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

(MARK ONE)

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

For the quarterly period ended March 30, 1997

OR

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

For the transition period from to

Commission File Number 1-11893

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GUESS ?, INC.

---

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 95-3679695 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1444 South Alameda Street
Los Angeles, California, 90021

(Address of principal executive offices)

(213) 765-3100

(Registrant's telephone number, including area code)

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

Yes X No ___

As of May 12, 1997, the registrant had 42,898,035 shares of Common Stock, $.01 par value, outstanding.

GUESS ?, INC.
FORM 10-Q
TABLE OF CONTENTS

PART II. OTHER INFORMATION



GUESS ?, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(Unaudited)

ASSETS

| | MAR 30, 1997 | DEC 31, 1996* |
|---|---|---|
| Current assets: | | |
| Cash | $5,763 | $8,800 |
| Short term investments | 0 | 4,401 |
| Receivables: | | |
| Trade receivables, net of reserves | 48,349 | 27,107 |
| Royalties | 17,407 | 15,613 |
| Other | 3,614 | 4,042 |
| | 69,370 | 46,762 |
| Inventories | 86,640 | 79,489 |
| Prepaid expenses and other current assets | 11,731 | 11,863 |
| Total current assets | 173,504 | 151,315 |
| Property and equipment, at cost, net of accumulated depreciation and amortization | 73,144 | 64,302 |
| Long-term investments | 14,360 | 8,106 |
| Other assets, at cost, net of accumulated amortization | 15,281 | 15,583 |
| | $276,289 | $239,306 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current installments of notes payable

| | | |
|---|---|---|
| and long-term debt . . . . . . . . . . . . . . . . . . . . | $7,193 | $6,099 |
| Accounts payable . . . . . . . . . . . . . . . . . . . . . | 43,222 | 39,285 |
| Accrued expenses . . . . . . . . . . . . . . . . . . . . . | 16,221 | 24,935 |
| Income taxes payable . . . . . . . . . . . . . . . . . . . | 15,935 | 4,175 |
| Total current liabilities. . . . . . . . . . . . . . . | 82,571 | 74,494 |
| Notes payable and long-term debt, net of current installments . . . . . . . . . . . . . . . . . . . . . . . | 129,500 | 121,217 |
| Other liabilities. . . . . . . . . . . . . . . . . . . . . . | 8,503 | 8,667 |
| | 220,574 | 204,378 |



| | | |
|---|---|---|
| Stockholders' equity: | | |
| Preferred stock. $.01 par value Authorized 10,000,000 shares; no shares issued and outstanding . . . . . . . | - | - |
| Common stock, $.01 par value. Authorized 150,000,000 shares; issued 62,928,827 and 62,712,611, outstanding 42,898,035 and 42,681,819 shares at March 30, 1997 and December 31, 1996, respectively, including 20,030,792 shares in Treasury. . . . . . . . | 137 | 135 |
| Paid-in capital. . . . . . . . . . . . . . . . . . . . . . . | 158,589 | 155,591 |
| Retained earnings. . . . . . . . . . . . . . . . . . . . . . | 47,934 | 29,921 |
| Foreign currency translation adjustment. . . . . . . . . | (169) | 57 |
| Treasury stock, 20,030,792 shares repurchased. . . . . . | (150,776) | (150,776) |
| Net stockholders' equity . . . . . . . . . . . . . . . | 55,715 | 34,928 |
| | $276,289 | $239,306 |

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



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

| | First Quarter Ended | |
|---|---|---|
| | March 30, 1997 | March 31, 1996 |
| Net revenue: | | |
| Product sales. . . . . . . . . . . . . . . . . . . . . . . . | $122,668 | $123,275 |
| Net royalties. . . . . . . . . . . . . . . . . . . . . . . . | 13,068 | 11,623 |
| | 135,736 | 134,898 |
| Cost of sales. . . . . . . . . . . . . . . . . . . . . . . . | 74,152 | 70,479 |
| Gross profit . . . . . . . . . . . . . . . . . . . . . . . . | 61,584 | 64,419 |
| Selling, general & administrative expenses . . . . . . . . | 34,731 | 35,232 |
| Earnings from operations . . . . . . . . . . . . . . . | 26,853 | 29,187 |
| Non-operating income (expense): | | |
| Interest, net. . . . . . . . . . . . . . . . . . . . . . . | (3,226) | (3,549) |
| Other, net . . . . . . . . . . . . . . . . . . . . . . . . | 119 | (320) |

| | | |
|---|---|---|
| | (3,107) | (3,869) |
| Earnings before income taxes and cumulative effect of change in accounting principle. . . . . . . . . | 23,746 | 25,318 |
| Income taxes . . . . . . . . . . . . . . . . . . . . . . . . | 9,694 | 1,271 |
| Earnings before cumulative effect of change in accounting principle . . . . . . . . . . . . . . . . . . . | 14,052 | 24,047 |
| Cumulative effect of change in accounting for product display fixtures, net of income tax expense of $2,707 (note 4) . . . . . . . . . . . . . . . . . . . . . . . . | 3,961 | 0 |
| Net earnings . . . . . . . . . . . . . . . . . . . . . | $18,013 | $24,047 |

