States vendors.
- The inability of a manufacturer to ship our products in a timely manner or to meet our quality standards.
- No assurance can be given that others will not assert rights in, or ownership of, trademarks and other proprietary rights of GUESS?. In addition, the laws of certain foreign countries do not protect proprietary rights to the same extent as do the laws of the United States.

SEASONALITY

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

INFLATION

We do not believe the relatively moderate rates of inflation experienced in the United States over the last three years have had a significant effect on our net revenue or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which our products are manufactured, we do not believe they have had a material adverse effect on our net revenue or profitability.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) was issued and subsequently amended by SFAS 137. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It is effective for fiscal years beginning after June 15, 2000. We believe the adoption of SFAS 133 will not have a material impact on our financial reporting.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2000 and 1999 2000	1999
ASSETS		
Current assets:		
Cash	$ 13,332	$ 6,139
Investments	898	27,059
Receivables, net of reserves	34,383	39,673
Inventories, net	144,220	106,624
Prepaid expenses and other assets	9,671	8,861
Prepaid income taxes	9,118	3,004
Deferred tax assets	14,470	9,619
Total current assets	226,092	200,979
Property and equipment, at cost, net of accumulated depreciation and amortization	168,299	125,688
Other assets, at cost, net of accumulated amortization	25,292	42,369
	$ 419,683	$ 369,036
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of notes payable and long-term debt	$ 13,801	$ 7,475
Accounts payable	84,043	61,736
Accrued expenses	31,959	33,824
Total current liabilities	129,803	103,035
Notes payable and long-term debt, excluding current installments	103,781	83,363
Other liabilities	10,943	14,236
	244,527	200,634
Minority interest	—	1,047
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, $0.01 par value. Authorized 150,000,000 shares; issued 63,594,219 and 63,335,743 shares at 2000 and 1999, outstanding 43,563,427 and 43,304,951 shares at 2000 and 1999, respectively	146	141
Paid-in capital	167,833	163,300
Deferred compensation	(950)	—
Retained earnings	160,936	144,443
Accumulated other comprehensive income (loss)	(2,033)	10,247
Treasury stock, 20,030,792 shares repurchased	(150,776)	(150,776)
Net stockholders' equity	175,156	167,355
	$ 419,683	$ 369,036

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)	Year Ended December 31, 2000	1999	1998
Net revenue			
Product sales	$741,412	$560,012	$435,128
Net royalties	37,805	39,638	36,803
	779,217	599,650	471,931
Cost of sales	495,604	331,660	272,079
Gross profit	283,613	267,990	199,852
Selling, general and administrative expenses	233,186	171,014	142,806
Severance (recovery) related to distribution facility relocation	(1,545)	3,200	—
Restructuring and impairment charges	8,623	—	—
Earnings from operations	43,349	93,776	57,046
Other (income) expense:			
Gain on disposition of property and equipment	—	(3,849)	—
Interest, net	13,756	9,385	12,892
Other, net	—	1,140	863
	13,756	6,676	13,755
Earnings before income taxes	29,593	87,100	43,291
Income taxes	13,100	35,200	18,180
Net earnings	$ 16,493	$ 51,900	$ 25,111
Earnings per share:			
Basic	$ 0.38	$ 1.21	$ 0.59
Diluted	$ 0.38	$ 1.20	$ 0.59
Weighted number of shares outstanding:			
Basic	43,464	43,005	42,904
Diluted	43,819	43,366	42,919

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Year Ended December 31, 2000, 1999 and 1998							
(in thousands)	Comprehensive Income	Common Stock	Paid-in Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 1997		$137	$158,589	$ —	$ 67,432	$ (52)	$(150,776)	$ 75,330
Comprehensive income:								
Net earnings	$ 25,111	—	—	—	25,111	—	—	25,111
Foreign currency translation adjustment	(32)	—	—	—	—	(32)	—	(32)
Total comprehensive income	$ 25,079							
Balance at December 31, 1998		137	158,589	—	92,543	(84)	(150,776)	100,409
Comprehensive income:								
Net earnings	$ 51,900	—	—	—	51,900	—	—	51,900
Foreign currency translation adjustment	(114)	—	—	—	—	(114)	—	(114)
Unrealized gain on investments, net of tax effect	10,445	—	—	—	—	10,445	—	10,445
Total comprehensive income	$ 62,231							
Issuance of common stock under stock option plan, net of tax effect		4	4,711	—	—	—	—	4,715
Balance at December 31, 1999		141	163,300	—	$144,443	10,247	(150,776)	167,355
Comprehensive income:								
Net earnings	$ 16,493	—	—	—	16,493	—	—	16,493
Foreign currency translation adjustment	38	—	—	—	—	38	—	38
Unrealized loss on investments, net of tax effect	(12,318)	—	—	—	—	(12,318)	—	(12,318)
Total comprehensive income	$ 4,213							
Issuance of common stock under stock option plan, net of tax effect		3	3,585		—	—	—	3,588
Deferred compensation		2	948	(950)	—	—	—	—
Balance at December 31, 2000		$146	$167,833	$(950)	$160,936	$ (2,033)	$(150,776)	$175,156

