

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 1996

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 33-69236

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GUESS ?, INC.  
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(Exact name of registrant as specified in its charter)

DELAWARE	95-3679695
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1444 South Alameda Street	
Los Angeles, California	90021
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (213) 765-3100

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

Yes  No

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

As of March 31, 1996, the registrant had 1,000,525 shares of Common Stock, \$.01 par value, outstanding.

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

ASSETS

	March 31, 1996	December 31, 1995*
	-----	-----

Current assets:		
Cash.....	\$8,583	\$6,417
Receivables:		
Trade receivables, net of reserves.....	43,005	22,886
Royalties.....	9,540	9,975
Other.....	3,163	4,040
	-----	-----
	55,708	36,901
Inventories.....	90,472	72,889
Prepaid expenses.....	5,508	5,557
	-----	-----
Total current assets.....	160,271	121,764
Property and equipment, at cost, net of accumulated depreciation and amortization...	66,528	68,199
Long-term investments.....	3,404	3,394
Other assets, at cost, net of accumulated amortization.....	9,064	9,278
	-----	-----
	\$239,267	\$202,635
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current installments of notes payable and long-term debt.....	\$ 5,756	\$4,123
Accounts payable.....	43,739	40,701
Accrued expenses.....	14,978	18,332
Income taxes payable.....	1,928	1,036
	-----	-----
Total current liabilities.....	66,401	64,192
Notes payable and long-term debt, net of current  installments.....	146,752	119,212
Minority interest.....	417	75
Other liabilities.....	8,227	8,159
	-----	-----
	221,797	191,638
Stockholders' equity:		
Common stock, \$.01 par value. Authorized 2,000,000 shares; issued 1,613,750 and issued and outstanding 1,000,525, including 613,225 shares in Treasury....	35	35
Paid-in capital.....	181	181
Retained earnings.....	168,014	161,567
Foreign currency translation adjustment.....	16	(10)
Treasury stock, 613,225 shares repurchased...	(150,776)	(150,776)
	-----	-----
Net stockholders' equity	17,470	10,997
	-----	-----
	\$239,267	\$202,635
	=====	=====

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

	First Quarter Ended	
	March 31, 1996	April 2, 1995
	-----	-----
Net revenue.....	\$123,275	\$113,646
Cost of sales.....	70,479	65,267
	-----	-----
Gross profit.....	52,796	48,379
Royalty income, net.....	11,623	11,257
	-----	-----
Selling, general and administrative expenses....	64,419	59,636
	35,232	34,160
	-----	-----
Earnings from operations.....	29,187	25,476
	-----	-----
Non-operating expense:		
Interest, net.....	(3,549)	(4,041)
Other, net.....	(320)	(164)
	-----	-----
	(3,869)	(4,205)
	-----	-----
Earnings before income taxes.....	25,318	21,271
Income taxes.....	1,271	559
	-----	-----
Net earnings.....	\$24,047	\$20,712
	=====	=====

See accompanying notes to condensed consolidated financial statements3

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

	First Quarter Ended	
	March 31, 1996	April 2, 1995
	-----	-----
Cash flows from operating activities:		
Net earnings.....	\$24,047	\$20,712
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		

Depreciation and amortization of property and equipment.....	4,282	3,326
Amortization of deferred charges.....	247	496
Loss on disposition of property and equipment.....	16	247
Minority interest.....	342	31
Foreign translation adjustment.....	15	28
Undistributed equity method earnings.....	(9)	(46)
(Increase) decrease in:		
Receivables.....	(18,807)	(12,748)
Inventories.....	(17,583)	10,795
Prepaid expenses.....	49	74
Other assets.....	85	112
Increase (decrease) in:		
Accounts payable.....	3,038	(6,536)
Accrued expenses.....	(3,416)	(3,084)
Income taxes payable.....	892	475
	-----	-----
Net cash provided by (used in) operating activities.....	(6,802)	13,882
Cash flows from investing activities:		
Purchases of property and equipment.....	(2,629)	(5,479)
Proceeds from the disposition of property and equipment.....	2	11
Lease incentives granted.....	11	305
Purchases of long-term investments.....	0	(122)
	-----	-----
Net cash used by investing activities.....	(2,616)	(5,285)
Cash flows from financing activities:		
Proceeds from notes payable and long-term debt.....	55,857	36,743
Repayments of notes payable and long-term debt.....	(26,684)	(30,169)
Distributions to stockholders.....	(17,600)	(17,000)
	-----	-----
Net cash used by financing activities.....	11,573	(10,426)
Effect of exchange rate changes on cash:.....	11	(28)
Net increase (decrease) in cash.....	2,166	(1,857)
Cash, beginning of period.....	6,417	5,994
	-----	-----
Cash, end of period.....	\$8,583	\$4,137
	=====	=====
Supplemental disclosures:		
Cash paid during the period for:		
Interest.....	\$5,619	\$6,665
Income taxes.....	357	244

See accompanying notes to condensed consolidated financial statements.

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

March 31, 1996

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of March 31, 1996, and the results of operations and cash flows for the first quarter ended March 31, 1996. Operating results for the first quarter ended March 31, 1996, are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X and accordingly, they have been condensed and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statement presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1995.

(2) Inventories

The components of inventory consist of the following:

	March 31, 1996	December 31, 1995
	-----	-----
	(in thousands)	
Raw materials.....	\$12,695	\$9,788
Work in Progress.....	12,687	11,264
Finished Goods.....	65,090	51,837
	-----	-----
	\$90,472	\$72,889
	=====	=====

(3) Reclassifications

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

(4) Recently Issued Pronouncements

In March 1995, the Financial Accounting Standards Board issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" (Statement No. 121), effective for fiscal years beginning after December 31, 1995. Statement No. 121 establishes accounting standards for the recognition and measurement of impairment of long-lived assets, certain identifiable intangibles, and goodwill either to be held or disposed of. The Company has adopted the provisions of Statement No. 121 effective January 1, 1996. Management believes the adoption of Statement NO. 121 will not have a material impact on the Company's financial position or results of operations.

