UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 28, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 1-11893

GUESS?, INC.

(Exact name of registrant as specified in its charter)

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

Strada Regina 44
Bioggio, Switzerland CH-6934
(Address of principal executive offices and zip code)

+41 91 809 5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	GES	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 November 27, 2023, the registrant had 53,700,294 shares of Common Stock, $0.01 par value per share, outstanding.

GUESS?, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	Oct 28, 2023 (unaudited)	Jan 28, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 244,103	$ 275,765
Accounts receivable, net	340,784	341,939
Inventories	562,386	510,899
Other current assets	81,220	83,102
Total current assets	1,228,493	1,211,705
Property and equipment, net	234,572	240,355
Goodwill	33,618	34,277
Deferred income tax assets	186,853	158,403
Operating lease right-of-use assets	657,363	636,148
Other assets	137,878	144,560
	$ 2,478,777	$ 2,425,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of borrowings and finance lease obligations	$ 41,695	$ 40,380
Accounts payable	292,443	289,442
Accrued expenses and other current liabilities	221,851	263,038
Convertible senior notes due 2024, net	114,985	—
Current portion of operating lease liabilities	165,420	170,192
Total current liabilities	836,394	763,052
Convertible senior notes due 2024, net	—	298,931
Convertible senior notes due 2028, net	266,551	—
Long-term debt and finance lease obligations	131,821	95,921
Long-term operating lease liabilities	538,731	528,236
Other long-term liabilities	147,637	157,403
Total liabilities	1,921,134	1,843,543
Redeemable noncontrolling interests	513	9,154
Commitments and contingencies (Note 13)		
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 142,771,253 and 142,771,253 shares; outstanding 53,700,273 and 54,609,786 shares as of October 28, 2023 and January 28, 2023, respectively	537	546
Paid-in capital	519,959	532,398
Retained earnings	1,313,910	1,276,857
Accumulated other comprehensive loss	(153,150)	(134,073)
Treasury stock, 89,070,980 and 88,161,467 shares as of October 28, 2023 and January 28, 2023, respectively	(1,167,196)	(1,141,615)
Guess?, Inc. stockholders' equity	514,060	534,113
Nonredeemable noncontrolling interests	43,070	38,638
Total stockholders' equity	557,130	572,751
	$ 2,478,777	$ 2,425,448

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	**Oct 29, 2022**	**Oct 28, 2023**	**Oct 29, 2022**
Product sales	$ 618,130	$ 605,656	$ 1,800,536	$ 1,790,651
Net royalties	33,040	27,747	84,944	78,915
Net revenue	651,170	633,403	1,885,480	1,869,566
Cost of product sales	360,000	364,032	1,067,882	1,082,545
Gross profit	291,170	269,371	817,598	787,021
Selling, general and administrative expenses	234,123	212,927	694,748	638,801
Asset impairment charges	1,737	1,789	6,293	5,252
Net (gains) losses on lease modifications	537	(146)	(1,894)	(1,654)
Earnings from operations	54,773	54,801	118,451	144,622
Other income (expense):				
Interest expense	(5,923)	(3,453)	(15,883)	(9,741)
Interest income	3,181	636	8,557	1,629
Loss on extinguishment of debt	—	—	(7,696)	—
Other, net	(11,004)	(15,211)	(18,227)	(40,716)
Total other expense	(13,746)	(18,028)	(33,249)	(48,828)
Earnings before income tax expense (benefit)	41,027	36,773	85,202	95,794
Income tax expense (benefit)	(18,277)	11,616	(5,370)	32,743
Net earnings	59,304	25,157	90,572	63,051
Net earnings attributable to noncontrolling interests	3,603	3,322	7,643	9,284
Net earnings attributable to Guess?, Inc.	$ 55,701	$ 21,835	$ 82,929	$ 53,767
Net earnings per common share attributable to common stockholders:				
Basic	$ 1.04	$ 0.40	$ 1.53	$ 0.93
Diluted	$ 0.82	$ 0.34	$ 1.30	$ 0.80
Weighted average common shares outstanding attributable to common stockholders:				
Basic	53,052	53,894	53,450	57,300
Diluted	70,331	67,102	68,098	70,705

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	**Oct 29, 2022**	**Oct 28, 2023**	**Oct 29, 2022**
Net earnings	$ 59,304	$ 25,157	$ 90,572	$ 63,051
Other comprehensive income (loss) (“OCI”):				
Foreign currency translation adjustment				
Losses arising during the period	(29,718)	(9,281)	(20,028)	(38,082)
Derivative financial instruments designated as cash flow hedges				
Gains arising during the period	6,619	6,998	8,367	17,683
Less income tax effect	(749)	(862)	(984)	(2,105)
Reclassification to net earnings for gains realized	(28)	(4,171)	(6,508)	(6,947)
Less income tax effect	22	462	768	756
Defined benefit plans				
Foreign currency and other adjustments	202	165	(138)	243
Less income tax effect	(18)	(15)	16	(22)
Net actuarial loss amortization	64	13	191	55
Prior service credit amortization	(40)	(22)	(119)	(67)
Less income tax effect	(2)	1	(6)	(1)
Total comprehensive income	35,656	18,445	72,131	34,564
Less comprehensive income attributable to noncontrolling interests:				
Net earnings	3,603	3,322	7,643	9,284
Foreign currency translation adjustment	(3,055)	404	636	(396)
Amounts attributable to noncontrolling interests	548	3,726	8,279	8,888
Comprehensive income attributable to Guess?, Inc.	$ 35,108	$ 14,719	$ 63,852	$ 25,676

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022
Cash flows from operating activities:		
Net earnings	$ 90,572	$ 63,051
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	46,059	45,490
Amortization of debt discount	351	—
Amortization of debt issuance costs	1,305	1,303
Share-based compensation expense	14,952	16,547
Forward contract (gains) losses	(14,730)	2,301
Deferred income taxes	(22,356)	5,752
Net loss from impairment and disposition of long-term assets	7,385	6,023
Loss on extinguishment of debt	7,696	—
Other items, net	3,782	24,955
Changes in operating assets and liabilities:		
Accounts receivable	(8,810)	(22,156)
Inventories	(67,363)	(155,391)
Prepaid expenses and other assets	7,626	7,663
Operating lease assets and liabilities, net	(15,142)	(23,313)
Accounts payable and accrued expenses and other current liabilities	(7,120)	5,806
Other long-term liabilities	(3,326)	551
Net cash provided by (used in) operating activities	40,881	(21,418)
Cash flows from investing activities:		
Purchases of property and equipment	(52,469)	(71,729)
Purchases of investments	(3,262)	(283)
Other investing activities	(893)	43
Net cash used in investing activities	(56,624)	(71,969)
Cash flows from financing activities:		
Proceeds from borrowings	117,418	196,013
Repayments on borrowings and finance lease obligations	(78,408)	(97,657)
Net proceeds from issuance of convertible senior notes	80,324	—
Proceeds from issuance of warrant	20,158	—
Purchase of convertible note hedge	(51,838)	—
Proceeds from termination of convertible senior note hedge	7,235	—
Payments for termination of common stock warrant	(1,024)	—
Debt issuance costs	(5,833)	(1,450)
Dividends paid	(46,033)	(39,344)
Noncontrolling interest capital distribution	(2,625)	(4,817)
Purchase of redeemable noncontrolling interest	(8,650)	—
Issuance of common stock, net of income tax withholdings on vesting of stock awards	2,304	2,223
Purchase of treasury stock	(42,821)	(186,747)
Net cash used in financing activities	(9,793)	(131,779)
Effect of exchange rates on cash and cash equivalents	(6,126)	(16,334)
Net change in cash and cash equivalents	(31,662)	(241,500)
Cash and cash equivalents at the beginning of the year	275,765	415,565
Cash and cash equivalents at the end of the period	$ 244,103	$ 174,065
Supplemental cash flow data:		
Interest paid	$ 15,036	$ 9,308
Income taxes paid, net of refunds	$ 19,742	$ 18,077
Non-cash investing and financing activity:		
Change in accrual of property and equipment	$ (2,864)	$ (3,636)
Assets acquired under finance lease obligations	$ 2,556	$ 3,772

See accompanying notes to condensed consolidated financial statements.

GUESS?, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	For the three and nine months ended October 28, 2023								
	Guess?, Inc. Stockholders' Equity								
	Common Stock					Treasury Stock			
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	Amount	Nonredeemable Noncontrolling Interests	Total
Balance at January 28, 2023	54,609,786	$ 546	$ 532,398	$ 1,276,857	$ (134,073)	88,161,467	$ (1,141,615)	$ 38,638	$ 572,751
Net earnings (loss)	—	—	—	(11,805)	—	—	—	1,111	(10,694)
Other comprehensive income (loss), net of income tax benefit of $811	—	—	—	—	(5,404)	—	—	1,309	(4,095)
Issuance of common stock under stock compensation plans	1,085,319	11	(14,519)	—	—	(1,085,319)	14,058	—	(450)
Issuance of stock under Employee Stock Purchase Plan	11,848	—	28	—	—	(11,848)	153	—	181
Share-based compensation	—	—	4,617	3	—	—	—	—	4,620
Dividends, net of forfeitures on non-participating securities	—	—	—	(12,662)	—	—	—	—	(12,662)
Share repurchases	(2,237,872)	(22)	22	—	—	2,237,872	(42,821)	—	(42,821)
Equity component value of convertible notes transactions, net	—	—	(744)	—	—	—	—	—	(744)
Sale of common stock warrant	—	—	20,158	—	—	—	—	—	20,158
Purchase of convertible note hedge	—	—	(39,397)	—	—	—	—	—	(39,397)
Termination of common stock warrant	—	—	(1,024)	—	—	—	—	—	(1,024)
Termination of convertible note hedge	—	—	7,235	—	—	—	—	—	7,235
Balance at April 29, 2023	53,469,081	$ 535	$ 508,774	$ 1,252,393	$ (139,477)	89,302,172	$ (1,170,225)	$ 41,058	$ 493,058
Net earnings	—	—	—	39,033	—	—	—	2,929	41,962
Other comprehensive income, net of income tax of ($270)	—	—	—	—	6,920	—	—	2,382	9,302
Issuance of common stock under stock compensation plans	107,116	1	(811)	—	—	(107,116)	1,402	—	592
Issuance of stock under Employee Stock Purchase Plan	11,085	—	24	—	—	(11,085)	146	—	170
Share-based compensation	—	—	5,455	—	—	—	—	—	5,455
Dividends, net of forfeitures on non-participating securities	—	—	—	(16,591)	—	—	—	—	(16,591)
Purchase of redeemable noncontrolling interest	—	—	1,318	—	—	—	—	(1,223)	95
Noncontrolling interest capital distribution	—	—	—	—	—	—	—	(222)	(222)
Balance at July 29, 2023	53,587,282	$ 536	$ 514,760	$ 1,274,835	$ (132,557)	89,183,971	$ (1,168,677)	$ 44,924	$ 533,821
Net earnings	—	—	—	55,701	—	—	—	3,603	59,304
Other comprehensive loss, net of income tax of ($747)	—	—	—	—	(20,593)	—	—	(3,055)	(23,648)
Issuance of common stock under stock compensation plans	105,248	1	300	—	—	(105,248)	1,380	—	1,681
Issuance of stock under Employee Stock Purchase Plan	7,743	—	29	—	—	(7,743)	101	—	130
Share-based compensation	—	—	4,870	7	—	—	—	—	4,877
Dividends, net of forfeitures on non-participating securities	—	—	—	(16,633)	—	—	—	—	(16,633)
Noncontrolling interest capital distribution	—	—	—	—	—	—	—	(2,402)	(2,402)
Balance at October 28, 2023	53,700,273	$ 537	$ 519,959	$ 1,313,910	$ (153,150)	89,070,980	$ (1,167,196)	$ 43,070	$ 557,130

See accompanying notes to condensed consolidated financial statements.