Supplemental pro forma financial information (note 2):

| | | |
|---|---|---|
| Earnings before income taxes, as presented . . . . . . . . | | $25,318 |
| Pro forma provision for income taxes . . . . . . . . . . . | | 10,051 |
| Pro forma net earnings . . . . . . . . . . . . . . . . . . | | $15,267 |
| Earnings per share: | | |
| Earnings before cumulative effect of change in accounting principle (1996 period-pro forma, note 2). . . . . . . . | $0.33 | $0.37 |
| Cumulative effect of change in accounting for product display fixtures (note 4). . . . . . . . . . . . . . . . . | $0.09 | --- |
| Net earnings (1996 period-pro forma, note 2) . . . . . . . | $0.42 | $0.37 |



| | | |
|---|---|---|
| Pro forma financial information assuming the new accounting method is retroactively applied: | | |
| Pro forma net earnings . . . . . . . . . . . . . . . . | $14,052 | $15,411 |
| Pro forma net earnings per share . . . . . . . . . . . | $0.33 | $0.37 |
| Weighted average common shares outstanding . . . . . . . . | $42,898 | $41,412 |

See accompanying notes to condensed consolidated financial statements



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

| | First Quarter Ended | |
|---|---|---|
| | March 30, 1997 | March 31, 1996 |
| Cash flows from operating activities: | | |
| Net earnings . . . . . . . . . . . . . . . . . . . . . . . | $18,013 | $24,047 |
| Adjustments to reconcile net earnings to net cash | | |

| | | |
|---|---|---|
| used in operating activities: | | |
| Depreciation and amortization of property and equipment | 4,691 | 4,282 |
| Amortization of deferred charges | (118) | 247 |
| Cumulative effect of change in accounting principle | (3,961) | 0 |
| Loss (gain) on disposition of property and equipment | (1) | 16 |
| Foreign currency translation adjustment | (85) | 15 |
| Minority interest | 0 | 342 |
| Undistributed equity method earnings | (119) | (9) |
| (Increase) decrease in: | | |
| Receivables | (22,608) | (18,807) |
| Inventories | (7,150) | (17,583) |
| Prepaid expenses and other current assets | 132 | 49 |
| Other assets | 528 | 85 |
| Increase (decrease) in: | | |
| Accounts payable | 3,935 | 3,038 |
| Accrued expenses | (8,731) | (3,416) |
| Income taxes payable | 9,052 | 892 |
| Net cash used in operating activities | (6,422) | (6,802) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (6,866) | (2,629) |
| Proceeds from the disposition of property and equipment | 2 | 2 |
| Lease incentives granted | 55 | 11 |
| Acquisition of license | (2,023) | 0 |
| Decrease in short-term investments | 4,401 | 0 |
| Increase in long-term investments | (1,420) | 0 |
| Net cash used in investing activities | (5,851) | (2,616) |
| Cash flows from financing activities: | | |
| Proceeds from notes payable and long-term debt | 31,114 | 55,857 |
| Repayments of notes payable and long-term debt | (21,737) | (26,684) |
| Distributions to stockholders | 0 | (17,600) |
| Net cash provided by financing activities | 9,377 | 11,573 |
| Effect of exchange rates changes on cash: | (141) | 11 |
| Net increase (decrease) in cash | (3,037) | 2,166 |
| Cash, beginning of period | 8,800 | 6,417 |
| Cash, end of period | $5,763 | $8,583 |



Supplemental disclosures:

| | | |
|---|---|---|
| Cash paid during the period for: | | |
| Interest | $6,551 | $5,619 |
| Income taxes | 1,328 | 357 |

Supplemental disclosure of non cash investing activities:

During the quarter ended March 30, 1997, the Company issued 216,216 shares of common stock with a value of $3.0 million in connection with the acquisition of a license.

See accompanying notes to condensed consolidated financial statements.

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

March 30, 1997

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position as of March 30, 1997, and the results of operations and cash flows for the three months ended March 30, 1997. Operating results for the first quarter ended March 30, 1997, are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they have been condensed and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1996.

(2) Summary of Significant Accounting Policies

Pro Forma Net Earnings

Pro forma net earnings for the 1996 period represents the results of operations adjusted to reflect a provision for income taxes on historical earnings before income taxes, which gives effect to the change in the Company's income tax status to a C corporation in connection with the public sale of its common stock.

