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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of the close of business on July 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was \$2,578,690,450 based upon the closing price of \$38.12 on the New York Stock Exchange composite tape on such date. For this computation, the registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the registrant. Such exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the registrant.

As of the close of business on March 19, 2012, the registrant had 89,707,261 shares of common stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the registrant's 2012 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

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**IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS**

Throughout this Annual Report on Form 10-K, including documents incorporated by reference herein, we make "forward-looking" statements, which are not historical facts, but are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be in our other reports filed under the Securities Exchange Act of 1934, as amended, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects and proposed new products, services, developments or business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "pending," "plan," "predict," "project," "will," "continue," and other similar terms and phrases, including references to assumptions.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. These forward-looking statements may include, among other things, statements relating to our expected results of operations, the accuracy of data relating to, and anticipated levels of, future inventory and gross margins, anticipated cash requirements and sources, cost containment efforts, estimated charges, plans regarding store openings and closings, plans regarding business growth and international expansion, e-commerce, business seasonality, results of litigation, industry trends, consumer demands and preferences, competition, currency fluctuations, estimated tax rates, results of tax audits and other regulatory proceedings, raw material and other inflationary cost pressures, consumer confidence and general economic conditions. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. Important factors that could cause or contribute to such difference include those discussed under "ITEM 1A. Risk Factors" contained herein.

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**PART I**

**ITEM 1. Business.**

**General**

Unless the context indicates otherwise, the terms "we," "us," "our" or the "Company" in this Form 10-K refer to Guess?, Inc. ("GUESS?") and its subsidiaries on a consolidated basis.

We design, market, distribute and license one of the world's leading lifestyle collections of contemporary apparel and accessories for men, women and children that reflect the American lifestyle and European fashion sensibilities. Our apparel is marketed under numerous trademarks including GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, MARCIANO, Question Mark and Triangle Design, a stylized G and a stylized M, GUESS Kids, Baby GUESS, YES, G by GUESS, GUESS by MARCIANO and Gc. The lines include full collections of clothing, including jeans, pants, skirts, dresses, shorts, blouses, shirts, jackets, knitwear and intimate apparel. We also selectively grant licenses to manufacture and distribute a broad range of products that complement our apparel lines, including eyewear, watches, handbags, footwear, kids' and infants' apparel, leather apparel, swimwear, fragrance, jewelry and other fashion accessories.

Our products are sold through retail, wholesale, e-commerce and licensing distribution channels. Our core customer is a style-conscious consumer primarily between the ages of 18 and 32. These consumers are part of a highly desirable demographic group that we believe, historically, has had significant disposable income. We also appeal to customers outside this group through specialty product lines that include GUESS by MARCIANO, a more sophisticated fashion line targeted to women and men, and GUESS Kids, targeted to boys and girls ages 6 to 12.

We were founded in 1981 and currently operate as a Delaware corporation.

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. All references herein to "fiscal 2012", "fiscal 2011" and "fiscal 2010" represent the results of the 52-week fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively. References to "fiscal 2013" represent the 53-week fiscal year ending February 2, 2013.

**Business Strengths**

We believe we have several business strengths that set us apart from our competition and enable us to continue to grow our business and enhance our profitability. These business strengths include:

**Brand Equity.** The GUESS? brand is an integral part of our business, a significant strategic asset and a primary source of sustainable competitive advantage. The GUESS? brand communicates a distinctive image that is fun, fashionable and sexy. We have developed and maintained this image worldwide through our consistent emphasis on innovative and distinctive product designs and through our award-winning advertising, under the creative leadership and vision of Paul Marciano, our Chief Executive Officer. Brand loyalty, name awareness, perceived quality, strong brand images, public relations, publicity, promotional events and trademarks all contribute to the reputation and integrity of the GUESS? brand.

**Global Diversification.** The global success of the GUESS? brand has reduced our reliance on any particular geographic region. This geographic diversification allows the Company to continue to grow, even during regional economic slowdowns. The percentage of our revenues generated from outside of the U.S. and Canada has grown from one-fifth of our total revenues for the year ended December 31, 2005 to approximately half of our revenues for the year ended January 28, 2012, with stores located in 85 countries outside the U.S. and Canada. In fiscal 2012 alone, we, along with our distributors and licensees, opened 224 stores in all concepts combined outside of the U.S. and Canada, comprised of 120 stores in Europe and the Middle East, 89 stores in Asia and 15 stores in the combined area of Central and South America, bringing the total number of such stores to 1,055 at year end. This compares with 504 directly operated stores in the U.S. and Canada as of January 28, 2012.

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We believe there are significant opportunities to continue our international growth, particularly in Europe and Asia, where the GUESS? brand is well recognized but still under-penetrated in many areas. In Europe, over the long-term, we will continue to focus on developing new markets in Northern and Eastern Europe and expand on our success in Western and Southern Europe. We have flagship stores in key cities such as Paris, Barcelona, Dusseldorf, London and Milan. In Asia, our business has continued to grow, fueled by the strength of our brand in South Korea and our direct operations in China as we increase our penetration in the region and continue building our infrastructure. We also plan to further develop markets in emerging countries like China, Brazil, Russia and India and expand our G by GUESS concept both domestically and internationally.

**Multiple Distribution Channels.** We use retail, wholesale, e-commerce and licensing distribution channels to sell our products. This allows us to maintain a critical balance as our operating results do not depend solely on the performance of any single channel. The use of multiple channels also allows us to adapt quickly to changes in the distribution environment in any particular region.

**Retail Distribution.** Our retail network, made up of both directly operated and licensee operated stores, creates an upscale and inviting shopping environment that helps to enhance our brand image.

**Directly operated stores and concessions.** At January 28, 2012, we directly operated a total of 504 stores in the U.S. and Canada and 251 stores outside of the U.S. and Canada, plus an additional 230 smaller-sized concessions in Asia and Europe. Distribution through our directly operated retail stores and concessions allows us to influence the merchandising and presentation of our products, build brand equity and test new product design concepts.

**Licensee stores and concessions.** At January 28, 2012, our international licensees and distributors operated 804 stores located outside the U.S. and Canada, plus 119 smaller-sized licensee operated concessions located in Asia. This licensed retail store and concession approach allows us to expand our international operations with a lower level of capital investment while still closely monitoring store designs and merchandise programs in order to protect the reputation of the GUESS? brand.

**Wholesale Distribution.** We sell through both domestic and international wholesale distribution channels. U.S. wholesale customers consist primarily of better department stores, including Macy's, Bloomingdales and The Bay, and select specialty retailers and upscale boutiques, which have the image and merchandising expertise that we require for the effective presentation of our products. In Europe, our products are sold in stores ranging from large, well known department stores like Galeries Lafayette, Printemps and El Corte Inglés to small upscale multi-brand boutiques. Because our European wholesale business is more fragmented, we generally rely on a large number of smaller regional distributors and agents to distribute our products. Through our foreign subsidiaries and our network of international distributors, our products are also available in major cities throughout Canada, Africa, Asia, Australia, the Middle East and Central and South America.

**e-Commerce.** At January 28, 2012, we operated retail websites in the U.S., Canada, Europe and South Korea. Our websites act as virtual storefronts that both sell our products and promote our brands. Designed as customer shopping centers, these sites showcase our products in an easy-to-navigate format, allowing customers to see and purchase our collections of casual apparel and accessories. Not only have these virtual stores become an additional retail distribution channel, but they have also improved customer relations and are fun and entertaining alternative-shopping environments. During fiscal 2011, we launched our new Global World of Guess branding site and also launched a mobile shopping experience which enables the customer to browse and shop from their mobile device. We have e-commerce available to 26 countries, and in 6 languages around the world.

**Licensing Operations.** The desirability of the GUESS? brand name among consumers has allowed us to selectively expand our product offerings and global markets through trademark licensing arrangements, with minimal capital investment or on-going operating expenses. Our international licenses and distribution agreements allow for the sale of GUESS? branded products in better

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department stores and upscale specialty retail stores. We currently have 19 domestic and international licenses that include eyewear, watches, handbags, footwear, kids' and infants' apparel, leather outerwear, fragrance, jewelry and other fashion accessories; and include licenses for the manufacture of GUESS? branded products in markets which include Africa, Asia, Australia, Europe, the Middle East, Central America, North America and South America.

**Multiple Store Concepts.** We and our network of licensee partners sell our products around the world primarily through six different store concepts, namely our flagship GUESS? full-price retail stores, our GUESS? factory outlet stores, our GUESS by MARCIANO stores, our G by GUESS stores, our GUESS? Accessories stores and our GUESS? Kids stores. We also have a small number of footwear, Gc watch and underwear concept stores. This allows us to target the various demographics in each region through dedicated store concepts that market each brand or concept specifically to the desired customer population. Having multiple store concepts also allows us to target our newer brands and concepts in different markets than our flagship GUESS? store concept. For instance, we can target mall locations for G by GUESS stores where we would not ordinarily operate any of our full-price GUESS? stores.

### **Business Segments**

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Europe, North American Retail, Asia, North American Wholesale and Licensing. Management evaluates segment performance based primarily on revenues and earnings from operations. The Company believes this segment reporting reflects how its five business segments are managed and each segment's performance is evaluated. The Europe segment includes the Company's wholesale and retail operations in Europe and the Middle East. The North American Retail segment includes the Company's retail operations in North America. The Asia segment includes the Company's wholesale and retail operations in Asia. The North American Wholesale segment includes the Company's wholesale operations in North America and export sales to Central and South America. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: information technology, human resources, global advertising and marketing, accounting and finance, executive compensation, facilities and legal.

The following table presents our net revenue and earnings from operations by segment for the last three fiscal years:

	Year Ended Jan. 28, 2012		Year Ended Jan. 29, 2011		Year Ended Jan. 30, 2010	
	(dollars in thousands)					
<b>Net revenue:</b>						
Europe	\$ 1,010,896	37.6%	\$ 920,327	37.0%	\$ 747,242	35.1%
North American Retail	1,117,643	41.6	1,069,893	43.0	983,903	46.2
Asia	250,727	9.3	200,891	8.1	147,287	6.9
North American Wholesale	187,362	7.0	180,961	7.3	152,682	7.2
<b>Net revenue from product sales</b>						
	2,566,628	95.5	2,372,072	95.4	2,031,114	95.4
Licensing	121,420	4.5	115,222	4.6	97,352	4.6
<b>Total net revenue</b>	<b>2,688,048</b>	<b>100.0%</b>	<b>\$ 2,487,294</b>	<b>100.0%</b>	<b>\$ 2,128,466</b>	<b>100.0%</b>
<b>Earnings (loss) from operations:</b>						
Europe	\$ 167,014	42.0%	\$ 193,309	47.8%	\$ 173,235	48.3%
North American Retail	133,184	33.5	122,583	30.3	132,287	36.9
Asia	28,463	7.2	28,631	7.1	15,825	4.4
North American Wholesale	47,162	11.9	46,153	11.4	35,166	9.8
Licensing	108,638	27.3	104,165	25.7	86,640	24.1
Corporate overhead	(87,226)	(21.9)	(90,208)	(22.3)	(84,337)	(23.5)
<b>Total earnings from operations</b>	<b>\$ 397,235</b>	<b>100.0%</b>	<b>\$ 404,633</b>	<b>100.0%</b>	<b>\$ 358,816</b>	<b>100.0%</b>

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Additional segment information, together with certain geographical information, is included in Note 15 to the Consolidated Financial Statements contained herein.



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**Europe Segment**

In our Europe segment, we sell our products in 63 countries throughout Europe and the Middle East through wholesale, retail and e-commerce channels. In fiscal 2012, our Europe segment accounted for approximately 37.6% of our revenues and 42.0% of our earnings from operations.

***European Wholesale Distribution.*** Our European wholesale business generally relies on a large number of smaller regional distributors and agents to distribute our products primarily to smaller independent multi-brand boutiques. Our products are also sold directly to large, well known department stores like Galeries Lafayette, Printemps and El Corte Inglés. Overall, we have thousands of customers with no single customer representing more than 1% of our consolidated net revenue. The type of customer varies from region to region depending on both the prominence of the GUESS? brand in each region and the dominance of a particular type of retail channel in each region. In countries where the brand is well known, we operate through showrooms where agents and distributors can view our line and place orders. We currently have showrooms in Barcelona, Dusseldorf, Munich, London, Paris, Florence and Lugano. In countries where the brand is less prominent, we may use one large distributor for the entire region. Revenues from sales to our licensee operated stores (see European Retail Network below) are recognized as wholesale sales within our European wholesale operations. We sell both our apparel and certain accessories products under our GUESS? and GUESS by MARCIANO brand concepts through our wholesale channel, operating primarily through two seasons, Spring/Summer and Fall/Winter. Generally our Spring/Summer sales campaign is from May to September with the related shipments occurring primarily from November to April. The Fall/Winter sales campaign is from January to April with the related shipments occurring primarily from May to October. The Company's goal is to take advantage of early-season demand and potential reorders by offering a pre-collection assortment which ships at the beginning of each season. Customers retain the ability to request early shipment of backlog orders or delay shipment of orders depending on their needs.

***European Retail Network.*** Our European retail network is comprised of a mix of directly operated and licensee operated GUESS? and GUESS by MARCIANO retail and outlet stores, GUESS? Accessories stores, GUESS? Footwear stores and GUESS? Kids stores. At January 28, 2012, we had 179 directly operated stores and 382 licensee stores, excluding 17 smaller-sized concessions in Europe. During fiscal 2012, we opened 45 new directly operated stores, 75 licensee stores and 5 concessions. Our store locations vary country by country depending on the type of locations available. Our typical GUESS? Accessories stores average approximately 800 square feet, GUESS by MARCIANO stores average approximately 1,300 square feet and full-price GUESS? stores generally average 2,300 square feet. Our European stores generally require initial investments in the form of key money to secure prime store locations. These amounts are paid to landlords or existing lessees in certain circumstances.

**North American Retail Segment**

In our North American Retail segment, we sell our products through a network of directly operated retail and factory outlet stores in North America and through our on-line stores. In fiscal 2012, our North American Retail segment accounted for approximately 41.6% of our revenue and 33.5% of our earnings from operations. Our North American Retail stores build brand awareness and contribute to market penetration and the growth of our brand. We attribute our historical growth in this segment to the strength of our brand, the quality of our product assortment, the introduction of new product categories, the development of a motivated team of sales professionals to service our customers and provide a favorable shopping experience, quality real estate in high-traffic shopping centers and a diversified mix of store concepts.

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Below is a summary of store statistics, followed by details regarding each of our store concepts.

	Jan. 28, 2012	Jan. 29, 2011	Jan. 30, 2010
<b>GUESS? Retail Stores:</b>			
U.S.	141	141	142
Canada	56	51	49
	197	192	191
<b>GUESS? Factory Outlet Stores:</b>			
U.S.	109	99	89
Canada	19	19	18
	128	118	107
<b>G by GUESS Stores:</b>			
U.S.	63	54	44
	63	54	44
<b>GUESS? Accessories Stores:</b>			
U.S.	42	43	31
Canada	19	17	7
	61	60	38
<b>GUESS by MARCIANO Stores:</b>			
U.S.	34	37	35
Canada	21	20	17
	55	57	52
<b>Total</b>	<b>504</b>	<b>481</b>	<b>432</b>
<b>Square footage at fiscal year end</b>	<b>2,338,000</b>	<b>2,166,000</b>	<b>1,992,000</b>

In addition to the stores listed above, at January 28, 2012, we also directly operated 25 GUESS? branded stores in Mexico through a majority-owned joint venture.

***GUESS? Retail Stores.*** Our full-price U.S. and Canada GUESS? retail stores carry a full assortment of men's and women's GUESS? merchandise, including most of our licensed product categories. At January 28, 2012, these stores occupied approximately 1,025,000 square feet and ranged in size from approximately 2,500 to 13,500 square feet, with most stores between 4,000 and 6,000 square feet. In fiscal 2012, we opened nine new retail stores and we closed four stores.

***GUESS? Factory Outlet Stores.*** Our U.S. and Canada factory outlet stores are located primarily in outlet malls generally operating outside the shopping radius of our wholesale customers and our full-price retail stores. These stores sell selected styles of men's and women's GUESS? apparel and licensed products at lower price points. At January 28, 2012, our U.S. and Canada factory outlet stores occupied approximately 717,000 square feet and ranged in size from approximately 2,000 to 11,000 square feet, with most stores between 4,500 and 6,500 square feet. In fiscal 2012, we opened ten new factory stores.

***G by GUESS Stores.*** Our G by GUESS store concept, launched in fiscal 2008, targets a market demographic that shops price points below our GUESS? retail stores and carries apparel for both men and women and a full line of accessories and footwear that is aspirational, timeless and fun. G by GUESS stores have a fresh feel, directed toward a full customer experience, with fashion-forward merchandise. At January 28, 2012, our G by GUESS stores occupied approximately 317,000 square feet and ranged in size from approximately 4,000 to 10,000 square feet, with most stores between 4,000 and 5,500 square feet. In fiscal 2012, we opened 12 new G by GUESS stores and we closed three stores.

***GUESS? Accessories Stores.*** Our GUESS? Accessories store concept sells GUESS? and GUESS by MARCIANO labeled accessory products. This concept enables us to utilize a smaller store floor



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space, dedicated to our full range of accessory products, that can co-exist in the same malls as our other concepts. At January 28, 2012, our GUESS? Accessories concept stores occupied approximately 122,000 square feet and ranged in size from approximately 1,000 to 4,000 square feet, with most stores between 1,500 and 2,500 square feet. In fiscal 2012, we opened four new GUESS? Accessories stores and we closed three stores.

***GUESS by MARCIANO Stores.*** Our GUESS by MARCIANO stores in the U.S. and Canada offer a fashion-forward women's collection designed for the stylish, trend-setting woman. This newer concept, with higher price points than our traditional GUESS stores, extends the appeal of our brand to a slightly older, more sophisticated customer. This concept now leverages the name recognition of the GUESS? brand and our reputation for sexy, contemporary styling. At January 28, 2012, our GUESS by MARCIANO stores occupied approximately 156,000 square feet and ranged in size from approximately 2,000 to 6,500 square feet, with most stores between 2,000 and 3,000 square feet. In fiscal 2012, we opened two new GUESS by MARCIANO stores and we closed four stores.

***e-Commerce.*** Our North American Retail segment also includes our U.S. and Canada retail websites, including [www.guess.com](http://www.guess.com), [www.gbyguess.com](http://www.gbyguess.com), [www.guessbymarciano.com](http://www.guessbymarciano.com), [www.guesskids.com](http://www.guesskids.com), [www.guess.ca](http://www.guess.ca) and [www.guessbymarciano.ca](http://www.guessbymarciano.ca). These websites operate as virtual storefronts that both sell our products and promote our brands. They also provide fashion information and a mechanism for customer feedback while promoting customer loyalty and enhancing our brand identity through interactive content.

**Asia Segment**

In our Asia segment, we sell our products through wholesale, retail and e-commerce channels throughout Asia. In fiscal 2012, our Asia segment accounted for approximately 9.3% of our revenue and 7.2% of our earnings from operations. Our growth in Asia has been fueled by our businesses in South Korea and Greater China, where we began operating directly in 2007. Our Asia retail business includes both licensee and Company operated stores, including GUESS?, G by GUESS, GUESS by MARCIANO, Gc, GUESS? Accessories and GUESS? Underwear stores. For the year ended January 28, 2012, we and our partners opened 89 new stores in Asia, ending the year with 423 stores, 47 of which we operated directly and 376 of which were operated by licensees or distributors. This store count does not include 332 smaller-sized jean and accessory concessions. Concessions are widely used in Asia and generally represent directly managed shop-in-shops within a department store setting. Our Asia wholesale customer base is comprised primarily of a small number of selected distributors with which we have contractual distribution arrangements. We and our partners opened flagship stores in key cities such as Seoul, Shanghai, Hong Kong, Macau, Taipei and Beijing and have partnered with licensees to develop our business in the second tier cities in this region.

**North American Wholesale Segment**

In our North American Wholesale segment, we sell our products through wholesale channels in North America and to third party distributors based in Central and South America. In fiscal 2012, our North American Wholesale segment accounted for approximately 7.0% of our revenue and 11.9% of our earnings from operations. Our North American Wholesale customers consist primarily of better department stores, select specialty retailers and upscale boutiques. As of January 28, 2012, our products were sold to consumers through 1,005 major doors in the U.S. and Canada compared to 1,081 major doors at January 29, 2011. These locations include 345 shop-in-shops, an exclusive selling area within a department store that offers a wide array of our products and incorporates GUESS? signage and fixture designs. These shop-in-shops, managed by the department stores, allow us to reinforce the GUESS? brand image with our customers. Many department stores have more than one shop-in-shop, with each one featuring women's or men's apparel.

Our North American Wholesale merchandising strategy is to focus on trend-right products supported by key fashion basics. We have sales representatives in New York, Los Angeles, Toronto, Montreal and Vancouver who coordinate with customers to determine the inventory level and product mix that should be carried in each store. Additionally, we use merchandise coordinators who work with the stores to ensure that our products are displayed appropriately. During fiscal 2012, Macy's, Inc. was our largest domestic wholesale customer, accounting for approximately 2.7% of our consolidated net revenue.

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**Licensing Segment**

Our Licensing segment includes the worldwide licensing operations of the Company. In fiscal 2012, our licensing segment royalties accounted for approximately 4.5% of our revenue and 27.3% of our earnings from operations.

The desirability of the GUESS? brand name among consumers has allowed us to selectively expand our product offerings and global markets through trademark licensing arrangements, with minimal capital investment or on-going operating expenses. We currently have 19 domestic and international licenses that include eyewear, watches, handbags, footwear, kids' and infants' apparel, leather outerwear, fragrance, jewelry and other fashion accessories; and include licenses for the manufacture of GUESS? branded products in markets which include Africa, Asia, Australia, Europe, the Middle East, Central America, North America and South America.

Our trademark license agreements customarily provide for a three- to five-year initial term with a possible option to renew prior to expiration for an additional multi-year period. The typical license agreement requires that the licensee pay us the greater of a royalty based on a percentage of the licensee's net sales of licensed products or a guaranteed annual minimum royalty that typically increases over the term of the license agreement. In addition, several of our key license agreements provide for specified, fixed cash rights payments over and above our normal, ongoing royalty payments. Generally, licensees are required to spend a percentage of the net sales of licensed products for advertising and promotion of the licensed products and in many cases we place the ads on behalf of the licensee and are reimbursed. In addition, to protect and increase the value of our trademarks, our license agreements include strict quality control and manufacturing standards. Our licensing personnel in the U.S., Europe and Asia meet regularly with licensees to ensure consistency with our overall merchandising and design strategies, to monitor quality control and to protect the GUESS? trademarks and brand. As part of this process, our licensing department reviews in advance all GUESS? licensed products, advertising, promotional materials and packaging materials.

We constantly examine opportunities to broaden our licensee portfolio by developing new license arrangements that can expand our brand penetration and complement the GUESS? image. We also strategically reposition our existing licensing portfolio by monitoring and evaluating the performance of our licensees worldwide. Through this process, we decided to begin direct operations of our previously licensed international jewelry business, effective January 1, 2010. In prior years, we successfully renegotiated license agreements with our existing licensees for watches, handbags and eyewear on terms that were significantly improved over our prior arrangements. We believe these were important steps in expanding our presence both domestically and globally.

**Acquisitions and Alliances**

We evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives. In 2008, the Company finalized the acquisition of our former European licensee of children's apparel, BARN S.r.l. ("BARN"). In 2006, we acquired 75% of the outstanding shares of Focus Europe, S.r.l. ("Focus"), as well as the leases and assets of four retail stores in Italy. Focus, based in Italy, had served as the licensee, manufacturer, distributor and retailer of GUESS by MARCIANO contemporary apparel for men and women in Europe for the 10 years before the acquisition. In 2005, we completed the acquisition of the remaining 90% of Maco Apparel, S.p.A. ("Maco"), the Italian licensee of GUESS jeanswear for men and women in Europe, that the Company did not already own from Fingen S.p.A. and Fingen Apparel N.V., as well as the assets and leases of ten retail stores in Europe. The stores were located in Rome, Milan, Paris, Amsterdam, London, and certain other European cities.