GUESS?, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	For the three and nine months ended October 29, 2022								
	Guess?, Inc. Stockholders' Equity								
	Common Stock					Treasury Stock			
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	Amount	Nonredeemable Noncontrolling Interests	Total
Balance at January 29, 2022	62,697,032	$ 627	$ 565,024	$ 1,158,664	$ (135,549)	80,074,914	$ (966,108)	$ 30,985	$ 653,643
Cumulative adjustment from adoption of new accounting guidance	—	—	(43,078)	21,355	—	—	—	—	(21,723)
Net earnings	—	—	—	7,970	—	—	—	2,484	10,454
Other comprehensive loss, net of income tax of ($889)	—	—	—	—	(11,164)	—	—	(476)	(11,640)
Issuance of common stock under stock compensation plans	411,785	4	(3,608)	—	—	(411,785)	5,074	—	1,470
Issuance of stock under Employee Stock Purchase Plan	10,976	—	69	—	—	(10,976)	137	—	206
Share-based compensation	—	—	4,003	49	—	—	—	—	4,052
Dividends, net of forfeitures on non-participating securities	—	—	—	(13,659)	—	—	—	—	(13,659)
Share repurchases	(3,789,576)	(38)	38	—	—	3,789,576	(81,747)	—	(81,747)
Noncontrolling interest capital distribution	—	—	—	—	—	—	—	(4,817)	(4,817)
Equity forward contract issuance	—	—	(105,000)	—	—	—	—	—	(105,000)
Balance at April 30, 2022	59,330,217	$ 593	$ 417,448	$ 1,174,379	$ (146,713)	83,441,729	$ (1,042,644)	$ 28,176	$ 431,239
Cumulative adjustment from adoption of new accounting guidance	—	—	—	433	—	—	—	—	433
Net earnings	—	—	—	23,962	—	—	—	3,478	27,440
Other comprehensive loss, net of income tax of ($69)	—	—	—	—	(9,811)	—	—	(324)	(10,135)
Issuance of common stock under stock compensation plans	290,393	3	(3,392)	—	—	(290,393)	3,628	—	239
Issuance of stock under Employee Stock Purchase Plan	13,381	—	44	—	—	(13,381)	167	—	211
Share-based compensation	—	—	6,624	3	—	—	—	—	6,627
Dividends, net of forfeitures on non-participating securities	—	—	—	(13,881)	—	—	—	—	(13,881)
Share repurchases	(5,196,027)	(52)	52	—	—	5,196,027	(105,000)	—	(105,000)
Equity forward contract settlement	—	—	105,000	—	—	—	—	—	105,000
Balance at July 30, 2022	54,437,964	$ 544	$ 525,776	$ 1,184,896	$ (156,524)	88,333,982	$ (1,143,849)	$ 31,330	$ 442,173
Net earnings	—	—	—	21,835	—	—	—	3,322	25,157
Other comprehensive income (loss), net of income tax of ($414)	—	—	—	—	(7,116)	—	—	404	(6,712)
Issuance of common stock under stock compensation plans	(5,886)	—	27	—	—	5,538	(71)	—	(44)
Issuance of stock under Employee Stock Purchase Plan	11,094	—	(2)	—	—	(11,094)	143	—	141
Share-based compensation	—	—	5,862	6	—	—	—	—	5,868
Dividends, net of forfeitures on non-participating securities	—	—	—	(12,699)	—	—	—	—	(12,699)
Noncontrolling interest capital distribution	—	—	—	—	—	—	—	(1,196)	(1,196)
Balance at October 29, 2022	54,443,172	$ 544	$ 531,663	$ 1,194,038	$ (163,640)	88,328,426	$ (1,143,777)	$ 33,860	$ 452,688

See accompanying notes to condensed consolidated financial statements.

GUESS?, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 28, 2023
(unaudited)

(1) Basis of Presentation

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 women, men 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 retail store licensees and wholesale distributors.

Reclassifications

The Company has made certain reclassifications to prior period amounts to conform to the current period presentation within the accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements.

Interim Financial Statements

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated balance sheets as of October 28, 2023 and January 28, 2023, and the condensed consolidated statements of income, comprehensive income, cash flows and stockholders' equity for the three and nine months ended October 28, 2023 and October 29, 2022. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the United States Securities and Exchange Commission (the "SEC"). Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations and cash flows for the three and nine months ended October 28, 2023 are not necessarily indicative of the results of operations to be expected for the full fiscal year.

These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended January 28, 2023.

Fiscal Periods

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. The three and nine months ended October 28, 2023 had the same number of days as the three and nine months ended October 29, 2022. All references herein to "fiscal 2023" and "fiscal 2022" represent the results of the 52-week fiscal years ended January 28, 2023 and January 29, 2022, respectively. All references herein to "fiscal 2024" represent the 53-week fiscal year ending February 3, 2024, with the extra week occurring in the fourth quarter of the year.

Business Update, Market Trends and Uncertainties

Macroeconomic conditions, including inflation, higher interest rates, foreign exchange rate fluctuations, declines in consumer spending, the impact of the war in Ukraine and the lingering effects of public health crises continue to negatively impact the Company's businesses.

The Company continues to carefully monitor global and regional developments and respond appropriately. The Company also continues to strategically manage expenses in order to protect profitability and to mitigate, to the extent possible, the residual effect of supply chain disruptions. The duration and scope of these conditions cannot be predicted, and therefore, any anticipated negative financial impact to the Company's operating results cannot be reasonably estimated.

Summary of Significant Accounting Policies

The accounting policies of the Company are set forth in further detail in Note 1 to the Company's Consolidated Financial Statements contained in the Company’s fiscal 2023 Annual Report on Form 10-K. The Company includes herein certain updates to those policies.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. 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 allowances for doubtful accounts, sales return and markdown allowances, gift card and loyalty accruals, valuation of inventories, share-based compensation, income taxes, recoverability of deferred income taxes, unrecognized income tax benefits, the useful life of assets for depreciation and amortization, evaluation of asset impairment (including goodwill and long-lived assets, such as property and equipment and operating lease right-of-use (“ROU”) assets), pension obligations, workers’ compensation and medical self-insurance expense and accruals, litigation reserves and restructuring expense and accruals. These estimates and assumptions may change as a result of the impact of global economic conditions, such as the uncertainty regarding the impact of public health crises, the ongoing Russia-Ukraine conflict, global inflationary pressures, volatility in foreign exchange rates and declining consumer spending. Actual results could differ from those estimates. Revisions in estimates could materially impact the results of operations and financial position.

The Company’s operations could be impacted in ways the Company is not able to predict today. While the Company believes it has made reasonable accounting estimates based on the facts and circumstances that were available as of the reporting date, to the extent there are differences between these estimates and actual results, the Company’s results of operations and financial position could be materially impacted.

Revenue Recognition

The Company recognizes the majority of its revenue from its direct-to-consumer (brick-and-mortar retail stores and concessions as well as e-commerce) and wholesale distribution channels at a point in time when it satisfies a performance obligation and transfers control of the product to the respective customer.

The Company also recognizes royalty revenue from its trademark license agreements. The Company’s trademark license agreements represent symbolic licenses that are dependent on the Company’s continued support over the term of the license agreement. The amount of revenue that is recognized from the licensing arrangements is based on sales-based royalty and advertising fund contributions as well as specific fixed payments, where applicable. The Company’s trademark license agreements customarily provide for a multi-year initial term ranging from three to ten years and may contain options to renew prior to expiration for an additional multi-year period. The unrecognized portion of upfront payments is included in deferred royalties in accrued expenses and other long-term liabilities depending on the short or long-term nature of the payments to be recognized. As of October 28, 2023, the Company had $4.8 million and $11.8 million of deferred royalties related to these upfront payments included in accrued expenses and other current liabilities and other long-term liabilities, respectively. This compares to $4.8 million and $15.2 million of deferred royalties related to these upfront payments included in accrued expenses and other current liabilities and other long-term liabilities, respectively, at January 28, 2023. During the three and nine months ended October 28, 2023, the Company recognized $3.6 million and $10.7 million in net royalties, respectively, related to the amortization of deferred royalties. During the three and nine months ended October 29, 2022, the Company recognized $3.3 million and $10.0 million in net royalties, respectively, related to the amortization of deferred royalties.

Refer to Note 8 for further information on disaggregation of revenue by segment and country.

Allowance for Doubtful Accounts

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 may result from the inability of its wholesale customers and licensing partners 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 and current collection trends, evaluation of the impact of current and future forecasted economic conditions and whether the Company has obtained credit insurance or other guarantees. Management performs regular evaluations concerning the ability of its customers to make required payments and records a provision for doubtful accounts based on these evaluations.

As of October 28, 2023, approximately 48% of the Company's total net trade accounts receivable and 62% of its European net trade receivables were subject to credit insurance coverage, certain bank guarantees or letters of credit for collection purposes. The Company's credit insurance coverage contains certain terms and conditions specifying deductibles and annual claim limits. Management evaluates the creditworthiness of the counterparties to the credit insurance, bank guarantees and letters of credit and records a provision for the risk of loss on these instruments based on these evaluations as considered necessary.

The Company's credit losses for the periods presented were not significant compared to sales and did not significantly exceed management's estimates. Refer to Note 5 for further information on the Company's allowance for doubtful accounts.

Recently Issued Accounting Guidance

Reference Rate Reform

The Financial Accounting Standards Board ("FASB") issued guidance to provide temporary optional expedients to ease the potential burden in accounting for reference rate reform. This guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to certain criteria, referencing the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. The FASB issued subsequent amendments to further clarify the scope of optional expedients and exceptions to derivatives affected by the transition. The guidance is intended to help stakeholders during the global market-wide reference rate transition period.

The Company identified and modified its loans and other financial instruments with attributes directly or indirectly influenced by LIBOR. The Company determined, of its current LIBOR references as outlined in Note 9 Borrowings and Finance Lease Obligations, Note 15 Fair Value Measurements and Note 16 Derivative Financial Instruments, only the obligations under Mortgage Debt (as defined in Note 9), credit facilities and interest rate swap agreements were impacted by this guidance. In May 2023, the Company amended the terms of the Mortgage Debt for the interest rate to be based on Secured Overnight Financing Rate ("SOFR") effective May 1, 2023. The Company also amended its existing interest rate swap agreement, resulting in a swap fixed rate of approximately 3.14%. As of October 28, 2023, the Company does not have any financial instruments with attributes directly or indirectly influenced by LIBOR.

(2) Lease Accounting

The Company primarily leases its showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facilities and retail and factory outlet store locations under operating lease agreements expiring on various dates through January 2039. The Company also leases some of its equipment, as well as computer hardware and software, under operating and finance lease agreements expiring on various dates through October 2028.

The Company's lease agreements primarily provide for lease payments based on a minimum annual rental amount, a percentage of annual sales volume, periodic adjustments related to inflation or a combination of such lease payments. Certain retail store leases provide for lease payments based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 3% to 28%, when specific sales volumes are exceeded. The Company's retail concession leases also provide for lease payments primarily based upon a percentage of annual sales volume, which averages approximately 25%.

In addition to the amounts as disclosed below, the Company has estimated additional operating lease commitments of approximately $19.3 million for leases where the Company has not yet taken possession of the underlying asset as of October 28, 2023. As such, the related operating lease ROU assets and operating lease liabilities have not been recognized in the Company's condensed consolidated balance sheet as of October 28, 2023.

The components of leases are (in thousands):

		Oct 28, 2023	Jan 28, 2023
Assets	**Balance Sheet Location**		
Operating	Operating lease right-of-use assets	$ 657,363	$ 636,148
Finance	Property and equipment, net	16,536	19,055
Total lease assets		$ 673,899	$ 655,203
Liabilities	**Balance Sheet Location**		
Current:			
Operating	Current portion of operating lease liabilities	$ 165,420	$ 170,192
Finance	Current portion of borrowings and finance lease obligations	6,999	6,684
Noncurrent:			
Operating	Long-term operating lease liabilities	538,731	528,236
Finance	Long-term debt and finance lease obligations	10,793	13,181
Total lease liabilities		$ 721,943	$ 718,293

The components of lease costs are (in thousands):

		Three Months Ended		Nine Months Ended	
	Income Statement Location	**Oct 28, 2023**	**Oct 29, 2022**	**Oct 28, 2023**	**Oct 29, 2022**
Operating lease costs	Cost of product sales	$ 44,964	$ 43,361	$ 136,367	$ 131,450
Operating lease costs	Selling, general and administrative expenses	6,744	6,000	19,941	18,582
Operating lease costs[1]	Net (gains) losses on lease modifications	537	(146)	(1,894)	(1,654)
Finance lease costs					
Amortization of leased assets	Cost of product sales	9	21	61	60
Amortization of leased assets	Selling, general and administrative expenses	1,635	1,510	4,747	4,585
Interest on lease liabilities	Interest expense	179	209	577	747
Variable lease costs[2]	Cost of product sales	23,400	21,682	71,551	64,462
Variable lease costs[2]	Selling, general and administrative expenses	804	669	2,551	2,438
Short-term lease costs	Cost of product sales	92	87	241	273
Short-term lease costs	Selling, general and administrative expenses	2,015	1,722	4,306	4,600
Total lease costs		$ 80,379	$ 75,115	$ 238,448	$ 225,543

Notes:

1 During the three and nine months ended October 28, 2023 and October 29, 2022, net (gains) losses on lease modifications related primarily to the early termination of certain lease agreements. Operating lease costs for these locations prior to the early termination were included in cost of product sales.