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net earnings	$ 16,493	$ 51,900	$ 25,111
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	33,311	25,589	22,571
Amortization of other assets	881	1,296	931
Deferred income taxes	(6,729)	(2,150)	(834)
Loss (gain) on disposition of property and equipment	3,340	(5,037)	1,483
Other items, net	1,039	869	(2)
Changes in operating assets and liabilities:			
Accounts receivable	5,290	558	3,637
Inventories	(37,596)	(9,155)	2,582
Prepaid expenses and other current assets	(4,307)	(6,369)	15,370
Accounts payable	22,308	19,393	(5,520)
Accrued expenses and other liabilities	(3,858)	10,410	(129)
Net cash provided by operating activities	30,172	87,304	65,200
Cash flows from investing activities:			
Purchases of property and equipment, net of lease incentives	(79,134)	(61,957)	(13,306)
Proceeds from the disposition of property and equipment	3,133	7,106	14
Net proceeds (purchases) from the sale of short-term investments	22,850	(14,711)	(11,900)
Acquisition of interest in GUESS? Canada	—	(2,027)	—
Increase in long-term investments	—	(2,357)	842
Acquisition of license	(82)	(1,443)	(741)
Net cash used by investing activities	(53,233)	(75,389)	(25,091)
Cash flows from financing activities:			
Proceeds from notes payable and long-term debt	204,661	5,529	102,300
Repayment of notes payable and long-term debt	(177,916)	(20,658)	(144,817)
Issuance of common stock	3,588	3,534	—
Net cash provided by (used in) financing activities	30,333	(11,595)	(42,517)
Effect of exchange rates on cash	(79)	(34)	57
Net increase (decrease) in cash	7,193	286	(2,351)
Cash at beginning of year	6,139	5,853	8,204
Cash at end of year	$ 13,332	$ 6,139	$ 5,853
Supplemental disclosures			
Cash paid during the year for:			
Interest	$ 11,951	$ 10,358	$ 15,095
Income taxes	$ 24,604	$ 37,236	$ 3,704

See accompanying notes to consolidated financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

GUESS?, Inc. (the "Company" or "GUESS?") designs, markets, distributes and licenses leading lifestyle collections of casual apparel and accessories for men, women and children that reflect the American lifestyle and European fashions sensibilities. The Company designs are sold in GUESS? owned stores; to a network of wholesale accounts that includes primarily better department stores, selected specialty retailers and upscale boutiques and through the Internet. GUESS? branded products, some of which are produced under license, are also sold internationally through a series of licensees and distributors.

Principles of Consolidation

The consolidated financial statements include the accounts of GUESS?, Inc. and its wholly-owned foreign subsidiary, GUESS? Europe, B.V., a Netherlands corporation ("GEBV"), and its majority-owned subsidiary GUESS? Canada Corporation ("GUESS? Canada" formerly named Strandel Inc.), a Canadian corporation. GEBV holds three wholly-owned subsidiaries: Ranche, Limited, a Hong Kong corporation ("Ranche"), GUESS? Asia, a Hong Kong corporation, and GUESS? Italia, S.r.l., an Italian corporation ("GUESS? Italia"). GUESS? holds a 60% interest in GUESS? Canada. Accordingly, all references herein to "GUESS?, Inc." include the consolidated results of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated during the consolidation process.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Securities

The Company accounts for its investment securities in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 115 requires investments to be classified into one of three categories based on management's intent: held-to-maturity securities, available-for-sale securities and trading securities. Held-to-maturity securities are recorded at amortized cost. Available-for-sale securities are recorded at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. Trading securities are recorded at market value with unrealized gains and losses reported in operations. The Company accounts for its short-term investment securities as available-for-sale.

Earnings per Share

Basic earnings per share represents net earnings divided by the weighted-average number of shares of common stock, par value $0.01 per share (the "Common Stock"), outstanding for the period. Diluted earnings per share represents net earnings divided by the weighted-average number of shares outstanding, inclusive of the dilutive impact of Common Stock equivalents.

The reconciliation of basic to diluted weighted average shares is as follows (in thousands):

	2000	1999	1998
Weighted average shares used in basic computations	43,464	43,005	42,904
Dilutive stock options	355	361	15
Weighted average shares used in diluted computation	43,819	43,366	42,919

Options to purchase 550,000, 467,000 and 1,036,000 shares of Common Stock at prices ranging from $17.64 to $27.31, $10.88 to $16.38 and $5.50 to $11.00 were outstanding during 2000, 1999 and 1998, respectively, but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the shares of Common Stock.

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. The Company maintains cash with various major financial institutions and performs evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any institution. The Company extends credit to corporate customers based upon an evaluation of the customer's financial condition and credit history and generally requires no collateral. The Company's customers are principally located throughout North America, and their ability to pay amounts due to the Company may be dependent on the prevailing economic conditions of their geographic region. However, such credit risk is considered limited due to the Company's large customer base. Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and records a provision for doubtful accounts based on these evaluations. The Company's credit losses for the periods presented are insignificant and have not significantly exceeded management's estimates. A few of the Company's domestic wholesale customers, including some under common ownership, have accounted for significant portions of its net revenue. Bloomingdale's, Macy's and other affiliated stores owned by Federated Department Stores, Inc. together accounted for approximately 11.8% and 12.4% of the Company's net revenue in 2000 and 1999, respectively.

Inventories

Inventories are stated at the lower of cost (first-in, first-out and weighted average) or market.

Revenue Recognition

The Company recognizes retail operations revenue at the point of sale, and wholesale operations revenue from the sale of merchandise upon shipment. Royalty income is based upon a percentage, as defined in the underlying agreement, of the licensees' net revenue. The Company accrues for estimated sales returns and allowances in the period in which the related revenue is recognized.

Depreciation and Amortization

Depreciation and amortization of property and equipment are provided using the straight-line and declining balance methods over the following useful lives:

Building and building improvements	10 to 31 years
Land improvements	5 years
Machinery and equipment	3 to 5 years
Corporate aircraft	10 years
Corporate vehicles	3 years
Shop fixtures	5 years

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease. Construction in progress is not depreciated until the related asset is completed.

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 10 to 15 years. Accumulated amortization totaled $4,470,000 and $3,589,000 at December 31, 2000 and 1999, respectively.