With the BARN, Focus and Maco acquisitions, we now directly manage our adult and children's apparel businesses in Europe. We believe the combination of the manufacture and distribution of all our

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European apparel lines under the GUESS? umbrella allows us to take advantage of economies of scale and provides an opportunity to further expand our wholesale and retail operations in this region.

In addition to the above acquisitions, in 2006, we entered into a majority-owned joint venture with GRUPO AXO, S.A.P.I. de. C.V. to oversee the revitalization and expansion of the GUESS? brand in Mexico. The joint venture currently distributes primarily through three major department store chains, Liverpool, El Palacio de Hierro and Gran Chapur, with 257 shop-in-shop locations and 25 free-standing GUESS? stores.

In fiscal 2010, we also entered into majority-owned joint ventures in France and the Canary Islands with licensee partners to open new free standing retail stores in these regions. We currently operate 11 stores in France and 7 stores in the Canary Islands through these joint ventures.

**Design**

GUESS?, G by GUESS and GUESS by MARCIANO apparel products are designed by their own separate in-house design teams located in Los Angeles, California and in Florence, Milan and Bologna, Italy. The U.S. and Italy teams work closely to share ideas for products that can sell in both markets and in other international markets. Our design teams seek to identify global fashion trends and interpret them for the style-conscious consumer while retaining the distinctive GUESS? image. They travel throughout the world in order to monitor fashion trends and discover new fabrics. These fabrics, together with the trends observed by our designers, serve as the primary source of inspiration for our lines and collections. We also maintain a fashion library consisting of antique and contemporary garments as another source of creative concepts. In addition, our design teams work closely with members of our sales, merchandising and retail operations teams to further refine our products to meet the particular needs of our markets.

**Advertising and Marketing**

Our advertising, public relations and marketing strategy is designed to promote a consistent high impact image which endures regardless of changing consumer trends. While our advertising promotes products, the primary emphasis is on brand image.

Since our inception, Paul Marciano has had principal responsibility for the GUESS? brand image and creative vision. Under the direction of Mr. Marciano, our Los Angeles-based advertising department is responsible for overseeing all worldwide advertising. Throughout our history, we have maintained a high degree of consistency in our advertisements by using similar themes and images, including our signature black and white print advertisements and iconic logos. We use a variety of media with an emphasis on print and outdoor advertising, and online with our print advertising focused on national and international contemporary fashion/beauty, lifestyle and celebrity magazines.

We also require our licensees and distributors to invest a percentage of their net sales of licensed products and net purchases of GUESS? products in Company-approved advertising, promotion and marketing. By retaining control over our advertising programs, we are able to maintain the integrity of our brands while realizing substantial cost savings compared to outside agencies.

We will continue to regularly assess and implement marketing initiatives that we believe will build brand equity and grow our business by investing in marketing programs to build awareness and drive customer traffic to our stores and websites. We plan to further strengthen communications with customers through our websites, loyalty programs and other social media outlets, which enable us to provide timely information in an entertaining fashion to consumers about our history, products, special events, promotions and store locations, and allow us to receive and respond directly to customer feedback.

As part of these initiatives, we currently have loyalty programs in North America with roughly five million members covering three of our brands. These programs reward our members who earn points for purchases that can be redeemed on future purchases. We also use these programs to promote new

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products to our customers which in turn increases traffic in the stores and online. We believe that the loyalty programs generate substantial repeat business that might otherwise go to competing brands. We continue to enhance our loyalty program offerings and strategically market to this large and growing customer base.

**Global Sourcing and Supply Chain**

We source products through numerous suppliers, many of whom have established long-term relationships with us. We seek to achieve the most efficient means for timely delivery of our products, combining global and local sourcing. Almost all of our products are acquired as package purchases where we select the design and fabric and the vendor delivers the finished product.

In fiscal 2012, we continued to execute our strategy of deploying a global sourcing and product development plan to support worldwide growth in our retail, wholesale and e-commerce channels. Key activities in global sourcing included our continued efforts to streamline our vendor base and achieve geographic balance. We believe that our balanced global supply chain, with deep vendor partnerships, provides us with a competitive advantage where we have the flexibility to respond to increased demand throughout the world. Our sourcing strategy provides us with the opportunity to leverage costs and improve speed to market.

The implementation of our master calendar has been a key development for our global operations, enabling us to continue the integration of global supply chain. Additionally, offering an assortment of global core products continues to be an area of focus. As a global brand, we also maintain skilled sourcing teams in North America, Europe and Asia.

We are committed to sourcing our products in a responsible manner, respecting both the countries in which we conduct business and the business partners that produce our products. As a part of this commitment, we have implemented a global social compliance program that applies to our business partners. Although local customs vary in different regions of the world, we believe that the issues of business ethics, human rights, health, safety and environmental stewardship transcend geographical boundaries.

To support and ensure our social compliance, we communicate our expectations to our partners throughout our global supply chain and conduct compliance audits. If deficiencies are discovered, personnel in each region are empowered to work with the respective business partner to take a corrective course of action. Additionally, the goal of this process is to educate individuals, build strategic relationships and improve business practices over the long-term.

**Quality Control**

Our quality control program is designed to ensure that products meet our high quality standards. We test the quality of our raw materials prior to production and inspect prototypes of each product before production runs commence. We also perform random in-line quality control checks during and after production before the garments leave the contractor. Final random inspections occur when the garments are received in our distribution centers. We believe that our policy of inspecting our products is important to maintain the quality, consistency and reputation of our products.

**Logistics**

We utilize distribution centers at strategically located sites. The Company's primary U.S. distribution center is based in Louisville, Kentucky. At this 506,000 square-foot facility, we use fully integrated and automated distribution systems. The bar code scanning of merchandise, picking tickets and distribution cartons, together with radio frequency communications, provide timely, controlled, accurate and instantaneous updates to the distribution information systems. Distribution of our products in Canada is

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handled primarily from a Company operated distribution center in Montreal, Quebec. Distribution of our products in Europe is now handled primarily utilizing a third party distribution center in Piacenza, Italy. Additionally, we utilize several third party operated distribution warehouses in Hong Kong, South Korea and China that service the Asian region.

**Competition**

The apparel industry is highly competitive and fragmented and is subject to rapidly changing consumer demands and preferences. We believe that our success depends in large part upon our ability to anticipate, gauge and respond to changing consumer demands and fashion trends in a timely manner and upon the continued appeal to consumers of the GUESS? brand. We compete with numerous apparel manufacturers and distributors, both domestically and internationally, as well as several well-known designers. Our retail and factory outlet stores face competition from other retailers. Our licensed apparel and accessories also compete with a substantial number of well-known brands. Although the level and nature of competition differ among our product categories and geographic regions, we believe that we differentiate ourselves from our competitors by offering a global lifestyle brand on the basis of our global brand image and wide product assortment comprising both apparel and accessories. We also believe that our geographic diversification, multiple distribution channels and multiple store concepts help to set us apart from our competition.

**Information Systems**

We believe that high levels of automation and technology are essential to maintain our competitive position and support our strategic objectives and we continue to invest in and update computer hardware, system applications and networks. Our computer information systems consist of a full range of financial, distribution, merchandising, point-of-sales, customer relationship management, supply chain and other systems. During fiscal 2012, we continued to enhance our financial and operational systems globally to align with our global IT standards, accommodate future growth and provide operating efficiencies. Key initiatives included the development of a number of mobile based initiatives, the relocation of our U.S. data center to an offsite location, the implementation of an assortment planning system as a tool to tailor assortments to store clusters and optimize buy quantities, the implementation of a new point of sale ("POS") system in our European stores to provide enhanced customer service and efficiencies, upgraded enterprise resource planning ("ERP") systems in Europe and Korea, as well as new functionality in the product lifecycle management ("PLM") system to increase the efficiency of the supply chain.

**Trademarks**

We own numerous trademarks, including GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, MARCIANO, Question Mark and Triangle Design, a stylized G and a stylized M, GUESS Kids, Baby GUESS, YES, G by GUESS, GUESS by MARCIANO and Gc. As of January 28, 2012, we had approximately 3,400 U.S. and internationally registered trademarks or trademark applications pending with the trademark offices in approximately 184 countries around the world, including the U.S. From time to time, we adopt new trademarks in connection with the marketing of our product lines. We consider our trademarks to have significant value in the marketing of our products and act aggressively to register and protect our trademarks worldwide.

Like many well-known brands, our trademarks are subject to infringement. We have staff devoted to the monitoring and aggressive protection of our trademarks worldwide.

**Wholesale Backlog**

The backlog of wholesale orders at any given time is affected by various factors, including seasonality, cancellations, the scheduling of market weeks, the timing of the receipt of orders and the timing of the



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shipment of orders. Accordingly, a comparison of backlogs of wholesale orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

**U.S. and Canada Backlog.** We generally receive orders for fashion apparel three to six months prior to the time the products are delivered to our customers' stores. Regarding our U.S. and Canadian wholesale backlog, the scheduling of market weeks can affect the amount of orders booked in the backlog compared to the same date in the prior year. We estimate that if we were to normalize the orders for this year's backlog to make the comparison consistent with the prior year, then the current backlog would have decreased by 3.7% compared to the prior year. Not taking into account the impact of this change, our U.S. and Canadian wholesale backlog as of March 18, 2012, consisting primarily of orders for fashion apparel, was \$67.5 million, compared to \$68.3 million in constant dollars at March 20, 2011, a decrease of 1.2%.

**Europe Backlog.** As of March 20, 2012, the European wholesale backlog was €264.3 million, compared to €272.7 million at March 22, 2011, a decrease of 3.1%. The backlog as of March 20, 2012 is comprised of sales orders for the Spring/Summer and Fall/Winter 2012 seasons.

**Employees**

As of February 2012, we had approximately 14,300 associates, both full and part-time, consisting of approximately 8,600 in the U.S. and 5,700 in foreign countries. The number of our employees fluctuates during the year based on seasonal needs. In some international markets, local laws provide for employee representation by organizations similar to unions and some of our international employees are covered by trade-sponsored or governmental bargaining arrangements. We consider our relationship with our associates to be good.

**Environmental Matters**

We and our licensing partners and suppliers are subject to federal, state, local and foreign laws, regulations and ordinances that govern activities or operations that may have adverse environmental effects (such as emissions to air, discharges to water, and the generation, handling, storage and disposal of solid and hazardous wastes). We are also subject to laws, regulations and ordinances that impose liability for the costs of clean up or other remediation of contaminated property, including damages from spills, disposals or other releases of hazardous substances or wastes, in certain circumstances without regard to fault. Certain of our operations and those of our licensing partners and suppliers routinely involve the handling of chemicals and wastes, some of which are or may become regulated as hazardous substances. We have not incurred, and do not expect to incur, any significant expenditures or liabilities for environmental matters. As a result, we believe that our environmental obligations will not have a material adverse effect on our consolidated financial condition or results of operations.

**Website Access to Our Periodic SEC Reports**

Our investor website can be found at <http://investors.guess.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished to the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Exchange Act, are available at our investor website, free of charge, as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. In addition, the charters of our Board of Directors' Audit, Compensation and Nominating and Governance Committees, as well as the Board of Directors' Governance Guidelines and our Code of Ethics are posted on our investor website. We may from time to time provide important disclosures to our investors, including amendments or waivers to our Code of Ethics, by posting them on our investor website, as permitted by SEC rules. Printed copies of these documents may also be obtained by writing or telephoning us at: Guess?, Inc., 1444 South Alameda Street, Los Angeles, California 90021, Attention: Investor Relations, (213) 765-5578.

We have included our Internet website addresses throughout this filing as textual references only. The information contained within these Internet websites is not incorporated into this Annual Report on Form 10-K.

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**ITEM 1A. Risk Factors.**

*You should carefully consider the following factors and other information in this Annual Report on Form 10-K. Additional risks which we do not presently consider material, or of which we are not currently aware, may also have an adverse impact on us. Please also see "Important Factors Regarding Forward-Looking Statements" on page (ii).*

***Demand for our merchandise may decrease and the appeal of our brand image may diminish if we fail to identify and rapidly respond to consumers' fashion tastes.***

The apparel industry is subject to rapidly evolving fashion trends and shifting consumer demands. Accordingly, our brand image and our profitability are heavily dependent upon both the priority our target customers place on fashion and our ability to anticipate, identify and capitalize upon emerging fashion trends. Current fashion tastes place significant emphasis on a fashionable look. In the past, this emphasis has increased and decreased through fashion cycles. If we fail to anticipate, identify or react appropriately, or in a timely manner, to fashion trends, we could experience reduced consumer acceptance of our products and a diminished brand image. These factors could result in higher wholesale markdowns, lower average unit retail prices and decreased sales volumes for our products and could have a material adverse effect on our results of operations and financial condition.

***The apparel industry is highly competitive, and we may face difficulties competing successfully in the future.***

We operate in a highly competitive and fragmented industry with low barriers to entry. We compete with many apparel manufacturers and distributors, both domestically and internationally, as well as many well-known designers, some of whom have substantially greater resources than we do and some of whose products are priced lower than ours. Our retail and factory outlet stores compete with many other retailers, including department stores, some of whom are our major wholesale customers. Our licensed apparel and accessories compete with many well-known brands. Within each of our geographic markets, we also face significant competition from global and regional branded apparel companies, as well as retailers that market apparel under their own labels. These and other competitors pose significant challenges to our market share in our existing major domestic and foreign markets and to our ability to successfully develop new markets. In addition, our larger competitors may be better equipped than us to adapt to changing conditions that affect the competitive market. Also, in most countries, the industry's low barriers to entry allow the introduction of new products or new competitors at a fast pace. In other countries, the high import duties may favor locally produced products. Any of these competition-related factors could result in reductions in sales or prices of our products and could have a material adverse effect on our results of operations and financial condition.

***Poor or uncertain economic conditions, and the resulting negative impact on consumer confidence and spending, have had and could continue to have an adverse effect on the apparel industry and on our operating results.***

The apparel industry is cyclical in nature and is particularly affected by adverse trends in the general economy. Purchases of apparel and related merchandise are generally discretionary and therefore tend to decline during recessionary periods and also may decline at other times. The global economic environment began to deteriorate significantly in 2008, with declining values in real estate, increased unemployment and volatility in the global financial markets resulting in reduced credit lending by banks, solvency concerns of major financial institutions and sovereign debt issues. Economic conditions remain uncertain in many markets around the world and consumer behavior remains cautious. In North America, the relatively weaker levels of consumer confidence and the highly promotional conditions among retailers may persist for some time. In Europe, sovereign debt and bank credit issues continue to affect the capital markets of various European countries and have resulted in reduced consumer confidence and discretionary spending in those countries. If the global economy continues to be weak or deteriorates further, there will likely be a negative effect on our revenues, operating margins and earnings across all of our segments.

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In addition to the factors contributing to the current economic environment, there are a number of other factors that could contribute to reduced levels of consumer spending, such as increases in interest rates, inflation, taxation rates, energy prices and austerity measures. Similarly, natural disasters, labor unrest, actual or potential terrorist acts and other conflicts can also create significant instability and uncertainty in the world, causing consumers to defer purchases or preventing our suppliers and service providers from providing required services or materials to us. These or other factors could materially and adversely affect our operating results.

***The continuing difficulties in the credit markets could have a negative impact on our customers, suppliers and business partners, which, in turn could materially and adversely affect our results of operations and liquidity.***

The credit crisis that began in 2008 has had a significant negative impact on businesses around the world. We believe that our cash provided by operations and existing cash and investment balances, supplemented by borrowings, if necessary, under our credit facilities, will provide us with sufficient liquidity for the foreseeable future. However, the impact of this crisis on our customers, business partners, suppliers, insurance providers and financial institutions with which we do business cannot be predicted and may be quite severe. The inability of our manufacturers to ship our products could impair our ability to meet delivery date requirements. A disruption in the ability of our significant customers, distributors or licensees to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity.

Similarly, a failure on the part of our insurance providers to meet their obligations for claims made by us could have a material adverse effect on our results of operations and liquidity. Continued market difficulties or additional deterioration could jeopardize our ability to rely on those financial institutions that are parties to our various bank facilities and foreign exchange contracts. We could be exposed to a loss if the counterparty fails to meet its obligations upon our exercise of foreign exchange contracts. In addition, continued distress in the financial markets could impair the ability of one or more of the banks participating in our credit agreements from honoring its commitments. This could have an adverse effect on our business if we were not able to replace those commitments or to locate other sources of liquidity on acceptable terms.

***Deteriorating sovereign debt conditions in Europe and the related euro crisis could have a material adverse effect on our business, prospects, operating results, financial condition and cash flows.***

The recent escalation of the European sovereign debt crisis has negatively impacted the capital markets in Europe and caused the value of the euro to deteriorate. These conditions have resulted in reduced consumer confidence and spending in many countries in Europe, particularly southern Europe. A significant portion of our revenues and earnings are derived from our business in Europe, including southern Europe, where Italy is our largest market and countries like France and Spain are also important to our business. In addition, most of our European transactions and assets, including cash reserves and receivables, are denominated in euros.

If the European sovereign debt crisis continues or further deteriorates, there may be a negative effect on our European business, as well as the businesses of our European customers, suppliers and partners. In addition, if the crisis ultimately leads to a significant devaluation of the euro, the value of our financial assets that are denominated in euros would be significantly reduced when translated to U.S. dollars for financial reporting purposes. Similarly, a sovereign default could also impact any tax or other refunds owed to us by that country or how aggressively that country pursues additional tax revenues. Any of these conditions could ultimately harm our overall business, prospects, operating results, financial condition and cash flows.

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***Domestic and foreign currency fluctuations could adversely impact our financial condition, results of operations and earnings.***

We continue to experience significant volatility in the global currency markets. Since the majority of our international purchases are conducted in currencies other than the U.S. dollar (primarily the euro, Canadian dollar and Korean won), currency fluctuations can have a significant impact on the translation of our international revenues and earnings into U.S. dollar amounts. These amounts could be materially affected by the strengthening of the U.S. dollar, negatively impacting our results of operations, earnings and our ability to generate revenue growth. Furthermore, we also source products in U.S. dollars outside of the U.S. As a result, the cost of these products may be affected by changes in the value of the applicable local currencies. Changes in currency exchange rates may also affect the U.S. dollar value of the foreign currency denominated prices at which our international businesses sell products.

Although we hedge certain exposures to changes in foreign currency exchange rates, we cannot assure that foreign currency fluctuations will not have a material adverse effect on our financial condition or results of operations. Furthermore, since some of our hedging activities are designed to reduce volatility of fluctuating exchange rates, they not only reduce the negative impact of a stronger U.S. dollar, but they also reduce the positive impact of a weaker U.S. dollar. Our future financial results could be significantly affected by the value of the U.S. dollar in relation to the foreign currencies in which we conduct business. In addition, while the hedges are designed to reduce volatility over the forward contract period, these contracts can create volatility during the period. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

***Fluctuations in the price or availability of quality raw materials and commodities could increase costs and negatively impact profitability.***

The raw materials used to manufacture our merchandise are subject to availability constraints and price volatility caused by high demand for fabrics, currency fluctuations, crop yields, weather patterns, supply conditions, government regulations, labor conditions, energy costs, transportation or freight costs, economic climate, market speculation and other unpredictable factors. The Company anticipates that inflationary pressures on raw materials, labor, freight and other commodities including oil, experienced in fiscal 2012 may stabilize in the future but continue to negatively impact the cost of product purchases in fiscal 2013, particularly in the first half of the fiscal year. Although overall, the Company has been able to mitigate the impact of product inflation through reduced promotional markdowns, price increases on select items and supply chain initiatives, there can be no assurances that these actions will continue to be successful. In addition, increased retail prices could lead to reduced customer demand. These developments could have a material adverse effect on our results of operations and financial condition.

***Changes in tax laws and unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.***

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We record tax expense based on our estimate of future payments, which include reserves for uncertain tax positions in multiple tax jurisdictions. Our effective income tax rate in the future could be adversely affected by a number of other factors, including: changes in the mix of earnings in countries with differing statutory tax rates, changes in tax laws, the outcome of income tax audits in various jurisdictions around the world, the resolution of uncertain tax positions, and any repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes. We regularly assess all of these matters to determine the adequacy of our tax provision, which is subject to significant discretion.

We are subject to routine compliance reviews on various tax matters around the world in the ordinary course of business. Although the Company has substantially concluded all U.S. federal, foreign, state and foreign local income tax matters for years through fiscal 2005, there are currently income tax audits

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underway in multiple tax jurisdictions for various periods after 2005. While it is often difficult to predict the final outcome or timing of the resolution of any particular tax matter, we do not currently expect the results of these audits to have a material impact on our financial position or results of operations. However, should our estimates or expectations be incorrect, our effective income tax rate and profitability in the future could be adversely affected by the results of these and other such tax audits and negotiations.

From time to time, we make Value Added Tax ("VAT") and other tax related refund claims with various foreign tax authorities that are audited by those authorities for compliance. Failure by these foreign governments to approve or ultimately pay these claims could have a material adverse effect on our results of operations and liquidity.

***We are subject to periodic litigation and other regulatory proceedings, including tax proceedings, which could result in unexpected obligations, as well as the diversion of time and resources.***

We are a defendant from time to time in lawsuits and regulatory actions relating to our business. These include various U.S. and foreign income tax matters, including customs and VAT matters. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have an adverse impact on our business, financial condition and results of operations. In addition, any significant litigation or regulatory matters, regardless of the merits, could divert management's attention from our operations and result in substantial legal fees. See also "ITEM 3. Legal Proceedings" for further discussion of our legal matters.

***We could find that we are carrying excess inventories if we fail to anticipate consumer demand, if our international vendors do not supply quality products on a timely basis, if our merchandising strategies fail or if we do not open new and remodel existing stores on schedule.***

Because we must place orders with our vendors for most of our products a season or more in advance, we could end up carrying excess inventories if we fail to correctly anticipate fashion trends or consumer demand. Even if we correctly anticipate consumer fashion trends and demand, our vendors could fail to supply the quality products and materials we require at the time we need them. Moreover, we could fail to effectively market or merchandise these products once we receive them. In addition, we could fail to open new or remodeled stores on schedule, and inventory purchases made in anticipation of such store openings could remain unsold. Any of the above factors could cause us to experience excess inventories, which may result in inventory write-downs and higher markdowns, which in turn could have a material adverse effect on our results of operations and financial condition.

***Our success depends on the quality of our relationships with our suppliers and manufacturers.***

We do not own or operate any production facilities, and we depend on independent factories to supply our fabrics and to manufacture our products to our specifications. We do not have long-term contracts with any suppliers or manufacturers, and our business is dependent on our partnerships with our vendors. If manufacturing costs were to rise significantly, our product margins and results of operations could be negatively affected. In addition, very few of our vendors manufacture our products exclusively. As a result, we compete with other companies for the production capacity of independent contractors. If our vendors fail to ship our fabrics or products on time or to meet our quality standards or are unable to fill our orders, we might not be able to deliver products to our retail stores and wholesale customers on time or at all.

Moreover, our suppliers have at times been unable to deliver finished products in a timely fashion. This has led, from time to time, to an increase in our inventory, creating potential markdowns and a resulting decrease in our profitability. As there are a finite number of skilled manufacturers that meet our requirements, it could take significant time to identify and qualify suitable alternatives, which could result in our missing retailing seasons or our wholesale customers canceling orders, refusing to accept deliveries or requiring that we lower selling prices. Since we prefer not to return merchandise to our manufacturers,

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we could also have a considerable amount of unsold merchandise. Any of these problems could harm our financial condition and results of operations.

***Our North American Wholesale business is highly concentrated. If any of our large customers decrease their purchases of our products or experience financial difficulties, our results of operations and financial condition could be adversely affected.***

In fiscal 2012, 2.7% of our consolidated net revenue came from Macy's, Inc. No other single customer or group of related customers in any of our segments accounted for more than 1.0% of our consolidated net revenue in fiscal 2012. Continued consolidation in the retail industry could further decrease the number of, or concentrate the ownership of, stores that carry our and our licensees' products. Also, as we expand the number of our retail stores, we run the risk that our wholesale customers will perceive that we are increasingly competing directly with them, which may lead them to reduce or terminate purchases of our products. In addition, in recent years there has been a significant increase in the number of designer brands seeking placement in department stores, which makes any one brand potentially less attractive to department stores. If any one of our major wholesale customers decides to decrease purchases from us, to stop carrying GUESS? products or to carry our products only on terms less favorable to us, our sales and profitability could significantly decrease. Similarly, some retailers have recently experienced significant financial difficulties, which in some cases have resulted in bankruptcy, liquidation and store closures. Financial difficulties of one of our major customers could result in reduced business and higher credit risk with respect to that customer. Any of these circumstances could ultimately have a material adverse effect on our results of operations and financial condition.