2 During the three and nine months ended October 28, 2023, variable lease costs included certain rent concessions of approximately $0.4 million and $1.4 million, respectively, received by the Company, primarily in Europe. During the three and nine months ended October 29, 2022, variable lease costs included certain rent concessions of approximately $1.1 million and $4.6 million, respectively, received by the Company, primarily in Europe, related to the COVID-19 pandemic.

Maturities of the Company's operating and finance lease liabilities as of October 28, 2023 are (in thousands):

	Operating Leases			
Maturity of Lease Liabilities	**Non-Related Parties**	**Related Parties**	**Finance Leases**	**Total**
Fiscal 2024	$ 62,999	$ 2,723	$ 2,806	$ 68,528
Fiscal 2025	160,784	7,626	6,092	174,502
Fiscal 2026	125,306	7,199	5,593	138,098
Fiscal 2027	108,543	7,760	3,129	119,432
Fiscal 2028	81,470	7,681	1,334	90,485
After fiscal 2028	222,361	20,755	287	243,403
Total lease payments	761,463	53,744	19,241	834,448
Less: Interest	99,732	11,324	1,449	112,505
Present value of lease liabilities	$ 661,731	$ 42,420	$ 17,792	$ 721,943

Other supplemental information is (in thousands):

Lease Term and Discount Rate	**Oct 28, 2023**
Weighted-average remaining lease term	
Operating leases	6.2 years
Finance leases	3.3 years
Weighted-average discount rate	
Operating leases	4.8%
Finance leases	5.1%

	Nine Months Ended	
Supplemental Cash Flow Information	**Oct 28, 2023**	**Oct 29, 2022**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 155,379	$ 166,910
New operating ROU assets obtained in exchange for lease liabilities	$ 128,756	$ 106,427

Impairment

During the three and nine months ended October 28, 2023 and October 29, 2022, there were immaterial ROU asset impairment charges. Asset impairment charges are generally determined based on the excess of carrying value over the fair value of the ROU assets. The Company uses estimates of market participant rents to calculate fair value of the ROU assets. Refer to Note 15 for more information on the Company's impairment testing.

(3) Earnings per Share

The computation of basic and diluted net earnings per common share attributable to common stockholders is (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
Net earnings attributable to Guess?, Inc.	$ 55,701	$ 21,835	$ 82,929	$ 53,767
Less net earnings attributable to nonvested restricted stockholders	672	260	1,066	511
Net earnings attributable to common stockholders	55,029	21,575	81,863	53,256
Add interest expense related to the convertible senior notes	2,779	1,026	6,826	2,960
Net earnings attributable to common stockholders used in diluted computations	$ 57,808	$ 22,601	$ 88,689	$ 56,216
Weighted average common shares used in basic computations	53,052	53,894	53,450	57,300
Effect of dilutive securities:				
Stock options and restricted stock units	1,366	1,309	1,276	1,506
Convertible senior notes	15,913	11,899	13,372	11,899
Weighted average common shares used in diluted computations	70,331	67,102	68,098	70,705
Net earnings per common share attributable to common stockholders:				
Basic	$ 1.04	$ 0.40	$ 1.53	$ 0.93
Diluted	$ 0.82	$ 0.34	$ 1.30	$ 0.80

During the three months ended October 28, 2023 and October 29, 2022, equity awards granted for 159,950 and 1,319,998 shares, respectively, of the Company's common stock and for the nine months ended October 28, 2023 and October 29, 2022, equity awards granted for 1,011,089 and 1,261,633 shares, respectively, of the Company's common stock were outstanding but were excluded from the computation of diluted weighted average common shares and common equivalent shares outstanding because the assumed proceeds resulted in these awards being antidilutive. For the three and nine months ended October 28, 2023, the Company excluded 640,042 nonvested stock units which were subject to the achievement of performance-based or market-based vesting conditions from the computation of diluted weighted average common shares and common equivalent shares outstanding because these conditions were not achieved as of October 28, 2023. For the three and nine months ended October 29, 2022, there were 594,985 nonvested stock units subject to the achievement of performance-based or market-based vesting conditions that were excluded from the computation of diluted weighted average common shares and common equivalent shares outstanding as the respective conditions were not achieved as of October 29, 2022.

Warrants related to the 2.00% convertible senior notes due April 2024 (the "2024 Notes") to purchase approximately 4.6 million and 11.6 million shares of the Company's common shares at an initial strike price of $46.88 per share were outstanding as of October 28, 2023 and October 29, 2022, respectively. Warrants related to the 3.75% convertible senior notes due April 2028 (the "2028 Notes", and together with the 2024 Notes, the "Notes") to purchase approximately 11.1 million shares of the Company's common shares at an initial strike price of $41.80 per share were outstanding as of October 28, 2023. These warrants were excluded from the computation of diluted net earnings per share since the warrants' adjusted strike price was greater than the average market price of the Company's common stock during the three and nine months ended October 28, 2023 and October 29, 2022. See Note 10 for more information regarding the Notes.

(4) Stockholders' Equity

Share Repurchase Program

During fiscal 2022, the Board of Directors terminated its previous 2012 $500 million share repurchase program (the “2012 Share Repurchase Program”) and authorized a new $200 million share repurchase program (the “2021 Share Repurchase Program”). On March 14, 2022, the Board of Directors expanded its repurchase authorization under the 2021 Share Repurchase Program by $100 million. 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 March 2022, pursuant to existing share repurchase authorizations, the Company entered into an accelerated share repurchase agreement (the “2022 ASR Contract”) with a financial institution (the “2022 ASR Counterparty”) to repurchase an aggregate of $175.0 million of the Company’s common stock. Under the 2022 ASR Contract, the Company made a payment of $175.0 million to the 2022 ASR Counterparty in exchange for approximately 8.5 million shares of its common stock in the first half of fiscal 2023.

During the three months ended October 28, 2023, there were no share repurchases. During the nine months ended October 28, 2023, the Company repurchased 2.2 million shares under its 2021 Share Repurchase Program at an aggregate cost of $42.8 million, including excise tax. These shares were repurchased through broker assisted market transactions in connection with the exchange and subscription offering related to the 2024 Notes and the 2028 Notes. During the three months ended October 29, 2022, there were no share repurchases. During the nine months ended October 29, 2022, the Company repurchased 9.0 million shares of the Company’s common stock under its 2021 Share Repurchase Program at an aggregate cost of $186.7 million, which is inclusive of the shares repurchased under the 2022 ASR Contract. As of October 28, 2023, the Company had remaining authority under the 2021 Share Repurchase Program to purchase $19.7 million of its common stock.

Dividends

The following sets forth the cash dividend declared per share:

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
Cash dividend declared per share	$ 0.300	$ 0.225	$ 0.825	$ 0.675

The indenture governing the 2024 Notes requires an adjustment to the conversion rate and the conversion price of the 2024 Notes for quarterly dividends exceeding $0.1125 per share. The indenture governing the 2028 Notes requires an adjustment to the conversion rate and the conversion price of the 2028 Notes for quarterly dividends exceeding $0.225 per share.

On May 24, 2023, the Company announced an increase to its regular quarterly cash dividend from $0.225 to $0.30 per share on the Company’s common stock. In accordance with the terms of the indentures governing the respective Notes, the Company has adjusted the conversion rates and the conversion prices of the 2024 Notes and the 2028 Notes for quarterly dividends exceeding $0.1125 per share and $0.225 per share, respectively. Corresponding adjustments have been made to the strike prices with respect to the convertible note hedges and the warrants entered into by the Company in connection with the offerings of the corresponding Notes, each of which was decreased in accordance with the terms of the applicable convertible note hedge confirmations and warrant confirmations. Refer to Note 10 for more information.

For each of the periods presented, dividends paid also included the impact from vesting of restricted stock units that are considered non-participating securities and are only entitled to dividend payments once the respective awards vest.

Decisions on whether, when and in what amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of the Company’s Board of Directors, which reserves the right to change or terminate the Company's dividend practices at any time and for any reason without prior notice. The payment of cash dividends in the future will be based upon a number of business, legal and other considerations, including the Company's cash flow from operations, capital expenditures, debt service and covenant requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and U.S. and global liquidity.

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), net of related income taxes, are (in thousands):

	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Defined Benefit Plans	Total
	Three Months Ended Oct 28, 2023			
Balance at July 29, 2023	$ (123,169)	$ (5,805)	$ (3,583)	$ (132,557)
Gains (losses) arising during the period	(26,663)	5,870	184	(20,609)
Reclassification to net earnings for (gains) losses realized	—	(6)	22	16
Net other comprehensive income (loss)	(26,663)	5,864	206	(20,593)
Balance at October 28, 2023	$ (149,832)	$ 59	$ (3,377)	$ (153,150)
	Nine Months Ended Oct 28, 2023			
Balance at January 28, 2023	$ (129,168)	$ (1,584)	$ (3,321)	$ (134,073)
Gains (losses) arising during the period	(20,664)	7,383	(122)	(13,403)
Reclassification to net earnings for (gains) losses realized	—	(5,740)	66	(5,674)
Net other comprehensive income (loss)	(20,664)	1,643	(56)	(19,077)
Balance at October 28, 2023	$ (149,832)	$ 59	$ (3,377)	$ (153,150)
	Three Months Ended Oct 29, 2022			
Balance at July 30, 2022	$ (163,862)	$ 14,240	$ (6,902)	$ (156,524)
Gains (losses) arising during the period	(9,685)	6,136	150	(3,399)
Reclassification to net earnings for gains realized	—	(3,709)	(8)	(3,717)
Net other comprehensive income (loss)	(9,685)	2,427	142	(7,116)
Balance at October 29, 2022	$ (173,547)	$ 16,667	$ (6,760)	$ (163,640)
	Nine Months Ended Oct 29, 2022			
Balance at January 29, 2022	$ (135,861)	$ 7,280	$ (6,968)	$ (135,549)
Gains (losses) arising during the period	(37,686)	15,578	221	(21,887)
Reclassification to net earnings for gains realized	—	(6,191)	(13)	(6,204)
Net other comprehensive income (loss)	(37,686)	9,387	208	(28,091)
Balance at October 29, 2022	$ (173,547)	$ 16,667	$ (6,760)	$ (163,640)

Details on reclassifications out of accumulated other comprehensive income (loss) to net earnings are (in thousands):

	Three Months Ended		Nine Months Ended		Location of (Gain) Loss Reclassified from Accumulated OCI into Earnings
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022	
Derivative financial instruments designated as cash flow hedges:					
Foreign exchange currency contracts	$ 130	$ (4,141)	$ (6,074)	$ (7,013)	Cost of product sales
Interest rate swap	(158)	(30)	(434)	66	Interest expense
Less income tax effect	22	462	768	756	Income tax expense (benefit)
	(6)	(3,709)	(5,740)	(6,191)	
Defined benefit plans:					
Net actuarial loss amortization	64	13	191	55	Other expense
Prior service credit amortization	(40)	(22)	(119)	(67)	Other expense
Less income tax effect	(2)	1	(6)	(1)	Income tax expense (benefit)
	22	(8)	66	(13)	
Total reclassifications during the period	$ 16	$ (3,717)	$ (5,674)	$ (6,204)	

(5) Accounts Receivable

Accounts receivable is summarized as follows (in thousands):

	Oct 28, 2023	Jan 28, 2023
Trade	$ 294,352	$ 306,737
Royalty	49,533	37,521
Other	4,033	6,235
	347,918	350,493
Less allowances	7,134	8,554
	$ 340,784	$ 341,939

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 the Americas and Asia, royalty receivables relating to its licensing operations, credit card and retail concession receivables related to its retail businesses and certain other receivables. Other receivables generally relate to amounts due to the Company that result from activities that are not related to the direct sale of the Company’s products or collection of royalties.

(6) Inventories

Inventories consist of the following (in thousands):

	Oct 28, 2023	Jan 28, 2023
Raw materials	$ 1,760	$ 1,807
Work in progress	3	3
Finished goods	560,623	509,089
	$ 562,386	$ 510,899

The above balances include an allowance to write down inventories to the lower of cost or net realizable value of $25.0 million and $30.3 million as of October 28, 2023 and January 28, 2023, respectively.

(7) Income Taxes

Effective Income Tax Rate

Income tax expense for the interim periods is computed using the income tax rate estimated to be applicable for the full fiscal year, adjusted for discrete items. The Company's effective income tax rate was a benefit of 6.3% for the nine months ended October 28, 2023 compared to an expense of 34.2% for the nine months ended October 29, 2022. The change in the effective income tax rate was primarily due to a discrete income tax benefit recognized during the third quarter of fiscal 2024 as a result of the consolidation of certain business functions into Switzerland as described below and, to a lesser extent, the lower losses incurred in certain tax jurisdictions during the nine months ended October 28, 2023 compared to the same prior-year period.