Pro forma net earnings per share for the 1996 period has been computed by dividing pro forma net earnings by the weighted average number of shares of common stock outstanding during the period. Options to purchase common stock are included in the calculation as common stock equivalents provided that their impact is not anti-dilutive.

Recently Issued Pronouncements

The Financial Accounting Standards Board has recently issued Statement No. 128, "Earnings per Share" ("FAS 128"), issued in February 1997 and effective for both interim and annual periods ending after December 15, 1997. The Company will adopt FAS 128 in the fourth quarter of 1997. FAS 128 requires the presentation of "Basic" earnings per share which represents income available to common shareholders divided by the weighted average number of common shares outstanding for the period. A dual presentation of "Diluted" earnings per share will also be required. The Diluted presentation is similar to the current presentation of fully diluted earnings per share. FAS 128 requires restatement of all prior-period earnings per share data presented. Management believes the adoption of FAS 128 will not have a material impact on the Company's financial position or results of operations.



(3) Inventories

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

| | March 30, 1997 | December 31, 1996 |
|---|---|---|
| Raw materials. . . . . . . . . . . . . . . . . . . . . . . | $12,475 | $12,563 |
| Work in Progress . . . . . . . . . . . . . . . . . . . . . | 16,081 | 12,576 |

| | | |
|---|---|---|
| Finished Goods . . . . . . . . . . . . . . . . . . . . . | 58,084 | 54,350 |
| | $86,640 | $79,489 |

(4) Change in Accounting Principle

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 will be capitalized and amortized over five years over the straight-line method. In previous years, these costs had been expensed as incurred. The Company believes that this new method will more closely match the long-term benefit that the product display fixtures provide with the expected future revenue from such fixtures. The new method has been applied retroactively to product display fixture acquisitions of prior years. The effect of the change on the quarter ended March 30, 1997 was to increase earnings by approximately $.2 million (or $0.00 per share), excluding the cumulative effect of the change in accounting principle. The cumulative effect of the change in accounting principle of $4.0 million (after reduction for income tax expense of $2.7 million) is included in earnings for the quarter ended March 30, 1997.

(5) Pro forma results of operations

The following table sets forth pro forma operating results for the periods indicated. Pro forma operating results reflect adjustments to the 1996 operating results for (i) the elimination of salaries and bonuses paid to Maurice, Paul and Armand Marciano ("the Principal Executive Officers") in excess of an aggregate of $4.9 million per year (the aggregate salaries and bonuses to be paid to the Principal Executive Officers under their respective employment agreements which became effective concurrently with the consummation of the Company's initial public offering ("IPO")) resulting in a decrease in compensation expense of $1.2 million, (ii) the decrease in depreciation and operating costs of $.6 million associated with an aircraft owned by the Company which was sold in contemplation of the IPO, (iii) the elimination of the minority interest in Guess Europe, BV and Guess Italia, S.r.l. through the merger of Marciano International with and into the Company in connection with the IPO, resulting in the inclusion in net earnings of $.3 million, which had previously been recorded as minority interest and (iv) adjustments for Federal and state income taxes as if the Company had been taxed as a C corporation rather than an S corporation.

For comparison purposes only, earnings per share and weighted average common shares outstanding have been calculated on a fully-diluted basis, whereby all of the shares outstanding immediately following the completion of the IPO and after giving effect to the S corporation distribution in connection therewith



were considered to be outstanding at March 31, 1996. 1997 shares are the weighted average of actual shares outstanding during the first quarter of 1997. Summarized below is the pro forma financial information for the first quarters ended March 30, 1997 and March 31, 1996 (in thousands, except per share data):

| | First quarter ended | |
|---|---|---|
| | MAR 30, 1997 | MAR 31, 1996 |
| Net revenue: | | |
| Product sales. . . . . . . . . . . . . . . . . . . . . . . | 122,668 | 123,275 |
| Net royalties. . . . . . . . . . . . . . . . . . . . . . . | 13,068 | 11,623 |
| Total net revenue. . . . . . . . . . . . . . . . . . . . | 135,736 | 134,898 |

| | | |
|---|---|---|
| Cost of sales | 74,152 | 70,479 |
| Gross profit | 61,584 | 64,419 |
| Selling, general and administrative expenses | 34,731 | 33,392 |
| Earnings from operations | 26,853 | 31,027 |
| Interest expense, net | (3,226) | (3,549) |
| Non operating income (expense), net | 119 | 9 |
| Earnings before income taxes and cumulative effect of accounting change | 23,746 | 27,487 |
| Pro forma income taxes | 9,694 | 10,912 |
| Earnings before cumulative effect of change in accounting principle | 14,052 | 16,575 |
| Cumulative effect of change in accounting for product display fixtures, net of income tax expense of $2,707 | 3,961 | 0 |
| Pro forma net earnings | 18,013 | 16,575 |
| Earnings per share: | | |
| Earnings before cumulative effect of change in accounting principle (1996 period-pro forma, note 2) | $0.33 | $0.39 |
| Cumulative effect of change in accounting for product display fixtures (note 4) | 0.09 | --- |
| Net earnings per share (1996 period-pro forma, note 2) | $0.42 | $0.39 |
| Weighted average common shares outstanding | 42,898 | 42,682 |