***Since we do not control our licensees' actions and we depend on our licensees for a substantial portion of our earnings from operations, their conduct could harm our business.***

We license to others the rights to produce and market certain products that are sold with our trademarks. While we retain significant control over our licensees' products and advertising, we rely on our licensees for, among other things, operational and financial control over their businesses. If the quality, focus, image or distribution of our licensed products diminish, consumer acceptance of and demand for the GUESS? brand and products could decline. This could materially and adversely affect our business and results of operations. In fiscal 2012, approximately 80% of our net royalties were derived from our top five licensed product lines. A decrease in customer demand for any of these product lines could have a material adverse effect on our results of operations and financial condition. Although we believe that in most circumstances we could replace existing licensees if necessary, our inability to do so for any period of time could adversely affect our revenues and results of operations.

***We depend on our intellectual property, and our methods of protecting it may not be adequate.***

Our success and competitive position depend significantly upon our trademarks and other proprietary rights. We take steps to establish and protect our trademarks worldwide. Despite any precautions we may take to protect our intellectual property, policing unauthorized use of our intellectual property is difficult, expensive and time consuming, and we may be unable to adequately protect our intellectual property or to determine the extent of any unauthorized use, particularly in those foreign countries where the laws do not protect proprietary rights as fully as in the United States. We also place significant value on our trade dress and the overall appearance and image of our products. However, we cannot assure you that we can prevent imitation of our products by others or prevent others from seeking to block sales of GUESS? products for violating their trademarks and proprietary rights. We also cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of GUESS?, that our proprietary rights would be upheld if challenged or that we would, in that event, not be prevented from using our trademarks, any of which could have a material adverse effect on our financial condition and results of operations. Further, we could incur substantial costs in legal actions relating to our use of intellectual property or the

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use of our intellectual property by others. Even if we are successful in such actions, the costs we incur could have a material adverse effect on us.

***If we fail to successfully execute our growth initiatives, including through acquisitions, our business and results of operations could be harmed.***

As part of our global business growth strategy, expanding our retail store base is a primary initiative. In addition to the store growth, we also regularly evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives. We completed the acquisition of our former European jeanswear licensee in 2005, the acquisition of 75% of the outstanding shares of our European licensee of GUESS by MARCIANO apparel in 2006 and the acquisition of our former European licensee of children's apparel in 2008. In addition, we have entered into joint venture relationships with partners in Mexico, France and the Canary Islands and have been directly operating our South Korea and China businesses since 2007 and our international jewelry business since 2010.

These expansion efforts place increased demands on our managerial, operational and administrative resources that could prevent or delay the successful opening of new stores and identifying suitable licensee partners, adversely impact the performance of our existing stores and adversely impact our overall results of operations. In addition, acquired businesses and additional store openings may not provide us with increased business opportunities, or result in the growth that we anticipate, particularly during economic downturns. Furthermore, integrating acquired operations is a complex, time-consuming and expensive process. Failing to acquire and successfully integrate complementary businesses, or failing to achieve the business synergies or other anticipated benefits of acquisitions, could materially adversely affect our business and results of operations.

***We may be unsuccessful in implementing our planned U.S. and international retail expansion, which could harm our business and negatively affect our results of operations.***

To open and operate new stores successfully, we must:

identify desirable locations, the availability of which is out of our control;

negotiate acceptable lease terms, including desired tenant improvement allowances;

efficiently build and equip the new stores;

source sufficient levels of inventory to meet the needs of the new stores;

hire, train and retain competent store personnel;

successfully integrate the new stores into our existing operations; and

satisfy the fashion preferences of customers in the new geographic areas.

Any of these challenges could delay our store openings, prevent us from completing our store opening plans or hinder the operations of stores we do open. We cannot be sure that we can successfully complete our planned expansion or that our new stores will be profitable. Such things as unfavorable economic and business conditions and changing consumer preferences could also interfere with our plans to expand.

***Failure to successfully develop and manage our newer store concepts could adversely affect our results of operations.***

In addition to our core GUESS? retail and factory stores, we continue to develop and refine the GUESS by MARCIANO, GUESS? Accessories and G by GUESS store concepts. The introduction and growth of several new store concepts as part of our overall growth strategy could strain our financial and management resources. Additionally, successfully developing new brands is subject to a number of risks, including customer acceptance, product differentiation, competition and obtaining desirable locations. These risks may be compounded during the current

or any future economic downturn. There can be no



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assurance that these concepts will achieve or maintain sales and profitability levels that justify the required investments. If we are unable to successfully develop and manage these multiple store concepts, or if consumers are not receptive to the products or store concepts, our results of operations and financial results could be adversely affected.

#### ***Our business is global in scope and can be impacted by factors beyond our control.***

During fiscal 2012, we sourced most of our finished products with partners and suppliers outside the U.S. and we continued to design and purchase fabrics globally. In addition, we have been increasing our international sales of product outside of the United States. In fiscal 2012, approximately half of our consolidated net revenue was generated by sales from outside of the U.S. and Canada. We anticipate that these international revenues will continue to grow as a percentage of our total business. Further, as a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region.

As a result of our increasing international operations, we face the possibility of greater losses from a number of risks inherent in doing business in international markets and from a number of factors which are beyond our control. Such factors that could harm our results of operations and financial condition include, among other things:

political instability or acts of terrorism, which disrupt trade with the countries where we operate or in which our contractors, suppliers or customers are located;

recessions in foreign economies;

inflationary pressures and volatility in foreign economies;

reduced global demand resulting in the closing of manufacturing facilities;

challenges in managing broadly dispersed foreign operations;

local business practices that do not conform to legal or ethical guidelines;

adoption of additional or revised quotas, restrictions or regulations relating to imports or exports;

additional or increased customs duties, tariffs, taxes and other charges on imports or exports;

delays in receipts due to our distribution centers as a result of increasing security requirements at U.S. or other ports;

significant fluctuations in the value of the dollar against foreign currencies;

increased difficulty in protecting our intellectual property rights in foreign jurisdictions;

social, labor, legal or economic instability in the foreign markets in which we do business, which could influence our ability to sell our products in, or distribute our products from, these international markets;

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restrictions on the transfer of funds between the United States and foreign jurisdictions;

our ability and the ability of our international licensees and distributors to locate and continue to open desirable new retail locations; and

natural disasters in areas in which our contractors, suppliers, or customers are located.

Further, our international presence means that we are subject to certain U.S. laws, including the Foreign Corrupt Practices Act, as well as the laws of the foreign countries in which we operate. If any of our international operations, or our employees or agents, violate such laws, we could become subject to sanctions or other penalties that could negatively affect our reputation, business and operating results.

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In addition to the above factors, the United States and the countries in which our products are produced or sold may also, from time to time, impose new quotas, duties, tariffs or other restrictions, or adversely adjust prevailing quota, duty or tariff levels. If we are unable to obtain our raw materials and finished apparel from the countries where we wish to purchase them, either because of capacity constraints or visa availability under the required quota category or for any other reason, or if the cost of doing so should increase, it could have a material adverse effect on our results of operations and financial condition.

***Violation of labor and other laws and practices by our licensees or suppliers could harm our business.***

We require our licensing partners and suppliers to operate in compliance with applicable laws and regulations. While our internal and vendor operating guidelines and monitoring programs promote ethical business practices, we do not control our licensees or suppliers or their labor or other business practices. The violation of labor or other laws by any of our licensees or suppliers, or divergence of a licensee's or supplier's business practices or social responsibility standards from those generally accepted as ethical in the United States, could interrupt or otherwise disrupt the shipment of our products, harm the value of our trademarks, damage our reputation or expose us to potential liability for their wrongdoings.

***Our failure to protect our reputation could have a material adverse effect on our brand.***

Our ability to maintain our reputation is critical to our brand. Our reputation could be jeopardized if we fail to maintain high standards for merchandise quality and integrity. Any negative publicity about these types of concerns may reduce demand for our merchandise. Failure to comply with ethical, social, product, labor, health and safety or environmental standards could also jeopardize our reputation and potentially lead to various adverse consumer actions, including boycotts. Public perception about our products or our stores, whether justified or not, could impair our reputation, involve us in litigation, damage our brand and have a material adverse effect on our business. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial statement information could also hurt our reputation. Damage to our reputation or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations and financial condition, as well as require additional resources to rebuild our reputation.

***Our business could suffer if our computer systems and websites are disrupted or cease to operate effectively.***

The efficient operation of our business is very dependent on our computer and information systems. In particular, we rely heavily on our merchandise management and ERP systems used to track sales and inventory and manage our supply chain. In addition, we have e-commerce and other Internet websites in the U.S. and a number of other countries. Given the complexity of our business and the significant number of transactions that we engage in on an annual basis, it is imperative that we maintain constant operation of our computer hardware and software systems. Despite our preventative efforts, our systems are vulnerable from time to time to damage or interruption from, among other things, ineffective upgrades or support from third party vendors, difficulties in replacing or integrating new systems, security breaches, computer viruses and power outages. Any such problems or interruptions could result in incorrect information being supplied to management, inefficient ordering and replenishment of products, loss of orders, the incurrence of significant expenditures, disruption of our operations and other adverse impacts to our business.

***A privacy breach could damage our reputation and customer relationships, expose us to litigation risk and adversely affect our business.***

As part of our normal operations, we collect, process and, where appropriate, retain certain sensitive and confidential customer information. Despite the security measures we have in place, our facilities and systems, and those of our third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar

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events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, could severely damage our reputation and our customer relationships, expose us to risks of litigation and liability and adversely affect our business.

***A significant disruption at any of our distribution facilities could have a material adverse impact on our sales and operating results.***

Our U.S. business relies primarily on a single distribution center located in Louisville, Kentucky to receive, store and distribute merchandise to all of our U.S. stores and wholesale customers. Distribution of our products in Canada is handled primarily from a single distribution center in Montreal, Quebec. Distribution of our products in Europe is now handled primarily utilizing a single third party distribution center in Piacenza, Italy. Additionally, we utilize several third party operated distribution warehouses in Hong Kong, South Korea and China that service the Asian region. Any significant interruption in the operation of any of our distribution centers due to natural disasters, weather conditions, accidents, system failures, labor issues, relationships with our third party warehouse operators or other unforeseen causes could have a material adverse effect on our ability to replace inventory and fill orders, negatively impacting our sales and operating results.

***Our reliance on third parties to deliver merchandise to our stores and wholesale customers could lead to disruptions to our business.***

The efficient operation of our global retail and wholesale businesses depends on the timely receipt of merchandise from our regional distribution centers. We deliver merchandise to our stores and wholesale customers using independent third parties. The independent third parties have employees which may be represented by labor unions. Disruptions in the delivery of merchandise or work stoppages by employees or contractors of any of these third parties could delay the timely receipt of merchandise. There can be no assurance that such stoppages or disruptions will not occur in the future. Any failure by a third party to respond adequately to our distribution needs could disrupt our operations and negatively impact our financial condition or results of operations.

***Our Chairman of the Board and our Chief Executive Officer own a significant percentage of our common stock. Their interests may differ from the interests of our other stockholders.***

Maurice Marciano, our non-executive Chairman of the Board, and Paul Marciano, Chief Executive Officer, collectively beneficially own approximately 28% of our outstanding shares of common stock. The sale or prospect of the sale of a substantial number of these shares could have an adverse impact on the market price of our common stock. Moreover, these individuals may have different interests than our other stockholders and, accordingly, they may direct the operations of our business in a manner contrary to the interests of our other stockholders. As long as these individuals own a significant percentage of our common stock, they may effectively be able to:

elect our directors;

amend or prevent amendment of our Restated Certificate of Incorporation or Bylaws;

effect or prevent a merger, sale of assets or other corporate transaction; and

control the outcome of any other matter submitted to our stockholders for vote.

Their stock ownership, together with the anti-takeover effects of certain provisions of applicable Delaware law and our Restated Certificate of Incorporation and Bylaws, may discourage acquisition bids or allow the Marcianos to delay or prevent a change in control that may be favored by our other stockholders, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our common stock price.

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***Our failure to retain our existing senior management team or to retain or attract other key personnel could adversely affect our business.***

Our business requires disciplined execution at all levels of our organization in order to ensure the timely delivery of desirable merchandise in appropriate quantities to our stores and other customers. This execution requires experienced and talented management in design, production, operations, merchandising and advertising. Our success depends upon the personal efforts and abilities of our senior management, particularly Paul Marciano, and other key personnel. Although we believe we have a strong management team with relevant industry expertise, the extended loss of the services of Paul Marciano or other key personnel could materially harm our business. We are the beneficiary of a \$10 million "key man" insurance policy on the life of Paul Marciano, but we do not have any other "key man" insurance with respect to other key employees, and any of them may leave us at any time, which could severely disrupt our business and future operating results.

***Fluctuations in quarterly performance including comparable store sales, sales per square foot, timing of wholesale orders, royalty net revenue or other factors could have a material adverse effect on our earnings and our stock price.***

Our quarterly results of operations for each of our business segments have fluctuated in the past and can be expected to fluctuate in the future. Further, if our retail store expansion plans, both domestically and internationally, fail to meet our expected results, our overhead and other related expansion costs would increase without an offsetting increase in sales and net revenue. This could have a material adverse effect on our results of operations and financial condition.

Our net revenue and operating results have historically been lower in the first half of our fiscal year due to general seasonal trends in the apparel and retail industries. Our comparable store sales, quarterly results of operations and other income are also affected by a variety of other factors, including:

shifts in consumer tastes and fashion trends;

the timing of new store openings and the relative proportion of new stores to mature stores;

calendar shifts of holiday or seasonal periods;

the timing of seasonal wholesale shipments;

the effectiveness of our inventory management;

changes in our merchandise mix;

changes in our mix of revenues by segment;

the timing of promotional events;

actions by competitors;

weather conditions;

changes in the business environment;

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inflationary changes in prices and costs;

changes in currency exchange rates;

population trends;

changes in patterns of commerce such as the expansion of electronic commerce;

the level of pre-operating expenses associated with new stores; and

volatility in securities' markets which could impact the value of our investments in non-operating assets.

An unfavorable change in any of the above factors could have a material adverse effect on our results of operations and our stock price.

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#### **ITEM 1B. Unresolved Staff Comments.**

None.

#### **ITEM 2. Properties.**

Certain information concerning our principal facilities, all of which are leased at January 28, 2012, is set forth below:

Location	Use	Approximate Area in Square Feet
Los Angeles, California	Principal executive and administrative offices, design facilities, sales offices, distribution and warehouse facilities, and sourcing used by our North American Wholesale, North American Retail and Licensing segments, and our Corporate groups	355,000
Louisville, Kentucky	Distribution and warehousing facility used by our North American Wholesale and North American Retail segments	506,000
New York, New York	Administrative offices, public relations, and showrooms used by our North American Wholesale segment	15,000
Montreal/Toronto/Vancouver, Canada	Administrative offices, showrooms and warehouse facilities used by our North American Wholesale and North American Retail segments	111,000
Florence/Crevalcore, Italy	Administrative offices, showrooms and warehouse used by our Europe segment	176,100
Lugano, Switzerland	Administrative, sales and marketing offices, and showrooms used by our Europe segment	103,600
Barcelona, Spain	Administrative, sales and marketing offices, showrooms and warehouse facilities used by our Europe segment	8,800
Dusseldorf/Munich, Germany	Showrooms used by our Europe segment	14,200
London, U.K.	Showrooms used by our Europe segment	7,800
Paris, France	Administrative office and showrooms used by our Europe segment	13,500
Kowloon, Hong Kong	Administrative offices, showrooms and licensing coordination facilities used primarily by our Asia segment and sourcing offices used by all trading segments	37,700
Seoul, South Korea	Administrative offices and showrooms used by our Asia segment	32,200
Shanghai/Beijing, China	Administrative offices, showrooms and warehouse facility used by our Asia segment	31,800
Taipei, Taiwan	Administrative office used by our Asia segment	2,700

Our corporate, wholesale and retail headquarters and certain warehouse facilities are located in Los Angeles, California, consisting of four buildings totaling approximately 355,000 square feet. All of these

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properties are leased by us from limited partnerships in which the sole partners are trusts controlled by and for the benefit of Maurice Marciano and Paul Marciano (the "Principal Stockholders"), Armand Marciano, their brother and former executive of the Company, and their families pursuant to a lease that expires in July 2020. The total lease payments to these limited partnerships are approximately \$0.3 million per month with aggregate minimum lease commitments to these partnerships at January 28, 2012, totaling approximately \$28.9 million.

In addition, the Company, through a wholly-owned Canadian subsidiary, leases warehouse and administrative facilities in Montreal, Quebec from a partnership affiliated with the Principal Stockholders. The lease expires in December 2015. The monthly lease payment is \$47,400 Canadian (US\$47,300) with aggregate minimum lease commitments through the term of the lease totaling approximately \$2.2 million Canadian (US\$2.2 million) at January 28, 2012.

In September 2010, the Company, through a French subsidiary, entered into a lease for a new showroom and office space located in Paris, France with an entity that is owned in part by an affiliate of the Principal Stockholders. This lease allowed the Company, which previously occupied two separate corporate locations in Paris, to consolidate its locations into a single improved and larger space. This lease was amended on June 27, 2011 to reconfigure and increase the size of the leased space, resulting in a \$0.1 million increase in the current annual rental amount to \$1.1 million per year. The Company took possession of the facility on July 1, 2011 and has an option for early termination at the end of the sixth year. The aggregate minimum lease commitments through the term of the lease total approximately \$8.3 million at January 28, 2012.

See Note 11 to the Consolidated Financial Statements for further information regarding related party transactions.

Our primary U.S. distribution center is a fully automated leased facility based in Louisville, Kentucky. Distribution of our products in Canada is handled primarily from a leased facility based in Montreal, Quebec. Distribution of our products in Europe is now handled primarily utilizing a single third party distribution center in Piacenza, Italy. Additionally, we utilize several third party operated distribution warehouses in Hong Kong, South Korea and China that service the Asian region.

We lease our showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facilities and retail and factory outlet store locations under non-cancelable operating lease agreements expiring on various dates through September 2031. These facilities, located mainly in North America but with a growing presence in Europe and Asia, had aggregate minimum lease commitments at January 28, 2012 totaling approximately \$1.06 billion, excluding related party commitments. In addition, in 2005 we started leasing a building in Florence, Italy for our Italian operations under a capital lease agreement. The capital lease obligation, including build-outs, amounted to \$11.9 million as of January 28, 2012.

The terms of our store and concession leases, excluding renewal options and kick-out clauses, as of January 28, 2012, expire as follows:

Years Lease Terms Expire	Number of Stores and Concessions			
	U.S. and Canada	Asia	Europe	Mexico
Fiscal 2013-2015	140	252	59	20
Fiscal 2016-2018	124	8	54	5
Fiscal 2019-2021	162		61	
Fiscal 2022-2024	78		10	
Thereafter			12	
	504	260	196	25



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We believe our existing facilities are well maintained, in good operating condition and are adequate to support our present level of operations. See Note 12 to the Consolidated Financial Statements for further information regarding current lease obligations.

**ITEM 3. Legal Proceedings.**

On May 6, 2009, Gucci America, Inc. filed a complaint in the U.S. District Court for the Southern District of New York against Guess?, Inc. and certain third-party licensees for the Company asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint seeks injunctive relief, compensatory damages, including treble damages, and certain other relief. A similar complaint has also been filed against the Company and one of its Italian subsidiaries in the Court of Milan, Italy. On February 14, 2012, the court in the U.S. matter granted the Company's motion for summary judgment with respect to certain of the claims made by the plaintiff. However, summary judgment was not granted for a majority of the claims. A trial date for the remaining U.S. claims is scheduled for March 26, 2012. In its Opinion and Order with respect to the motion for summary judgment, the court indicated that the plaintiff is seeking compensation in the U.S. matter in the form of damages of \$26 million and an accounting of profits of \$99 million, in each case from all defendants in the aggregate. Although the Company believes that it has a strong position and will continue to vigorously defend these matters, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcome will have a material impact on the Company's financial position or results of operations.

The Company is also involved in various other claims and other matters incidental to the Company's business, the resolution of which is not expected to have a material adverse effect on the Company's financial position or results of operations. No material amounts were accrued as of January 28, 2012 or January 29, 2011 related to any of the Company's legal proceedings.

**ITEM 4. Mine Safety Disclosures.**

Not applicable.

## PART II

**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Since August 8, 1996, the Company's common stock has been listed on the New York Stock Exchange under the symbol 'GES.' The following table sets forth, for the periods indicated, the high and low sales prices per common share of the Company's common stock, and the dividends paid with respect thereto:

	Market Price		Dividends Paid
	High	Low	
<b>Fiscal year ended January 29, 2011</b>			
First Quarter Ended May 1, 2010	\$ 50.26	\$ 38.29	\$ 0.16
Second Quarter Ended July 31, 2010	46.61	31.24	0.16
Third Quarter Ended October 30, 2010	43.33	32.32	0.16
Fourth Quarter Ended January 29, 2011	50.95	38.46	2.20
<b>Fiscal year ended January 28, 2012</b>			
First Quarter Ended April 30, 2011	\$ 47.52	\$ 37.71	\$ 0.20
Second Quarter Ended July 30, 2011	45.72	38.12	0.20
Third Quarter Ended October 29, 2011	37.86	26.50	0.20
Fourth Quarter Ended January 28, 2012	32.99	26.30	0.20

On March 19, 2012, the closing sales price per share of the Company's common stock, as reported on the New York Stock Exchange Composite Tape, was \$32.62. On March 19, 2012 there were 327 holders of record of the Company's common stock.

Prior to the initiation of a quarterly dividend on February 12, 2007, the Company had not declared any dividends on our common stock since our initial public offering in 1996. The payment of cash dividends in the future will be at the discretion of our Board of Directors and will be based upon a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and liquidity. The dividends paid during the fourth quarter ended January 29, 2011 included a special cash dividend of \$2.00 per share and a quarterly cash dividend of \$0.20 per share. The agreement governing our Credit Facility limits our ability to pay dividends unless immediately after giving effect thereto the aggregate amount of unrestricted cash and cash equivalents held by Guess?, Inc. and its domestic subsidiaries is at least \$50 million. At January 28, 2012, Guess?, Inc. and its domestic subsidiaries had approximately \$249.2 million in unrestricted cash and cash equivalents, as defined by the credit agreement.

**Performance Graph**

The Stock Price Performance Graph below compares the cumulative stockholder return of the Company with that of the S&P 500 Index (a broad equity market index) and the S&P 1500 Apparel Retail Index (a published industry index) over the five fiscal year period beginning February 3, 2007. The return on investment is calculated based on an investment of \$100 on February 3, 2007, with dividends, if any, reinvested. Past performance is not necessarily indicative of future performance.

**COMPARISON OF FIVE YEAR TOTAL RETURN  
AMONG GUESS?, INC.,  
S&P 500 INDEX AND S&P 1500 APPAREL RETAIL INDEX**

Company/Market/Peer Group	Period Ending					
	2/3/2007	2/2/2008	1/31/2009	1/30/2010	1/29/2011	1/28/2012
Guess?, Inc.	\$ 100.00	\$ 103.75	\$ 45.24	\$ 113.39	\$ 127.40	\$ 90.68
S&P 1500 Apparel Retail Index	\$ 100.00	\$ 81.39	\$ 41.93	\$ 81.12	\$ 104.26	\$ 130.48
S&P 500 Index	\$ 100.00	\$ 98.17	\$ 59.52	\$ 79.24	\$ 96.09	\$ 101.21

**Stock Split**

On February 12, 2007, our Board of Directors approved a two-for-one stock split of the Company's common stock to be effected in the form of a 100% stock dividend. Each stockholder of record at the close of business on February 26, 2007 was issued one additional share of common stock for every share of common stock owned as of that time. The additional shares were distributed on or about March 12, 2007, and the Company's common stock began trading on the New York Stock Exchange on a post-split basis on March 13, 2007. All share and per share amounts in this Annual Report on Form 10-K have been adjusted to reflect the 2007 stock split.