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

OVERVIEW

The Company derives substantially all of its revenue from the sale of Guess products through its domestic wholesale and retail operations and from royalty income generated under the Company's licensing arrangements.

RESULTS OF OPERATIONS

NET REVENUE. Net revenue increased \$9.7 million or 8.5% to \$123.3 million in the quarter ended March 31, 1996 from \$113.6 million in the quarter ended April 2, 1995. Net revenue from wholesale operations decreased \$2.2 million. Net revenue from retail operations increased \$11.9 million, primarily attributable to an increase of 18.6% from comparable stores and from volume generated by new store openings. The increase in comparable stores was primarily attributable to a favorable merchandise mix.

GROSS PROFIT. Gross profit increased 9.1% to \$52.8 million in the quarter ended March 31, 1996 from \$48.4 million in the quarter ended April 2, 1995.

Gross profit as a percentage of net revenue improved slightly to 42.8% in the quarter ended March 31, 1996 as compared to 42.6% in the quarter ended April 2, 1995. The increase in gross profit was achieved principally from the increase in sales volume.

ROYALTY INCOME, NET. Net royalty income increased 2.7% in the quarter ended March 31, 1996 to \$11.6 from \$11.3 million in the quarter ended April 2, 1995.

SG&A EXPENSES. Selling, general and administrative ("SG&A") expenses increased 2.9% in the quarter ended March 31, 1996 to \$35.2 million, or 28.5% of net revenue, from \$34.2 million, or 30.1% of net revenue, in the quarter ended April 2, 1995. The increase was primarily the result of increased store expenses related to the expansion of the retail operation, partially offset by administrative cost containment efforts. The decrease in SG&A expenses as a percentage of net revenue was the result of cost containment efforts and fixed expenses being spread over a larger revenue base in the current period.

EARNINGS FROM OPERATIONS. Earnings from operations increased 14.5% to \$29.2 million, or 23.7% of net revenue in the quarter ended March 31, 1996, from \$25.5 million, or 22.4% of net revenue, in the quarter ended April 2, 1995. This increase resulted primarily from the increase in revenue and improved gross margins.

INTEREST, NET. Net interest expense decreased 12.5% to \$3.5 million in the quarter ended March 31, 1996 from \$4.0 million in the quarter ended April 2, 1995. This decrease resulted from lower outstanding debt and lower interest rates.

INCOME TAXES. Income taxes increased 116.7% to \$1.3 million in the quarter ended March 31, 1996 from \$.6 million in the quarter ended April 2, 1995. This increase was primarily attributable to income tax refunds received in the first quarter of 1995.

NET EARNINGS. Net earnings increased 15.9% to \$24.0 million, or 19.5% of net revenue, in the quarter ended March 31, 1996, from \$20.7 million, or 18.2% of net revenue, in the quarter ended April 2, 1995.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has relied primarily upon internally generated funds, trade credit and bank borrowing to finance its operations and expansion. At March 31, 1996, the Company had working capital of \$93.9 million compared to \$57.6 million at December 31, 1995. The \$36.3 million increase in working capital primarily resulted from a \$17.6 million increase in inventories and a \$18.8 million increase in receivables. The increase in inventory and accounts receivable relate to seasonal requirements.

The Company's revolving credit agreement provides for a \$100.0 million revolving credit facility which includes a \$20.0 million sublimit for letters of credit. As of March 31, 1996, the Company had \$40.8 million in outstanding borrowings under the revolving credit facility and outstanding letters of credit of \$9.0 million. As of March 31, 1996, the Company had \$50.2 million available for future borrowings under such facility. The revolving credit facility will expire in December 1997. In addition to this revolving credit facility, the Company has a \$25.0 million letter of credit facility. As of March 31, 1996, the Company had \$10.5 million outstanding under this facility. Capital expenditures totaled \$2.6 million in the first quarter ended March 31, 1996. The Company estimates that its capital expenditures for fiscal 1996 will be approximately \$20.0 million, primarily for the expansion of its retail operations.

The Company anticipates that it will be able to satisfy its ongoing cash requirements for the foreseeable future, including expansion plans, interest

on the Senior Subordinated Notes and periodic distributions to stockholders, primarily with cash flow from operations, supplemented, if necessary, by borrowing under its revolving credit agreement.

IMPACT OF RECENTLY ISSUED PRONOUNCEMENTS In March 1995, the Financial Accounting Standards Board issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" (Statement No. 121), effective for fiscal years beginning after December 31, 1995. Statement No. 121 establishes accounting standards for the recognition and measurement of impairment of long-lived assets, certain identifiable intangibles, and goodwill either to be held or disposed of. The Company has adopted the provisions of Statement No. 121 effective January 1, 1996. Management believes the adoption of Statement NO. 121 will not have a material impact on the Company's financial position or results of operations.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

The Company is a party to various claims, complaints and other legal actions that have arisen in the normal course of business from time to time.

The Company believes that the outcome of all pending legal proceedings, in the aggregate, will not have a material adverse effect on the Company's financial position or the results of its operations.

### ITEM 6. Exhibits and Reports on Form 8-K

#### a) Exhibits:

None

b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the first quarter ended March 31, 1996.

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SIGNATURES

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

GUESS ?, INC.

Date: May 12, 1996

By: /s/ Maurice Marciano

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

Date: May 12, 1996

By: /s/ Roger Williams

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



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