Foreign Currency Translation

In accordance with SFAS No. 52, "Foreign Currency Translation", assets and liabilities of the Company's foreign operations are translated from foreign currencies into U.S. dollars at year-end rates, while income and expenses are translated at the weighted-average exchange rates for the year. The related translation adjustments are reflected as a foreign currency translation adjustment in other comprehensive income as a separate component of stockholders' equity.

Hedging Activities

At December 31, 2000, the Company had forward exchange contracts to purchase $3.5 million U.S. currency for approximately $5.3 million Canadian currency.

Unrealized gains and losses on outstanding foreign currency exchange contracts, used to hedge future revenues and purchases, are not recorded in the financial statements but are included in the measurement of the related hedged transaction when realized.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Comprehensive Income

Comprehensive income consists of net earnings, unrealized gains or losses on investments and foreign currency translation adjustments and is presented in the consolidated statements of stockholders' equity and comprehensive income.

Business Segment Reporting

The Company reports information about business segments and related disclosures about products and services, geographic areas and major customers. The business segments of the Company are wholesale, retail and licensing operations. Information regarding these segments is summarized in Note 13.

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which principally include cash, short-term investments, trade receivables, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments. Long-term investments are recorded at fair value.

The fair value of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At December 31, 2000 and 1999, the carrying value of all financial instruments was not materially different from fair value, as the fixed rate debt approximates rates currently available to the Company.

Long-Lived Assets

The Company reports long-lived assets, including intangibles, at amortized cost. Long-lived assets and certain intangibles, including goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If this assessment indicates that the assets will not be recoverable, as determined by a non-discounted cash flow generated by the asset, the carrying value of the Company's long-lived assets would be reduced to its estimated fair market value based on the discounted cash flows.

Advertising Costs

The Company expenses the cost of advertising as incurred. Advertising expenses charged to operations for the years ended December 31, 2000, 1999 and 1998 were $29.7 million, $24.5 million, and $18.0 million, respectively.

Reclassifications

Certain reclassifications have been made to the 1999 and 1998 consolidated financial statements to conform with the 2000 presentation.

NOTE 2. INVESTMENTS

At December 31, 2000, short-term investments consist of $0.9 million of marketable securities available for sale. At December 31, 1999, short-term investments of $27.1 million consist mostly of overnight interest-bearing deposit accounts.

Long-term investments consist of certain marketable equity securities aggregating $447,000 and $21.8 million at December 31, 2000 and 1999, respectively, and are included in other assets in the accompanying consolidated balance sheets. Unrealized gains (losses) related to marketable equity securities at December 31, 2000 and 1999 amounted to ($1.9) million and $11.2 million, respectively, net of deferred tax assets (liabilities) of $1.3 million and ($7.6) million, respectively, and are included as a component of stockholders' equity. During 2000, the Company recorded an impairment charge related to a certain long-term marketable equity security. See Note 16.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable consists of trade receivables, less reserves aggregating $15,811,00 and $8,863,000, and royalty receivables, less allowance for doubtful accounts of $841,000 and $1,258,000 at December 31, 2000 and 1999, respectively.

NOTE 4. INVENTORIES

Inventories are summarized as follows (in thousands):

	2000	1999
Raw materials	$ 9,986	$ 8,514
Work in process	6,727	6,740
Finished goods – retail	57,702	45,750
Finished goods – wholesale	69,805	45,620
	$144,220	$106,624

As of December 31, 2000, 1999 and 1998 the Company reduced inventories for lower of cost or market by $12.9 million, $2.9 million and $3.9 million, respectively, by charging cost of sales in each respective year.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows (in thousands):

	2000	1999
Land and land improvements	$ 4,586	$ 5,734
Building and building improvements	7,306	8,462
Leasehold improvements	95,491	67,821
Machinery and equipment	131,024	86,790
Corporate aircraft	6,601	6,601
Shop fixtures	38,929	31,347
Construction in progress	10,573	23,842
	294,510	230,597
Less accumulated depreciation and amortization	126,211	104,909
	$168,299	$125,688

Construction in progress at December 31, 2000 and 1999 represents the costs associated with the construction of buildings and improvements used in the Company's operations and other capitalizable expenses in progress. During the years ended December 31, 2000, and 1999, $0.4 million of interest costs were capitalized construction in progress. No interest costs were capitalized for the year ended December 31, 1998.

NOTE 6. OTHER ASSETS

Other assets is summarized as follows (in thousands):

	2000	1999
Goodwill, net of accumulated amortization	$11,279	$12,352
Deferred tax assets	6,132	—
Long-term investments	447	21,771
Artwork	3,712	3,712
Other	3,722	4,534
	$25,292	$42,369

NOTE 7. NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt are summarized as follows (in thousands):

	2000	1999
$9\frac{1}{2}$% Senior Subordinated Notes due 2003	$ 79,562	$79,562
$125 million revolving credit line	22,400	—
Revolving bank loan bearing interest at 1.75% above the Canadian prime rate plus an amount equal to 0.5% per month of the average outstanding balance, payable on demand, but commencing January 1, 2001 by way of 24 equal consecutive minimum payments	3,322	2,770
Advances under a demand line of credit of $17,347 with advances thereon bearing interest at the Canadian prime rate plus 1%	11,786	6,818
Other obligations, maturing in varying amounts through 2004	512	1,688
	117,582	90,838
Less current installments	13,801	7,475
Long-term debt, excluding current installments	$103,781	$83,363