**Share Repurchase Program**

The Company's share repurchases during each fiscal month of the fourth quarter of fiscal 2012 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
October 30, 2011 to November 26, 2011				
Repurchase program(1)				\$ 250,000,000
Employee transactions(2)	672	\$ 31.12		
November 27, 2011 to December 31, 2011				
Repurchase program(1)	2,837,780	\$ 28.52	2,837,780	\$ 169,062,099
Employee transactions(2)	40,246	\$ 29.81		
January 1, 2012 to January 28, 2012				
Repurchase program(1)	378,734	\$ 29.21	378,734	\$ 157,999,277
Employee transactions(2)	183	\$ 30.64		
<b>Total</b>				
Repurchase program(1)	3,216,514	\$ 28.60	3,216,514	
Employee transactions(2)	41,101	\$ 29.84		

- (1) On March 14, 2011, the Company's Board of Directors terminated the previously authorized 2008 Share Repurchase Program (which had \$84.9 million capacity remaining) and authorized a new program to repurchase, from time-to-time and as market and business conditions warrant, up to \$250.0 million of the Company's common stock (the "2011 Share Repurchase Program"). Repurchases may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program and the program may be discontinued at any time, without prior notice.
- (2) Consists of shares surrendered to, or withheld by, the Company in satisfaction of employee tax withholding obligations that occur upon vesting of restricted stock awards granted under the Company's 2004 Equity Incentive Plan, as amended.

**ITEM 6. Selected Financial Data.**

The selected financial data set forth below has been derived from the audited Consolidated Financial Statements of the Company and the related notes thereto. The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and the related notes contained herein and with "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding accounting changes, acquisitions and other items affecting comparability.

	Year Ended(1)				
	Jan. 28, 2012	Jan. 29, 2011	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008
(in thousands, except per share data)					
<b>Statement of income data:</b>					
Net revenue	\$ 2,688,048	\$ 2,487,294	\$ 2,128,466	\$ 2,093,390	\$ 1,749,916
Earnings from operations	397,235	404,633	358,816	328,787	309,139
Income taxes	128,691	126,874	115,599	103,784	124,099
Net earnings attributable to Guess?, Inc.	265,500	289,508	242,761	213,562	186,472
<b>Net earnings per common share attributable to common stockholders:</b>					
Basic(2)	\$ 2.88	\$ 3.14	\$ 2.63	\$ 2.27	\$ 1.99
Diluted(2)	\$ 2.86	\$ 3.11	\$ 2.61	\$ 2.25	\$ 1.96
Dividends declared per common share	\$ 0.80	\$ 2.68	\$ 0.45	\$ 0.36	\$ 0.28
Weighted average shares outstanding basic(2)	91,553	91,410	90,893	92,561	92,307
Weighted average shares outstanding diluted(2)	91,948	92,115	91,592	93,258	93,518
	Jan. 28, 2012	Jan. 29, 2011	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008
<b>Balance sheet data:</b>					
Working capital	\$ 841,446	\$ 732,564	\$ 781,410	\$ 558,305	\$ 432,583
Total assets	1,844,475	1,685,804	1,531,249	1,246,566	1,186,228
Borrowings and capital lease, excluding current installments	10,206	12,218	14,137	14,586	18,724
Stockholders' equity	1,194,265	1,066,194	1,026,343	775,454	652,913

(1) The Company operates on a 52-53 week fiscal year calendar, which ends, on the Saturday nearest January 31 of each year.

(2) In June 2008, the FASB issued authoritative guidance which requires unvested share-payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents to be included in the two-class method of computing earnings per share. The guidance also requires retrospective application to all periods presented. The Company adopted the guidance on February 1, 2009 and has applied it retrospectively to all periods presented herein.

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**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**General**

Unless the context indicates otherwise, when we refer to "we," "us," "our" or the "Company" in this Form 10-K, we are referring to Guess?, Inc. and its subsidiaries on a consolidated basis.

***Business Segments***

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Europe, North American Retail, Asia, North American Wholesale and Licensing. Information relating to these segments is summarized in Note 15 to the Consolidated Financial Statements. Management evaluates segment performance based primarily on revenues and earnings from operations. The Company believes this segment reporting reflects how its five business segments are managed and each segment's performance is evaluated. The Europe segment includes the Company's wholesale and retail operations in Europe and the Middle East. The North American Retail segment includes the Company's retail operations in North America. The Asia segment includes the Company's wholesale and retail operations in Asia. The North American Wholesale segment includes the Company's wholesale operations in North America and export sales to Central and South America. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: information technology, human resources, global advertising and marketing, accounting and finance, executive compensation, facilities and legal.

Our international jewelry license agreement, which expired in December 2009, was not renewed as the Company decided to directly operate this business going forward. Beginning in January 2010, the operating results of our international jewelry business are included in our Europe segment. Prior to that date, we recorded the related royalty income in our licensing segment.

***Products***

We derive our net revenue from the sale of GUESS?, GUESS by MARCIANO, GUESS Kids and G by GUESS men's and women's apparel, and our licensees' products through our worldwide network of retail stores, wholesale customers and distributors, as well as our on-line sites. We also derive royalty revenues from worldwide licensing activities.

***Recent Global Economic Developments***

Economic and market conditions have become increasingly volatile and uncertain in many markets around the world and consumer behavior remains cautious. In North America, the relatively weaker levels of consumer confidence and the highly promotional conditions among retailers may persist for some time. In Europe, sovereign debt and bank credit issues continue to affect the capital markets of various European countries and have resulted in reduced consumer confidence and discretionary spending in those countries. These conditions in Europe have begun to affect our business, particularly in the more penetrated countries in Southern Europe.

The Company anticipates that inflationary pressures on raw materials, labor, freight and other commodities including oil, experienced in fiscal 2012 may stabilize in the future but continue to negatively impact the cost of product purchases in fiscal 2013, particularly in the first half of the fiscal year. Although overall, the Company has been able to mitigate the impact of product inflation through reduced promotional markdowns, price increases on select items and supply chain initiatives, there can be no assurances that these actions will continue to be successful. In addition, increased retail prices could lead to reduced customer demand.

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We also continue to experience significant volatility in the global currency markets. Since the majority of our international operations are conducted in currencies other than the U.S. dollar (primarily the euro, Canadian dollar and Korean won), currency fluctuations can have a significant impact on the translation of our international revenues and earnings into U.S. dollar amounts. During fiscal 2012, the average U.S. dollar rate was weaker against these currencies versus the average rate in the comparable prior-year period. This had an overall positive impact on the translation of our international revenues and earnings for the year ended January 28, 2012 compared to the prior fiscal year.

In addition, some of our transactions that occur in Europe, Canada and South Korea are denominated in U.S. dollars, Swiss francs and British pounds, exposing them to exchange rate fluctuations when converted to their functional currencies. These transactions include U.S. dollar denominated purchases of merchandise, U.S. dollar and British pound intercompany liabilities and certain sales, operating expenses and tax liabilities denominated in Swiss francs. Fluctuations in exchange rates can impact the profitability of our foreign operations and reported earnings and are largely dependent on the transaction timing and magnitude during the period that the currency fluctuates. The Company enters into derivative financial instruments to offset some but not all of the exchange risk on certain foreign currency transactions. In addition, some of the derivative contracts in place will create volatility during the fiscal year as they are marked-to-market according to the accounting rules. Based on fluctuations in currency rates during fiscal 2012, the Company's results were favorably impacted by the net revaluation of our foreign currency contracts and balances and resulted in a net revaluation gain recorded in other income during fiscal 2012. Continued volatility in the global currency markets could result in further revaluation gains or losses in future periods.

***Long-Term Growth Strategy***

Despite the difficult economic conditions described above, our key long-term strategies remain unchanged. Global expansion continues to be the cornerstone of our long-term growth strategy. Our combined revenues outside of the U.S. and Canada represented approximately half of the total Company's revenues in fiscal 2012, compared to one-fifth in fiscal 2005. We expect to continue to expand in both our existing European and Asian markets. At the same time, we plan to develop markets in emerging countries like China, Brazil, Russia and India and expand our G by GUESS concept both domestically and internationally. Our goal is also to drive growth by enhancing the productivity of our existing operations.

Expanding our retail business across the globe is key to executing on our global growth strategy. We see opportunities to increase the number of GUESS? branded retail stores in Europe and Asia. In North America and South Korea, we also see store growth opportunities with our G by GUESS concept. We will continue to regularly assess and implement initiatives that we believe will build brand equity, grow our business and enhance long-term profitability in each region, including investing in advertising and marketing programs to build awareness and drive customer traffic to our stores and websites.

In Europe, over the long-term, we will continue to focus on developing new markets in Northern and Eastern Europe where our brand is well known but still under-penetrated and expand on our success in Western and Southern Europe. In fiscal 2012, we have made significant progress on developing important European markets such as Germany, Russia, Portugal and the Netherlands. We have flagship stores in key cities such as Paris, Barcelona, Dusseldorf, London and Milan. Together with our licensee partners, we opened 120 stores during fiscal 2012 and we plan to continue our international expansion in Europe by opening approximately 90 retail stores in fiscal 2013, about one third of which will be operated directly by us.

Our North American Retail growth strategy is to increase retail sales and profitability by expanding our network of retail stores and improving the productivity and performance of existing stores. We will continue to emphasize our newer G by GUESS store concept and our e-commerce channel. During fiscal 2012, we opened 37 retail stores and we currently plan to open approximately 35 retail stores across all

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concepts in the U.S. and Canada during fiscal 2013, with roughly half under the G by GUESS brand. In addition, we plan to remodel key existing locations as part of the roll-out of our new store designs. In February 2011, we opened our largest flagship store in the world in New York City with over 13,000 square feet.

We see significant market opportunities in Asia and we are dedicating capital and human resources to support the region's growth and development. We and our partners opened flagship stores in key cities such as Seoul, Shanghai, Hong Kong, Macau, Taipei and Beijing and we have partnered with licensees to develop our business in the second tier cities in this region. During fiscal 2012, we also launched our newer G by GUESS store concept in South Korea where we have 47 locations as of January 28, 2012. Our strategy in South Korea, with a combined 283 stores and concessions at January 28, 2012, is to continue to improve productivity and expand distribution for both our GUESS? and G by GUESS branded locations. We and our partners opened 89 stores and 107 concessions during fiscal 2012 across all of Asia and plan to open between 140 and 150 retail stores and concessions combined across all concepts in Asia during fiscal 2013.

The Company's investments in capital for the full fiscal year 2013 are planned between \$130 million and \$145 million (after deducting estimated lease incentives of approximately \$10 million). The planned investments in capital are primarily for expansion of our retail businesses in North America and Europe and store remodeling programs in North America.

*Other*

The Company reports National Retail Federation ("NRF") calendar comparable store sales on a quarterly basis for our stores in the U.S. and Canada. A store is considered comparable after it has been open for 13 full months. If a store remodel results in a square footage change of more than 15%, or involves a relocation or a change in store concept, the store is removed from the comparable store base until it has been opened at its new size, in its new location or under its new concept for 13 full months.

**Executive Summary**

*The Company*

Net earnings attributable to Guess?, Inc. decreased 8.3% to \$265.5 million, or diluted earnings of \$2.86 per common share, for the year ended January 28, 2012, compared to net earnings attributable to Guess?, Inc. of \$289.5 million, or diluted earnings of \$3.11 per common share, for the year ended January 29, 2011. In fiscal 2012, the Company recorded a pre-tax settlement charge of \$19.5 million (or \$17.6 million after considering a \$1.9 million reduction to income tax as a result of the charge), or \$0.19 per share. The charge related to a settlement agreement with one of the Company's third party logistics service providers in Europe to facilitate the transition to a new service provider. Adjusted diluted earnings, excluding the settlement charge, were \$3.05 per common share for the year ended January 28, 2012. The fiscal 2011 results included a benefit to revenues related to a revision in the estimated liability from the Company's loyalty program of \$6.7 million before taxes, or \$0.05 per diluted share. References to financial results excluding the impact of the settlement charge are non-GAAP measures and are addressed below under "Non-GAAP Measures."

Highlights of the Company's performance for the year ended January 28, 2012 compared to the prior year are presented below, followed by a more comprehensive discussion under "Results of Operations":

Total net revenue increased 8.1% to \$2.69 billion for the year ended January 28, 2012, from \$2.49 billion in the prior year. All of our segments contributed to the revenue growth. In constant U.S. dollars, revenues increased by 5.5%.

Gross margin (gross profit as a percentage of total net revenues) declined 50 basis points to 43.3% for the year ended January 28, 2012, compared to 43.8% in the prior year, due to a higher occupancy rate partially offset by higher overall product margins.



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Selling, general and administrative ("SG&A") expenses increased 9.8% to \$746.3 million for the year ended January 28, 2012, compared to \$679.8 million in the prior year. SG&A expenses as a percentage of revenues ("SG&A rate") increased by 50 basis points to 27.8% for the year ended January 28, 2012, compared to 27.3% in the prior year.

In addition to SG&A expenses described above, the Company recorded the \$19.5 million settlement charge and a \$1.2 million pre-tax supplemental executive retirement plan ("SERP") curtailment expense during fiscal 2012. In fiscal 2011, the Company recorded a \$5.8 million pre-tax SERP curtailment expense.

Earnings from operations decreased 1.8% to \$397.2 million for the year ended January 28, 2012, compared to \$404.6 million in the prior year. Operating margin declined 150 basis points to 14.8% for the year ended January 28, 2012, compared to 16.3% in the prior year. The settlement charge negatively impacted the operating margin in fiscal 2012 by 70 basis points.

Other income, net, (including interest income and expense) totaled \$2.1 million for the year ended January 28, 2012, compared to other income, net, of \$16.7 million in the prior year.

The effective income tax rate increased 210 basis points to 32.2% for the year ended January 28, 2012, compared to 30.1% in the prior year.

The Company had \$491.8 million in cash and cash equivalents as of January 28, 2012, up \$64.8 million, compared to \$427.0 million as of January 29, 2011. The Company invested \$92.0 million to repurchase approximately 3.2 million shares of its common stock during the fourth quarter of fiscal 2012.

Accounts receivable, which relates primarily to the Company's wholesale business in Europe, and to a lesser extent, to its wholesale businesses in North America and Asia, decreased by \$17.9 million, or 5.0%, to \$340.6 million at January 28, 2012, compared to \$358.5 million at January 29, 2011. On a constant dollar basis, accounts receivable decreased \$9.7 million, or 2.7%.

Inventory increased by \$33.9 million, or 11.5%, to \$328.6 million as of January 28, 2012, compared to \$294.7 million as of January 29, 2011. When measured in terms of finished goods units, inventory volumes increased by 15.0% as of January 28, 2012, when compared to January 29, 2011.

### *Europe*

In Europe, revenue increased by \$90.6 million, or 9.8%, to \$1.01 billion for the year ended January 28, 2012, compared to \$920.3 million in the prior year. In local currency, revenues increased by 4.7% over the same comparable period. The increase in reported revenues was driven by expansion of our directly operated retail stores (where comparable store sales declined) and the favorable currency translation impact resulting from fluctuations in foreign currency rates. This was partially offset by lower net revenues from our European wholesale businesses where higher apparel sales were more than offset by a decline in handbag and jewelry sales. At January 28, 2012, we directly operated 179 stores in Europe compared to 141 stores at January 29, 2011, excluding concessions, which represents a 27.0% increase over the prior year.

Earnings from operations from our Europe segment decreased by \$26.3 million, or 13.6%, to \$167.0 million for the year ended January 28, 2012, compared to \$193.3 million in the prior year. The decline includes the impact of the \$19.5 million settlement charge. Operating margin declined 450 basis points to 16.5% for the year ended January 28, 2012, compared to 21.0% for the prior year. In addition to the settlement charge, the decline was also driven by a higher occupancy rate, lower wholesale jewelry shipments and higher selling and distribution costs, partially offset by higher product margins as we continue to grow our retail business.

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***North American Retail***

Our North American Retail segment, comprising North American full-price retail stores, factory outlet stores and e-commerce, increased revenues by \$47.7 million, or 4.5%, to \$1.12 billion compared to \$1.07 billion in the prior year. The increase was driven primarily by a larger store base, partially offset by negative comparable store sales of 3.5% for our combined U.S. and Canadian stores (negative 4.1% in local currency, which excludes the favorable translation impact of currency fluctuations relating to our Canadian retail stores). In fiscal 2012, we opened 37 new stores in the U.S. and Canada and closed 14 stores. At January 28, 2012, we directly operated 504 stores in the U.S. and Canada compared to 481 stores as of January 29, 2011.

North American Retail earnings from operations increased by \$10.6 million, or 8.6%, to \$133.2 million for the year ended January 28, 2012, compared to \$122.6 million in the prior year. Operating margin improved by 40 basis points to 11.9% for the year ended January 28, 2012, compared to 11.5% for the year ended January 29, 2011, driven by higher product margins and a lower SG&A rate. The product margin improvement resulted from lower markdowns and selective price increases, partially offset by the negative impact of product cost inflation. The lower SG&A rate was driven mainly by the leveraging of store selling expenses. These increases were partially offset by occupancy deleverage, given the negative comparable store sales, and the prior year positive revenue impact of the revision in the estimated liability from the Company's loyalty program.

***Asia***

In Asia, revenue increased by \$49.8 million, or 24.8%, to \$250.7 million for the year ended January 28, 2012, compared to \$200.9 million in the prior year. In constant dollars, net revenues increased by 21.2% over the prior year. All of our Asian businesses contributed to this growth, led by our South Korea and Greater China businesses. We continued to expand our operations in the region, where we and our partners opened 89 stores and 107 concessions during the year ended January 28, 2012.

Earnings from operations from our Asia segment decreased slightly to \$28.5 million for the year ended January 28, 2012, compared to \$28.6 million in the prior year. Operating margin declined 290 basis points to 11.4% for the year ended January 28, 2012, compared to 14.3% for the prior year. The decrease was driven by a higher SG&A rate due to a larger store base and higher infrastructure investments to support our future growth in this region. In addition, gross margins were lower mainly due to higher promotional sales and channel mix in South Korea.

***North American Wholesale***

Our North American Wholesale segment revenue increased by \$6.4 million, or 3.5%, to \$187.4 million for the year ended January 28, 2012, from \$181.0 million in the prior year. In constant dollars, net revenues increased by 2.4%. During the year ended January 28, 2012, higher revenues from our Canadian and Mexican wholesale businesses were partially offset by lower revenues in our U.S. wholesale business.

North American Wholesale earnings from operations increased by \$1.0 million, or 2.2%, to \$47.2 million for the year ended January 28, 2012, compared to \$46.2 million in the prior year. Operating margin decreased by 30 basis points to 25.2% for the year ended January 28, 2012, compared to 25.5% for the year ended January 29, 2011, due primarily to increased distribution costs.

***Licensing***

Our Licensing royalty revenues increased by \$6.2 million, or 5.4%, to \$121.4 million compared to \$115.2 million in the prior year, driven by royalties from higher sales in our footwear, eyewear and watches categories, partially offset by lower sales in handbags. Earnings from operations increased by \$4.4 million

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to \$108.6 million for the year ended January 28, 2012, compared to \$104.2 million for the year ended January 29, 2011.

**Corporate Overhead**

Corporate overhead expenses decreased by \$3.0 million, or 3.3%, to \$87.2 million for the year ended January 28, 2012, from \$90.2 million in the prior year. The decrease was due primarily to the net impact of higher curtailment expense recorded in the prior year.

**Global Store Count**

In fiscal 2012, together with our partners, we opened 261 new stores worldwide, consisting of 120 stores in Europe and the Middle East, 89 stores in Asia, 37 stores in the U.S. and Canada and 15 stores in Central and South America. Together with our partners we closed 75 stores worldwide, including 33 stores in Europe and the Middle East, 23 stores in Asia, 14 stores in the U.S. and Canada and five stores in Central and South America.

We ended fiscal 2012 with 1,559 stores worldwide, comprised as follows:

<b>Region</b>	<b>Total Stores</b>	<b>Directly Operated Stores</b>	<b>Licensee Stores</b>
United States and Canada	504	504	
Europe and the Middle East	561	179	382
Asia	423	47	376
Other	71	25	46
<b>Total</b>	<b>1,559</b>	<b>755</b>	<b>804</b>

This store count does not include 349 concessions located primarily in South Korea and Greater China because of their smaller store size in relation to our standard international store size. Of the total 1,559 stores, 1,067 were GUESS? stores, 302 were GUESS? Accessories stores, 100 were GUESS by MARCIANO stores and 90 were G by GUESS stores.

**Critical Accounting Policies and Estimates**

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the U.S., which require management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on its historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management evaluates its estimates and judgments on an ongoing basis including those related to the valuation of inventories, accounts receivable allowances, sales return allowances, loyalty and gift card accruals, the useful life of assets for depreciation, restructuring expense and accruals, evaluation of asset impairment, recoverability of deferred taxes, unrecognized tax benefits, workers compensation and medical self-insurance expense and accruals, litigation reserves, pension obligations and share-based compensation.

The Company believes that the following significant accounting policies involve a higher degree of judgment and complexity. In addition to the accounting policies mentioned below, see Note 1 to the Consolidated Financial Statements for other significant accounting policies.

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*Accounts Receivable Reserves*

In the normal course of business, the Company grants credit directly to certain wholesale customers after a credit analysis is performed based on financial and other criteria. Accounts receivable are recorded net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses that result from the inability of its wholesale customers to make their required payments. The Company bases its allowances on analysis of the aging of accounts receivable at the date of the financial statements, assessments of historical collection trends, an evaluation of the impact of current economic conditions and whether the Company has obtained credit insurance or other guarantees.

Costs associated with customer markdowns are recorded as a reduction to revenues, and any unapplied amounts are included in the allowance for accounts receivable. Historically, these markdown allowances resulted from seasonal negotiations with the Company's wholesale customers, as well as historical trends and the evaluation of the impact of economic conditions.

*Sales Returns Reserves*

The Company accrues for estimated sales returns in the period in which the related revenue is recognized. To recognize the financial impact of sales returns, the Company estimates the amount of goods that will be returned based on historical experience and reduces sales and cost of sales accordingly based on historical return experience. The Company's policy allows retail customers in certain regions a grace period to return merchandise following the date of sale. Substantially all of these returns are considered to be resalable at a price that exceeds the cost of the merchandise.

*Inventory Reserves*

Inventories are valued at the lower of cost (primarily weighted average method) or market. The Company continually evaluates its inventories by assessing slow moving product as well as prior seasons' inventory. Market value of aged inventory is estimated based on historical sales trends for each product line category, the impact of market trends, an evaluation of economic conditions, available liquidation channels and the value of current orders relating to the future sales of this type of inventory. The Company closely monitors off-price sales to ensure the actual results closely match initial estimates. Estimates are regularly updated based upon this continuing review.

*Valuation of Goodwill, Intangible and Other Long-Lived Assets*

The Company assesses the impairment of its long-lived assets (i.e., goodwill, intangible assets and property and equipment), which requires the Company to make assumptions and judgments regarding the carrying value of these assets on an annual basis, or more frequently if events or changes in circumstances indicate that the assets might be impaired. An asset is considered to be impaired if the Company determines that the carrying value may not be recoverable based upon its assessment of the asset's ability to continue to generate income from operations and positive cash flow in future periods or if significant changes in the Company's strategic business objectives and utilization of the assets occurred. If the assets (other than goodwill) are assessed to be recoverable, they are depreciated or amortized over the periods benefited. If the assets are considered to be impaired, an impairment charge is recognized representing the amount by which the carrying value of the assets exceeds the fair value of those assets. Fair value is determined based upon the discounted cash flows derived from the underlying asset. We use various assumptions in determining current fair market value of these assets, including future expected cash flows and discount rates. Future expected cash flows for store assets are based on management's estimates of future cash flows over the remaining lease period or expected life, if shorter. If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be exposed to future impairment losses that could be material to our results of operations. See Notes 1 and 5 to the Consolidated Financial Statements for further discussion.