Intra-Entity Transactions

During the third quarter of fiscal 2022, the Company completed an intra-entity transfer of intellectual property rights from certain U.S. entities to a wholly-owned Swiss subsidiary, more closely aligning the Company's intellectual property rights with its business operations. This transaction resulted in a taxable gain in the U.S. The U.S. taxable gain generated by this intercompany transfer of intellectual property was primarily offset by the recognition of a deferred income tax asset in the Swiss subsidiary.

During the third quarter of fiscal 2024, the Company recognized a one-time net tax benefit of €34.8 million ($36.8 million) related to the consolidation of certain business functions into Switzerland that was approved by the Switzerland tax authority during the third quarter of fiscal 2024.

Changes in Income Tax Law

During calendar 2019, Switzerland implemented income tax reform ("Swiss tax reform") that was effective as of January 1, 2020. The Swiss tax reform eliminated certain preferential income tax treatments and included transitional relief measures which provided for future income tax deductions. During the fourth quarter of fiscal 2020, the Company recognized a one-time income tax benefit of approximately $8.1 million related primarily to the recognition of a deferred income tax asset associated with the estimated value of an income tax basis step-up of the Company's Switzerland subsidiary's assets. During the fourth quarter of fiscal 2023, the Company recorded a $2.3 million reserve for uncertain income tax positions related to such deferred income tax asset. During the third quarter of fiscal 2024, based on recent developments among European Union tax authorities, the Company wrote off the $8.1 million tax benefit related to the value of the income tax basis step-up of the Company's Switzerland subsidiary's assets, resulting in a net income tax expense of $5.8 million during the quarter.

Unrecognized Income Tax Benefit

The Company and its subsidiaries are subject to U.S. federal and foreign income tax, as well as income tax of multiple state and foreign local jurisdictions. From time-to-time, the Company is subject to routine income and other audits on various income tax matters around the world in the ordinary course of business. As of October 28, 2023, no major income tax or other tax audits were ongoing.

As of October 28, 2023 and January 28, 2023, the Company had $64.3 million and $64.4 million, respectively, of aggregate accruals for uncertain income tax positions, including penalties and interest. This includes an accrual of $19.9 million for the estimated transition tax (excluding interest) related to the 2017 Tax Cuts and Jobs Act (the "Tax Reform") and $20.6 million for the intra-entity transfer of intellectual property rights from certain U.S. entities to a wholly-owned Swiss subsidiary, substantially offset by the related deferred income tax benefit recorded by the Swiss subsidiary. The Company reviews and updates the estimates used in the accrual for uncertain income tax positions, as appropriate, as more definitive information or interpretations become available from income taxing authorities, and on the completion of income tax audits, the receipt of assessments, expiration of statutes of limitations, or occurrence of other events.

During the second quarter of fiscal 2021, the Company became aware of a foreign withholding income tax regulation that could be interpreted to apply to certain of its previous transactions. The Company currently does not expect its exposure, if any, will have a material impact on its consolidated financial position, results of operations or cash flows.

Indefinite Reinvestment Assertion

The Company has historically considered the undistributed earnings of its foreign subsidiaries to be indefinitely reinvested. As a result of the Tax Reform, the Company had a substantial amount of previously taxed earnings that could be distributed to the U.S. without additional U.S. taxation. As of October 28, 2023, the Company determined that approximately $67.1 million of such foreign earnings are not indefinitely reinvested. The incremental tax cost to repatriate these earnings to the U.S. is immaterial. The Company intends to indefinitely reinvest the remaining earnings from the Company's foreign subsidiaries for which a deferred income tax liability has not already been recorded. The Company continues to evaluate its plans for reinvestment or repatriation of unremitted foreign earnings and regularly reviews its cash positions and determination of indefinite reinvestment of foreign earnings. If the Company determines that all or a portion of such foreign earnings are no longer indefinitely reinvested, the Company may be subject to additional foreign withholding taxes and U.S. state income taxes, beyond the one-time transition tax.

(8) Segment Information

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Europe, Americas Retail, Americas Wholesale, Asia and Licensing. The Company's Europe, Americas Retail, Americas Wholesale and Licensing reportable segments are the same as their respective operating segments. Certain components of the Company's Asia operating segment are separate operating segments based on region, which have been aggregated into the Asia reportable segment for disclosure purposes.

Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before corporate performance-based compensation costs, asset impairment charges, net gains (losses) on lease modifications, restructuring charges and certain non-recurring credits (charges), if any. The Company believes this segment reporting reflects how its business segments are managed and how each segment's performance is evaluated by the Company's chief operating decision maker to assess performance and make resource allocation decisions.

Net revenue and earnings (loss) from operations are summarized (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
Net revenue:				
Europe	$ 344,472	$ 323,754	$ 990,981	$ 936,470
Americas Retail	153,872	165,603	464,984	513,743
Americas Wholesale	55,288	53,181	150,361	171,733
Asia	64,498	63,118	194,210	168,705
Licensing	33,040	27,747	84,944	78,915
Total net revenue	$ 651,170	$ 633,403	$ 1,885,480	$ 1,869,566
Earnings (loss) from operations:				
Europe	$ 35,555	$ 36,222	$ 84,344	$ 88,650
Americas Retail	8,086	11,365	20,060	49,552
Americas Wholesale	16,106	10,229	40,264	39,068
Asia	636	(5)	3,927	(6,792)
Licensing	30,770	24,849	79,419	70,499
Total segment earnings from operations	91,153	82,660	228,014	240,977
Corporate overhead	(34,106)	(26,216)	(105,164)	(92,757)
Asset impairment charges[1]	(1,737)	(1,789)	(6,293)	(5,252)
Net gains (losses) on lease modifications[2]	(537)	146	1,894	1,654
Total earnings from operations	$ 54,773	$ 54,801	$ 118,451	$ 144,622

Notes:

1 During the three and nine months ended October 28, 2023 and October 29, 2022, the Company recognized asset impairment charges related primarily to impairment of property and equipment and operating right-of-use assets related to certain retail locations resulting from under-performance and expected store closures. Refer to Note 2 and Note 15 for more information regarding these asset impairment charges.

2 During the three and nine months ended October 28, 2023 and October 29, 2022, the Company recorded net gains (losses) on lease modifications related primarily to the early termination of certain lease agreements.

The below presents information regarding geographic areas in which the Company operated. Net revenue is classified primarily based on the country where the Company's customer is located (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
Net revenue:				
U.S.	$ 133,613	$ 146,677	$ 412,746	$ 474,938
Italy	71,395	63,983	213,055	193,044
Germany	47,179	45,582	127,503	130,486
South Korea	41,642	38,989	124,132	102,998
Canada	38,968	43,111	109,178	127,671
Spain	35,034	32,115	104,389	98,902
Other countries	250,299	235,199	709,533	662,612
Total product sales	618,130	605,656	1,800,536	1,790,651
Net royalties	33,040	27,747	84,944	78,915
Net revenue	$ 651,170	$ 633,403	$ 1,885,480	$ 1,869,566

Due to the seasonal nature of the Company's business segments, the above net revenue and operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

(9) Borrowings and Finance Lease Obligations

Borrowings and finance lease obligations are summarized (in thousands):

	Oct 28, 2023	Jan 28, 2023
Borrowings under credit facilities	$ 121,804	$ 70,304
Term loans	13,931	25,516
Finance lease obligations	17,792	19,865
Mortgage debt	16,668	17,189
Other	3,321	3,427
	173,516	136,301
Less current installments	41,695	40,380
Long-term debt and finance lease obligations	$ 131,821	$ 95,921

Term Loans

The Company entered into term loans with certain banks primarily in Europe during fiscal 2021. These loans are primarily unsecured, have remaining terms of approximately two years and incur interest at annual rates ranging between 1.5% to 6.4%. As of October 28, 2023 and January 28, 2023, the Company had outstanding borrowings of $13.9 million and $25.5 million, respectively, under these borrowing arrangements.

Finance Lease Obligations

The Company leases its European distribution center in the Netherlands under a finance lease which primarily provides for monthly minimum lease payments through May 2027 with an effective interest rate of approximately 6%. The Company has also entered into finance leases for equipment used in its European distribution centers. These finance lease obligations totaled $11.7 million and $15.0 million as of October 28, 2023 and January 28, 2023, respectively.

The Company also has smaller finance leases related primarily to computer hardware and software. As of October 28, 2023 and January 28, 2023, these finance lease obligations totaled $6.1 million and $4.9 million, respectively.

Mortgage Debt

During fiscal 2017, the Company entered into a ten-year $21.5 million real estate secured loan (the "Mortgage Debt") which is secured by the Company's U.S. distribution center based in Louisville, Kentucky. The Mortgage Debt requires the Company to comply with a fixed charge coverage ratio on a trailing four-quarter basis if consolidated cash, cash equivalents, short-term investment balances and availability under borrowing arrangements fall below certain levels. In addition, the Mortgage Debt contains customary covenants, including covenants that limit or restrict the Company's ability to incur liens on the mortgaged property and enter into certain contractual obligations. Upon the occurrence of an event of default under the Mortgage Debt, the lender may terminate the Mortgage Debt and declare all amounts outstanding to be immediately due and payable. The Mortgage Debt 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. Interest on the Mortgage Debt was payable at a variable rate based on LIBOR. In May 2023, the Company amended the terms of the Mortgage Debt for the interest rate to be based on SOFR, effective May 1, 2023. The Company also amended its existing interest rate swap agreement, resulting in a swap fixed rate of approximately 3.14%.

Credit Facilities

Long-Term 2023 Credit Facility

During fiscal 2023, the Company amended and restated its senior secured asset-based revolving credit facility with Bank of America, N.A. and other lenders party thereto to extend the maturity date of the credit facility to December 20, 2027, among other changes (as amended, the "2023 Credit Facility"). In addition, the

Company entered into an amendment agreement to permit, among other things, the exchange and subscription offering on April 12, 2023. Pursuant to the amendment, the 2023 Credit Facility is subject to earlier maturity as of 60 days before the maturity date of the Company's 2024 Notes if satisfactory payment conditions have not been met during such 60 days period. The amendment retains the 2023 Credit Facility's existing provisions for earlier maturity as of 60 days before the maturity date of the Company's 2024 Notes if (1) such notes have not been refinanced or converted into equity by that date or (2) arrangements satisfactory to the Lenders for the refinancing or conversion of the 2024 Notes have not been made. The 2023 Credit Facility provides for a borrowing capacity in an amount up to $150 million, including a Canadian sub-facility up to $20 million, subject to a borrowing base. Based on applicable accounts receivable, inventory and eligible cash, subject to certain allowances, the Company could have borrowed up to $137.4 million under the 2023 Credit Facility as of October 28, 2023. The 2023 Credit Facility has an option to expand the borrowing capacity by up to $150 million subject to certain terms and conditions, including the willingness of existing or new lenders to assume such increased amount. The 2023 Credit Facility is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits, and may be used for repayment of debt, working capital and other general corporate purposes. As of both October 28, 2023 and January 28, 2023, the Company had $8.1 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the 2023 Credit Facility.

Direct borrowings under the 2023 Credit Facility made by the Company and its domestic subsidiaries bear interest at the U.S. base rate plus an applicable margin (varying from 0.25% to 0.75%) or at Term SOFR plus a spread adjustment plus an applicable margin (varying from 1.25% to 1.75%), provided that Term SOFR may not be less than zero. The U.S. base rate is based on the greater of (i) the U.S. prime rate, (ii) the federal funds rate, plus 0.5%, and (iii) Term SOFR plus a spread adjustment for a 30-day interest period, plus 1.0%, provided that the U.S. base rate may not be less than zero. Direct borrowings under the 2023 Credit Facility made by the Company's Canadian subsidiaries bear interest at the Canadian prime rate plus an applicable margin (varying from 0.25% to 0.75%) or at the Canadian BA rate plus an applicable margin (varying from 1.25% to 1.75%), provided that the Canadian BA rate may not be less than zero. The Canadian rate is based on the greater of (i) the Canadian prime rate and (ii) the Canadian BA rate for a one-month interest period, plus 1.0%, provided that the Canadian prime rate may not be less than zero. The applicable margins are calculated quarterly and vary based on the average daily availability of the aggregate borrowing base. 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.

The 2023 Credit Facility contains various annual sustainability key performance targets, the achievement of which would result in an adjustment to the interest margin ranging from plus 5 basis points to minus 5 basis points per year and the commitment fee ranging from plus 1 basis point to minus 1 basis point per year. The 2023 Credit Facility requires the Company to comply with a fixed charge coverage ratio on a trailing four-quarter basis if a default or an event of default occurs under the 2023 Credit Facility or availability under the 2023 Credit Facility falls below the greater of 10% of the aggregate borrowing base or $12.5 million. In addition, the 2023 Credit Facility contains customary covenants, including covenants that limit or restrict the Company and certain of 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 2023 Credit Facility, the lenders may cease making loans, terminate the 2023 Credit Facility and declare all amounts outstanding to be immediately due and payable. The 2023 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 2023 Credit Facility allows for both secured and unsecured borrowings outside of the 2023 Credit Facility up to specified amounts.