In December 1999, the Company entered into a $125 million Credit Agreement ("Credit Facility"), subject to a borrowing base calculation. The Credit Facility provides the Company with a revolving credit line, which includes a $50 million sub-limit for letters of credit. Outstanding borrowings are secured by inventory and accounts receivable. The Credit Facility bears interest at the London Interbank Offered Rate ("LIBOR") plus a range as defined or the greater of the Prime rate, the base CD rate plus 100 basis points or the Federal Funds rate (collectively "ABR") plus a range as defined depending on the duration and type of loan facility. The credit facility expires on October 31, 2002. At December 31, 2000, the Company had $22.4 million of outstanding borrowings under the Credit Facility, $4.0 million in outstanding standby letters of credit and $17.6 million in outstanding documentary letters of credit. At December 31, 2000, the Company had $81.0 million available for future borrowings under such facility. At December 31, 2000, the weighted average interest rate on the outstanding borrowings was 9.4%. The Credit Facility contains various restrictive covenants requiring, among other things, the maintenance of certain financial fixed charge ratios. At December 31, 2000, the Company was in technical non-compliance with the fixed charge ratio covenant. On March 27, 2001, the Company's bank lenders agreed to amend the Credit Facility Agreement to cure non-compliance and revise certain terms, including modifications to the financial covenants, the addition of a liquidity ratio and an amendment to the range of interest rates based on the leverage ratio as follows: LIBOR plus 100 basis points to LIBOR plus 225 basis points, ABR to ABR plus 125 basis points and commitment fees of 25 basis points to 62.5 basis points. Accordingly, the Company is presently in compliance with all terms of the Credit Facility, as amended.

Maturities of long-term debt at December 31, 2000 are as follows:

2001	$ 13,801
2002	24,042
2003	79,581
2004	158
	$117,582

The Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at any time at various redemption prices. During 1999, the Company repurchased $19.4 million of its Senior Subordinated Notes.

NOTE 8. INCOME TAXES

Income taxes are summarized as follows (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Federal:			
Current	$17,276	$32,508	$14,477
Deferred	(5,602)	(2,464)	793
State:			
Current	3,594	5,202	2,459
Deferred	(1,127)	314	41
Foreign:			
Current	(1,041)	(360)	410
	$13,100	$35,200	$18,180

Actual income taxes differ from expected income taxes obtained by applying the statutory Federal income tax rate to earnings before income taxes as follows (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Computed "expected" tax expense	$10,357	$30,485	$15,152
State taxes, net of Federal benefit	2,210	3,586	1,625
Foreign taxes (benefit)	239	(273)	(14)
U.S. tax and foreign withholding tax on Foreign distributions	—	—	739
Other	294	1,402	678
	$13,100	$35,200	$18,180

Total income taxes were allocated as follows (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Operations	$ 13,100	$35,200	$18,180
Stockholders' equity	(10,769)	6,451	—
Total income taxes	$ 2,331	$41,651	$18,180

The tax effects of temporary differences that give rise to significant portions of current and non-current deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below (in thousands):

	2000	1999
Deferred tax assets:		
Retail store closure reserves	$ 1,128	$ 269
Deferred lease incentives	1,991	1,718
Rent expense	2,114	2,161
Uniform capitalization adjustment	3,008	2,194
State income taxes	367	1,471
Bad debt and other reserves	4,810	2,904
Severance reserve	—	1,378
Unrealized loss on investments	2,269	—
Other	6,640	2,602
Total deferred assets	22,327	14,697
Deferred tax liabilities	1,725	9,640
Net deferred tax assets	$20,602	$ 5,057

Included above at December 31, 2000 and 1999 are $14.5 million and $9.6 million for current deferred tax assets, respectively, and $6.1 million non-current deferred tax assets, included in other assets, and $4.5 million non-current deferred tax liabilities at December 31, 2000 and 1999, respectively.

Prepaid income taxes of $9.1 million and $3.0 million at December 31, 2000 and 1999, respectively, arise from the overpayment of estimated income taxes. The Company filed a federal quick tax refund and received an $8.0 million refund in February 2001.

Based on the historical earnings of the Company, management believes it is more likely than not that the results of operations will generate sufficient taxable earnings to realize net deferred tax assets.

NOTE 9. RELATED PARTY TRANSACTIONS

The Company is engaged in various transactions with entities affiliated with trusts for the respective benefit of Maurice, Paul and Armand Marciano (the “Marciano Trusts”).

License Agreements and Licensee Transactions

On September 28, 1990, the Company entered into a license agreement with Charles David of California (“Charles David”). Charles David is controlled by the father-in-law of Maurice Marciano. The Marciano Trusts and Nathalie Marciano (the spouse of Maurice Marciano) together own 50% of Charles David, and the remaining 50% is owned by the father-in-law of Maurice Marciano. The license agreement grants Charles David the rights to manufacture worldwide and distribute worldwide (except Japan and certain European countries) for men, women and some children, leather and rubber footwear which bear the GUESS? trademark. The license also includes related shoe care products and accessories.

Gross royalties earned by the Company under such license agreement for the fiscal years ended December 31, 2000, 1999 and 1998 were $2.1 million, $1.9 million and $1.4 million, respectively. Additionally, the Company purchased $8.7 million, $8.4 million and $6.1 million of products from Charles David for resale in the Company’s retail stores during the same periods.

In May 1997, the Company sold substantially all of the assets and liabilities of GUESS? Italia to Maco Apparel, S.p.a. (“Maco”). The effect of the net asset disposal was immaterial to the Company’s results of operations. In connection with this sale, the Company also purchased a 10% ownership interest in Maco and entered into an approximate 10-year license agreement with Maco granting it the right to manufacture and distribute certain men’s and women’s jeanswear apparel, which bear the GUESS? trademark, in certain parts of Europe. In addition to royalty fees, the Company will also receive $14.1 million over a four-year period in consideration of the grant of the license rights for men’s and women’s jeanswear apparel. During 2000, 1999 and 1998, the Company recorded $2.8 million in revenue in connection with the grant of such license rights. Additionally, the Company also recorded $3.0 million, $3.2 million and $2.3 million in royalty fees related to product sales in 2000, 1999 and 1998, respectively. Effective March 1, 1998, the Company also entered into an approximate nine-year license agreement with Maco granting it the right to manufacture and distribute kid’s jeanswear, which bear the GUESS? trademark, in certain parts of Europe. No significant revenue was recorded related to the grant of this license agreement.