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*Pension Benefit Plan Actuarial Assumptions*

The Company's pension obligations and related costs are calculated using actuarial concepts, within the authoritative guidance framework. The discount rate and estimated future compensation are both important elements of expense and/or liability measurement. We evaluate these critical assumptions annually which enables us to state expected future payments for benefits as a present value on the measurement date. Refer to Note 10 to the Consolidated Financial Statements for Supplemental Executive Retirement Plan related information.

*Litigation Reserves*

Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in our consolidated balance sheets. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the expected probable favorable or unfavorable outcome of each claim. As additional information becomes available, the Company assesses the potential liability related to new claims and existing claims and revises estimates as appropriate. As new claims arise or existing claims evolve, such revisions in estimates of the potential liability could materially impact the results of operations and financial position.

*Share-Based Compensation*

Effective January 1, 2006, the Company adopted the fair value recognition provisions of authoritative guidance using the modified prospective transition method. Under this method, compensation cost recognized after January 1, 2006 includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with authoritative guidance. The fair value of each stock option is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions used for new grants. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The expected volatility is determined based on an average of both historical volatility and implied volatility. Implied volatility is derived from exchange traded options on the Company's common stock. The expected life used prior to November 2007 was based on the "simplified" method described in authoritative guidance. For options granted beginning November 2007, the expected term is determined based on historical trends. The dividend yield for 2006 and prior years was assumed to be zero since the Company had not historically declared and did not have a plan to declare dividends on an ongoing basis until the Board of Directors authorized and approved the initiation of quarterly dividends in February 2007. The expected dividend yield starting from 2007 is based on the Company's history and expectations of dividend payouts. The expected forfeiture rate is determined based on historical data. Compensation expense for nonvested stock options and stock awards is recognized on a straight-line basis over the vesting period.

In addition, the Company has granted certain nonvested stock awards and stock options in the past that require the recipient to achieve certain minimum performance targets in order for these awards to vest. If the minimum performance targets have not been achieved or are not expected to be achieved, no expense is recorded during the period.

*Income Taxes*

The Company adopted authoritative guidance in January 2007, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. Guidance was also

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provided on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of this guidance did not have a material impact on the Company's financial position and results of operations. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As required under applicable accounting rules, the Company accrues an amount for its estimate of additional income tax liability which the Company, more likely than not, could incur as a result of the ultimate resolution of tax audits ("uncertain tax positions"). The Company reviews and updates the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax audits, upon expiration of statutes of limitation, or upon occurrence of other events. The results of operations and financial position for future periods could be impacted by changes in assumptions or resolutions of tax audits.

Deferred tax assets and liabilities are determined based on differences between financial reporting bases and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. Deferred tax assets are reduced by valuation allowances if we believe it is more likely than not that some portion or the entire asset will not be realized. As all earnings from the Company's foreign operations are permanently reinvested and not distributed, the Company's income tax provision does not include additional U.S. taxes on foreign operations.

*Hedge Accounting*

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. The Company has entered into certain forward contracts to hedge the risk of foreign currency rate fluctuations. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these hedges.

The Company's objective is to hedge the variability in forecasted cash flows due to the foreign currency risk. Various transactions that occur in Canada, Europe and South Korea are denominated in U.S. dollars, British pounds or Swiss francs and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar denominated purchases of merchandise and U.S. dollar and British pound intercompany liabilities. In addition, certain sales, operating expenses and tax liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company enters into derivative financial instruments, including forward exchange contracts to offset some but not all of the exchange risk on certain of these anticipated foreign currency transactions. Changes in the fair value of forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income within stockholders' equity, and are recognized in cost of product sales, SG&A or other income and expenses in the period which approximates the time the hedged merchandise inventory is sold or the hedged operating expense and hedged intercompany liability is incurred.

The Company also has foreign currency contracts that are not designated as hedges for accounting purposes. Changes in fair value of foreign currency contracts not qualifying as cash flow hedges are reported in net earnings as part of other income and expense.

*Gift Card Breakage*

Gift card breakage is income recognized due to the non-redemption of a portion of gift cards sold by the Company for which a liability was recorded in prior periods. Estimated breakage amounts are accounted for under the redemption recognition method and are classified as additional net revenues as the gift cards are redeemed. The Company determined a gift card breakage rate based upon historical redemption patterns, which represented the cumulative estimated amount of gift card breakage from the

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inception of the electronic gift card program in late 2002. Any future revisions to the estimated breakage rate may result in changes in the amount of breakage income recognized in future periods. See Note 1 to the Consolidated Financial Statements for further information regarding the recognition of gift card breakage.

*Loyalty Programs*

The Company launched customer loyalty programs for its G by GUESS, GUESS? and GUESS by MARCIANO stores in July 2009, August 2008 and September 2007, respectively. The GUESS? and GUESS by MARCIANO loyalty programs were merged in May 2009. Under the programs, customers accumulate points based on purchase activity. Once a loyalty program member achieves a certain point level, the member earns awards that may only be redeemed for merchandise. In all of the programs, unredeemed points generally expire after six months and unredeemed awards generally expire after two months. Due to the relative newness of the programs, prior to fiscal 2011, all unexpired, unredeemed points and awards were accrued in current liabilities and recorded as a reduction of net sales as points and awards were accumulated by the member. In fiscal 2011, based on the accumulation of multiple cycles of actual redemptions experienced since inception of the programs, the Company revised its approach to estimate the value of future award redemptions under the existing loyalty program by incorporating historical redemption rates. In connection with this revision, the Company recorded a cumulative adjustment of \$6.7 million in fiscal 2011 to increase net revenue and to adjust the current liability balance to an amount reflecting estimated future award redemptions. This adjustment had a favorable impact of \$0.05 per share. The aggregate dollar value of the loyalty program accruals included in accrued liabilities was \$2.3 million and \$2.7 million at January 28, 2012 and January 29, 2011, respectively. Future revisions to the estimated liability may result in changes to net revenue.

**RESULTS OF OPERATIONS**

The following table sets forth actual operating results for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 as a percentage of net revenue:

	Year Ended		
	Jan. 28, 2012	Jan. 29, 2011	Jan. 30, 2010
Product sales	95.5%	95.4%	95.4%
Net royalties	4.5	4.6	4.6
Net revenue	100.0	100.0	100.0
Cost of product sales	56.7	56.2	55.8
Gross profit	43.3	43.8	44.2
Selling, general and administrative expenses	27.8	27.3	27.3
Settlement charge	0.7		
Pension curtailment expense	0.0	0.2	
Earnings from operations	14.8	16.3	16.9
Interest expense	(0.1)	(0.1)	(0.1)
Interest income	0.2	0.1	0.1
Other income, net	0.0	0.6	0.1
Earnings before income taxes	14.9	16.9	17.0
Income taxes	4.8	5.1	5.4
Net earnings	10.1	11.8	11.6
Net earnings attributable to noncontrolling interests	0.2	0.2	0.2
Net earnings attributable to Guess?, Inc.	9.9%	11.6%	11.4%

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**Year Ended January 28, 2012 Compared to Year Ended January 29, 2011**

**NET REVENUE.** Net revenue for the year ended January 28, 2012 increased by \$200.7 million, or 8.1%, to \$2.69 billion from \$2.49 billion for the year ended January 29, 2011. All of our segments contributed to the revenue growth. In constant U.S. dollars, revenues increased by 5.5% as currency translation fluctuations relating to our foreign operations favorably impacted net revenue by \$65.2 million compared to the same prior-year period.

Net revenue from our Europe operations increased by \$90.6 million, or 9.8%, to \$1.01 billion for the year ended January 28, 2012, from \$920.3 million for the year ended January 29, 2011. In local currency, revenues increased by 4.7% over the same comparable period. The increase in reported revenues was driven by expansion of our directly operated retail stores (where comparable store sales declined) and the favorable currency translation impact resulting from fluctuations in foreign currency rates. This was partially offset by lower net revenues from our European wholesale businesses, where higher apparel sales were more than offset by a decline in handbag and jewelry sales. At January 28, 2012, we directly operated 179 stores in Europe compared to 141 stores at January 29, 2011, excluding concessions, which represents a 27.0% increase over the prior year. Shipments in our existing wholesale business were unfavorably impacted in the first quarter of fiscal 2012 by the earlier spring product deliveries that benefitted the fourth quarter of fiscal 2011. Currency translation fluctuations relating to our European operations favorably impacted net revenue by \$48.9 million.

Net revenue from our North American Retail operations increased by \$47.7 million, or 4.5%, to \$1.12 billion for the year ended January 28, 2012, from \$1.07 billion for the year ended January 29, 2011. The increase was due primarily to a larger store base, partially offset by negative comparable store sales of 3.5% for our combined U.S. and Canadian stores (negative 4.1% in local currency, which excludes the favorable translation impact of currency fluctuations relating to our Canadian retail stores). The store base increased by an average of 38 net additional stores during the year ended January 28, 2012 compared to the prior year, resulting in a net 8.5% increase in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores favorably impacted net revenue in our North American Retail segment by \$7.1 million.

Net revenue from our Asia operations increased by \$49.8 million, or 24.8%, to \$250.7 million for the year ended January 28, 2012, from \$200.9 million for the year ended January 29, 2011. In constant dollars, net revenue increased by 21.2%. We continued to grow our Asia business, where we and our partners opened 89 stores and 107 concessions during the year ended January 28, 2012. All of our Asian businesses contributed to this growth, driven by our South Korea and Greater China businesses, with stronger existing door performance and a greater number of doors compared to the prior year. Currency translation fluctuations relating to our Asia operations favorably impacted net revenue in our Asia segment by \$7.2 million.

Net revenue from our North American Wholesale operations increased by \$6.4 million, or 3.5%, to \$187.4 million for the year ended January 28, 2012, from \$181.0 million for the year ended January 29, 2011. In constant dollars, net revenues increased by 2.4%. This increase was driven by higher revenues in our Canadian and Mexican wholesale businesses. Currency translation fluctuations relating to our non-U.S. wholesale businesses favorably impacted net revenue in our North American Wholesale segment by \$2.0 million.

Net royalty revenue from Licensing operations increased by \$6.2 million, or 5.4%, to \$121.4 million for the year ended January 28, 2012, from \$115.2 million for the year ended January 29, 2011. This increase was driven by royalties on higher sales in our footwear, eyewear and watches categories, partially offset by lower sales in handbags.

**GROSS PROFIT.** Gross profit increased by \$74.1 million, or 6.8%, to \$1.16 billion for the year ended January 28, 2012, from \$1.09 billion for the year ended January 29, 2011 due to the growth in revenue



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which included the favorable impact of currency translation and improved product margins, partially offset by higher occupancy costs. All segments contributed to the growth in gross profit.

Gross margin declined 50 basis points to 43.3% for the year ended January 28, 2012, from 43.8% for the year ended January 29, 2011. While the overall product margins improved in the year ended January 28, 2012 as a result of lower markdowns in North American Retail and the greater mix of retail in Europe, this was more than offset by the higher occupancy rate driven by negative comparable store sales in North America and Europe as well as retail expansion in Europe.

The Company's gross margin may not be comparable to other entities since some entities include all of the costs related to their distribution in cost of product sales and others, like the Company, generally exclude the wholesale related distribution costs from gross margin, including them instead in SG&A expenses. Additionally, some entities include retail store occupancy costs in SG&A expenses and others, like the Company, include retail store occupancy costs in cost of product sales.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** SG&A expenses increased by \$66.5 million, or 9.8%, to \$746.3 million for the year ended January 28, 2012, from \$679.8 million for the year ended January 29, 2011. The increase in SG&A expenses, which included the unfavorable impact of currency translation, was due to higher selling and distribution expenses in Europe, higher store selling expenses in Europe and Asia and higher global advertising expenses. These increases were partially offset by lower performance-based compensation expenses.

The Company's SG&A rate increased by 50 basis points to 27.8% for the year ended January 28, 2012, compared to 27.3% in the prior year. The SG&A rate was negatively impacted by lower international jewelry shipments and higher selling and distribution costs in Europe, partially offset by lower performance-based compensation expenses and improved store selling expense management in our North American Retail segment.

**SETTLEMENT CHARGE.** During fiscal 2012, we experienced a temporary disruption with one of our third party logistics service providers in Europe and subsequently entered into a settlement agreement with this service provider to facilitate a transition to a new service provider. As a result, the Company recorded a \$19.5 million settlement charge related to amounts paid in connection with this agreement.

**PENSION CURTAILMENT EXPENSE.** During the year ended January 28, 2012, the Company recorded a SERP curtailment expense of \$1.2 million before taxes related to the accelerated amortization of prior service cost resulting from the retirement of Maurice Marciano as an employee and executive officer, effective upon the expiration of his employment agreement on January 28, 2012. Mr. Maurice Marciano did not receive or earn any additional SERP-related benefits in connection with his retirement and, as of the date of his retirement, ceased vesting or accruing any additional benefits under the terms of the SERP. During the year ended January 29, 2011, the Company recorded a SERP curtailment expense of \$5.8 million before taxes related to the accelerated amortization of prior service cost resulting from the departure of Carlos Alberini, the Company's former President and Chief Operating Officer. Mr. Alberini did not receive any termination payments in connection with his departure and, as of the date of his departure, he ceased vesting or accruing any additional benefits under the terms of the SERP. Mr. Maurice Marciano's retirement and Mr. Alberini's departure each resulted in a significant reduction in the total expected remaining years of future service of all SERP participants combined, resulting in the pension curtailment during each of the separate periods.

**EARNINGS FROM OPERATIONS.** Earnings from operations decreased by \$7.4 million, or 1.8%, to \$397.2 million for the year ended January 28, 2012, from \$404.6 million for the year ended January 29,

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2011. Currency translation fluctuations relating to our foreign operations favorably impacted earnings from operations by \$9.6 million. The change in earnings from operations by segment are as follows:

Earnings from operations for the Europe segment decreased \$26.3 million to \$167.0 million for the year ended January 28, 2012, compared to \$193.3 million for the year ended January 29, 2011. The decline resulted from the \$19.5 million settlement charge, lower wholesale jewelry and handbag shipments and higher selling and distribution costs. These decreases were partially offset by the higher profits from the growth in retail stores, net of higher occupancy costs, and improvement in product margins. Currency translation fluctuations favorably impacted earnings from operations by \$7.5 million.

Earnings from operations for the North American Retail segment increased by \$10.6 million to \$133.2 million for the year ended January 28, 2012, compared to \$122.6 million for the year ended January 29, 2011. The increase reflects the impact of improved product margins, better expense management in the stores and profits from new stores, partially offset by the impact on profits from negative comparable store sales and the prior year positive revenue impact of the revision in the estimated liability from the Company's loyalty program.

Earnings from operations for the Asia segment decreased slightly to \$28.5 million for the year ended January 28, 2012, compared to \$28.6 million for the year ended January 29, 2011. The favorable impact to earnings from higher sales was offset by higher occupancy and store selling costs due to a larger retail store base, lower product margins and other infrastructure investments in SG&A to support our future growth in the region.

Earnings from operations for the North American Wholesale segment increased by \$1.0 million to \$47.2 million for the year ended January 28, 2012, compared to \$46.2 million for the year ended January 29, 2011. The favorable impact to earnings from sales growth was partially offset by higher SG&A expenses, mainly due to increased distribution costs.

Earnings from operations for the Licensing segment increased by \$4.4 million to \$108.6 million for the year ended January 28, 2012, compared to \$104.2 million for the year ended January 29, 2011. The increase was driven by increased royalties due to higher sales partially offset by higher advertising expenses.

Unallocated corporate overhead decreased by \$3.0 million to \$87.2 million for the year ended January 28, 2012, compared to \$90.2 million for the year ended January 29, 2011. The decrease was due primarily to the net impact of the higher curtailment expense recorded in the prior year.

Operating margin declined 150 basis points to 14.8% for the year ended January 28, 2012, compared to 16.3% for the year ended January 29, 2011. Operating margin was negatively impacted by a higher overall occupancy rate, the settlement charge and a higher SG&A rate, partially offset by an improvement in product margins.

**INTEREST EXPENSE AND INTEREST INCOME.** Interest expense increased to \$2.0 million for the year ended January 28, 2012, compared to \$1.2 million for the year ended January 29, 2011. Interest expense includes the impact of hedge ineffectiveness of foreign currency forward contracts designated as cash flow hedges. At January 28, 2012, total borrowings, related primarily to our capital lease in Europe, were \$12.2 million, compared to \$14.4 million at January 29, 2011. The average debt balance for the year ended January 28, 2012, was \$13.6 million, versus an average debt balance of \$14.7 million for the year ended January 29, 2011. Interest income increased to \$3.1 million for the year ended January 28, 2012, compared to \$1.6 million for the year ended January 29, 2011, due to higher interest rates on invested cash, partially offset by lower average invested cash balances as a result of the special dividend in the fourth quarter of the prior year.

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**OTHER INCOME, NET.** Other income, net, was \$1.0 million for the year ended January 28, 2012, compared to other income, net, of \$16.4 million for the year ended January 29, 2011. Other income, net, in the year ended January 28, 2012 consisted primarily of net unrealized mark-to-market revaluation gains on foreign currency contracts and other foreign currency balances. Other income, net, in the year ended January 29, 2011 consisted primarily of net unrealized mark-to-market revaluation gains on other foreign currency balances and foreign currency contracts and net unrealized gains on non-operating assets.

**INCOME TAXES.** Income tax expense for the year ended January 28, 2012 was \$128.7 million, or a 32.2% effective tax rate, compared to income tax expense of \$126.9 million, or a 30.1% effective tax rate, for the year ended January 29, 2011. The increase in the effective tax rate in the year ended January 28, 2012 was due in part to the settlement charge recorded in fiscal 2012, which unfavorably impacted the mix of taxable income among the Company's tax jurisdictions and increased the effective tax rate by 100 basis points. The effective tax rate was also negatively impacted by a larger mix of taxable income in higher tax jurisdictions compared to the prior year.

**NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS.** Net earnings attributable to noncontrolling interests in subsidiaries for the year ended January 28, 2012 was \$5.2 million, net of taxes, compared to \$5.0 million, net of taxes, for the year ended January 29, 2011. The increase was due to higher earnings in our majority-owned Mexican subsidiary, partially offset by lower earnings from our majority-owned European subsidiaries.

**NET EARNINGS ATTRIBUTABLE TO GUESS?, INC.** Net earnings attributable to Guess?, Inc. decreased by \$24.0 million, or 8.3%, to \$265.5 million for the year ended January 28, 2012, from \$289.5 million for the year ended January 29, 2011. Diluted earnings per common share decreased to \$2.86 per share for the year ended January 28, 2012, compared to \$3.11 per share for the year ended January 29, 2011. The results for the year ended January 28, 2012 included the \$0.19 per share settlement charge. Adjusted diluted earnings, excluding the settlement charge, was \$3.05 per common share for the year ended January 28, 2012. References to financial results excluding the impact of the settlement charge are non-GAAP measures and are addressed below under "Non-GAAP Measures."

**Year Ended January 29, 2011 Compared to Year Ended January 30, 2010**

**NET REVENUE.** Net revenue for the year ended January 29, 2011 increased by \$358.8 million, or 16.9%, to \$2.49 billion, from \$2.13 billion for the year ended January 30, 2010. Revenues increased in all our segments and our international business drove the majority of our revenue growth. On a combined basis, our Europe and Asia segments represented 63.2% of the revenue increase. In constant U.S. dollars, revenues increased by 18.2% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue by \$28.1 million compared to the prior year.

Net revenue from our Europe operations increased by \$173.1 million, or 23.2%, to \$920.3 million for the year ended January 29, 2011, from \$747.2 million for the year ended January 30, 2010. All of our European businesses contributed to this growth. We expanded our base of directly operated stores and our existing stores generated positive comparable store sales. Our existing wholesale business also grew in the year, which included sales from our new international jewelry business and earlier deliveries of our spring product, primarily in our accessories business, which resulted in a favorable shift of orders delivered in the fourth quarter of fiscal 2011 which would have normally occurred during the first quarter of fiscal 2012. At January 29, 2011, we directly operated 141 stores in Europe compared to 84 stores at the prior year end, excluding concessions. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue by \$62.0 million.

Net revenue from our North American Retail operations increased by \$86.0 million, or 8.7%, to \$1.07 billion for the year ended January 29, 2011, from \$983.9 million for the year ended January 30, 2010. This increase was due primarily to a larger store base, positive comparable store sales of 2.9% (1.1% in

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local currency, which excludes the favorable translation impact of currency fluctuations relating to our Canadian retail stores) and a \$6.7 million increase to revenues related to a revision in the estimated liability from the Company's loyalty program. The store base increased by an average of 22 net additional stores during the year ended January 29, 2011 compared to the prior year, resulting in a net 4.4% increase in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores favorably impacted net revenue in our North American Retail segment by \$19.3 million.

Net revenue from our Asia operations increased by \$53.6 million, or 36.4%, to \$200.9 million for the year ended January 29, 2011, from \$147.3 million for the year ended January 30, 2010. We continued to grow our Asia business, where we, along with our partners, opened 43 stores and 80 concessions during the year ended January 29, 2011. Our South Korea business continued to drive the growth in this region with a greater number of doors compared to the same prior-year period and stronger existing door performance. Our Greater China business also increased revenues as we continue to develop our business in this region in both first and second tier cities. Currency translation fluctuations relating to our South Korea business favorably impacted net revenue in our Asia segment by \$9.8 million.

Net revenue from our North American Wholesale operations increased by \$28.3 million, or 18.5%, to \$181.0 million for the year ended January 29, 2011, from \$152.7 million for the year ended January 30, 2010. The increase was driven by higher sales in all our businesses, led by the U.S. wholesale business. Currency translation fluctuations relating to our non-U.S. wholesale businesses favorably impacted net revenue in our North American Wholesale segment by \$4.8 million.

Net royalty revenue from Licensing operations increased by \$17.8 million, or 18.4%, to \$115.2 million for the year ended January 29, 2011, from \$97.4 million for the year ended January 30, 2010. This increase was driven by royalties on higher sales in our watches, handbags, footwear and eyewear categories, partially offset by the loss of royalties as a result of the direct operation of our international jewelry business since January 2010.

**GROSS PROFIT.** Gross profit increased by \$148.7 million, or 15.8%, to \$1.09 billion for the year ended January 29, 2011, from \$941.5 million for the year ended January 30, 2010 due to the growth in revenue, partially offset by higher occupancy costs. While all segments contributed to the growth, the largest increase in gross profit came from our Europe segment.

Gross margin declined 40 basis points to 43.8% for the year ended January 29, 2011, from 44.2% for the year ended January 30, 2010. The negative impact of the stronger U.S. dollar on product purchases, increased occupancy costs due to retail expansion in Europe, lower initial markups in Europe, and higher markdowns in our North American Retail segment were the main factors contributing to the lower gross margin.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** SG&A expenses increased by \$97.1 million, or 16.7%, to \$679.8 million for the year ended January 29, 2011, from \$582.7 million for the year ended January 30, 2010. The increase was driven by higher expenses and infrastructure costs to support our global retail expansion, higher volume driven expenses and higher marketing investments to enhance our brand's awareness around the world. The Company's SG&A rate remained flat at 27.3% for the year ended January 29, 2011 compared to the prior year.

**PENSION CURTAILMENT EXPENSE.** In fiscal 2011, the Company recorded a SERP curtailment expense of \$5.8 million before taxes related to the accelerated amortization of prior service cost resulting from the departure of Carlos Alberini, the Company's former President and Chief Operating Officer. Mr. Alberini did not receive any termination payments in connection with his departure and, as of the date of his departure, he ceased vesting or accruing any additional benefits under the terms of the SERP. Mr. Alberini's departure resulted in a significant reduction in the total expected remaining years of future service of all SERP participants combined, resulting in the pension curtailment.

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**EARNINGS FROM OPERATIONS.** Earnings from operations increased by \$45.8 million, or 12.8%, to \$404.6 million for the year ended January 29, 2011, from \$358.8 million for the year ended January 30, 2010. The increase in earnings from operations resulted primarily from the following:

Earnings from operations for the Europe segment increased \$20.1 million to \$193.3 million for the year ended January 29, 2011, compared to \$173.2 million for the year ended January 30, 2010. The increase was driven by sales growth from all of our European businesses, led by the expansion of our directly operated retail store base, improved product margins in our directly operated stores and higher sales from our new jewelry business. This increase was partially offset by lower gross margins due to the stronger U.S. dollar's impact on product purchases, higher occupancy costs, given our retail expansion in the region and lower initial markups. Currency translation fluctuations unfavorably impacted earnings from operations by \$13.6 million.