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

IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

Various forward-looking statements have been made in this Form 10-Q. Forward-looking statements may also be in the registrant's other reports filed under the Securities Exchange Act of 1934, in its press releases and in other documents. In addition, from time to time, the registrant through its management may make oral forward-looking statements.

Forward-looking statements generally refer to future plans and performance, and are identified by the words "believe", "expect", "anticipate", "optimistic", "intend", "aim", "will" or 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. The registrant undertakes no obligation to update publicly or revise any forward-looking statements.

OVERVIEW

The Company derives its net revenue from the sale of Guess men's and women's apparel worldwide to wholesale customers and distributors, from the sale of Guess men's and women's apparel and its licensees' products through the Company's network of retail and factory outlet stores primarily in the United States and from net royalties from worldwide licensing activities.

RESULTS OF OPERATIONS

NET REVENUE. Net revenue increased $0.8 million or 0.6% to $135.7 million in the first quarter ended March 30, 1997 from $134.9 million in the first quarter ended March 31, 1996. Net revenue from wholesale operations decreased $2.8 million or 3.3% to $80.3 million from $83.1 million, due principally to decreased domestic sales of $6.8 million, partially offset by a $4.0 million increase in sales outside the United States. The Company's domestic sales declined primarily as a result of increased competition in branded basic denim apparel and lower average selling prices. Net revenue from retail operations increased $2.1 million or 5.4% to $42.3 million from $40.2 million, primarily attributable to increased volume generated by new store openings. Comparable store sales were flat from the prior year. Production delays related to fabric and start up programs caused a decline in comparable store sales. Net royalties increased $1.5 million or 12.4% in the first quarter ended March 30, 1997 to $13.1 million from $11.6 million in the first quarter ended March 31, 1996. Net revenue from international operations comprised 17.3% and 13.7% of the Company's net revenue during the first quarter of 1997 and 1996, respectively.

GROSS PROFIT. Gross profit decreased 4.4% to $61.6 million in the first quarter ended March 30, 1997 from $64.4 million in the first quarter ended March 31, 1996. The decrease in gross profit resulted from decreased net revenue from product sales partially offset by increased net royalties. Gross profit from product sales decreased 8.1% to $48.5 million in the first quarter ended March 30, 1997 from $52.8 million in the first quarter ended March 31, 1996. Gross profit as a percentage of net revenue decreased to 45.4% in the first quarter ended March 30, 1997 as compared to 47.8% in the first quarter



ended March 31, 1996. Gross profit from product sales as a percentage of net revenue from product sales decreased to 39.6% in the first quarter ended March 30, 1997 from 42.8% in the first quarter ended March 31, 1996. The decline was primarily the result of lower gross profit rates in both the wholesale business and the retail store operations. The lower gross profit rate in the wholesale business primarily resulted from lower selling prices on certain products in response to increased competition in branded basic denim apparel and the timing of markdowns. The lower gross profit rate in the retail store operations resulted primarily from higher occupancy costs related to comparable stores.

SG&A EXPENSES. Selling, general and administrative ("SG&A") expenses decreased 1.4% in the quarter ended March 30, 1997 to $34.7 million, or 25.6% of net revenue, from $35.2 million, or 26.1% of net revenue, in the first quarter ended March 31, 1996. On a pro forma basis, SG&A expenses increased 4.0% in the quarter ended March 30, 1997 to $34.7 million, or 25.6% of net revenue, from $33.4 million, or 24.8% of net revenue, in the first quarter ended March 31, 1996. The increase was principally due to an increase in general and administrative costs related to the expansion of the retail division and Guess Italia, and increased costs associated with corporate marketing studies. As a percentage of net sales, the increase in general and administrative costs was the result of increased fixed expenses being spread over flat sales.

EARNINGS FROM OPERATIONS. Earnings from operations decreased 8.0% to $26.9 million, or 19.8% of net revenue in the first quarter ended March 30, 1997, from $29.2 million, or 21.6% of net revenue, in the first quarter ended March 31, 1996. On a pro forma basis, earnings from operations decreased 13.5% to $26.9 million, or 19.8% of net revenue, in the first quarter ended March 30, 1997, from $31.0 million, or 23.0% of net revenue, in the first quarter ended March 31, 1996. This decline was primarily attributable to the decrease in gross profit as well as increased SG&A expenses.