On August 4, 1999, the Company completed its purchase of an additional 40% of GUESS? Canada whereby the Company’s ownership has been increased to 60%. As part of the transaction, the Company paid $2.0 million and will provide long-term debt financing of up to $13.4 million to GUESS? Canada to expand its Canadian retail operations of which $12.3 million was outstanding as of December 31, 2000. The remaining funding is being provided on an as-needed basis. The Company has an option to acquire the remaining 40% of GUESS? Canada that becomes exercisable commencing December 31, 2001. The acquisition was accounted for as a purchase and the results of GUESS? Canada are included in the Company’s consolidated financial statements from the date of acquisition. The excess of the purchase price over the fair value of net assets acquired amounting to $1.1 million is allocated to goodwill and is being amortized over 15 years. The operating results of GUESS? Canada are immaterial to the Company’s consolidated financial statements.

Leases

The Company leases manufacturing, warehouse and administrative facilities from partnerships affiliated with the Marciano Trusts and certain of its affiliates. There are two leases in effect at December 31, 2000, both of which expire in July 2008. The total lease payments to these limited partnerships are currently $237,000 per month. Additionally, the Company is also on a month-to-month lease for another storage facility. Aggregate lease payments under leases in effect for the fiscal years ended December 31, 2000, 1999 and 1998 were $2.8 million, $2.7 million, and $2.7 million, respectively.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its showrooms and retail store locations under operating lease agreements expiring on various dates through 2016. Some of these leases require the Company to make periodic payments for property taxes and common area operating expenses. Certain leases include rent abatements and scheduled rent escalations, for which the effects are being amortized and recorded over the lease term. The Company also leases some of its equipment under operating lease agreements expiring at various dates through 2003.

Future minimum rental payments under non-cancelable operating leases at December 31, 2000 are as follows:

	Year Ending December 31,		
(in thousands)	Non Related Parties	Related Parties	Total
2001	$ 45,088	$ 2,839	$ 47,927
2002	46,004	2,839	48,843
2003	44,991	2,839	47,830
2004	42,058	2,839	44,897
2005	37,542	2,839	40,381
Thereafter	124,729	7,331	132,060
	$340,412	$21,526	$361,938

Rental expense for all operating leases during the years ended December 31, 2000, 1999, and 1998 aggregated $36.1 million, $34.9 million, and $27.1 million, respectively.

Incentive Bonuses

Certain officers and key employees of the Company are entitled to incentive bonuses, primarily based on the Company's profits.

Litigation

On approximately January 15, 1999, UNITE filed an unfair labor practice charge against us, alleging that attorney Dennis Hershewe violated Section 8(a)(1) of the National Labor Relations Act ("the Act") by questioning our employee Maria Perez about her union activities at the deposition he conducted in her workers' compensation case. Mr. Hershewe represents Fireman's Fund Insurance Company, our workers' compensation insurance carrier. GUESS? investigated the charge and responded to it on March 10, 1999. The NLRB issued a complaint on part of the charge on October 14, 1999, and we filed an answer on October 21, 1999. On July 6, 2000, the complaint was dismissed in its entirety. The NLRB appealed the decision and both sides submitted briefs in September of 2000. We are awaiting a decision on the appeal.

On May 21, 1999, we filed a demand for arbitration against Pour le Bebe, Inc. and Pour la Maison, Inc. (collectively, "PLB") seeking damages and injunctive relief in connection with four written license agreements between the parties. We alleged that PLB defaulted under the license agreements, that the license agreements properly were terminated and that PLB breached the license agreements. On July 19, 1999, PLB filed a counterdemand for arbitration against us. PLB sought damages and injunctive relief against us alleging breach of contract, violation of the California Franchise Relations Act, interference with prospective economic advantage, unlawful business practices, statutory unfair competition and fraud. The arbitration was conducted before the American Arbitration Association pursuant to arbitration clauses in the license agreements.

On June 9, 2000, the arbitrators issued a final award in our favor and rejected each of PLB's counterclaims. The amount of this award was $7,659,677. Thereafter, the Company filed a petition to confirm the arbitration award and PLB filed a petition to vacate the award. On September 29, 2000, the court confirmed the final award and denied PLB's petition to vacate. On October 23, 2000, the court entered judgment confirming the final arbitration award and the case has been resolved. Because of the uncertainty of the ultimate realization of the award, no recognition has been given to it in our consolidated financial statements.

On June 9, 1999, we commenced a lawsuit in the Los Angeles County Superior Court against Kyle Kirkland, Kirkland Messina LLC, and CKM Securities (collectively "Kirkland") for tortious interference, unfair competition, fraud and related claims. This action arises out of alleged misrepresentations and omissions of material fact made by Kirkland in connection with the operations and financial performance of PLB. On March 29, 2000, the California Court of Appeal determined that the action will proceed in court. Kirkland's petition for review to the California Supreme Court was denied on July 12, 2000. No trial date has been set.

On March 28, 2000 a complaint was filed against us in San Diego County Superior Court entitled Snodgrass v. GUESS?, Inc. and GUESS? Retail, Inc. The complaint purports to be a class action filed on behalf of current and former store management employees in California. Plaintiffs seek overtime wages and a preliminary and permanent injunction. The parties have stipulated that a limited class composed only of visual co-managers and co-managers should be certified. The Court certified this limited class on March 16, 2001. The trial date has been set for November 9, 2001.