Long-Term 2022 Credit Facility

During fiscal 2023, Guess Europe Sagl, a wholly owned subsidiary of the Company, entered into a credit agreement (the "Credit Agreement") for a €250 million revolving credit facility (the "2022 Credit Facility") with an initial five-year term. The Company has an option to extend the maturity date by up to two years and an option to expand the 2022 Credit Facility by up to €100 million, subject to certain conditions.

Borrowings under the 2022 Credit Facility bear interest based on the daily balance outstanding at the Euro Interbank Offered Rate (EURIBOR) plus an applicable margin (varying from 0.85% to 1.20%), provided that EURIBOR may not be less than zero. The 2022 Credit Facility carries a commitment fee equal to the available but unused borrowing capacity multiplied by 35% of an applicable margin (varying from 0.85% to 1.20%). The Company is also required to pay a utilization fee on the total amount of the loans outstanding under the 2022 Credit Facility at rates varying from 0.10% to 0.20%, depending on the balance outstanding. The applicable margins are calculated quarterly and vary based on the leverage ratio of the guarantor and its subsidiaries as set forth in the Credit Agreement.

The Credit Agreement contains various annual sustainability key performance targets, the achievement of which would result in an adjustment to the interest margin ranging from a plus 5 basis points to a minus 5 basis points per year. The Credit Agreement includes a financial covenant requiring a maximum leverage ratio of the guarantor and its subsidiaries. In addition, the Credit Agreement includes customary representations and warranties, affirmative and negative covenants and events of default. As of October 28, 2023, the Company had $100.4 million of outstanding borrowings and $163.8 million available for future borrowings under the 2022 Credit Facility. As of January 28, 2023, the Company had $54.4 million of outstanding borrowings and $217.4 million available for future borrowings under the 2022 Credit Facility.

Other Credit Facilities

The Company, through its Chinese subsidiary, maintains a short-term uncommitted bank borrowing agreement that provides for a borrowing capacity up to $30 million, primarily for working capital purposes. The Company had $17.1 million and $14.0 million in outstanding borrowings under this agreement as of October 28, 2023 and January 28, 2023, respectively.

The Company, through its Japanese subsidiary, maintains a short-term uncommitted bank borrowing agreement that provides for a borrowing capacity up to ¥800 million ($5.3 million), primarily for working capital purposes. The Company had $4.3 million and $1.9 million in outstanding borrowings under this agreement as of October 28, 2023 and January 28, 2023, respectively.

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

(10) Convertible Senior Notes and Related Transactions

Exchange and Subscription Agreements

In April 2023, the Company issued $275 million principal amount of the 2028 Notes in a private placement pursuant to separate, privately negotiated exchange and subscription agreements (the "Exchange and Subscription Agreements") with a limited number of holders of its 2024 Notes and certain other investors, in each case pursuant to exemptions from registration under the Securities Act of 1933, as amended. Pursuant to the Exchange and Subscription Agreements, the Company exchanged approximately $184.9 million in aggregate principal amount of its 2024 Notes for $163.0 million in aggregate principal amount of new 2028 Notes and an aggregate of approximately $33.3 million in cash, representing accrued and unpaid interest and other consideration on the 2024 Notes, and issued $112.0 million aggregate principal amount of 2028 Notes for cash at par. Immediately following the closing of the aforementioned transactions, $115.1 million in aggregate principal amount of the 2024 Notes remained outstanding. In addition, the Company concurrently repurchased $42.8 million, including excise tax, of its common stock through broker-assisted market transactions, pursuant to the Company's 2021 Share Repurchase Program.

The Company evaluated all exchanges and determined approximately 74% of the exchanged notes were accounted for as extinguishment of debt and approximately 26% were accounted for as modification of debt. As a result of these transactions, the Company recognized a $7.7 million loss on extinguishment of debt during the first quarter of fiscal 2024.

3.75% Convertible Senior Notes due 2028

In connection with the issuance of the 2028 Notes, the Company entered into an indenture (the “2028 Indenture”) with respect to the 2028 Notes with U.S. Bank Trust Company, N.A., as trustee (the “2028 Trustee”). The 2028 Notes are senior unsecured obligations of the Company and bear interest at an annual rate of 3.75% payable semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2023. The 2028 Notes will mature on April 15, 2028, unless earlier repurchased or converted in accordance with their terms.

The 2028 Notes are convertible in certain circumstances into cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock, at the Company’s election, at an initial conversion rate of 40.4858 shares of common stock per $1,000 principal amount of 2028 Notes, which is equivalent to an initial conversion price of approximately $24.70 per share, subject to adjustment upon the occurrence of certain events. In accordance with the terms of the 2028 Indenture, the Company has adjusted the conversion rate and the conversion price of the 2028 Notes for quarterly dividends exceeding $0.225 per share (the conversion price is currently approximately $24.53 per share). Prior to November 15, 2027, the 2028 Notes are convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2028 Notes.

Following certain corporate events described in the 2028 Indenture that occur prior to the maturity date, the conversion rate will be increased for a holder who elects to convert its 2028 Notes in connection with such corporate event in certain circumstances. The 2028 Notes are not redeemable prior to maturity, and no sinking fund is provided for the 2028 Notes. As of October 28, 2023, none of the conditions allowing holders of the 2028 Notes to convert had been met. The Company expects to settle the principal amount of the 2028 Notes in fiscal 2029 in cash and any excess in shares.

The Company incurred approximately $5.9 million of debt issuance costs related to the 2028 Notes including third-party offering costs during the first quarter of fiscal 2024. Debt issuance costs were recorded as a contra-liability (other than $0.5 million expensed related to 2024 Notes that were subject to modification accounting) and are presented net against the 2028 Notes balance on the Company’s condensed consolidated balance sheets. These costs are being amortized to interest expense over the term of the 2028 Notes.

2.00% Convertible Senior Notes due 2024

In April 2019, the Company issued $300 million principal amount of the 2024 Notes in a private offering. In connection with the issuance of the 2024 Notes, the Company entered into an indenture (the “2024 Indenture”) with respect to the Notes with U.S. Bank N.A., as trustee (the “2024 Trustee”). The Notes are senior unsecured obligations of the Company and bear interest at an annual rate of 2.00% payable semi-annually in arrears on April 15 and October 15 of each year. The Company incurred $5.3 million debt issuance costs, which was comprised of $3.8 million of discounts and commissions payable to the initial purchasers and third-party offering costs of approximately $1.5 million. These costs have been amortized to interest expense over the term of the 2024 Notes. As previously noted, $115.1 million of the 2024 Notes remains outstanding and will mature on April 15, 2024, unless earlier repurchased or converted in accordance with their terms.

The 2024 Notes are convertible as described below into cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock, at the Company’s election, at an initial conversion rate of 38.7879 shares of common stock per $1,000 principal amount of 2024 Notes, which is equivalent to an initial conversion price of approximately $25.78 per share, subject to adjustment upon the occurrence of certain events. In accordance with the terms of the 2024 Indenture, the Company has adjusted the conversion rate and the conversion price of the 2024 Notes for quarterly dividends exceeding $0.1125 per share (the conversion price is currently approximately $24.49 per share). Prior to November 15, 2023, the 2024 Notes were convertible only upon the occurrence of certain events and during certain periods and, as of October 28, 2023, none of the conditions allowing holders of the 2024 Notes to convert had been met. Beginning November 15, 2023, the 2024 Notes became convertible at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2024 Notes. Following certain corporate events described in the 2024 Indenture that occur prior to such maturity date, the conversion rate will be adjusted under certain circumstances. The 2024 Notes are not redeemable prior to maturity, and no sinking fund is provided for the 2024 Notes. The Company expects to settle the principal amount of the 2024 Notes in fiscal 2025 in cash and any excess in shares.

The Notes consist of the following (in thousands):

	Oct 28, 2023	Jan 28, 2023
2028 Notes[1]		
Principal	$ 275,000	$ —
Unamortized debt discount and issuance costs[2]	(8,449)	—
Net carrying amount	$ 266,551	$ —
Fair value, net[3]	$ 274,342	$ —
2024 Notes		
Principal	$ 115,144	$ 300,000
Unamortized debt issuance costs	(159)	(1,069)
Net carrying amount	$ 114,985	$ 298,931
Fair value, net[3]	$ 117,327	$ 331,862

Notes:

1 For the three and nine months ended October 28, 2023, the weighted average effective interest rate including amortization of debt discount and issuance costs on the 2028 Notes was 4.5%.

2 The unamortized debt discount related to the 2028 Notes is due to the result of the modification accounting for a portion of the exchanged notes. This discount represents both an increase in the fair value of the embedded conversion option, which is calculated as the difference between the fair value of the embedded conversion option immediately before and after the exchange, and cash paid to modified noteholders. The change in conversion option value reduces the carrying amount of the convertible debt instrument with a corresponding increase in additional paid-in capital. The additional cash paid to modified noteholders increased the debt discount. This debt discount is being amortized to interest expense over five years.

3 The fair value of the Notes is determined based on inputs that are observable in the market and have been classified as Level 2 in the fair value hierarchy.

Interest expense for the Notes for the three and nine months ended October 28, 2023 and October 29, 2022 consists of the following (in thousands):

	2028 Notes		2024 Notes	
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
	Three Months Ended			
Coupon interest	$ 2,578	$ —	$ 325	$ 1,500
Amortization of debt discount and issuance costs	415	—	50	215
Total	$ 2,993	$ —	$ 375	$ 1,715
	Nine Months Ended			
Coupon interest	$ 5,557	$ —	$ 2,247	$ 4,500
Amortization of debt discount and issuance costs	894	—	334	644
Total	$ 6,451	$ —	$ 2,581	$ 5,144

Convertible Bond Hedge and Warrant Transactions

In April 2023, in connection with the offering of the 2028 Notes, the Company entered into convertible note hedge transactions whereby the Company had the option to purchase a total of approximately 11.1 million shares of its common stock at an initial strike price of approximately $24.70 per share. The total cost of the convertible note hedge transactions was $51.8 million. In addition, the Company sold warrants whereby the holders of the warrants had the option to purchase a total of approximately 11.1 million shares of the Company’s common stock at an initial strike price of $41.80 per share. The Company received $20.2 million in cash proceeds from the sale of these warrants. Both the number of shares underlying the convertible note hedges and warrants and the strike price of the instruments are subject to customary adjustments. In accordance with the original terms of the convertible note hedge confirmations and warrant confirmations, the Company has adjusted the strike prices with respect to the convertible note hedges and warrants for quarterly dividends exceeding $0.225 per share (currently approximately $24.53 per share and $41.51 per share, respectively). The purchase of the convertible note hedges is intended to offset dilution from the conversion of the 2028 Notes to the extent the market price per share of the Company’s common stock exceeds the then-applicable strike price of the convertible note hedges. The warrant transaction may have a dilutive effect with respect to the Company’s common stock to the extent the market price per share of the Company’s common stock exceeds the then-applicable strike price of the warrants. The convertible note hedges and warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not remeasured each reporting period.

Concurrently, in connection with the retirement of $184.9 million in principal amount of the 2024 Notes, the Company entered into Partial Termination Agreements with certain financial institutions to unwind a portion of the convertible note hedge transactions and warrant transactions the Company had entered into in connection with the issuance of the 2024 Notes. The terminated portion is in a notional amount corresponding to the amount of exchanged 2024 Notes. As a result, the Company received $7.2 million, which reduced the number of purchase options to approximately 4.6 million shares of common stock at an adjusted strike price of approximately $24.92 per share. Additionally, the Company paid $1.0 million related to terminated warrants, which reduced the number of shares that may be purchased pursuant to the warrants to 4.6 million shares of common stock at an adjusted strike price of approximately $45.31 per share. This transaction resulted in a $6.2 million net increase in additional paid-in capital in the Company’s consolidated balance sheet as of April 29, 2023. For the remaining portion of the convertible note hedge transactions and warrant transactions entered into in connection with the 2024 Notes, both the number of shares underlying the instruments and the strike price of the instruments are subject to customary adjustments pursuant to their original terms. In accordance with the original terms of the convertible note hedge confirmations and warrant confirmations, respectively, the Company has adjusted the strike prices with respect to the convertible note hedges and warrants for quarterly dividends exceeding $0.1125 per share (currently approximately $24.49 per share and $44.53 per share, respectively). The remaining convertible note hedges and warrant transactions continue to serve to partially offset the potential dilution arising from the conversion of the 2024 Notes that remain outstanding.