Earnings from operations for the North American Retail segment decreased by \$9.7 million to \$122.6 million for the year ended January 29, 2011, compared to \$132.3 million for the year ended January 30, 2010. The decrease in earnings from operations was due primarily to higher expenses to support our retail store expansion, the impact of higher markdowns on product margins and higher marketing costs, partially offset by the favorable impact to earnings from the higher sales and the \$6.7 million benefit to revenues related to a revision in the estimated liability from the Company's loyalty program. Currency translation fluctuations relating to our non-U.S. retail stores favorably impacted earnings from operations by \$3.2 million.

Earnings from operations for the Asia segment increased by \$12.8 million to \$28.6 million for the year ended January 29, 2011, compared to \$15.8 million for the year ended January 30, 2010. The increase was driven by growth in all of our businesses in the region, the leveraging of occupancy and SG&A expenses, and overall higher product margins. Currency translation fluctuations relating to our South Korea business favorably impacted earnings from operations by \$1.6 million.

Earnings from operations for the North American Wholesale segment increased by \$11.0 million to \$46.2 million for the year ended January 29, 2011, compared to \$35.2 million for the year ended January 30, 2010. The increase in earnings from operations was mainly due to sales growth and the leveraging of SG&A expenses. Currency translation fluctuations relating to our non-U.S. wholesale businesses favorably impacted earnings from operations by \$1.5 million.

Earnings from operations for the Licensing segment increased by \$17.6 million to \$104.2 million for the year ended January 29, 2011, compared to \$86.6 million for the year ended January 30, 2010. The increase was driven by increased royalties due to higher licensed product sales, partially offset by the loss of royalties as a result of the direct operation of our international jewelry business since January 2010.

Unallocated corporate overhead increased by \$5.9 million to \$90.2 million for the year ended January 29, 2011, compared to \$84.3 million for the year ended January 30, 2010. The increase was driven primarily by the pension curtailment expense.

Operating margin decreased 60 basis points to 16.3% for the year ended January 29, 2011, compared to 16.9% for the year ended January 30, 2010. The operating margin decrease was due primarily to the overall lower gross margins.

**INTEREST EXPENSE AND INTEREST INCOME.** Interest expense decreased to \$1.2 million for the year ended January 29, 2011, compared to \$2.2 million for the year ended January 30, 2010. At January 29, 2011, total borrowings, related primarily to our capital lease in Europe, was \$14.4 million, compared to \$16.5 million at January 30, 2010. The decrease was due to lower average debt balances in Europe. The average debt balance for the year ended January 29, 2011, was \$14.7 million, versus an average debt balance of \$42.5 million for the year ended January 30, 2010, which included the use of certain lines of

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credit during the prior year. Interest income decreased slightly to \$1.6 million for the year ended January 29, 2011, compared to \$1.7 million for the year ended January 30, 2010.

**OTHER INCOME, NET.** Other income, net, was \$16.4 million for the year ended January 29, 2011, compared to other income, net, of \$3.6 million for the year ended January 30, 2010. Other income, net, in the year ended January 29, 2011 consisted primarily of net unrealized mark-to-market revaluation gains on other foreign currency balances and foreign currency contracts and net unrealized gains on non-operating assets. Other income, net, for the year ended January 30, 2010 resulted primarily from net unrealized gains on non-operating assets, partially offset by net unrealized mark-to-market revaluation losses on other foreign currency balances and foreign currency contracts.

**INCOME TAXES.** Income tax expense for the year ended January 29, 2011 was \$126.9 million, or a 30.1% effective tax rate, compared to income tax expense of \$115.6 million, or a 31.9% effective tax rate, for the year ended January 30, 2010. The lower tax rate in the current year was due primarily to a larger mix of taxable income in lower tax jurisdictions in fiscal 2011.

**NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS.** Net earnings attributable to noncontrolling interests in subsidiaries for the year ended January 29, 2011 was \$5.0 million, net of taxes, as compared to \$3.6 million, net of taxes, for the year ended January 30, 2010. The increase was due to higher earnings from our Mexico operations.

**NET EARNINGS ATTRIBUTABLE TO GUESS?, INC.** Net earnings attributable to Guess?, Inc. increased by \$46.7 million, or 19.3%, to \$289.5 million for the year ended January 29, 2011, from \$242.8 million for the year ended January 30, 2010. Diluted earnings per common share increased to \$3.11 per share for the year ended January 29, 2011, compared to \$2.61 per share for the year ended January 30, 2010.

**NON-GAAP MEASURES**

The Company's reported financial results are presented in accordance with GAAP. The reported net earnings attributable to Guess?, Inc. and diluted earnings per share for the year ended January 28, 2012 reflect the impact of a settlement charge which affects the comparability of those reported results. Those financial results are also presented on a non-GAAP basis, as defined in Section 10(e) of Regulation S-K of the SEC, to exclude the effect of this item. The Company believes that these "non-GAAP" or "adjusted" financial measures are useful as an additional means for investors to evaluate the Company's operating results when reviewed in conjunction with the Company's GAAP financial statements. The non-GAAP measures are provided in addition to, and not as alternatives for, the Company's reported GAAP results.

The adjusted measures exclude the impact of a settlement charge incurred during the year ended January 28, 2012. Near the end of the second quarter of fiscal 2012, the Company experienced a temporary disruption with one of its third party logistics service providers in Europe. Following this disruption in service, the Company entered into a settlement agreement with this service provider to facilitate a transition to a new service provider, resulting in a pre-tax settlement charge of \$19.5 million (or \$17.6 million after considering a \$1.9 million reduction to income tax as a result of the charge), or \$0.19 per share, in the year ended January 28, 2012 related to amounts paid in connection with this agreement. The estimated income tax effect of the charge is based on the Company's assessment of deductibility using the statutory tax rate of the tax jurisdiction in which the charge was incurred. On a GAAP basis, net earnings attributable to Guess?, Inc. for the year ended January 28, 2012 was \$265.5 million and diluted earnings per common share for the year ended January 28, 2012 was \$2.86. Excluding the impact of the settlement charge and the related tax impact, adjusted net earnings attributable to Guess?, Inc. for the year ended January 28, 2012 was \$283.1 million and adjusted diluted earnings per common share for the year ended January 28, 2012 was \$3.05.

Our discussion and analysis above also includes certain constant currency financial information. Foreign currency exchange rate fluctuations affect the amount reported from translating the Company's foreign revenues and expenses into U.S. dollars. These rate fluctuations can have a significant effect on reported operating results under GAAP. The Company provides constant currency information to help investors assess how our businesses performed excluding the effects of changes in foreign currency translation rates. To calculate revenues and earnings from operations on a constant currency basis, operating results for the current year period for entities reporting in currencies other than U.S. dollars are translated into U.S. dollars at the average exchange rates in effect during the comparable period of the prior year. The constant currency calculations do not adjust for the impact of revaluing specific transactions denominated in a currency that is different to the functional currency of that entity when exchange rates fluctuate. The constant currency information presented may not be comparable to similarly titled measures reported by other companies.

## **LIQUIDITY AND CAPITAL RESOURCES**

We need liquidity primarily to fund our working capital, the expansion and remodeling of our retail stores, shop-in-shop programs, concessions, systems, infrastructure, other existing operations, international growth, potential acquisitions, potential share repurchases and payment of dividends to our stockholders. During the fiscal year ended January 28, 2012, the Company relied on trade credit, available cash, real estate leases, and internally generated funds to finance our operations and expansion. The Company anticipates that we will be able to satisfy our ongoing cash requirements during the next twelve months for working capital, capital expenditures, interest and principal payments on our debt, potential acquisitions, potential share repurchases and dividend payments to stockholders, primarily with cash flow from operations and existing cash balances supplemented by borrowings, if necessary, under the Credit Facility and bank facilities in Europe, as described below under "Credit Facilities." As of January 28, 2012, the Company had cash and cash equivalents of \$491.8 million and short-term investments of \$4.1 million. Approximately half of the Company's cash and cash equivalents were held outside of the U.S. Excess cash and cash equivalents, which represent the majority of our outstanding cash and cash equivalents balance, are held primarily in four diversified money market funds and in overnight deposit and short-term time deposit accounts. The money market funds are all AAA rated by national credit rating agencies and are generally comprised of high-quality, liquid investments. Please see "Part I, Item 1A. Risk Factors" for a discussion of risk factors which could reasonably be likely to result in a decrease of internally generated funds available to finance capital expenditures and working capital requirements.

The Company has presented below the cash flow performance comparison of the year ended January 28, 2012, versus the year ended January 29, 2011.

### **Operating Activities**

Net cash provided by operating activities was \$364.5 million for the fiscal year ended January 28, 2012, compared to \$346.4 million for the fiscal year ended January 29, 2011, or an increase of \$18.1 million. The increase was driven by the receipt of a fixed cash rights payment of \$35.0 million in January 2012 from one of our licensees and the favorable impact of changes in working capital, partially offset by lower net earnings of \$23.9 million for the year ended January 28, 2012 versus the prior year. The change in working capital was driven primarily by the lower accounts receivable balance at the end of fiscal 2012 compared to fiscal 2011 as the rate of sales growth in Europe slowed compared to the prior-year period, partially offset by the timing of payments for current liabilities and taxes compared to the same prior-year period.

At January 28, 2012, the Company had working capital (including cash and cash equivalents) of \$841.4 million compared to \$732.6 million at January 29, 2011. The Company's primary working capital needs are for inventory and accounts receivable. Accounts receivable at January 28, 2012 amounted to \$340.6 million, down \$17.9 million, compared to \$358.5 million at January 29, 2011. The accounts receivable balance relates primarily to the Company's wholesale business in Europe, and to a lesser extent,

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to its wholesale businesses in North America and Asia. On a constant dollar basis, accounts receivable decreased by \$9.7 million, or 2.7%. Approximately \$192.5 million of our receivables, or 57% of the \$340.6 million in accounts receivable at January 28, 2012, were insured for collection purposes or subject to certain bank guarantees or letters of credit. Inventory at January 28, 2012 increased to \$328.6 million, or 11.5%, compared to \$294.7 million at January 29, 2011. The increase in inventory supports primarily the expansion of our retail business in Europe, and also reflects the recent impact of reduced customer demand in Europe, as well as growth in our Asian and North American operations. When measured in terms of finished goods units, inventory volumes increased by 15.0% as of January 28, 2012, when compared to January 29, 2011.

### **Investing Activities**

Net cash used in investing activities was \$132.1 million for the fiscal year ended January 28, 2012, compared to \$146.1 million for the fiscal year ended January 29, 2011. Cash used in investing activities related primarily to the expansion of our North American Retail and Europe businesses and capital expenditures incurred on existing store remodeling programs in North America.

The decrease in cash used in investing activities related primarily to a net decrease in investments in marketable securities during the current year compared to the prior year. This was partially offset by net payments for settlement of forward contracts during the year ended January 28, 2012 compared to net cash receipts for settlement of forward contracts in the prior year. During the fiscal year ended January 28, 2012, the Company opened 107 directly-operated stores compared to 126 directly-operated stores that were opened in the prior year.

### **Financing Activities**

Net cash used in financing activities was \$163.0 million for the fiscal year ended January 28, 2012, compared to \$277.0 million for the fiscal year ended January 29, 2011. The decrease in net cash used in financing activities in fiscal 2012 compared to the fiscal 2011 was due primarily to the payment of a special dividend in fiscal 2011 of \$2.00 per share, partially offset by higher repurchases of shares of the Company's common stock during the fiscal 2012. During fiscal 2012, the Company repurchased 3,216,514 shares under the 2011 Share Repurchase Program at an aggregate cost of \$92.0 million. During fiscal 2011, the Company repurchased 1,500,000 shares under the 2008 Share Repurchase Program at an aggregate cost of \$49.3 million.



**Contractual Obligations and Commitments**

The following table summarizes the Company's contractual obligations at January 28, 2012 and the effects such obligations are expected to have on liquidity and cash flow in future periods (dollars in thousands):

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations:</b>					
Short-term borrowings	\$ 311	\$ 311	\$	\$	\$
Capital lease obligations(1)	13,427	2,197	4,214	7,016	
Operating lease obligations(2)	1,098,937	180,558	325,845	255,358	337,176
Purchase obligations(3)	184,705	184,705			
Benefit obligations(4)	103,971	405	2,585	4,162	96,819
<b>Total</b>	<b>\$ 1,401,351</b>	<b>\$ 368,176</b>	<b>\$ 332,644</b>	<b>\$ 266,536</b>	<b>\$ 433,995</b>
Other commercial commitments(5)	\$ 1,022	\$ 1,022	\$	\$	\$

- (1) Includes interest on capital lease obligations.
- (2) Does not include insurance, taxes and common area maintenance charges. In fiscal 2012, these variable charges totaled \$64.3 million.
- (3) Purchase obligations represent open purchase orders for merchandise at the end of the fiscal year. These purchase orders can be impacted by various factors, including the scheduling of market weeks, the timing of issuing orders, the timing of the shipment of orders and currency fluctuations. Accordingly, a comparison of purchase orders from period to period is not necessarily meaningful.
- (4) Includes expected payments associated with the deferred compensation plan and the Supplemental Executive Retirement Plan through fiscal 2045.
- (5) Consists of standby letters of credit for guarantee of foreign subsidiary's borrowings, workers' compensation and general liability insurance.

Excluded from the above contractual obligations table is the non-current liability for unrecognized tax benefits, including penalties and interest, of \$16.7 million. This liability for unrecognized tax benefits has been excluded because the Company cannot make a reliable estimate of the period in which the liability will be settled, if ever.

**Dividends**

During the first quarter of fiscal 2008, the Company announced the initiation of a quarterly cash dividend of \$0.06 per share of the Company's common stock. Since that time, the Company has continued to pay a quarterly cash dividend, which has subsequently increased to \$0.20 per common share.

During the fourth quarter of fiscal 2011, the Company paid a special cash dividend of \$2.00 per share of the Company's common stock, totaling approximately \$184 million, and a regular quarterly cash dividend of \$0.20 per share. For the years ended January 28, 2012, January 29, 2011 and January 30, 2010, the Company paid dividends of \$74.4 million, \$247.1 million and \$41.6 million, respectively.

On March 14, 2012, the Company announced a regular quarterly cash dividend of \$0.20 per share of the Company's common stock. The dividend will be payable on April 13, 2012 to stockholders of record at the close of business on March 28, 2012.

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The payment of cash dividends in the future will be at the discretion of our Board of Directors and will be based on a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service requirements, cash paid for income taxes, earnings, share repurchases and liquidity.

### Capital Expenditures

Gross capital expenditures totaled \$123.5 million, before deducting lease incentives of \$10.5 million, for the fiscal year ended January 28, 2012. This compares to gross capital expenditures of \$123.1 million, before deducting lease incentives of \$14.2 million, for the fiscal year ended January 29, 2011. The Company's investments in capital for the full fiscal year 2013 are planned between \$130 million and \$145 million (after deducting estimated lease incentives of approximately \$10 million). The planned investments in capital are primarily for expansion of our retail businesses in North America and Europe and store remodeling programs in North America.

In addition, we periodically evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives.

### Credit Facilities

On July 6, 2011, the Company entered into a five-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A., Bank of America, N.A. and the other lenders party thereto (the "Credit Facility"). The Credit Facility provides for a \$200 million revolving multicurrency line of credit, and is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. It may be used for working capital and other general corporate purposes. The Credit Facility also allows for incremental revolving commitments or incremental term loans in an aggregate amount that does not exceed \$100 million, subject to certain conditions. The Credit Facility replaced the Company's previous \$85 million credit facility, which was scheduled to mature on September 30, 2011. No principal or interest was outstanding or accrued and unpaid under the prior credit facility on its termination date.

All obligations under the Credit Facility are unconditionally guaranteed by certain of the Company's domestic subsidiaries and are secured by substantially all of the personal assets of the Company and such domestic subsidiaries, including a pledge of 65% of the equity interests of certain of the Company's foreign subsidiaries.

Direct borrowings under the Credit Facility will be made, at the Company's option, as (a) Eurodollar Rate Loans, which shall bear interest at the published LIBOR rate for the respective interest period plus an applicable margin (varying from 1.15% to 1.65%) based on the Company's leverage ratio at the time, or (b) Base Rate Loans, which shall bear interest at the higher of (i) 0.50% in excess of the federal funds rate, (ii) the rate of interest as announced by JP Morgan as its "prime rate," or (iii) 1.0% in excess of the one month adjusted LIBOR rate, plus an applicable margin (varying from 0.15% to 0.65%) based on the Company's leverage ratio at the time. The Company is also obligated to pay certain commitment, letter of credit and other fees customary for a credit facility of this size and type. At January 28, 2012, the Company had \$1.0 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Credit Facility requires the Company to comply with a leverage ratio and a fixed charge coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to: incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the Credit Facility, the lenders may cease making loans, terminate the Credit Facility and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults,

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covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Credit Facility allows for both secured and unsecured borrowings outside of the Credit Facility up to specified amounts.

The Company, through its European subsidiaries, maintains short-term uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. The majority of the borrowings under these agreements are secured by specific accounts receivable balances. Based on the applicable accounts receivable balances at January 28, 2012, the Company could have borrowed up to \$176.4 million under these agreements. At January 28, 2012, the Company had no outstanding borrowings and \$3.4 million in outstanding documentary letters of credit under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 1.6% to 4.7%. The maturities of the short-term borrowings are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings. With the exception of one facility for up to \$46.3 million that has a minimum net equity requirement, there are no other financial ratio covenants.

The Company entered into a capital lease in December 2005 for a new building in Florence, Italy. At January 28, 2012, the capital lease obligation was \$11.9 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument that resulted in a swap fixed rate of 3.55%. This interest rate swap agreement matures in 2016 and converts the nature of the capital lease obligation from Euribor floating rate debt to fixed rate debt. The fair value of the interest rate swap liability at January 28, 2012 was approximately \$0.9 million.

From time to time the Company will obtain other short term financing in foreign countries for working capital to finance its local operations.

### Share Repurchases

On March 14, 2011, the Company's Board of Directors terminated the previously authorized 2008 Share Repurchase Program (which had \$84.9 million capacity remaining) and authorized a new program to repurchase, from time-to-time and as market and business conditions warrant, up to \$250.0 million of the Company's common stock (the "2011 Share Repurchase Program"). Repurchases may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program and the program may be discontinued at any time, without prior notice. During fiscal 2012, the Company repurchased 3,216,514 shares under the 2011 Share Repurchase Program at an aggregate cost of \$92.0 million. There were no share repurchases under the 2008 Share Repurchase Programs during fiscal 2012. During fiscal 2011, the Company repurchased 1,500,000 shares under the 2008 Share Repurchase Program at an aggregate cost of \$49.3 million. During fiscal 2010, the Company repurchased 407,600 shares under the 2008 Share Repurchase Program at an aggregate cost of \$5.3 million. At January 28, 2012, the Company had remaining authority under the 2011 Share Repurchase Program to purchase \$158.0 million of its common stock.

### Other

On August 23, 2005, the Board of Directors of the Company adopted a Supplemental Executive Retirement Plan which became effective January 1, 2006. The SERP provides select employees who satisfy certain eligibility requirements with certain benefits upon retirement, termination of employment, death, disability or a change in control of the Company, in certain prescribed circumstances. Paul Marciano, Chief Executive Officer and Vice Chairman of the Board, is the only active participant in the SERP. Maurice Marciano, non-executive Chairman of the Board of Directors, was an active participant in the SERP until his retirement effective on January 28, 2012. Carlos Alberini, the Company's former President and Chief Operating Officer, was an active participant in the SERP until his departure from the Company on June 1, 2010. Mr. Maurice Marciano and Mr. Alberini will be eligible to receive vested SERP benefits in the future.

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in accordance with the terms of the SERP. During the year ended January 28, 2012, the Company recorded a SERP curtailment expense of \$1.2 million before taxes related to the accelerated amortization of prior service cost resulting from the retirement of Mr. Maurice Marciano as an employee and executive officer, effective upon the expiration of his employment agreement on January 28, 2012. Mr. Maurice Marciano did not receive or earn any additional SERP-related benefits in connection with his retirement and, as of the date of his retirement, ceased vesting or accruing any additional benefits under the terms of the SERP. During the year ended January 29, 2011, the Company recorded a SERP curtailment expense of \$5.8 million before taxes related to the accelerated amortization of prior service cost resulting from the departure of Mr. Alberini from the Company. Mr. Alberini did not receive any termination payments in connection with his departure and, as of the date of his departure, he ceased vesting or accruing any additional benefits under the terms of the SERP. Mr. Maurice Marciano's retirement and Mr. Alberini's departure each resulted in a significant reduction in the total expected remaining years of future service of all SERP participants combined, resulting in the pension curtailment during each of the separate periods. As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has and expects to continue to make periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The amount of future payments may vary, depending on the future years of service, future annual compensation of the active participant and investment performance of the trust. The cash surrender values of the insurance policies were \$38.4 million and \$32.9 million as of January 28, 2012 and January 29, 2011, respectively and were included in other assets in the Company's consolidated balance sheets. As a result of a change in value of the insurance policy investments, the Company recorded (losses) gains of (\$0.2) million, \$2.7 million and \$3.1 million in other income during fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

In January 2002, the Company established a qualified employee stock purchase plan ("ESPP"), the terms of which allow for qualified employees (as defined) to participate in the purchase of designated shares of the Company's common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each quarterly stock purchase period. On January 23, 2002, the Company filed with the SEC a Registration Statement on Form S-8 registering 4,000,000 shares of common stock for the ESPP. During the year ended January 28, 2012, 47,456 shares of the Company's common stock were issued pursuant to the ESPP at an average price of \$29.00 per share for a total of \$1.4 million. On March 12, 2012, the Board of Directors approved a restatement of the ESPP which extended the term for an additional ten years, subject to shareholder approval at the Company's 2012 annual meeting.

### **INFLATION**

The Company does not believe that inflation trends in the U.S. and internationally over the last three years have had a significant effect on net revenue or profitability. The Company anticipates that inflationary pressures on raw materials, labor, freight and other commodities including oil, experienced in fiscal 2012 may stabilize in the future but continue to negatively impact the cost of product purchases in fiscal 2013, particularly in the first half of the fiscal year. Although overall, the Company has been able to mitigate the impact of product inflation through reduced promotional markdowns, price increases on select items and supply chain initiatives, there can be no assurances that these actions will continue to be successful. In addition, increased retail prices could lead to reduced customer demand. These developments could have a material adverse effect on our results of operations and financial condition. Also see "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - General - Recent Global Economic Developments" for further information regarding the impact of currencies on the cost of goods purchased.

### **SEASONALITY**

The Company's business is impacted by the general seasonal trends characteristic of the apparel and retail industries. The U.S., European and Canadian retail operations are generally stronger during the

second half of the fiscal year, and the U.S. and Canadian wholesale operations generally experience stronger performance from July through November. The European wholesale businesses operate with two primary selling seasons: the Spring/Summer season, which ships primarily from November to April and the Fall/Winter season, which ships primarily from May to October. The Company's goal is to take advantage of early-season demand and potential reorders by offering a pre-collection assortment which ships at the beginning of each season. Customers retain the ability to request early shipment of backlog orders or delay shipment of orders depending on their needs.

#### **RECENTLY ISSUED ACCOUNTING GUIDANCE**

In May 2011, the Financial Accounting Standards Board ("FASB") issued an update to its authoritative guidance regarding fair value measurement to clarify disclosure requirements and improve comparability. Additional disclosure requirements in the update include: (a) for Level 3 fair value measurements, quantitative information about the significant unobservable inputs used, qualitative information about the sensitivity of the measurements to changes in the unobservable inputs disclosed including the interrelationship between inputs, and a description of the Company's valuation processes; (b) all, not just significant, transfers between Levels 1 and 2 of the fair value hierarchy; (c) the reason why, if applicable, the current use of a nonfinancial asset measured at fair value differs from its highest and best use; and (d) the categorization in the fair value hierarchy for financial instruments not measured at fair value but for which disclosure of fair value is required. The Company will adopt this guidance commencing in fiscal 2013, effective January 29, 2012, and apply it retrospectively.