On May 4, 2000, a complaint was filed against the Company and Mr. Paul Marciano in the Los Angeles Superior Court – Michel Benasra v. Paul Marciano and GUESS?, Inc. The complaint grows out of the arbitration between the Company and PLB, discussed above. The plaintiff, the President of PLB, alleges that defendants made defamatory statements about him during the arbitration. Plaintiff seeks general damages of $50,000,000 and unspecified punitive damages. Defendants moved to compel arbitration of this matter, or alternatively, to strike the action under the state's anti-SLAPP (Strategic Litigation Against Public Participation) statute. The motion to compel arbitration was denied and the decision has been appealed. Pending resolution on appeal, this matter has been stayed. No trial date has been set.

On January 30, 2001, GUESS?, Inc. Maurice Marciano, Armand Marciano, Paul Marciano, and Brian Fleming were named as defendants in a securities class action entitled David Osher v. GUESS?, Inc., et al., filed in the United States District Court for the Central District of California. Seven additional class actions have been filed in the Central District, naming the same defendants: Robert M. Nuckols v. GUESS?, Inc. et al., Brett Dreyfuss v. GUESS?, Inc. et al., both filed February 1, 2001; Jerry Sloan v. GUESS?, Inc., et al., filed February 6, 2001; Jerry Byrd v. GUESS?, Inc., et al; filed February 13, 2001; Patrick and Kristine Liska v. GUESS?, Inc., et al, filed February 14, 2001; Darrin Wegman v. GUESS?, Inc., et al., filed February 22, 2001; and Rosie Gindie v. GUESS?, Inc., et al., filed February 22, 2001. All eight complaints purport to state claims under Section 10(b) and 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934 and allege that defendants made materially false and misleading statements relating to the Company's inventory and financial condition during the class period. In Osher, Nuckols, Byrd, Wegman and Sloan, the class period is February 14, 2000 through January 26, 2001; in Dreyfuss, Liska and Gindie the class period is February 14, 2000 through November 9, 2000. We are awaiting Court approval of a stipulation to extend our time to respond until 45 days after a lead plaintiff has been appointed and has filed a consolidated amended complaint.

On March 15, 2001, a complaint was filed by Susan Goldman, derivatively on behalf of nominal defendant GUESS?, Inc. against Bryan Isaacs, Alice Kane, Robert Davis, Armand Marciano, Paul Marciano, Maurice Marciano, Howard Socol and GUESS?, Inc. in the Court of Chancery for the State of Delaware. The complaint alleges misappropriation of corporate information, insider trading and other purported breaches of fiduciary duty by the Company and its Board of Directors. Our response is due April 10, 2001.

We cannot predict the outcome of these matters. We believe the outcome of one or more of the above cases could have a material adverse effect on our results of operations or financial condition. Most major corporations, particularly those operating retail businesses, become involved from time to time in a variety of employment-related claims and other matters incidental to their business in addition to those described above. In the opinion of our management, the resolution of any of these pending incidental matters is not expected to have a material adverse effect on our results of operations or financial condition.

NOTE 11. SAVINGS PLAN

The Company established the GUESS?, Inc. Savings Plan (the "Savings Plan") under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, employees ("associates") may contribute up to 15% of their compensation per year subject to the elective limits as defined by IRS guidelines and the Company may make matching contributions in amounts not to exceed 1.5% of the associates' annual compensation. The Company's contributions to the Savings Plan for the year ended December 31, 2000, amounted to $0.4 million and $0.3 million for each of the years ended December 31, 1999 and 1998.

NOTE 12. QUARTERLY INFORMATION (UNAUDITED)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 2000 and 1999 (in thousands, except per share data):

	Year Ended December 31, 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenue	$188,844	$177,681	$216,363	$196,329
Gross profit	79,146	69,379	77,157	57,931
Net earnings (loss)	14,408	6,811	8,363	(13,089)
Earnings (loss) per share:				
Basic	$ 0.33	$ 0.16	$ 0.19	$ (0.30)
Diluted	$ 0.33	$ 0.16	$ 0.19	$ (0.30)

	Year Ended December 31, 1999			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenue	$129,052	$119,557	$155,547	$195,494
Gross profit	54,028	55,035	65,261	93,666
Net earnings	11,486	7,017	14,235	19,162
Earnings per share:				
Basic	$ 0.27	$ 0.16	$ 0.33	$ 0.45
Diluted	$ 0.27	$ 0.16	$ 0.33	$ 0.44

The quarterly information presented herein for the quarters ended April 1, July 1, and September 30, 2000, presents information as amended in the Forms 10-Q/A filed on April 2, 2001.

During the fourth quarter of 2000, the Company recorded special charges of $15.6 million principally related to $5.7 million of inventory write-downs to value its inventory at the lower of cost or market; $4.5 million of restructuring charges related to underperforming stores that the Company plans to close and for new stores that the Company has decided not to open; $4.1 million to write-down permanently impaired assets, including fixed assets related to unprofitable stores and an investment in an internet company; and $1.3 million of other charges. The inventory provisions have been included in cost of sales.

During the fourth quarter of 1999, the Company enhanced its ability to estimate reserves through improved processes and more current and accurate data. As a result, the Company revised its estimate of certain reserves. This resulted in a reduction of cost of sales of $2.3 million. During the second quarter of 1999, in accordance with the requirements of EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring"), the Company recorded a $3.2 million charge for future severance costs related to the relocation of distribution operations to Louisville. In the third quarter of 1999, the Company realized a non-recurring pretax gain of $3.8 million on the disposition of property and equipment.

NOTE 13. SEGMENT INFORMATION

In accordance with the requirements of SFAS 131, "Disclosures about Segments of and Enterprise and Related Information," the Company's reportable business segments and respective accounting policies of the segments are the same as those described in Note 1. Management evaluates segment performance based primarily on revenue and earnings from operations. Interest income and expense is evaluated on a consolidated basis and not allocated to the Company's business segments.