(11) Share-Based Compensation

The following summarizes the share-based compensation expense recognized under all of the Company’s stock plans (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	**Oct 29, 2022**	**Oct 28, 2023**	**Oct 29, 2022**
Stock options	$ —	$ 706	$ 713	$ 2,018
Stock awards/units	4,840	5,129	14,108	14,353
Employee Stock Purchase Plan	37	33	131	176
Total share-based compensation expense	$ 4,877	$ 5,868	$ 14,952	$ 16,547

As of October 28, 2023, there was no unrecognized compensation cost related to nonvested stock options and approximately $27.1 million of unrecognized compensation cost related to nonvested stock awards/units. This cost is expected to be recognized over a weighted average period of 1.6 years.

Grants

On May 12, 2023 and July 3, 2023, the Company granted 471,373 and 5,153 nonvested stock units, respectively, to certain of its executive employees. These nonvested stock units are subject to certain performance-based or market-based vesting conditions.

Performance-Based Awards

The Company has granted certain nonvested stock units subject to performance-based vesting conditions to select executive officers. Each award of nonvested stock units generally has an initial vesting period from the date of the grant through either (i) the end of the first fiscal year or (ii) the first anniversary of the date of grant, followed by annual vesting periods which may range from two-to-three years.

The following summarizes the activity for nonvested performance-based units during the nine months ended October 28, 2023:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at January 28, 2023	612,627	$ 20.14
Granted	340,042	18.14
Vested	(278,757)	18.25
Forfeited	(184,365)	20.34
Nonvested at October 28, 2023	489,547	$ 19.75

Market-Based Awards

The Company has granted certain nonvested stock units subject to market-based vesting conditions to select executive officers. These market-based awards include (i) units where the number of shares that may ultimately vest will equal 0% to 150% of the target number of shares, subject to the performance of the Company's total stockholder return ("TSR") relative to the TSR of a select group of peer companies over a three-year period and (ii) units scheduled to vest based on the attainment of certain absolute stock price levels over a four-year period. Vesting is also subject to continued service requirements through the vesting date.

The following summarizes the activity for nonvested market-based units during the nine months ended October 28, 2023:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at January 28, 2023	946,787	$ 14.75
Granted[1]	281,487	12.06
Vested[1]	(505,494)	6.38
Forfeited	—	—
Nonvested at October 28, 2023	722,780	$ 19.55

Notes:

[1] As a result of the achievement of certain market-based vesting conditions, there were 145,003 shares that vested in addition to the original target number of shares granted in fiscal 2021.

(12) Related Party Transactions

The Company and its subsidiaries periodically enter into transactions with other entities or individuals that are considered related parties, including certain transactions with entities owned by, affiliated with, or for the respective benefit of, Paul Marciano, who is an executive and member of the Board of the Company, and Maurice Marciano, who is the brother of Paul Marciano and was a member of the Board until his retirement in September 2023, and certain of their children (the "Marciano Entities").

Leases

The Company leases warehouse and administrative facilities, including the Company's North American corporate headquarters in Los Angeles, California, from partnerships affiliated with the Marciano Entities and certain of their affiliates. There were four of these leases in effect as of October 28, 2023 with expiration or option exercise dates ranging from calendar years 2025 to 2030.

In August 2023, the Company (through a wholly-owned Canadian subsidiary) entered into a three-year lease extension through August 2026 with the related party landlord for the Company's existing Canadian warehouse and administrative facility in Montreal, Quebec. All other material terms in the previously existing Canada lease (including base rent of approximately CAD$0.6 million (US$0.4 million) per year) remain the same.

Aggregate lease costs recorded under these four related party leases were approximately $6.8 million and $6.7 million for the nine months ended October 28, 2023 and October 29, 2022, respectively. The Company believes that the terms of the related party leases are no less favorable to the Company than would have been available from unaffiliated third parties. Refer to Note 2 for more information on lease commitments.

Aircraft Arrangements

The Company periodically charters aircraft owned by the Marciano Entities through informal arrangements with the Marciano Entities and independent third-party management companies contracted by such Marciano Entities to manage their aircraft. The Company believes that the terms of the charter arrangements are no less favorable to the Company than would have been available from unaffiliated third parties. The total fees paid under these arrangements for the nine months ended October 28, 2023 and October 29, 2022 were approximately $2.6 million and $2.1 million, respectively.

Minority Investment

The Company owns a 30% interest in a privately held men's footwear company (the "Footwear Company") in which the Marciano Entities own a 45% interest. In December 2020, the Company provided the Footwear Company with a $2.0 million revolving credit facility at an annual interest rate of 2.75% and a maturity date of November 30, 2023. In October 2023, the Company and the Footwear Company amended the revolving credit facility to extend the term by three years to November 30, 2026 and to adjust the interest rate, effective December 1, 2023, to a floating rate equal to the one month term SOFR plus 1.75% per annum. As of both October 28, 2023 and January 28, 2023, the Company had a note receivable of $0.4 million included in other assets in its condensed consolidated balance sheets related to outstanding borrowings by the Footwear Company under this revolving credit facility.

In May 2022, the Company entered into a Fulfillment Services Agreement with the Footwear Company under which the Company will provide certain fulfillment services for the Footwear Company's U.S. wholesale and e-commerce businesses from the Company's U.S distribution center on a cost-plus 5% basis. The Footwear Company also pays rent to the Company for the use of a small office space in the Company's U.S. headquarters. In June 2022, the Company (through a wholly-owned Swiss subsidiary) entered into a Distributorship Agreement with the Footwear Company under which the Company was designated as the exclusive distributor (excluding e-commerce) for the Footwear Company in the European Union and other specified countries. The Distributorship Agreement provided for (i) the Company to receive a 35% discount from the Footwear Company's wholesale prices, (ii) no minimum sales requirements or advertising spending requirements for the Company, (iii) an initial 15 month term with annual renewals thereafter and (iv) other standard terms and conditions for similar arrangements. In May 2023, the Distributorship Agreement was amended to (i) reflect a reduction in the amount of sales services to be performed by the Company, (ii) revise the wholesale discount to 22% and (iii) provide an annual 2% advertising commitment by the Company. During the nine months ended October 28, 2023, there were approximately $9,500 in fees received with respect to the U.S. fulfillment services, approximately $13,000 in fees received with respect to office rent and approximately $26,000 in amounts paid related to the distributorship arrangements. During the nine months ended October 29, 2022, there were no fees received with respect to the U.S. fulfillment services, approximately $13,000 in fees received with respect to office rent and less than $5,000 in amounts paid related to the distributorship arrangements.

Vendor Purchases

The Company purchases faux fur products from a privately-held fashion accessories company (the “Fashion Company”). Mr. Maurice Marciano, Mr. Paul Marciano and Mr. Carlos Alberini own on a combined basis 20% of the outstanding common equity interests in the Fashion Company (with the Marcianos jointly owning 16% and Mr. Alberini owning 4%). The total payments made by the Company to the Fashion Company were approximately $3.0 million and $3.4 million for the nine months ended October 28, 2023 and October 29, 2022, respectively. The Company believes that the price paid by the Company for the Fashion Company’s products and the terms of the transactions between the Company and the Fashion Company have not been affected by this passive investment of Messrs. Marciano and Mr. Alberini in the Fashion Company.

Vendor Collaboration

During April 2023, the Company entered into a co-branding collaboration arrangement in connection with a large-scale music festival with a privately-held alcoholic beverage company (the “Beverage Company”) in which the Marciano Entities hold an approximately 15% ownership interest. The co-branding arrangement provided for (i) the Beverage Company to pay a $100,000 fee, provide certain beverage products, facilitate the acquisition of additional third-party sponsors for the event and co-brand its social media posts with the Company and (ii) the Company to engage social-media influencers to attend the event and promote both companies through social-media posts, and provide promotional travel, lodging, hospitality and other ancillary expenses for select attendees at the co-branded event.

(13) Commitments and Contingencies

Investment Commitments

As of October 28, 2023, the Company had an unfunded commitment to invest €7.9 million ($8.3 million) in certain private equity funds. Refer to Note 15 for further information.

Legal and Other Proceedings

The Company is involved in legal proceedings, arising both in the ordinary course of business and otherwise, including the proceedings described below as well as various other claims and other matters incidental to the Company’s business. Unless otherwise stated, the resolution of any particular proceeding is not currently expected to have a material adverse impact on the Company’s financial position, results of operations or cash flows. Even if such an impact could be material, the Company may not be able to estimate the reasonably possible loss or range of loss until developments in the proceedings have provided sufficient information to support an assessment.

The Company has received customs tax assessment notices from the Italian Customs Agency (“ICA”) regarding its customs tax audit of one of the Company’s European subsidiaries for the period from July 2010 through December 2012. Such assessments totaled €9.8 million ($10.4 million), including potential penalties and interest through such assessment dates. The Company strongly disagreed with the ICA’s positions and therefore filed appeals with the Milan First Degree Tax Court (“MFDTC”). Those appeals were split into a number of different cases that were then heard by different sections of the MFDTC. The MFDTC ruled in favor of the Company on all of these appeals. The ICA subsequently appealed €9.7 million ($10.2 million) of these favorable MFDTC judgments with the Appeals Court. As of the end of the third quarter of fiscal 2024, €8.5 million ($9.0 million) have been decided in favor of the Company and €1.2 million ($1.3 million) have been decided in favor of the ICA. The Company believes that the unfavorable Appeals Court ruling is incorrect and inconsistent with the prior rulings on similar matters by both the MFDTC and other judges within the Appeals Court, and has appealed the decision to the Supreme Court. The ICA has appealed most of the favorable Appeals Court rulings to the Supreme Court. As of the end of the third quarter of fiscal 2024, of the cases that have been appealed to the Supreme Court, €0.4 million ($0.4 million) have been decided in favor of the Company based on the merits of the case and €1.3 million ($1.4 million) have been remanded back to the lower court for further consideration. There can be no assurances the Company will be successful in the remaining appeals. It also continues to be possible that the Company will receive similar or even larger assessments for periods subsequent to December 2012 or other claims or charges (including additional interest amounts) related to the matter in the future. Although the Company believes that it has a strong position and will continue to vigorously defend this matter, 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, results of operations or cash flows.

On January 11, 2022, Legion Partners Holdings, LLC ("Legion"), a stockholder of Guess common stock, sent two letters to the Board of Directors of Guess (the "Board"). One letter sought books and records pursuant to Section 220 of the Delaware General Corporation Law (the "220 Demand") to purportedly investigate potential breaches of fiduciary duties by the Board in connection with the Board's renomination of Mr. Maurice Marciano to the Board and certain related party transactions. The second letter demanded that the Board take action to cause the Company to investigate and commence legal proceedings for breach of fiduciary duty claims the Company may have in connection with alleged misconduct of Mr. Paul Marciano, the Board's oversight of and response to such alleged misconduct, and the Board's review and approval of certain related-party transactions (the "Litigation Demand"). On January 31, 2022, the Company responded to both letters informing Legion that the Company was reviewing the formation of a committee in response to the Litigation Demand and detailing the deficiencies with the 220 Demand under Delaware law, including that Legion failed to state a proper purpose and that the scope of Legion's requested books and records was overbroad. The Company subsequently formed a Demand Review Committee (the "DRC"), which has been engaged in an ongoing review of the matters detailed in the Litigation Demand.

On April 14, 2022, the Employees Retirement System of Rhode Island ("ERSRI"), a stockholder of Guess common stock, sent a letter to the Company seeking books and records pursuant to Section 220 of the Delaware General Corporation Law to purportedly investigate potential breaches of fiduciary duties by the Board in connection with alleged misconduct of Mr. Paul Marciano, the Board's oversight of and response to such alleged misconduct, and the Board's review and approval of certain related-party transactions. The Company responded to the letter on April 19, 2022, negotiated a Confidentiality Agreement, and has completed its production of books and records to ERSRI.

On September 19, 2022, ERSRI filed a stockholder derivative lawsuit styled Employees Retirement System of Rhode Island, derivatively on behalf of Guess?, Inc. v. Paul Marciano, et al., in the Court of Chancery of the State of Delaware against the Company, as the nominal defendant, Mr. Paul Marciano and other members of the Board, alleging breach of fiduciary duties relating to the continued service of Mr. Paul Marciano as a director of the Board and as the Company's Chief Creative Officer following prior allegations of improper conduct by him relating to the treatment of models and other women. ERSRI did not make a demand on the Board before instituting the lawsuit and alleged such demand would have been futile. On October 28, 2022, ERSRI amended the complaint to include an additional basis for alleging demand futility. ERSRI sought monetary damages and possible injunctive relief.