INTEREST EXPENSE, NET. Net interest expense decreased 9.1% to $3.2 million in the first quarter ended March 30, 1997 from $3.5 million in the first quarter ended March 31, 1996. This decrease resulted from lower outstanding debt, partially offset by a higher net effective interest rate. For the first quarter ended March 30, 1997, the average debt balance was $136.7 million, with an average effective interest rate of 9.6%. For the first quarter ended March 31, 1996, the average debt balance was $152.5 million, with an average effective interest rate of 9.3%.

INCOME TAXES. Prior to the IPO, which occurred during August 1996, for Federal and certain state income tax purposes, the Company elected to be treated as an S corporation and therefore generally was not subject to income tax on its earnings. The Company's income taxes, which represent state income taxes and foreign taxes, plus Federal taxes in the 1997 period, were $9.7 million and $1.3 million in the quarters ended March 30, 1997 and March 31, 1996, respectively. The Company's S corporation status was terminated in connection with the IPO and, therefore, the Company is now fully subject to Federal, state and foreign income taxes. On a pro forma basis, income taxes were $9.7 million and $10.9 million in the quarters ended March 30, 1997 and March 31, 1996, respectively.



NET EARNINGS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. Net earnings before the net cumulative effect of change in accounting principle decreased 41.6% to $14.1 million, or 10.4% of net revenue, in the first quarter ended March 30, 1997, from $24.0 million, or 17.8% of net revenue, in the first quarter ended March 31, 1996. On a pro forma basis, net earnings before cumulative effect of change in accounting principle decreased 15.2% to $14.1 million, or 10.4% of net revenue, in the first quarter ended March 30, 1997, from $16.6 million, or 12.3% of net revenue, in the first quarter ended March 31, 1996. The decrease was primarily attributable to lower gross profit and increased SG&A expenses.

NET CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. 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 will be capitalized and amortized over five years over the straight-line method. In previous years, these costs had been expensed as incurred. The Company believes that this new method will more closely match the long-term benefit that the product display fixtures provide with the expected future revenue from such fixtures. The new method has been applied retroactively to product display fixture acquisitions of prior years. The effect of the change on the quarter ended March 30, 1997 was to increase earnings by approximately $.2 million (or $0.00 per share), excluding the cumulative effect of the change in accounting principle. The cumulative effect of the change in accounting principle of $4.0 million (after reduction for income tax expense of $2.7 million) is included in earnings for the quarter ended March 30, 1997.

NET EARNINGS. Net earnings decreased 25.1% to $18.0 million, or 13.3% of net revenue, in the first quarter ended March 30, 1997, from $24.0 million, or 17.8% of net revenue, in the first quarter ended March 31, 1996. On a pro forma basis, net earnings increased 8.7% to $18.0 million, or 13.3% of net revenue, in the first quarter ended March 30, 1997, from $16.6 million, or 12.3% of net revenue, in the first quarter ended March 31, 1996. The increase was the result of the change in accounting principle partially offset by lower gross profit and increased SG&A expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Company has relied primarily upon internally generated funds, trade credit and bank borrowings to finance its operations and expansion. At March 30, 1997, the Company had working capital of $90.9 million compared to $76.8 million at December 31, 1996. The $14.1 million increase in working capital was due principally to a $22.6 million increase in receivables, a $7.2 million increase in inventories, and a $4.9 million decrease in payables and accrued expenses, partially offset by an $11.8 million increase in income taxes payable. The increase in receivables and inventories resulted primarily from seasonal changes in volume.

The Company's Credit Agreement provides for a $100.0 million revolving credit facility which includes a $20.0 million sublimit for letters of credit. As of

March 30, 1997, the Company had $24.5 million in outstanding borrowings under the revolving credit facility and outstanding letters of credit of $8.6 million. As of March 30, 1997, the Company had $66.9 million available for future borrowings under such facility. The revolving credit facility will expire in December 1999. In addition to this revolving credit facility, the



Company also has a $25.0 million letter of credit facility. As of March 30, 1997, the Company had $11.7 million outstanding under this facility.

Capital expenditures, net of lease incentives granted, totaled $6.8 million in the quarter ended March 30, 1997. The Company estimates that its capital expenditures for fiscal 1997 will be approximately $45.0 million, primarily for the expansion of its retail stores and operations.

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

SEASONALITY

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

INFLATION

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

EXCHANGE RATES

The Company receives United States dollars for substantially all of its product sales and its licensing revenue. Inventory purchases from offshore contract manufacturers are primarily denominated in United States dollars; however, purchase prices for the Company's products may be impacted by fluctuations in the exchange rate between the United States dollar and the local currencies of the contract manufacturers, which may have the effect of increasing the Company's cost of goods in the future. In addition, royalties received from the Company's international licensees are subject to foreign currency translation fluctuations as a result of the net sales of the licensee being denominated in local currency and royalties being paid to the Company in United States dollars. During the last three fiscal years, exchange rate fluctuations have not had a material impact on the Company's inventory costs. The Company currently does not engage in hedging activities with respect to such exchange rate risk.