In June 2011, the FASB issued authoritative guidance that revised its requirements related to the presentation of comprehensive income, which becomes effective for fiscal periods beginning after January 1, 2012, with early adoption allowed. This guidance eliminates the option to present the components of other comprehensive income ("OCI") as part of the consolidated statement of equity. It requires presentation of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company has elected to early adopt this guidance in fiscal 2012 and accordingly has presented the required comprehensive income disclosures as separate consolidated statements of comprehensive income in its in the accompanying Consolidated Financial Statements.

In September 2011, the FASB issued an update to its authoritative guidance regarding the methods used to test goodwill for impairment, which becomes effective for fiscal years beginning after December 15, 2011, with early adoption allowed. The amendment provides the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test currently required. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit if the entity determines, based on that qualitative assessment, that it is more likely than not that its carrying amounts are less than their fair values. If an entity concludes otherwise, then it must perform the two-step impairment test currently required. The Company elected to early adopt this guidance in fiscal 2012. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

#### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.**

##### *Exchange Rate Risk*

More than half of product sales and licensing revenue recorded for the year ended January 28, 2012 were denominated in currencies other than the U.S. dollar. The Company's primary exchange rate risk relates to operations in Europe, Canada and South Korea. Changes in currencies affect our earnings in various ways. For further discussion on currency related risk, please refer to our risk factors under "Part 1, Item 1A. Risk Factors."

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Various transactions that occur in Canada, Europe and South Korea are denominated in U.S. dollars, British pounds or Swiss francs and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar denominated purchases of merchandise, U.S. dollar and British pound denominated intercompany liabilities and certain sales, operating expenses and tax liabilities denominated in Swiss francs that are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company enters into derivative financial instruments to offset some but not all of the exchange risk on certain anticipated foreign currency transactions. In addition, some of the derivative contracts in place will create volatility during the fiscal year as they are marked-to-market according to the accounting rules.

### *Forward Contracts Designated as Cash Flow Hedges*

During the year ended January 28, 2012, the Company purchased U.S. dollar forward contracts in Europe and Canada totaling US\$148.9 million and US\$41.5 million, respectively, to hedge forecasted merchandise purchases and intercompany royalties that were designated as cash flow hedges. As of January 28, 2012, the Company had forward contracts outstanding for its European and Canadian operations of US\$90.0 million and US\$41.5 million, respectively, which are expected to mature over the next 11 months. The Company's derivative financial instruments are recorded in its consolidated balance sheet at fair value based on quoted market rates. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted merchandise purchases, are recorded as a component of accumulated other comprehensive income within stockholders' equity, and are recognized in cost of product sales in the period which approximates the time the hedged merchandise inventory is sold. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted intercompany royalties, are recorded as a component of accumulated other comprehensive income within stockholders' equity, and are recognized in other income and expense in the period in which the royalty expense is incurred.

From time to time, Swiss franc forward contracts have been used in the past to hedge certain anticipated Swiss operating expenses over specific months. Changes in the fair value of the Swiss franc forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income within stockholders' equity, and are recognized in SG&A in the period which approximates the time the expenses are incurred.

As of January 28, 2012, accumulated other comprehensive income included a net unrealized gain of approximately US\$4.3 million, net of tax, of which US\$4.1 million will be recognized in other income or cost of product sales over the following 12 months at the then current values on a pre-tax basis, which can be different than the current year-end values. At January 28, 2012, the net unrealized gain of the remaining open forward contracts recorded in the consolidated balance sheet was approximately US\$2.5 million.

At January 29, 2011, the Company had forward contracts outstanding for its European and Canadian operations of US\$71.6 million and US\$52.3 million, respectively. At January 29, 2011, the net unrealized loss of these open forward contracts recorded in the consolidated balance sheet was approximately US\$0.5 million.

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The following table summarizes net after-tax derivative activity recorded in accumulated other comprehensive income (in thousands):

	Year Ended Jan. 28, 2012	Year Ended Jan. 29, 2011
Beginning balance (loss) gain	\$ (1,789)	\$ 1,845
Net gains from changes in cash flow hedges	662	295
Net losses (gains) reclassified to income	5,386	(3,929)
Ending balance gain (loss)	\$ 4,259	\$ (1,789)

### *Forward Contracts Not Designated as Cash Flow Hedges*

The Company also has foreign currency contracts that are not designated as hedges for accounting purposes. Changes in fair value of foreign currency contracts not qualifying as cash flow hedges are reported in net earnings as part of other income and expense. For the year ended January 28, 2012, the Company recorded a net gain of US\$4.3 million for the euro, British pound, Swiss franc and Canadian dollar foreign currency contracts, which has been included in other income and expense. At January 28, 2012, the Company had euro foreign currency contracts to purchase US\$88.0 million expected to mature over the next 11 months, Canadian dollar foreign currency contracts to purchase US\$50.5 million expected to mature over the next eight months, Swiss franc foreign currency contracts to purchase US\$14.0 million expected to mature over the next nine months and GBP5.0 million of foreign currency contracts to purchase euros expected to mature over the next seven months. At January 28, 2012, the net unrealized gain of these open forward contracts recorded in the consolidated balance sheet was approximately US\$4.7 million.

At January 29, 2011, the Company had euro foreign currency contracts to purchase US\$70.0 million, Canadian dollar foreign currency contracts to purchase US\$67.7 million, Swiss franc foreign currency contracts to purchase US\$30.1 million and GBP11.3 million of foreign currency contracts to purchase euros. At January 29, 2011, the net unrealized loss of these open forward contracts recorded in the Company's consolidated balance sheet was approximately US\$4.1 million.

### *Sensitivity Analysis*

At January 28, 2012, a sensitivity analysis of changes in the foreign currencies when measured against the U.S. dollar indicates that, if the U.S. dollar had uniformly weakened by 10% against all of the U.S. dollar denominated foreign exchange derivatives totaling US\$284.0 million, the fair value of the instruments would have decreased by US\$31.6 million. Conversely, if the U.S. dollar uniformly strengthened by 10% against all of the U.S. dollar denominated foreign exchange derivatives, the fair value of these instruments would have increased by US\$25.8 million. Any resulting changes in the fair value of the hedged instruments may be partially offset by changes in the fair value of certain balance sheet positions (primarily U.S. dollar denominated liabilities in our foreign operations) impacted by the change in the foreign currency rate. The ability to reduce the exposure of currencies on earnings depends on the magnitude of the derivatives compared to the balance sheet positions during each reporting cycle.

### *Interest Rate Risk*

At January 28, 2012, approximately 97% of the Company's total indebtedness related to a capital lease obligation, which is covered by a separate interest rate swap agreement with a swap fixed interest rate of 3.55% that matures in 2016. Changes in the related interest rate that result in an unrealized gain or loss on the fair value of the swap are reported in other income or expense. The change in the unrealized fair value of the interest swap decreased other income, net by \$0.2 million during fiscal year 2012. Substantially all of the Company's remaining indebtedness is at variable rates of interest. Accordingly, changes in interest

rates would impact the Company's results of operations in future periods. A 100 basis point increase in interest rates would have had an insignificant effect on interest expense for the year ended January 28, 2012.

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 incremental borrowing rate. At January 28, 2012, the carrying value of all financial instruments was not materially different from fair value, as the interest rate on the Company's debt approximates rates currently available to the Company.

**ITEM 8. Financial Statements and Supplementary Data.**

The information required by this Item is incorporated herein by reference to the Consolidated Financial Statements and Supplementary Data listed in ITEM 15 of Part IV of this report.

**ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**ITEM 9A. Controls and Procedures.**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

**Management's Report on Internal Control Over Financial Reporting**

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules which require the Company to include in its Annual Reports on Form 10-K, an assessment by management of the effectiveness of the Company's internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. In addition, the Company's independent auditors must attest to and report on the effectiveness of the Company's internal control over financial reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of January 28, 2012.



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Ernst & Young LLP, the independent registered public accounting firm that audited the Company's financial statements as of and for the fiscal year ended January 28, 2012 included in this Annual Report on Form 10-K has issued an attestation report on the Company's internal control over financial reporting, which is set forth below.

### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during the fourth quarter of fiscal 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Guess?, Inc. and subsidiaries

We have audited Guess?, Inc. and subsidiaries' internal control over financial reporting as of January 28, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Guess?, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Guess?, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 28, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Guess?, Inc. and subsidiaries as of January 28, 2012 and January 29, 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 28, 2012 and our report dated March 22, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California  
March 22, 2012

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**ITEM 9B. Other Information.**

None.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance.**

The information required by this item can be found under the captions "Directors and Executive Officers," "Corporate Governance and Board Matters," and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement (the "Proxy Statement") to be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year and is incorporated herein by reference.

**ITEM 11. Executive Compensation.**

The information required by this item can be found under the caption "Executive and Director Compensation," excluding the Compensation Committee Report on Executive Compensation, in the Proxy Statement and is incorporated herein by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this item can be found under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this item can be found under the captions "Certain Relationships and Related Transactions" and "Corporate Governance and Board Matters Board Independence, Structure and Committee Composition" in the Proxy Statement and is incorporated herein by reference.

**ITEM 14. Principal Accountant Fees and Services.**

The information required by this item can be found under the caption "Relationship with Independent Registered Public Accountants" in the Proxy Statement and is incorporated herein by reference.

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**PART IV**

**ITEM 15. Exhibits, Financial Statement Schedules.**

**(a) Documents Filed with Report**

(1)

Consolidated Financial Statements

The Report of Independent Registered Public Accounting Firm and financial statements listed on the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule are filed as part of this report.

(2)

Consolidated Financial Statement Schedule

The financial statement schedule listed on the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule is filed as part of this report.

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

(3)

Exhibits

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

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**Guess?, Inc.  
Form 10-K**

**Index to Consolidated Financial Statements and Financial Statement Schedule**

1	<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
2	<u>Consolidated Financial Statements</u>	
	<u>Consolidated Balance Sheets at January 28, 2012 and January 29, 2011</u>	<u>F-3</u>
	<u>Consolidated Statements of Income for the Years Ended January 28, 2012, January 29, 2011 and January 30, 2010</u>	<u>F-4</u>
	<u>Consolidated Statements of Comprehensive Income for the Years Ended January 28, 2012, January 29, 2011 and January 30, 2010</u>	<u>F-5</u>
	<u>Consolidated Statements of Stockholders' Equity for the Years Ended January 28, 2012, January 29, 2011 and January 30, 2010</u>	<u>F-6</u>
	<u>Consolidated Statements of Cash Flows for the Years Ended January 28, 2012, January 29, 2011 and January 30, 2010</u>	<u>F-7</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>F-8</u>
3	<u>Consolidated Financial Statement Schedule Valuation and Qualifying Accounts for the Years Ended January 28, 2012, January 29, 2011 and January 30, 2010</u>	<u>F-45</u>

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Guess?, Inc.

We have audited the accompanying consolidated balance sheets of Guess?, Inc. and subsidiaries as of January 28, 2012 and January 29, 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 28, 2012. Our audits also included the financial statement schedule listed in the Index at ITEM 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Guess?, Inc. and subsidiaries at January 28, 2012 and January 29, 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 28, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Guess?, Inc.'s internal control over financial reporting as of January 28, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 22, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California  
March 22, 2012

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

	January 28, 2012	January 29, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 491,805	\$ 427,037
Short-term investments	4,060	15,087
Accounts receivable, net	340,602	358,482
Inventories	328,602	294,705
Deferred tax assets	21,002	18,121
Other current assets	75,411	50,148
<b>Total current assets</b>	<b>1,261,482</b>	<b>1,163,580</b>
Property and equipment, net	348,885	313,856
Goodwill	29,070	29,595
Other intangible assets, net	10,697	9,192
Long-term deferred tax assets	52,613	55,455
Other assets	141,728	114,126
	<b>\$ 1,844,475</b>	<b>\$ 1,685,804</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$ 2,030	\$ 2,177
Accounts payable	224,859	233,846
Accrued expenses	193,147	194,993
<b>Total current liabilities</b>	<b>420,036</b>	<b>431,016</b>
Capital lease obligations	10,206	12,218
Deferred rent and lease incentives	87,795	76,455
Other long-term liabilities	123,880	85,210
	<b>641,917</b>	<b>604,899</b>
Redeemable noncontrolling interests	8,293	14,711
Commitments and contingencies (Note 12)		
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 138,089,021 and 137,579,379 shares, outstanding 89,631,328 and 92,290,744 shares, at January 28, 2012 and January 29, 2011, respectively	896	923
Paid-in capital	400,178	368,225
Retained earnings	1,155,696	960,460
Accumulated other comprehensive (loss) income	(23,197)	(8,578)
Treasury stock, 48,457,693 and 45,288,635 shares at January 28, 2012 and January 29, 2011, respectively	(357,943)	(266,154)
<b>Guess?, Inc. stockholders' equity</b>	<b>1,175,630</b>	<b>1,054,876</b>
Nonredeemable noncontrolling interests	18,635	11,318
<b>Total stockholders' equity</b>	<b>1,194,265</b>	<b>1,066,194</b>
	<b>\$ 1,844,475</b>	<b>\$ 1,685,804</b>

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See accompanying notes to consolidated financial statements.

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**GUESS?, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

	Year Ended Jan. 28, 2012	Year Ended Jan. 29, 2011	Year Ended Jan. 30, 2010
Product sales	\$ 2,566,628	\$ 2,372,072	\$ 2,031,114
Net royalties	121,420	115,222	97,352
Net revenue	2,688,048	2,487,294	2,128,466
Cost of product sales	1,523,763	1,397,062	1,186,979
Gross profit	1,164,285	1,090,232	941,487
Selling, general and administrative expenses	746,345	679,780	582,671
Settlement charge	19,463		
Pension curtailment expense	1,242	5,819	
Earnings from operations	397,235	404,633	358,816
Other income (expense):			
Interest expense	(2,002)	(1,217)	(2,176)
Interest income	3,147	1,553	1,697
Other income, net	961	16,408	3,592
	2,106	16,744	3,113
Earnings before income tax expense	399,341	421,377	361,929
Income tax expense	128,691	126,874	115,599
Net earnings	270,650	294,503	246,330
Net earnings attributable to noncontrolling interests	5,150	4,995	3,569
Net earnings attributable to Guess?, Inc.	\$ 265,500	\$ 289,508	\$ 242,761
<b>Net earnings per common share attributable to common stockholders (Note 16):</b>			
Basic	\$ 2.88	\$ 3.14	\$ 2.63
Diluted	\$ 2.86	\$ 3.11	\$ 2.61
<b>Weighted average common shares outstanding attributable to common stockholders (Note 16):</b>			
Basic	91,533	91,410	90,893
Diluted	91,948	92,115	91,592
Dividends declared per common share	\$ 0.80	\$ 2.68	\$ 0.45

See accompanying notes to consolidated financial statements.

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**GUESS?, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

	Year Ended Jan. 28, 2012	Year Ended Jan. 29, 2011	Year Ended Jan. 30, 2010
Net earnings	\$ 270,650	\$ 294,503	\$ 246,330
Other comprehensive income (loss):			
Foreign currency translation adjustment	(17,453)	(1,440)	22,995
Unrealized gain (loss) on hedges			
Gains (losses) arising during the period	7,218	(4,033)	(9,608)
Less income tax effect	(1,170)	399	2,690
Unrealized (loss) gain on investments			
(Losses) gains arising during the period	(67)	188	152
Less income tax effect	24	(72)	(58)
Supplemental Executive Retirement Plan ("SERP")			
Actuarial loss	(9,342)	(8,361)	(5,569)
Actuarial loss amortization	2,048	619	
Curtailment	1,242	5,819	
Prior service cost amortization	940	1,195	1,743
Less income tax effect	2,057	251	1,435
Total comprehensive income	256,147	289,068	260,110
Less comprehensive income attributable to noncontrolling interests:			
Net earnings	5,150	4,995	3,569
Foreign currency translation adjustment	116	191	311
Amounts attributable to noncontrolling interests	5,266	5,186	3,880
Comprehensive income attributable to Guess?, Inc.	\$ 250,881	\$ 283,882	\$ 256,230

See accompanying notes to consolidated financial statements.

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**GUESS?, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Guess?, Inc. Stockholders' Equity						
	Common Stock		Accumulated			Nonredeemable	
		Paid-in Capital	Retained Earnings	Other (Loss) Income	Treasury Stock	Interests	
Balance at January 31, 2009	\$ 923	\$ 282,220	\$ 718,368	\$ (16,421)	\$ (212,089)	\$ 2,453	\$ 775,454
Net earnings			242,761			3,569	246,330
Foreign currency translation adjustment				22,684		311	22,995
Unrealized loss on hedges				(6,918)			(6,918)
Unrealized gain on investments				94			94
SERP prior service cost and actuarial valuation loss amortization				(2,391)			(2,391)
Issuance of common stock under stock compensation plans including tax effect	8	9,400					9,408
Issuance of stock under Employee Stock Purchase Plan		883			366		1,249
Share-based compensation		27,339					27,339
Dividends			(41,598)				(41,598)
Share repurchases	(4)	4			(5,309)		(5,309)
Noncontrolling interest capital contribution						1,001	1,001
Noncontrolling interest capital distribution		(109)				(1,202)	(1,311)
Balance at January 30, 2010	\$ 927	\$ 319,737	\$ 919,531	\$ (2,952)	\$ (217,032)	\$ 6,132	\$ 1,026,343
Net earnings			289,508			4,995	294,503
Foreign currency translation adjustment				(1,631)		191	(1,440)
Unrealized loss on hedges				(3,634)			(3,634)
Unrealized gain on investments				116			116
SERP prior service cost and actuarial valuation loss amortization				(477)			(477)
Issuance of common stock under stock compensation plans including tax effect	11	18,225					18,236
Issuance of stock under Employee Stock Purchase Plan		1,070			239		1,309
Share-based compensation		29,178	134				29,312
Dividends			(247,570)				(247,570)
Share repurchases	(15)	15			(49,361)		(49,361)
Redeemable noncontrolling interest redemption value adjustment			(1,143)				(1,143)
Balance at January 29, 2011	\$ 923	\$ 368,225	\$ 960,460	\$ (8,578)	\$ (266,154)	\$ 11,318	\$ 1,066,194
Net earnings			265,500			5,150	270,650
Foreign currency translation adjustment				(17,569)		116	(17,453)
Unrealized gain on hedges				6,048			6,048
Unrealized loss on investments				(43)			(43)
SERP prior service cost and actuarial valuation loss amortization				(3,055)			(3,055)
Issuance of common stock under stock compensation plans including tax effect	5	2,918					2,923
Issuance of stock under Employee Stock Purchase Plan		1,084			293		1,377
Share-based compensation		27,919	181				28,100
Dividends			(74,166)				(74,166)
Share repurchases	(32)	32			(92,082)		(92,082)
Redeemable noncontrolling interest redemption value adjustment			3,721			2,051	5,772
Balance at January 28, 2012	\$ 896	\$ 400,178	\$ 1,155,696	\$ (23,197)	\$ (357,943)	\$ 18,635	\$ 1,194,265

See accompanying notes to consolidated financial statements



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

	Year Ended Jan. 28, 2012	Year Ended Jan. 29, 2011	Year Ended Jan. 30, 2010
Cash flows from operating activities:			
Net earnings	\$ 270,650	\$ 294,503	\$ 246,330
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	77,044	63,749	56,521
Amortization of intangible assets	2,242	3,739	7,853
Share-based compensation expense	28,100	29,312	27,339
Unrealized forward contract (gains) losses	(4,020)	2,736	(3,720)
Deferred income taxes	(885)	11,848	(4,678)
Net loss on disposition of long-term assets and property and equipment	6,148	4,109	5,514
Pension curtailment expense	1,242	5,819	
Other items, net	(6,264)	(12,431)	(6,093)
Changes in operating assets and liabilities:			
Accounts receivable	10,630	(76,709)	(12,803)
Inventories	(35,810)	(40,693)	(72)
Prepaid expenses and other assets	(37,916)	(46,490)	15,044
Accounts payable and accrued expenses	4,287	81,770	17,330
Deferred rent and lease incentives	11,544	15,765	8,108
Other long-term liabilities	37,502	9,347	1,537
<b>Net cash provided by operating activities</b>	<b>364,494</b>	<b>346,374</b>	<b>358,210</b>
Cash flows from investing activities:			
Purchases of property and equipment	(123,531)	(123,065)	(82,286)
Proceeds from dispositions of other assets	3,108	5,072	474
Proceeds from maturity of investment	15,000		
Acquisition of lease interest	(1,339)	(2,249)	
Acquisition of businesses, net of cash acquired			549
Net cash settlement of forward contracts	(4,428)	5,188	(2,693)
Purchases of investments	(20,906)	(31,049)	(6,880)
<b>Net cash used in investing activities</b>	<b>(132,096)</b>	<b>(146,103)</b>	<b>(90,836)</b>
Cash flows from financing activities:			
Certain short-term borrowings, net			(24,861)
Payment of debt issuance costs	(970)		
Proceeds from borrowings			40,000
Repayment of borrowings and capital lease obligation	(1,771)	(1,137)	(41,596)
Dividends paid	(74,371)	(247,098)	(41,598)
Noncontrolling interest capital contributions			1,001
Noncontrolling interest capital distributions			(1,311)
Issuance of common stock, net of nonvested award repurchases	4,214	11,890	5,778
Excess tax benefits from share-based compensation	1,992	8,700	6,133
Purchase of treasury stock	(92,082)	(49,361)	(5,309)
<b>Net cash used in financing activities</b>	<b>(162,988)</b>	<b>(277,006)</b>	<b>(61,763)</b>
Effect of exchange rates on cash and cash equivalents	(4,642)	1,709	2,334
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>64,768</b>	<b>(75,026)</b>	<b>207,945</b>
Cash and cash equivalents at beginning of period	427,037	502,063	294,118
<b>Cash and cash equivalents at end of period</b>	<b>\$ 491,805</b>	<b>\$ 427,037</b>	<b>\$ 502,063</b>

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Supplemental cash flow data:

Interest paid	\$	1,596	\$	717	\$	1,894
Income taxes paid	\$	129,946	\$	80,281	\$	106,089

See accompanying notes to consolidated financial statements.

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Summary of Significant Accounting Policies and Practices**

*Description of the Business*

Guess?, Inc. (the "Company" or "GUESS?") designs, markets, distributes and licenses a leading lifestyle collection of contemporary apparel and accessories for men, women and children that reflect the American lifestyle and European fashion sensibilities. The Company's designs are sold in GUESS? owned stores, to a network of wholesale accounts that includes 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.

*Fiscal Year End*

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. All references herein to "fiscal 2012", "fiscal 2011", and "fiscal 2010" represent the results of the 52-week fiscal years ended January 28, 2012, January 29, 2011, and January 30, 2010, respectively. References to "fiscal 2013" represent the 53-week fiscal year ending February 2, 2013.

*Classification of Certain Costs and Expenses*

The Company includes inbound freight charges, purchasing costs and related overhead, retail store occupancy costs and a portion of the Company's distribution costs related to its retail business in cost of product sales. Distribution costs related primarily to the wholesale business are included in selling, general and administrative ("SG&A") expenses and amounted to \$48.5 million, \$38.3 million and \$30.2 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively. The Company also includes store selling, selling and merchandising, advertising, design and other corporate overhead costs as a component of selling, general and administrative expenses.

The Company classifies amounts billed to customers for shipping fees as revenues, and classifies costs related to shipping as cost of product sales in the accompanying consolidated statements of income.

*Principles of Consolidation*

The consolidated financial statements include the accounts of Guess?, Inc., its wholly-owned direct and indirect subsidiaries and its majority-owned subsidiaries. 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 disclosed in the accompanying notes. Significant areas requiring the use of management estimates relate to the valuation of inventories, accounts receivable allowances, sales return allowances, loyalty and gift card accruals, pension obligations, the useful life of assets for depreciation, restructuring expense and accruals, evaluation of asset impairment, litigation reserves, recoverability of deferred taxes, unrecognized tax benefits, workers compensation and medical self-insurance expense and accruals and share-based compensation. Actual results could differ from those estimates.