On September 29, 2023, the Company and all defendants in the ERSRI action entered into a Stipulation and Agreement of Compromise, Settlement, and Release (the "Stipulation"). If approved by the Court of Chancery of the State of Delaware, the Stipulation would resolve all claims asserted against all defendants in the ERSRI action without any admission or finding of wrongdoing attributed to them personally or to the Company. Under the terms of the Stipulation, the Company will implement certain governance and compliance enhancements. These enhancements include the establishment of a Diversity, Equity, and Inclusion Council (the "DEI Council"), which will be comprised of one independent director and two consultants, including one consultant to be selected by ERSRI. The DEI Council will report directly to the Board and be responsible for overseeing the development and implementation of the Company's policies and procedures related to harassment, discrimination and retaliation, including, in certain circumstances, having the authority to conduct investigations and to recommend disciplinary action, up to and including termination, of senior executives or Board members found to have engaged in misconduct. The DEI Council will also be responsible for overseeing a commitment to be added to the Company's Governance Guidelines regarding the Company's measures to prevent and respond to sexual harassment and discrimination. Pursuant to the Stipulation, the Company will appoint two new independent directors to the Board, including one to be selected by ERSRI and mutually agreed to by the Company. The Stipulation also includes certain agreements by Mr. Paul Marciano relating to meetings or activities with current or prospective Company models. In addition to the governance enhancements, pursuant to the Stipulation, (a) the defendants in the ERSRI action will cause the Company to receive (i) a payment of $22 million upon Court approval of the settlement pursuant to the terms of the Stipulation, and (ii) the right to receive an additional payment of $8 million contingent on the recovery from the insurers currently being sought by the Company and the insureds in pending litigation against the insurers, and (b) the Company will be responsible to pay an attorney's fee award to ERSRI's counsel in an amount to be determined by the Court, but not to exceed $8 million, as disclosed to stockholders in a notice that was distributed in connection with the settlement approval process. On October 20, 2023, the Court granted a scheduling order agreed upon by the parties for the disposition of the settlement and a settlement hearing is scheduled for January 4, 2024. The $22 million to be received by the Company and the related attorney's fee award of up to $8 million to be paid by the Company under the terms of the Stipulation will be accounted for by the Company when approved by the Court.

On February 16, 2023, Legion filed a stockholder derivative lawsuit styled Legion Partners Holdings, LLC, derivatively on behalf of Guess?, Inc. v. Paul Marciano, et al. in the Court of Chancery of the State of Delaware against the Company, as the nominal defendant, Mr. Paul Marciano and other members of the Board, alleging breach of fiduciary duties relating to the continued service of Mr. Paul Marciano to the Company following the prior allegations described in the ERSRI stockholder derivative lawsuit. Legion seeks monetary damages and possible injunctive relief. On March 15, 2023, the Company moved for a more definite statement and moved to dismiss or stay the action. On May 9, 2023, Legion voluntarily dismissed the claims against Mr. Paul Marciano without prejudice.

On June 3, 2023, the Company received a letter from an individual seeking to settle certain claims against Mr. Paul Marciano and the Company relating to allegations of improper treatment of the individual by Mr. Paul Marciano. The letter did not make an assertion of damages. The individual is represented by the same attorney who represented plaintiffs in similar actions in 2021 and 2022, which were settled out of court in 2022 to avoid the cost of litigation and without admitting liability or fault. No complaint has been filed with respect to the allegations in the June 2023 letter, and Mr. Paul Marciano and the Company dispute the allegations fully.

Redeemable Noncontrolling Interests

The Company is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest for its majority-owned subsidiary, Guess Brasil Comércio e Distribuição S.A. ("Guess Brazil"). The put arrangement for Guess Brazil, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company every third anniversary beginning in March 2019, subject to certain time restrictions. The redemption value of the Guess Brazil put arrangement is based on a multiple of Guess Brazil's earnings before interest, taxes, depreciation and amortization subject to certain adjustments and is classified as a redeemable noncontrolling interest outside of permanent equity in the Company's condensed consolidated balance sheet. As of both October 28, 2023 and January 28, 2023, the carrying value of the redeemable noncontrolling interest related to Guess Brazil was $0.5 million.

The Company (through a wholly-owned European subsidiary) was previously party to a put arrangement with respect to the securities that represented the remaining noncontrolling interest for its majority-owned Russian subsidiary, Guess? CIS, LLC ("Guess CIS"), which was established through a majority-owned joint venture during fiscal 2016. The put arrangement for Guess CIS (the "Put Option"), representing 30% of the total outstanding equity interest of that subsidiary, was exercisable at the sole discretion of the noncontrolling interest holder (the "Minority Holder") by providing written notice to the Company through December 31, 2025. The redemption value of the Put Option was based on a multiple of Guess CIS's earnings before interest, taxes, depreciation and amortization subject to certain adjustments and was classified as a redeemable noncontrolling interest outside of permanent equity in the Company's condensed consolidated balance sheet. The carrying value of the redeemable noncontrolling interest related to Guess CIS was €8.0 million as of January 28, 2023.

In November 2022, the Minority Holder exercised the Put Option, triggering a contractual obligation for the Company to purchase the Minority Holder's 30% interest in Guess CIS. Following a comprehensive review of the various economic sanctions imposed by the United States and European governments with respect to Russia, and obtaining guidance from the U.S. Department of the Treasury's Office of Foreign Assets Control, the Company determined that its acquisition of the Minority Holder's 30% interest in Guess CIS pursuant to the Company's pre-sanctions contractual obligation to fulfill the Minority Holder's exercise of the Put Option was not prohibited by current economic sanctions, including the U.S. ban on new investment in Russia. As such, following the exercise of the Put Option by the Minority Holder, the Company and the Minority Holder entered into an agreement to proceed with the Company's acquisition of the Minority Holder's 30% interest in Guess CIS for a purchase price of €8.0 million, subject to the formal approval of the acquisition by the relevant Russian government commission and certain other customary conditions. This formal approval was received, and the purchase was completed in May 2023. As a result of this transaction, there was no redeemable noncontrolling interest related to Guess CIS as of October 28, 2023.

A reconciliation of the total carrying amount of redeemable noncontrolling interests is (in thousands):

	Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022
Beginning balance	$ 9,154	$ 9,500
Foreign currency translation adjustment	(60)	(1,066)
Purchase of redeemable noncontrolling interest	(8,581)	—
Ending balance	$ 513	$ 8,434

(14) Defined Benefit Plans

Supplemental Executive Retirement Plan

The Company's Supplemental Executive Retirement Plan ("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. As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has made periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The cash surrender values of the insurance policies were $58.9 million and $64.4 million as of October 28, 2023 and January 28, 2023, respectively, and were included in other assets in the Company's condensed consolidated balance sheets. As a result of changes in the value of the insurance policy investments, the Company recorded unrealized losses of $4.2 million and $4.1 million in other income (expense) during the three and nine months ended October 28, 2023, respectively, and unrealized losses of $4.8 million and $8.3 million in other income (expense) during the three and nine months ended October 29, 2022, respectively. The projected benefit obligation was $42.3 million and $42.4 million as of October 28, 2023 and January 28, 2023, respectively, and was included in accrued expenses and other current liabilities and other long-term liabilities in the Company's condensed consolidated balance sheets depending on the expected timing of payments. SERP benefit payments of $0.5 million were made during each of the three months ended October 28, 2023 and October 29, 2022. SERP benefit payments of $1.4 million were made during each of the nine months ended October 28, 2023 and October 29, 2022.

Foreign Pension Plans

In certain foreign jurisdictions, primarily in Switzerland, the Company is required to guarantee the returns on Company-sponsored defined contribution plans in accordance with local regulations. The Company's contributions must be made in an amount at least equal to the employee's contribution. Minimum employee contributions are based on the respective employee's age, salary and gender.

As of October 28, 2023 and January 28, 2023, the foreign pension plans had a total projected benefit obligation of $50.9 million and $47.4 million, respectively, and plan assets held in independent investment fiduciaries of $44.4 million and $41.2 million, respectively. The net liability of $6.5 million and $6.2 million was included in other long-term liabilities in the Company's condensed consolidated balance sheets as of October 28, 2023 and January 28, 2023, respectively.

The components of net periodic defined benefit pension cost related to the Company's defined benefit plans are (in thousands):

	SERP	Foreign Pension Plans	Total
	Three Months Ended Oct 28, 2023		
Service cost	$ —	$ 932	$ 932
Interest cost	465	228	693
Expected return on plan assets	—	(202)	(202)
Net amortization of unrecognized prior service credit	—	(40)	(40)
Net amortization of actuarial losses	—	64	64
Net periodic defined benefit pension cost	$ 465	$ 982	$ 1,447
	Nine Months Ended Oct 28, 2023		
Service cost	$ —	$ 2,780	$ 2,780
Interest cost	1,396	681	2,077
Expected return on plan assets	—	(603)	(603)
Net amortization of unrecognized prior service credit	—	(119)	(119)
Net amortization of actuarial losses	—	191	191
Net periodic defined benefit pension cost	$ 1,396	$ 2,930	$ 4,326
	Three Months Ended Oct 29, 2022		
Service cost	$ —	$ 733	$ 733
Interest cost	333	53	386
Expected return on plan assets	—	(66)	(66)
Net amortization of unrecognized prior service credit	—	(22)	(22)
Net amortization of actuarial losses	—	13	13
Net periodic defined benefit pension cost	$ 333	$ 711	$ 1,044
	Nine Months Ended Oct 29, 2022		
Service cost	$ —	$ 2,249	$ 2,249
Interest cost	1,000	165	1,165
Expected return on plan assets	—	(203)	(203)
Net amortization of unrecognized prior service credit	—	(67)	(67)
Net amortization of actuarial losses	17	38	55
Net periodic defined benefit pension cost	$ 1,017	$ 2,182	$ 3,199

(15) Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e. interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs are based on the best information available, including the Company's own data.

The following presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands):

	Fair Value Measurements at Oct 28, 2023				Fair Value Measurements at Jan 28, 2023			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
Foreign exchange currency contracts	$ —	$ 4,971	$ —	$ 4,971	$ —	$ 2,219	$ —	$ 2,219
Interest rate swap	—	1,128	—	1,128	—	1,034	—	1,034
Total	$ —	$ 6,099	$ —	$ 6,099	$ —	$ 3,253	$ —	$ 3,253
Liabilities:								
Foreign exchange currency contracts	$ —	$ 1,628	$ —	$ 1,628	$ —	$ 16,704	$ —	$ 16,704
Interest rate swap	—	—	—	—	—	—	—	—
Deferred compensation obligations	—	14,982	—	14,982	—	15,187	—	15,187
Total	$ —	$ 16,610	$ —	$ 16,610	$ —	$ 31,891	$ —	$ 31,891

Foreign exchange currency contracts may be entered into by the Company to hedge the future payment of inventory and intercompany transactions by non-U.S. subsidiaries. Periodically, the Company may also use foreign exchange currency contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries. The fair values of the Company's foreign exchange currency contracts are based on quoted foreign exchange forward rates at the reporting date. The fair values of the Company's interest rate swaps are based upon inputs corroborated by observable market data. Deferred compensation obligations to employees are adjusted based on changes in the fair value of the underlying employee-directed investments. Fair value of these obligations is based upon inputs corroborated by observable market data.

The Company included €6.2 million ($6.5 million) and €3.7 million ($4.0 million) in other assets in the Company's condensed consolidated balance sheets related to its investment in certain private equity funds as of October 28, 2023 and January 28, 2023, respectively. The Company uses net asset value per share as a practical expedient to measure the fair value of this investment and has not included this investment in the fair value hierarchy as disclosed above. As of October 28, 2023, the Company had an unfunded commitment to invest an additional €7.9 million ($8.3 million) in the private equity funds.

The fair values of the Company's debt instruments (see Note 9) are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. As of October 28, 2023 and January 28, 2023, the carrying value was not materially different from fair value, as the interest rates on the Company's debt approximated rates currently available to the Company. The fair value of the Company's Notes (see Note 10) is determined based on inputs that are observable in the market and have been classified as Level 2 in the fair value hierarchy.

The carrying amount of the Company's remaining financial instruments, which principally include cash and cash equivalents, trade receivables, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

Long-Lived Assets

Long-lived assets, such as property and equipment and operating lease ROU assets, are reviewed for impairment quarterly or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The majority of the Company's long-lived assets relate to its retail operations, which consist primarily of regular retail and flagship locations. The Company considers each individual regular retail location as an asset group for impairment testing, which is the lowest level at which individual cash flows can be identified. The Company also evaluates impairment risk for retail locations that are expected to be closed in the foreseeable future. The Company has flagship locations that are used as a regional marketing tool to build brand awareness and promote the Company's current product. Provided the flagship locations continue to meet the appropriate criteria, impairment for these locations is tested at a reporting unit level similar to goodwill since they do not have separately identifiable cash flows.