IMPACT OF RECENTLY ISSUED PRONOUNCEMENTS

The Financial Accounting Standards Board has recently issued Statement No. 128, "Earnings per Share" ("FAS 128"), issued in February 1997 and effective for both interim and annual periods ending after December 15, 1997. The Company will adopt FAS 128 in the fourth quarter of 1997. FAS 128 requires the presentation of "Basic" earnings per share which represents income available to common shareholders divided by the weighted average number of common shares outstanding for the period. A dual presentation of "Diluted" earnings per share will also be required. The Diluted presentation is similar to the current presentation of fully diluted earnings per share. FAS 128 requires restatement of all prior-period earnings per share data presented. believes the adoption of FAS 128 will not have a material impact on the Company's financial position or results of operations.



## PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Litigation

On August 7, 1996, a class action complaint naming the Company and certain of fits independent contractors was filed in the Superior Court of the State of California for the County of Los Angeles, styled as Brenda Figueroa et. al. v. Guess ?, Inc. et. al. (Dist. Ct. Case No. 96-5484HLH(JGx)) (the "Federal Case"). The complaint, which sought damages and injunctive relief, alleged, among other things, that the defendants' practices with respect to the employees of such independent contractors have violated various federal and state labor laws and regulations. Certain components of the complaint have been remanded to state court (LASC Case No. BC 155 165) (the "State Case"), resulting in two litigation cases. In the Federal Case, plaintiffs claim that the Company's independent contractors violated the Federal Fair Labor Standards Act ("FLSA") by failing to pay minimum wage and overtime in accordance with the FLSA. In the State Case, also a purported class action, plaintiffs assert claims for violation of state wage and hour laws, wrongful discharge, breach of contract, and certain counts of negligence arising out of the Company's relationship with its independent contractors and actions taken by the Company's independent contractors with respect to the employees of such independent contractors. In the State Action, plaintiffs allege that the Company breached its agreement with the United States Department of Labor regarding the monitoring of its independent contractors. In both actions, plaintiffs contend that the Company is liable for its contractors' violations because it is a "joint employer" with its independent contractors. The trial in the Federal Case is currently set for December 1997.

The Union of Needletrades, Industrial & Textile Employees ("UNITE") has filed with the National Labor Relations Board ("NLRB") several charges that the Company has engaged and is engaging in unfair labor practices within the meaning of the National Labor Relations Act in cases No. 21-CA-31524, No. 21-CA-31565 and No. 21-CA-31648. UNITE has alleged that the senior management of the Company unlawfully discharged certain employees because of certain union activities and unlawfully threatened and coerced employees in the exercise of their rights under Section 7 of the National Labor Relations Act. In an agreement with the NLRB, the Company agreed to reinstate all of the employees allegedly unlawfully discharged because of their union activities and agreed to pay them back pay which aggregates approximately $70,000. The settlement also provides for the posting of a notice for 60 days at the Company stating that the matter has been settled and that the Company agrees to comply with the National Labor Relations Act. The notice has a non-admission clause concerning liability. Prior to the payment of the back wages, UNITE filed an additional unfair labor practice charge with the NLRB (No. 21-CA-31807). In this charge, the union alleges that the Company has unlawfully threatened to move its production to Mexico and elsewhere outside the United States thus unlawfully interfering with the organizing campaign at the Company's headquarters, and has unlawfully ceased doing business with independent contractors at which ongoing union organizing campaigns are being conducted. This charge also alleges that the Company has violated the settlement agreement in cases No. 21-CA-31524, No. 21-CA-31565 and No. 21-CA-31648 by making such threats. Charge No. 21-CA-31807 is currently under investigation by the NLRB, however the General Counsel of the NLRB has indicated to the



Company that the NLRB intends to issue a complaint in this case. The Company has been informed by the NLRB that the NLRB is evaluating several legal theories on which to bring the complaint including, but not limited to, the theory that the Company is a joint employer. The NLRB has also indicated that in the absence of a "joint employer" finding, the complaint may be brought on a theory that the Company has violated the National Labor Relations Act by terminating contractual relationships with certain contractors and/or providing a lesser amount of work to certain contractors based on the contractors being subject to union organizing efforts by UNITE. The NLRB has also indicated the possibility of pursuing a theory that the Company is involved in an integrated production effort with its contractors and is therefore liable for the loss of contractor employee jobs.