Segment information is summarized as follows for the years ended December 31, 2000, 1999 and 1998 (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Net revenue:			
Retail operations	$392,539	$299,384	$222,624
Wholesale operations	348,873	260,628	212,504
Licensing operations	37,805	39,638	36,803
	$779,217	$599,650	$471,931
Earnings from operations:			
Retail operations	$ 3,372	$ 37,072	$ 19,943
Wholesale operations	9,170	25,101	7,971
Licensing operations	30,807	31,603	29,132
	$ 43,349	$ 93,776	$ 57,046
Capital expenditures:			
Retail operations	$ 57,336	$ 26,486	$ 5,170
Wholesale operations	21,798	35,471	8,136
Licensing operations	—	—	—
	$ 79,134	$ 61,957	$ 13,306
Total assets:			
Retail operations	$183,255	$114,152	$ 93,140
Wholesale operations	229,446	245,162	159,069
Licensing operations	6,982	9,722	11,563
	$419,683	$369,036	$263,772

The table below presents information related to geographic areas in which the Company operated in during 2000, 1999 and 1998 (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Net revenue:			
United States	$680,341	$548,179	$434,207
Asia	23,303	13,279	13,859
Europe	18,764	13,464	10,600
Canada	47,339	12,073	1,644
South America	6,403	3,973	5,066
Mexico	1,895	3,337	2,406
Other	1,172	5,345	4,149
	$779,217	$599,650	$471,931

NOTE 14. STOCK OPTION PLAN AND NONVESTED STOCK

On July 30, 1996, the Board of Directors adopted the GUESS?, Inc. 1996 Non-Employee Directors' Stock Option Plan pursuant to which the Board of Directors may grant stock options to non-employee directors. This plan authorizes grants of options to purchase up to 500,000 authorized but unissued shares of Common Stock. At December 31, 2000, 1999 and 1998, there were 147,611, 109,082 and 70,451 options issued under this plan, respectively. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options have ten-year terms and vest and become fully exercisable in increments of one-fourth of the shares granted on each anniversary from the date of grant.

On July 30, 1996, the Board of Directors adopted the GUESS?, Inc. 1996 Equity Incentive Plan (the "Plan") pursuant to which the Board of Directors may grant stock options to officers, key employees and consultants. The Plan authorizes grants of options to purchase up to 4,500,000 authorized but unissued shares of Common Stock. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options have ten-year terms (five years in the case of an incentive stock option granted to a ten-percent stockholder) and vest and become fully exercisable after varying time periods from the date of grant based on length of service or specified performance goals.

At December 31, 2000, 1999 and 1998, there were 1,883,056, 2,763,397 and 2,841,825 additional shares available for grant under the plan, respectively. Using the Black Scholes option pricing model, the weighted-average per share fair value of stock options granted during 2000, 1999 and 1998 was $10.09, $12.46 and $4.24, respectively. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2000, 1999 and 1998, respectively: risk-free interest rates of 5.35%, 6.51% and 4.87%; volatility factors of the expected market price of the Company's common stock of 80%, 65% and 63%; no expected dividend yield; and a weighted-average expected life of the option of four years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because options under the Company's stock option plan have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the options under the Company's stock option plan.

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the accompanying consolidated financial statements. Had the Company determined compensation based on the fair value at the grant date for its stock options under SFAS No. 123 ("SFAS 123"), the Company's pro forma net earnings and net earnings per share for the years ended December 31, 2000, 1999 and 1998 would have been the pro forma amounts indicated below (in thousands, except per share data):

	2000	1999	1998
Pro forma net earnings	$14,279	$51,300	$24,574
Pro forma earnings per share – basic	$ 0.33	$ 1.19	$ 0.57
Pro forma earnings per share – diluted	$ 0.33	$ 1.18	$ 0.57

In December 2000, the Company granted 205,680 shares of nonvested Common Stock to a key employee which vest through January 2004. Upon granting of the stock, unearned compensation equivalent to the market value of the stock at the date of issuance ($4.63 per share) was charged to stockholders' equity and will be amortized to operations over four years.

Stock option activity during the period indicated is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 1997	1,291,355	$ 11.05
Granted	1,035,600	4.24
Forfeited	(668,780)	(10.92)
Balance at December 31, 1998	1,658,175	$ 6.86
Granted	343,650	12.46
Exercised	(373,090)	(8.56)
Forfeited	(265,222)	(7.68)
Balance at December 31, 1999	1,363,513	$ 7.64
Granted	1,400,130	13.77
Exercised	(250,976)	(6.69)
Forfeited	(519,789)	(12.96)
Balance of December 31, 2000	1,992,878	$ 10.68

At December 31, 2000, 1999 and 1998, the weighted average exercise price was $10.68, $7.64 and $6.86, respectively, and the weighted average remaining contractual lives of outstanding options were 8.74, 8.53 and 9.0 years, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000.

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding December 31, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2000	Weighted Average Exercise Price
\$ 0.01 to \$ 5.50	1,051,536	8.51 years	\$ 3.56	137,626	\$ 4.20
\$ 7.06 to \$19.38	71,325	7.66 years	8.38	46,450	8.77
\$10.50 to \$12.50	265,642	7.22 years	11.08	202,442	10.90
\$16.38 to \$18.31	250,000	9.28 years	17.74	20,378	16.83
\$21.06 to \$27.31	354,375	9.04 years	26.99	77,800	26.93
	1,992,878	8.74 years	\$10.68	484,696	\$11.62

At December 31, 2000 and 1999, the number of options exercisable for each year was 484,696 and 338,284, respectively. The weighted average exercise price of those options was \$11.62 and \$8.14, respectively.

NOTE 15. SEVERANCE (RECOVERY) RELATED TO DISTRIBUTION FACILITY RELOCATION

In accordance with the requirements of EITF 94-3, "Liability for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," during 1999, the Company recorded a \$3.2 million charge for future severance costs related to the relocation of its distribution operations from Los Angeles, California to Louisville, Kentucky. The Company originally expected to terminate 460 employees. As a result of attrition, relocating and redeploying 228 employees, the Company recorded a \$1.5 million recovery during 2000.