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(1) Summary of Significant Accounting Policies and Practices (Continued)**

*Business Segment Reporting*

Where applicable, the Company reports information about business segments and related disclosures about products and services, geographic areas and major customers. The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Europe, North American Retail, Asia, North American Wholesale and Licensing. Information regarding these segments is summarized in Note 15. Management evaluates segment performance based primarily on revenues and earnings from operations. The Company believes this segment reporting reflects how its five business segments are managed and each segment's performance is evaluated. The Europe segment includes the Company's wholesale and retail operations in Europe and the Middle East. The North American Retail segment includes the Company's retail operations in North America. The Asia segment includes the Company's wholesale and retail operations in Asia. The North American Wholesale segment includes the Company's wholesale operations in North America and export sales to Central and South America. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: information technology, human resources, global advertising and marketing, accounting and finance, executive compensation, facilities and legal.

*Revenue Recognition*

*General*

The Company recognizes retail operations revenue at the point of sale and wholesale operations revenue from the sale of merchandise when products are shipped and the customer takes title and assumes risk of loss, collection of the relevant receivable is reasonably assured, pervasive evidence of an arrangement exists, and the sales price is fixed or determinable. The Company accrues for estimated sales returns and other allowances in the period in which the related revenue is recognized. To recognize the financial impact of sales returns, the Company estimates the amount of goods that will be returned based on historical experience and reduces sales and cost of sales accordingly. Sales taxes and value added taxes collected from customers and remitted directly to governmental authorities are excluded from net revenues.

*Net Royalty Revenue*

Royalty revenue is based upon a percentage, as defined in the underlying agreement, of the licensee's actual net sales or minimum net sales, whichever is greater. The Company may receive special payments in consideration of the grant of license rights. These payments are recognized ratably as revenue over the term of the license agreement. The unrecognized portion of upfront payments is included in deferred royalties and accrued expenses depending on the long or short-term nature of the payments to be recognized.

*Gift Cards*

Gift card breakage is income recognized due to the non-redemption of a portion of gift cards sold by the Company for which a liability was recorded in prior periods. Estimated breakage amounts are accounted for under the redemption recognition method and are classified as additional net revenues as the gift cards are redeemed. The Company's gift card breakage rate is approximately 5.2% and 4.7% for the U.S. retail business and Canadian retail business, respectively, based upon historical redemption



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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(1) Summary of Significant Accounting Policies and Practices (Continued)**

patterns, which represents the cumulative estimated amount of gift card breakage from the inception of the electronic gift card program in late 2002. Based upon historical redemption trends, the Company recognizes estimated gift card breakage as a component of net revenue in proportion to actual gift card redemptions, over the period that remaining gift card values are redeemed. In fiscal 2012, fiscal 2011 and fiscal 2010, the Company recognized \$0.7 million, \$1.2 million and \$1.5 million of gift card breakage to revenue, respectively. Any future revisions to the estimated breakage rate may result in changes in the amount of breakage income recognized in future periods.

*Loyalty Programs*

The Company launched customer loyalty programs for its G by GUESS, GUESS? and GUESS by MARCIANO stores in July 2009, August 2008 and September 2007, respectively. The GUESS? and GUESS by MARCIANO loyalty programs were merged in May 2009. Under the programs, customers accumulate points based on purchase activity. Once a loyalty program member achieves a certain point level, the member earns awards that may only be redeemed for merchandise. In all of the programs, unredeemed points generally expire after six months and unredeemed awards generally expire after two months. Due to the relative newness of the programs, prior to fiscal 2011, all unexpired, unredeemed points and awards were accrued in current liabilities and recorded as a reduction of net sales as points and awards were accumulated by the member. In fiscal 2011, based on the accumulation of multiple cycles of actual redemptions experienced since inception of the programs, the Company revised its approach to estimate the value of future award redemptions under the existing loyalty program by incorporating historical redemption rates. In connection with this revision, the Company recorded a cumulative adjustment of \$6.7 million in fiscal 2011 to increase net revenue and to adjust the current liability balance to an amount reflecting estimated future award redemptions. The aggregate dollar value of the loyalty program accruals included in accrued liabilities was \$2.3 million and \$2.7 million at January 28, 2012 and January 29, 2011, respectively. Future revisions to the estimated liability may result in changes to net revenue.

*Advertising Costs*

The Company expenses the cost of advertising as incurred. Advertising expenses charged to operations for fiscal 2012, fiscal 2011 and fiscal 2010 were \$41.0 million, \$31.7 million and \$21.8 million, respectively.

*Share-Based Compensation*

In accordance with authoritative accounting guidance, the Company adopted the fair value recognition provisions using the modified prospective transition method. Under this method, compensation cost recognized after January 1, 2006 includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, December 31, 2005, based on the grant date fair value and (b) compensation expense for all share-based awards granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with the guidance. The fair value of each stock option is estimated on the grant date using the Black-Scholes option-pricing model. Compensation expense for unvested stock options and stock awards is recognized on a straight-line basis over the vesting period.

In addition, the Company has granted certain nonvested stock awards and stock options in the past that require the recipient to achieve certain minimum performance targets in order for these awards to

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(1) Summary of Significant Accounting Policies and Practices (Continued)**

vest. If the minimum performance targets have not been achieved or are not expected to be achieved, no expense is recognized during the period.

*Foreign Currency*

*Foreign Currency Translation*

The local selling currency is typically the functional currency for all of the Company's significant international operations. In accordance with authoritative guidance, assets and liabilities of the Company's foreign operations are translated from foreign currencies into U.S. dollars at period-end rates, while income and expenses are translated at the weighted-average exchange rates for the period. The related translation adjustments are reflected as a foreign currency translation adjustment in accumulated other comprehensive income (loss) within stockholders' equity. In addition, the Company records foreign currency translation adjustments related to its noncontrolling interests within stockholders' equity. The total foreign currency translation adjustment decreased stockholders' equity by \$17.5 million, from an accumulated foreign currency translation gain of \$5.9 million as of January 29, 2011 to an accumulated foreign currency translation loss of \$11.6 million as of January 28, 2012.

*Foreign Currency Transaction Gains and Losses*

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, including gains and losses on foreign currency contracts (see below), are included in the consolidated statements of income. Net foreign currency transaction (losses) gains included in the determination of net earnings were \$(6.8) million, \$10.1 million and \$4.3 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

*Forward Contracts Designated as Cash Flow Hedges*

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. Various transactions that occur in Canada, Europe and South Korea are denominated in U.S. dollars, British pounds or Swiss francs and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar denominated purchases of merchandise and U.S. dollar and British pound intercompany liabilities. In addition, certain sales, operating expenses and tax liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company has entered into certain forward contracts to hedge the risk of a portion of these anticipated foreign currency transactions against foreign currency rate fluctuations. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these hedges. The Company does not hedge all transactions denominated in foreign currency.

Changes in the fair values of the U.S. dollar/euro and U.S. dollar/Canadian dollar forward contracts for anticipated U.S. dollar merchandise purchases designated as cash flow hedges are recorded as a component of accumulated other comprehensive income within stockholders' equity and are recognized in cost of product sales in the period which approximates the time the hedged merchandise inventory is sold. Changes in the fair value of the Swiss franc/euro forward contracts for anticipated operating expenses designated as cash flow hedges are recorded as a component of accumulated other comprehensive income within stockholders' equity and are recognized in SG&A expenses in the period which approximates the time the expenses are incurred. Changes in the fair value of U.S. dollar/euro forward contracts for U.S. dollar intercompany royalties designated as cash flow hedges are recorded as a component of accumulated

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(1) Summary of Significant Accounting Policies and Practices (Continued)**

other comprehensive income (loss) within stockholders' equity and are recognized in other income and expense in the period which the royalty expense is incurred.

*Forward Contracts Not Designated as Cash Flow Hedges*

The Company also has forward contracts that are not designated as cash flow hedges for accounting purposes. Changes in the fair value of forward contracts not qualifying as cash flow hedges are reported in net earnings as part of other income and expense.

*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.

The Company accounts for uncertainty in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

*Earnings Per Share*

Basic earnings per share represents net earnings attributable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share represents net earnings attributable to common stockholders divided by the weighted-average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method since the nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, earnings attributable to nonvested restricted stockholders are excluded from net earnings attributable to common stockholders for purposes of calculating basic and diluted earnings per common share.

*Comprehensive Income*

Comprehensive income consists of net earnings, Supplemental Executive Retirement Plan ("SERP") prior service cost and actuarial valuation gains or losses and related amortization, unrealized gains or losses on available-for-sale investments, foreign currency translation adjustments and the effective portion of the change in the fair value of cash flow hedges. Comprehensive income is presented in the consolidated statements of comprehensive income.

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(1) Summary of Significant Accounting Policies and Practices (Continued)**

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

*Investment Securities*

The Company accounts for its investment securities in accordance with authoritative guidance which 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 their 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 appropriate classification of investment securities is determined at the time of purchase and reevaluated at each balance sheet date. The Company currently accounts for its short-term investment securities as held-to-maturity and long-term investment securities as available-for-sale. The short-term investment securities will mature during fiscal 2013.

The Company periodically evaluates investment securities for impairment using both qualitative and quantitative criteria such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value.

*Concentration of Credit and Liquidity Risk*

The Company is also exposed to concentrations of credit risk through its accounts receivable balances. Cash used primarily for working capital purposes is maintained with various major financial institutions. The Company performs evaluations of the relative credit standing of these financial institutions in order to limit the amount of asset and liquidity exposure with any institution. Excess cash and cash equivalents, which represent the majority of the Company's outstanding cash and cash equivalents balance, are held primarily in four diversified money market funds and in overnight deposit and short-term time deposit accounts. The money market funds are all AAA rated by national credit rating agencies and are generally comprised of high-quality, liquid investments. As of January 28, 2012, the Company does not have any exposure to auction-rate security investments in these funds.

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 but does obtain credit insurance when considered appropriate. As of January 28, 2012, approximately 57% of total accounts receivable was insured or supported by bank guarantees or letters of credit. The Company maintains allowances for doubtful accounts for estimated losses that result from the inability of its wholesale customers to make their required payments. The Company bases its allowances on analysis of the aging of accounts receivable at the date of the financial statements, assessments of historical collection trends and an evaluation of the impact of current economic conditions. The Company's corporate customers are principally located throughout Europe, North America and Asia, 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 immaterial

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(1) Summary of Significant Accounting Policies and Practices (Continued)**

and have not significantly exceeded management's estimates. One of the Company's domestic wholesale customers accounted for approximately 2.7%, 3.1%, and 3.4% of the Company's consolidated net revenue in fiscal 2012, fiscal 2011 and fiscal 2010, respectively. While the Company does not have significant credit or concentration exposure to any one European or Asian customer, it has receivables from European taxing authorities related to refundable value-added tax payments of \$41 million, most of which relates to Italy.

*Inventories*

Inventories are valued at the lower of cost (primarily weighted average method) or market. The Company continually evaluates its inventories by assessing slow moving product as well as prior seasons' inventory. Market value of aged inventory is estimated based on historical sales trends for each product line category, the impact of market trends, an evaluation of economic conditions, available liquidation channels and the value of current orders relating to the future sales of this type of inventory.

*Depreciation and Amortization*

Depreciation and amortization of property and equipment, which includes depreciation of the property under the capital lease, and purchased intangibles are provided using the straight-line method over the following useful lives:

Building and building improvements including properties under capital lease	10 to 33 years
Land improvements	5 years
Furniture, fixtures and equipment	2 to 10 years
Purchased intangibles	4 to 20 years

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease, unless the renewal is reasonably assured. Construction in progress is not depreciated until the related asset is completed and placed in service.

*Long-Lived Assets*

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value, which is determined based on discounted future cash flows. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows. The estimated cash flows used for this nonrecurring fair value measurement is considered a Level 3 input as defined in Note 18.

See Note 5 for further details on asset impairments.

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(1) Summary of Significant Accounting Policies and Practices (Continued)**

*Goodwill*

Goodwill is tested annually for impairment or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level. In accordance with newly released authoritative guidance which the Company elected to early adopt in fiscal 2012, the Company first assesses qualitative factors relevant in determining whether it is more likely than not that the fair value of its reporting units are less than their carrying amounts. Based on this analysis, the Company determines whether it is necessary to perform a quantitative impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the amount of any impairment loss to be recognized for that reporting unit is determined using two steps. First, the Company determines the fair value of the reporting unit using a discounted cash flow analysis, which requires unobservable inputs (Level 3) within the fair value hierarchy as defined in Note 18. These inputs include selection of an appropriate discount rate and the amount and timing of expected future cash flows. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill and other intangibles over the implied fair value. The implied fair value is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with authoritative guidance.

*Supplemental Executive Retirement Plan*

In accordance with authoritative accounting guidance for defined benefit pension and other postretirement plans, an asset for a plan's overfunded status or a liability for a plan's underfunded status is recognized in the consolidated balance sheets; plan assets and obligations that determine the plan's funded status are measured as of the end of the Company's fiscal year; and changes in the funded status of defined benefit postretirement plans are recognized in the year in which they occur. Such changes are reported in other comprehensive income and as a separate component of stockholders' equity.

*Deferred Rent and Lease Incentives*

When a lease includes lease incentives (such as a rent holiday) or requires fixed escalations of the minimum lease payments, rental expense is recognized on a straight-line basis over the term of the lease and the difference between the average rental amount charged to expense and amounts payable under the lease is included in deferred rent and lease incentives in the accompanying consolidated balance sheets. For construction allowances, the Company records a deferred lease credit on the consolidated balance sheets and amortizes the deferred lease credit as a reduction of rent expense in the consolidated statements of income over the term of the leases.

*Litigation Reserves*

Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in the consolidated balance sheets. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the expected probable favorable or unfavorable outcome of each claim. As additional information becomes available, the Company assesses the potential liability related to new claims and existing claims and revises estimates as appropriate. As new claims arise or existing claims evolve, such revisions in estimates of the potential liability could materially impact the results of operations and financial position.

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**GUESS?, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(2) New Accounting Guidance**

In May 2011, the Financial Accounting Standards Board ("FASB") issued an update to its authoritative guidance regarding fair value measurement to clarify disclosure requirements and improve comparability. Additional disclosure requirements in the update include: (a) for Level 3 fair value measurements, quantitative information about the significant unobservable inputs used, qualitative information about the sensitivity of the measurements to changes in the unobservable inputs disclosed including the interrelationship between inputs, and a description of the Company's valuation processes; (b) all, not just significant, transfers between Levels 1 and 2 of the fair value hierarchy; (c) the reason why, if applicable, the current use of a nonfinancial asset measured at fair value differs from its highest and best use; and (d) the categorization in the fair value hierarchy for financial instruments not measured at fair value but for which disclosure of fair value is required. The Company will adopt this guidance commencing in fiscal 2013, effective January 29, 2012, and apply it retrospectively.

In June 2011, the FASB issued authoritative guidance that revised its requirements related to the presentation of comprehensive income, which becomes effective for fiscal periods beginning after January 1, 2012, with early adoption allowed. This guidance eliminates the option to present the components of other comprehensive income ("OCI") as part of the consolidated statement of equity. It requires presentation of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company has elected to early adopt this guidance in fiscal 2012 and accordingly has presented the required comprehensive income disclosures in the accompanying consolidated statements of comprehensive income.

In September 2011, the FASB issued an update to its authoritative guidance regarding the methods used to test goodwill for impairment, which becomes effective for fiscal years beginning after December 15, 2011, with early adoption allowed. The amendment provides the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test currently required. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit if the entity determines, based on that qualitative assessment, that it is more likely than not that its carrying amounts are less than their fair values. If an entity concludes otherwise, then it must perform the two-step impairment test currently required. The Company elected to early adopt this guidance in fiscal 2012. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

**(3) Accounts Receivable**

Accounts receivable consists of trade receivables relating primarily to the Company's wholesale business in Europe, and to a lesser extent, to its wholesale businesses in North America and Asia. The Company provided for allowances relating to these receivables of \$34.4 million and \$29.9 million at January 28, 2012 and January 29, 2011, respectively. In addition, accounts receivable includes royalty receivables relating to licensing operations of \$14.1 million and \$27.5 million at January 28, 2012 and January 29, 2011, respectively, for which the Company recorded an allowance for doubtful accounts of \$0.4 million and \$0.8 million at January 28, 2012 and January 29, 2011, respectively. The accounts receivable allowance includes allowances for doubtful accounts, wholesale sales returns and wholesale markdowns. Retail sales returns allowances are included in accrued expenses.

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(4) Inventories**

Inventories consist of the following (in thousands):

	Jan. 28, 2012	Jan. 29, 2011
Raw materials	\$ 8,903	\$ 10,312
Work in progress	2,713	2,280
Finished goods	316,986	282,113
	\$ 328,602	\$ 294,705

As of January 28, 2012 and January 29, 2011, inventories had been written down to the lower of cost or market by \$19.7 million and \$19.0 million, respectively.

**(5) Property and Equipment**

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

	Jan. 28, 2012	Jan. 29, 2011
Land and land improvements	\$ 2,866	\$ 2,866
Building and building improvements	3,657	3,381
Leasehold improvements	382,098	336,672
Furniture, fixtures and equipment	330,517	291,787
Construction in progress	18,257	20,094
Properties under capital lease	22,474	23,135
	759,869	677,935
Less accumulated depreciation and amortization	410,984	364,079
	\$ 348,885	\$ 313,856

Construction in progress represents the costs associated with the construction in progress of leasehold improvements to be used in the Company's operations, primarily for new and remodeled stores in retail operations. No interest costs were capitalized related to construction in progress during fiscal 2012, fiscal 2011 and fiscal 2010.

The Company recorded charges related to asset impairments of \$7.8 million, \$5.3 million and \$4.7 million, respectively, for fiscal 2012, fiscal 2011 and fiscal 2010. These impairment charges related primarily to the impairment of long-lived assets for certain retail stores in Europe and North America.

The accumulated depreciation and amortization related to the property under the capital lease was approximately \$4.4 million and \$3.8 million at January 28, 2012 and January 29, 2011, respectively, and is included in depreciation expense. See Notes 8 and 12 for information regarding the associated capital lease obligations.



Table of Contents**GUESS?, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) Goodwill and Intangible Assets**

Goodwill activity is summarized by business segment as follows (in thousands):

	Europe	North American Retail	Asia	North American Wholesale	Total
Goodwill balance at January 30, 2010	\$ 18,017	\$ 856		\$ 11,004	\$ 29,877
Adjustments:					
Translation Adjustments	(343)	52		9	(282)
Goodwill balance at January 29, 2011	17,674	908		11,013	29,595
Adjustments:					
Translation Adjustments	(524)	(1)			(525)
Goodwill balance at January 28, 2012	\$ 17,150	\$ 907		\$ 11,013	\$ 29,070

The Company has no accumulated impairment related to goodwill.

Other intangible assets as of January 28, 2012 consisted primarily of lease and license acquisition costs related to European acquisitions. Gross intangible assets were \$29.5 million and \$39.3 million at January 28, 2012 and January 29, 2011, respectively. The accumulated amortization of intangible assets with finite useful lives was \$18.8 million and \$30.1 million at January 28, 2012 and January 29, 2011, respectively. For these assets, amortization expense over the next five years is expected to be approximately \$2.1 million in fiscal 2013, \$2.1 million in fiscal 2014, \$2.1 million in fiscal 2015, \$1.3 million in fiscal 2016 and \$0.6 million in fiscal 2017.

**(7) Accrued Expenses**

Accrued expenses are summarized as follows (in thousands):

	Jan. 28, 2012	Jan. 29, 2011
Accrued compensation and benefits	\$ 65,363	\$ 67,825
Income taxes	26,843	29,596
Sales and use taxes, property taxes, and other indirect taxes	32,671	26,954
Deferred royalties	12,716	12,390
Construction costs	9,053	9,723
Store credits, loyalty and gift cards	8,259	8,448
Advertising	7,769	7,280
Professional fees	6,516	7,035
Derivative financial instruments	1,107	7,766
Other	22,850	17,976
	\$ 193,147	\$ 194,993

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(8) Borrowings and Capital Lease Obligations**

Borrowings and capital lease obligations are summarized as follows (in thousands):

	Jan. 28, 2012	Jan. 29, 2011
European capital lease, maturing quarterly through 2016	\$ 11,925	\$ 13,871
Other	311	524
	12,236	14,395
Less current installments	2,030	2,177
Long-term capital lease obligations	\$ 10,206	\$ 12,218

The Company entered into a capital lease in December 2005 for a new building in Florence, Italy. At January 28, 2012, the capital lease obligation was \$11.9 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument that resulted in a swap fixed rate of 3.55%. This interest rate swap agreement matures in 2016 and converts the nature of the capital lease obligation from Euribor floating rate debt to fixed rate debt. The fair value of the interest rate swap liability at January 28, 2012 was approximately \$1.0 million.

On July 6, 2011, the Company entered into a five-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A., Bank of America, N.A. and the other lenders party thereto (the "Credit Facility"). The Credit Facility provides for a \$200 million revolving multicurrency line of credit, and is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. It may be used for working capital and other general corporate purposes. The Credit Facility also allows for incremental revolving commitments or incremental term loans in an aggregate amount that does not exceed \$100 million, subject to certain conditions. The Credit Facility replaced the Company's previous \$85 million credit facility, which was scheduled to mature on September 30, 2011. No principal or interest was outstanding or accrued and unpaid under the prior credit facility on its termination date.

All obligations under the Credit Facility are unconditionally guaranteed by certain of the Company's domestic subsidiaries and are secured by substantially all of the personal assets of the Company and such domestic subsidiaries, including a pledge of 65% of the equity interests of certain of the Company's foreign subsidiaries.

Direct borrowings under the Credit Facility will be made, at the Company's option, as (a) Eurodollar Rate Loans, which shall bear interest at the published LIBOR rate for the respective interest period plus an applicable margin (varying from 1.15% to 1.65%) based on the Company's leverage ratio at the time, or (b) Base Rate Loans, which shall bear interest at the higher of (i) 0.50% in excess of the federal funds rate, (ii) the rate of interest as announced by JP Morgan as its "prime rate," or (iii) 1.0% in excess of the one month adjusted LIBOR rate, plus an applicable margin (varying from 0.15% to 0.65%) based on the Company's leverage ratio at the time. The Company is also obligated to pay certain commitment, letter of credit and other fees customary for a credit facility of this size and type. At January 28, 2012, the Company had \$1.0 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Credit Facility requires the Company to comply with a leverage ratio and a fixed charge coverage ratio. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to: incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the Credit Facility, the

Table of Contents**GUESS?, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(8) Borrowings and Capital Lease Obligations (Continued)**

lenders may cease making loans, terminate the Credit Facility and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Credit Facility allows for both secured and unsecured borrowings outside of the Credit Facility up to specified amounts.

The Company, through its European subsidiaries, maintains short-term uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. The majority of the borrowings under these agreements are secured by specific accounts receivable balances. Based on the applicable accounts receivable balances at January 28, 2012, the Company could have borrowed up to \$176.4 million under these agreements. At January 28, 2012, the Company had no outstanding borrowings and \$3.4 million in outstanding documentary letters of credit under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 1.6% to 4.7%. The maturities of the short-term borrowings are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings. With the exception of one facility for up to \$46.3 million that has a minimum net equity requirement, there are no other financial ratio covenants.

From time to time the Company will obtain other short term financing in foreign countries for working capital to finance its local operations.

Maturities of debt and capital lease obligations at January 28, 2012 are as follows (in thousands):

	<b>Capital Lease</b>	<b>Debt</b>	<b>Total</b>
Fiscal 2013	\$ 1,719	\$ 311	\$ 2,030
Fiscal 2014	1,712		1,712
Fiscal 2015	1,763		1,763
Fiscal 2016	1,816		1,816
Fiscal 2017	4,915		4,915
Thereafter			
<b>Total</b>	<b>\$ 11,925</b>	<b>\$ 311</b>	<b>\$ 12,236</b>

**(9) Income Taxes**

Income tax expense (benefit) is summarized as follows (in thousands):

<b>Year Ended</b>	<b>Year Ended</b>
<b>Jan. 28, 2012</b>	<b>Jan. 29, 2011</b>