Pending a decision by the NLRB regarding the allegation that the Company breached the settlement agreement reached in cases No. 21-CA-31524, No. 21-CA-31565 and No. 21-CA-31648, the Company has withheld paying the approximately $70,000 in back wages agreed to in its above described settlement with the NLRB and has not posted notice of the settlement agreement. The subject employees, however, have been reinstated and continue to be employed by the Company. In a separate action (No. 31-CA-22380), UNITE is seeking fees and costs for having to defend certain causes of actions filed against UNITE by Guess. The Company believes that the outcome of one or more of these cases could have a material adverse effect on the Company's financial condition and results of operations.

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

ITEM 2. Changes in Securities

None.

ITEM 3. Defaults Upon Senior Securities

None.

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

No matters were submitted to a vote of security holders during the first quarter of 1997.

ITEM 5. Other Information

None.



ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits:

| Exhibit Number | Description |
|---|---|
| 10.31. | First Amendment to Amended and Restated Shareholders' Agreement |
| 18.0. | Letter regarding change in accounting principles |
| 27.1. | Financial Data Schedule |

- --------------------------------

b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the quarter ended March 30, 1997.



SIGNATURES

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

GUESS ?, INC.

Date: May 13, 1997 By: /s/ Maurice Marciano

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

Date: May 13, 1997 By: /s/ Roger Williams

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

EXHIBIT 10.31. First Amendment to Amended and Restated Shareholders' Agreement
- --------------------------------------------------------------------------------

FIRST AMENDMENT TO
AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT (this "First Amendment") is entered into as of March 31, 1997 by and among Maurice Marciano, as Trustee of the Maurice Marciano Trust (1995 Restatement), Paul Marciano, as Trustee of the Paul Marciano Trust dated February 20, 1986, Armand Marciano, as Trustee of the Armand Marciano Trust dated February 20, 1986, the Maurice Marciano 1996 Grantor Retained Annuity Trust, the Paul Marciano 1996 Trust (collectively, the "Stockholders") and Guess ?, Inc., a Delaware corporation, having its principal office and place of business at 1444 South Alameda Street, Los Angeles, California 90021 (hereinafter referred to as the "Corporation").

WHEREAS, the Stockholders and the Corporation are parties to an Amended and Restated Shareholders' Agreement dated as of August 8, 1996 (the "Shareholders' Agreement"), which governs, among other issues, the management and ownership of the shares of Common Stock owned by the Stockholders;

WHEREAS, the Stockholders and the Corporation desire to amend the Shareholders' Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth herein, the parties hereto as follows:

Section 1. Amendments to Shareholders' Agreement. The Shareholders' Agreement is hereby amended as follows:

(a) Legends on Certificates. The legend set forth in Section 3 of the Shareholders' Agreement is hereby amended to read in its entirety as follows:

> "'The shares represented by this Certificate may not be assigned, sold, transferred, hypothecated, or otherwise disposed of, except in accordance with the Amended and Restated Shareholders' Agreement dated as of August 8, 1996 (as the same may be amended, modified or supplemented from time to time), which is on file at the office of the issuer.'"

(b) Restrictions on Disposition. Section 4(E) of the Shareholders' Agreement is hereby amended to read in its entirety as follows:

"E. Nothing in this Section shall prohibit the transfer of shares, (1) on the death of the settlor of any Stockholder, (a) by his will or other instrument disposing of his property on death (including an instrument creating any Stockholder) or (b) pursuant to the laws of descent and distribution applicable to his estate, (2) by any Stockholder to its settlor (identified in the instrument creating the Stockholder, as in effect on the date hereof or the date on which such Stockholder becomes a party hereto, as the case may be), or to any trust created by such settlor for the principal benefit of (a) such settler or (b) such settlor and one or more of such



settlor's lineal descendants, (3) by any Stockholder to any one or more of the lineal descendants of the settlor (identified in the instrument creating the Stockholder, as in effect on the date hereof or the date on which such Stockholder becomes a party hereto, as the case may be) of such Stockholder, or to any trust for the exclusive benefit of any such lineal descendants; provided, that any such transfer in trust shall not be prohibited solely because the terms of such trust provide a remainder interest to or for the benefit of one or more persons who is not a lineal descendant of the settlor, so long as such interest is payable only in the event that neither such settlor nor any such lineal descendant of the settlor is then living or (4) in connection with a registered offering of shares of Common Stock by any Stockholder pursuant to the Registration Rights Agreement dated as of August 1, 1996 among the Stockholders and the Corporation. Any successor or transferee who receives shares pursuant to an event described in clause (1), (2) or (3) above shall, as a condition of such transfer, enter into an agreement to be bound by the provisions of this Restated Agreement in its entirety, shall be deemed to be a 'Stockholder' hereunder and, for purposes of this subsection, if an individual, shall be deemed to be the 'settlor of a Stockholder.'"