NOTE 16. RESTRUCTURING AND IMPAIRMENT CHARGES

In the fourth quarter of 2000, the Company recorded restructuring and impairment charges of \$8.6 million. Of these charges \$2.4 million (impairment) and \$6.2 million (restructuring and impairment) were recorded to the wholesale and retail segments, respectively. These charges consisted of the following:

In connection with its ongoing review of its portfolio of marketable equity securities, the Company recorded a non-cash impairment charge against earnings from operations of \$2.4 million to write down the cost basis of a certain marketable equity security investment in an internet company as the decline was determined to be other than temporary.

Additionally, in accordance with SFAS N0. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" an impairment charge of \$1.7 million was recorded in the fourth quarter of 2000 to write down the net book value of property and equipment related to certain stores. These assets became impaired as the Company's new kid's line had some unprofitable stores that performed below expectation. Estimated future cash flows related to these stores indicated that an impairment of the full value had occurred.

In December 2000, Company management approved a plan to close certain under-performing stores in 2001 and cease construction on certain stores that the Company has decided not to open. Included in the Company's operating results for the year ended December 31, 2000, are restructuring charges of \$4.5 million consisting of lease exit costs, rent paid and to be paid on idle locations and construction costs of stores abandoned during construction. This is inclusive of \$0.8 million of asset impairments for under-performing stores that the Company plans to close in 2001. Estimated future cash flows related to these stores indicated that an impairment of the full value had occurred. As of December 31, 2000, a liability recorded in accordance with the requirements of EITF 94-3, "Liability for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" of \$1.7 million remains, consisting primarily of estimated rent to be paid on idle leased facilities and lease exit costs. The Company anticipates paying the \$1.7 million and the completion of these activities during 2001.

The Board of Directors and Stockholders
GUESS?, Inc.:

We have audited the accompanying consolidated balance sheets of GUESS?, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of earnings, stockholders' equity and comprehensive income and cash flows for each of the years in the three year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GUESS?, Inc. and Subsidiaries at December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
March 7, 2001, except for the penultimate
paragraph of Note 10 and the second paragraph
of Note 7, which are as of March 15, 2001
and March 27, 2001, respectively

UNITED STATES

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Phoenix
Scottsdale
Tucson

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Brea
Canoga Park
Cerritos
Costa Mesa
Glendale
Los Angeles
Northridge
Pleasanton
Riverside
Roseville
Sacramento
San Diego
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San Mateo
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Dearborn
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Novi
Troy

Minnesota
Minneapolis

Nevada
Las Vegas
Reno

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Bridgewater
Freehold
Moorestown
Paramus
Short Hills
Willowbrook

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Buffalo
Garden City
Huntington Station
Lake Grove
Nanuet
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New York (So. Street Seaport)
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Victor
White Plains

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Columbus

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Che Ju
Cheon An
Cheon Ju
Dae Jeon
Incheon
Jeon Ju
Jin Ju
Mokpo
Po Hang
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Pyung Taek
Saesun
Seoul
Suwon
Tong-Young
Won Ju
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Dubai

Venezuela
Barquisimeto
Caracus
Isla Margarita
Valencia

BOARD OF DIRECTORS

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Co-Chairman of the Board and
Co-Chief Executive Officer

PAUL MARCIANO
Co-Chairman of the Board and
Co-Chief Executive Officer

ARMAND MARCIANO
Senior Executive Vice President
and Assistant Secretary

CARLOS ALBERINI
President and Chief Operating Officer

ROBERT DAVIS
President and Chief Operating Officer
of St. John (retired)

BRYAN ISAACS
Partner, International Corporate Services,
KPMG LLP (retired)

ALICE KANE
President, American General Fund Group

HOWARD SOCOL
Chairman, Chief Executive Officer and
President of Barneys New York, Inc.

CORPORATE OFFICERS

MAURICE MARCIANO
Co-Chairman of the Board and
Co-Chief Executive Officer

PAUL MARCIANO
Co-Chairman of the Board and
Co-Chief Executive Officer

ARMAND MARCIANO
Senior Executive Vice President
and Assistant Secretary

CARLOS ALBERINI
President and Chief Operating Officer

CORPORATE INFORMATION

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For the hearing impaired
(800) 952-9245 (tty/tdd)
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AUDITORS
KPMG LLP
Los Angeles, California

SEC FORM 10-K
Shareholders may obtain, free of charge, a copy of Form 10-K by making a written request to the Investor Relations Department of GUESS?, Inc.

INVESTOR RELATIONS
Shareholders of record receive an Annual Report and proxy material. In addition, shareholders may request receipt of quarterly reports. If you have any questions or require additional information, please contact:

Investor Relations
GUESS?, Inc.
1444 South Alameda Street
Los Angeles, California 90021
Telephone: (213) 765-5578
Fax: (213) 765-5927

MARKET INFORMATION

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "GES". The following table sets forth, for the quarterly periods indicated, the high and low closing prices per share:

	1999	
	High	Low
1st Quarter	$ 9.50	$ 4.88
2nd Quarter	$14.25	$ 6.13
3rd Quarter	$16.63	$10.38
4th Quarter	$22.94	$11.13

	2000	
	High	Low
1st Quarter	$33.00	$18.63
2nd Quarter	$32.44	$11.13
3rd Quarter	$23.13	$ 9.25
4th Quarter	$11.50	$ 3.50

	2001	
	High	Low
1st Quarter	$ 7.75	$ 4.81

GUESS?, Inc.
1444 South Alameda Street
Los Angeles, CA 90021

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GUESS?, INC.
2000 ANNUAL REPORT

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