Section 2. References to and Effect on Shareholders' Agreement. (a) Upon the effectiveness of this First Amendment, on and after the date hereof, each reference in the Shareholders' Agreement to "this Restated Agreement", "this Agreement", "hereunder", "hereof", "herein," or words of like import referring to the Shareholders' Agreement shall mean and be a reference to the Shareholders' Agreement as amended hereby.

(b) Except as specifically amended above, the Shareholders' Agreement is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

Section 3. Effectiveness. This First Amendment shall become effective when executed by each of the parties hereto.

Section 4. Invalidity of any Provision. The invalidity or unenforceability of any provision of this First Amendment shall not affect the other provisions hereof, and the First Amendment shall be construed in all respects as if such invalid or unenforceable provisions were omitted, provided that the parties shall negotiate in good faith to replace the invalid provision with a valid provision reflecting the same balance of economic interests.

Section 5. Further Action. A copy of this First Amendment shall be made a part of the minutes of the Corporation.

Section 6. Applicable Law. This First Amendment shall be construed in accordance with the laws of the State of Delaware.

Section 7. Entire Agreement. This First Amendment and the Shareholders' Agreement supersede all agreements as to the subject matter hereof and thereof among the Stockholders and the Corporation, including in each case amendments to the Shareholders' Agreement executed by the Stockholders and the Corporation prior to the date hereof. This First Amendment and the Shareholders' Agreement set forth all of the provisions, covenants, agreements, conditions and undertakings between the parties hereto



with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings express or implied, oral or written as to the subject matter hereof.

[Signature pages follow]



IN WITNESS WHEREOF, the undersigned have caused this First Amendment to be executed as of the date first hereinabove written.

GUESS ?, INC.

By:
Name:
Title:

STOCKHOLDERS

MAURICE MARCIANO TRUST
(1995 RESTATEMENT)

By:
Maurice Marciano
Trustee

PAUL MARCIANO TRUST
DATED FEBRUARY 20, 1986

By:
Paul Marciano
Trustee

ARMAND MARCIANO TRUST
DATED FEBRUARY 20, 1986

By:
Armand Marciano
Trustee



MAURICE MARCIANO 1996 GRANTOR
RETAINED ANNUITY TRUST

By:
Paul Marciano
Co-Trustee

By:
Gary W. Hampar
Co-Trustee

PAUL MARCIANO 1996 GRANTOR
RETAINED ANNUITY TRUST

By:
Maurice Marciano
Co-Trustee

By:
Joseph H. Sugerman
Co-Trustee

ARMAND MARCIANO 1996 GRANTOR
RETAINED ANNUITY TRUST

By:
Maurice Marciano
Co-Trustee

By:
Marc E. Petas
Co-Trustee

April 23, 1997

Guess ? Inc.
Los Angeles, California

Gentleman:

We have been furnished with a copy of Form 10-Q of Guess ?, Inc. for the quarter ended March 30, 1997, and have read the Company's statements contained in Note 4 to the condensed financial statements included therein. As stated in Note 4, the Company changed its method of accounting for product display fixtures and states that the newly adopted accounting principle is preferable in the circumstances because the newly adopted principle more accurately matches the long-term benefit derived from the product display fixtures with the expected future revenue from such fixtures. In accordance with your request, we have reviewed and discussed with Company officials the circumstance and business judgment and planning upon which the decision to make this change in the method of accounting was based.

We have not audited any financial statements of Guess ?, Inc. as of any date or for any period subsequent to December 31, 1996, nor have we audited the information set forth in the aforementioned Note 4 to the condensed financial statements; accordingly, we do not express an opinion concerning the factual information contained therein.

With regard to the aforementioned accounting charge, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of Guess ?, Inc.'s compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

KPMG PEAT MARWICK LLP

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<F1>Includes net royalties of $13.1 million.
<F2>Includes $4.0 million of income due to a change in accounting method. 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 will be capitalized and amortized over five years over the straight-line method. In previous years, these costs had been expensed as incurred. The Company believes that this new method will more closely match the long-term benefit that the product display fixtures provide with the expected future revenue from such fixtures. The new method has been applied retroactively to product display fixture acquisitions of prior years. The effect of the change on the quarter ended March 30, 1997 was to increase earnings by approximately $.2 million (or $0.00 per share), excluding the cumulative effect of the change in accounting principle. The cumulative effect of the change in accounting principle of $4.0 million or $0.09 per share (after reduction for income tax expense of $2.7 million) is included in earnings for the quarter ended March 30, 1997.
<F3>Earnings per share include the effect of a one-time change in accounting principle, which was equivalent to $0.09 per share. Earnings per share,

excluding the effect of the accounting change, was $0.33 per share.
</FN>