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 earnings 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 carrying amount of an asset exceeds its estimated undiscounted future cash flows adjusted for lease payments, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value. The Company uses estimates of market participant rents to calculate fair value of ROU assets and discounted future cash flows of the asset group to quantify fair value for other long-lived assets. These nonrecurring fair value measurements are considered Level 3 inputs as defined above.

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. Future expected cash flows for assets in regular retail locations are based on management's estimates of future cash flows over the remaining lease period or expected life, if shorter. For expected location closures, the Company will evaluate whether it is necessary to shorten the useful life for any of the assets within the respective asset group. The Company will use this revised useful life when estimating the asset group's future cash flows. The Company considers historical trends, expected future business trends and other factors when estimating the future cash flow for each regular retail location. The Company also considers factors such as the following: the Russia-Ukraine conflict, including the sanctions and trade restrictions imposed on Russia in response to the conflict; the local environment for each regular retail location, including mall traffic and competition; the Company's ability to successfully implement strategic initiatives; and the ability to control variable costs such as cost of sales and payroll and, in some cases, renegotiate lease costs.

As discussed further in Note 1, macroeconomic conditions, including inflation, higher interest rates, foreign exchange rate fluctuations, declines in consumer spending, the impact of the war in Ukraine and the lingering effects of public health crises continued to negatively impact the Company's financial results during the three and nine months ended October 28, 2023 and October 29, 2022, and could continue to impact the Company's operations in ways the Company is not able to predict today. The Company has made reasonable assumptions and judgments to determine the fair value of the assets tested based on the facts and circumstances that were available as of the reporting date. If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, there may be additional exposure to future impairment losses that could be material to the Company's results of operations.

The Company recorded asset impairment charges of $1.7 million and $6.3 million during the three and nine months ended October 28, 2023, respectively. The Company recorded asset impairment charges of $1.8 million and $5.3 million during the three and nine months ended October 29, 2022, respectively. The Company recognized $1.6 million and $6.0 million in impairment of property and equipment related to certain retail locations primarily in the Americas and Europe driven by under-performance and expected store closures during the three and nine months ended October 28, 2023, respectively. The Company recognized $1.8 million and $5.2 million in impairment of property and equipment related to certain retail locations primarily in Europe and Asia during the three and nine months ended October 29, 2022, respectively. The Company recognized immaterial impairment charges on ROU assets during the three and nine months ended October 28, 2023 and October 29, 2022.

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 which may be either an operating segment or one level below an operating segment if discrete financial information is available. Two or more reporting units within an operating segment may be aggregated for impairment testing if they have similar economic characteristics.

During the three months ended October 28, 2023, the Company assessed qualitative factors and determined that it is not more likely than not that the fair values of its reporting units are less than their carrying amounts.

(16) Derivative Financial Instruments

Hedging Strategy

Foreign Exchange Currency Contracts

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 primary objective is to hedge the variability in forecasted cash flows due to the foreign currency risk. Various transactions that occur primarily in Europe, Canada, South Korea, China, Hong Kong and Mexico are denominated in U.S. dollars, British pounds and Russian roubles 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-denominated intercompany liabilities. In addition, certain operating expenses, tax liabilities and pension-related 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. Further, there are certain real estate leases that are denominated in a currency other than the functional currency of the respective entity that entered into the agreement (primarily Swiss francs, Russian roubles and Polish zloty). As a result, the Company may be exposed to volatility related to unrealized gains or losses on the translation of present value of future lease payment obligations when translated at the exchange rate as of a reporting period-end. The Company enters into derivative financial instruments, including forward exchange currency contracts, to offset some, but not all, of the exchange risk on certain of these anticipated foreign currency transactions.

Periodically, the Company may also use foreign exchange currency contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries.

Interest Rate Swap Agreements

The Company is exposed to interest rate risk on its floating-rate debt. The Company has entered into interest rate swap agreements for certain of these agreements to effectively convert its floating-rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with the Company's floating-rate debt, thus reducing the impact of interest rate changes on future interest payment cash flows. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these contracts. Refer to Note 9 for further information.

The impact of the credit risk of the counterparties to the derivative contracts is considered in determining the fair value of the foreign exchange currency contracts and interest rate swap agreements. As of October 28, 2023, credit risk has not had a significant effect on the fair value of the Company's foreign exchange currency contracts and interest rate swap agreements.

Hedge Accounting Policy

Foreign Exchange Currency Contracts

U.S. dollar forward contracts are used to hedge forecasted merchandise purchases over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as cash flow hedges, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in cost of product sales in the period that approximates the time the hedged merchandise inventory is sold.

The Company has also used U.S. dollar forward contracts to hedge the net investments of certain of the Company's international subsidiaries over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as net investment hedges, are recorded in foreign currency translation adjustment as a component of accumulated other comprehensive income (loss) within stockholders' equity and are not recognized in earnings until the sale or liquidation of the hedged net investment.

The Company also has foreign exchange currency contracts that are not designated as hedging instruments for accounting purposes. Changes in fair value of foreign exchange currency contracts not designated as hedging instruments are reported in net earnings as part of other income (expense).

Interest Rate Swap Agreements

Interest rate swap agreements are used to hedge the variability of the cash flows in interest payments associated with the Company's floating-rate debt. Changes in the fair value of interest rate swap agreements designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are amortized to interest expense over the term of the related debt.

Periodically, the Company may also enter into interest rate swap agreements that are not designated as hedging instruments for accounting purposes. Changes in the fair value of interest rate swap agreements not designated as hedging instruments are reported in net earnings as part of other income (expense).

Summary of Derivative Instruments

The fair value of derivative instruments in the condensed consolidated balance sheets is (in thousands):

	Fair Value at Oct 28, 2023	Fair Value at Jan 28, 2023	Derivative Balance Sheet Location
ASSETS:			
Derivatives designated as hedging instruments:			
Cash flow hedges:			
Foreign exchange currency contracts	$ 3,358	$ 1,073	Other current assets/Other assets
Interest rate swap	1,128	1,034	Other assets
Total derivatives designated as hedging instruments	4,486	2,107	
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	1,613	1,146	Other current assets
Total	$ 6,099	$ 3,253	
LIABILITIES:			
Derivatives designated as hedging instruments:			
Cash flow hedges:			
Foreign exchange currency contracts	$ 1,204	$ 12,930	Accrued expenses/ Other long-term liabilities
Total derivatives designated as hedging instruments	1,204	12,930	
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	424	3,774	Accrued expenses
Total	$ 1,628	$ 16,704	

Derivatives Designated as Hedging Instruments

Foreign Exchange Currency Contracts Designated as Cash Flow Hedges

During the nine months ended October 28, 2023, the Company purchased U.S. dollar forward contracts in Europe totaling US$89.0 million that were designated as cash flow hedges. As of October 28, 2023, the Company had forward contracts outstanding for its European operations of US$135.0 million to hedge forecasted merchandise purchases, which are expected to mature over the next 12 months.

As of October 28, 2023, accumulated other comprehensive income (loss) related to foreign exchange currency contracts included a $0.8 million net unrealized loss, net of tax, of which $1.1 million will be recognized in 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 quarter-end values.

At January 28, 2023, the Company had forward contracts outstanding for its European operations of US$253.0 million that were designated as cash flow hedges.

Interest Rate Swap Agreement Designated as Cash Flow Hedge

As of October 28, 2023, accumulated other comprehensive income (loss) related to the interest rate swap agreement included a net unrealized gain of $0.9 million, net of tax, which will be recognized in interest expense over the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values.

The following summarizes the gains (losses) before income taxes recognized on derivative instruments designated as cash flow hedges in OCI and net earnings (in thousands):

	Gains Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings	Gains (Losses) Reclassified from Accumulated OCI into Earnings	
	Oct 28, 2023	Oct 29, 2022		Oct 28, 2023	Oct 29, 2022
			Three Months Ended		
Derivatives designated as cash flow hedges:					
Foreign exchange currency contracts	$ 6,443	$ 6,234	Cost of product sales	$ (130)	$ 4,141
Interest rate swap	176	764	Interest expense	158	30
			Nine Months Ended		
Derivatives designated as cash flow hedges:					
Foreign exchange currency contracts	$ 7,838	$ 16,358	Cost of product sales	$ 6,074	$ 7,013
Interest rate swap	529	1,325	Interest expense	434	(66)

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

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
Beginning balance (loss) gain	$ (5,805)	$ 14,240	$ (1,584)	$ 7,280
Net gains from changes in cash flow hedges	5,870	6,136	7,383	15,578
Net gains reclassified into earnings	(6)	(3,709)	(5,740)	(6,191)
Ending balance gain	$ 59	$ 16,667	$ 59	$ 16,667

Foreign Exchange Currency Contracts Not Designated as Hedging Instruments

As of October 28, 2023, the Company had euro foreign exchange currency contracts to purchase US$65.0 million expected to mature over the next 5 months. As of January 28, 2023, the Company had euro foreign exchange currency contracts to purchase US$83.5 million.

The following summarizes the gains before income taxes recognized on derivative instruments not designated as hedging instruments in other income (expense) (in thousands):

		Gains Recognized in Earnings			
		Three Months Ended		Nine Months Ended	
	Location of Gains Recognized in Earnings	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
Foreign exchange currency contracts	Other expense	$ 3,870	$ 1,153	$ 3,410	$ 4,294

(17) Subsequent Events

Dividends

On November 21, 2023, the Company announced a regular quarterly cash dividend of $0.30 per share on the Company's common stock. The cash dividend will be paid on December 22, 2023 to shareholders of record as of the close of business on December 6, 2023. As a result of this dividend declaration, the Company will adjust the conversion rate (which is expected to increase) and the conversion price (which is expected to decrease) of the Notes in accordance with the terms of the 2024 Indenture and the 2028 Indenture, effective as of December 5, 2023. A corresponding adjustment is expected to be made to the strike prices with respect to the convertible note hedges and the warrants entered into by the Company in connection with the offering of the corresponding Notes, each of which will be decreased in accordance with the terms of the applicable convertible note hedge confirmations and warrant confirmations.

ITEM 2. 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-Q, we are referring to Guess?, Inc. ("GUESS?") and its subsidiaries on a consolidated basis.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be contained in our other reports filed under the Securities Exchange Act of 1934, as amended, in our press releases and in other documents.

All statements other than statements of historical or current fact are forward-looking statements. These statements include those relating to expectations, analyses and other information based on current plans, forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our goals, future prospects, potential actions, and the ongoing conflicts in Ukraine and Gaza and other events impacting the markets in which we operate; statements concerning our future outlook, including with respect to the fourth quarter and full year of fiscal 2024; statements concerning our expectations, goals, future prospects, and current business strategies and strategic initiatives; and statements expressing optimism or pessimism about future operating results and growth opportunities. These forward-looking statements are frequently indicated by terms such as "expect," "could," "will," "should," "goal," "strategy," "believe," "estimate," "continue," "outlook," "plan," "create," "see," and similar terms, are only expectations, and involve known and unknown risks and uncertainties, which may cause actual results in future periods to differ materially from what is currently anticipated. Factors which may cause actual results in future periods to differ materially from current expectations include, among others: our ability to maintain our brand image and reputation; domestic and international economic or political conditions, including economic and other events that could negatively impact consumer confidence and discretionary consumer spending; sanctions and export controls targeting Russia and other impacts related to the war in Ukraine; impacts related to the Israel-Hamas war; impacts related to the COVID-19 pandemic or other public health crises; risks relating to our indebtedness; changes to estimates related to impairments, inventory and other reserves; changes in the competitive marketplace and in our commercial relationships; our ability to anticipate and adapt to changing consumer preferences and trends; our ability to manage our inventory commensurate with customer demand; the high concentration of our Americas Wholesale business; risks related to the costs and timely delivery of merchandise to our distribution facilities, stores and wholesale customers; unexpected or unseasonable weather conditions; our ability to effectively operate our various retail concepts, including securing, renewing, modifying or terminating leases for store locations; our ability to successfully and/or timely implement our growth strategies and other strategic initiatives; our ability to successfully enhance our global omni-channel capabilities; our ability to expand internationally and operate in regions where we have less experience, including through joint ventures; risks relating to our convertible senior notes, including our ability to settle the liabilities in cash; disruptions at our distribution facilities; our ability to attract and retain management and other key personnel; obligations or changes in estimates arising from new or existing litigation, income tax and other regulatory proceedings; risks related to the income tax treatment of our third quarter fiscal 2022 intra-entity transfer of intellectual property rights from certain U.S. entities to a wholly-owned Swiss subsidiary; catastrophic events or natural disasters; changes in U.S. or foreign income tax or tariff policy, including changes to tariffs on imports into the U.S.; accounting adjustments to our unaudited financial statements identified during the completion of our annual independent audit of financial statements and financial controls or from subsequent events arising after issuance of this Quarterly Report; risk of future non-cash asset impairments, including goodwill, right-of-use lease assets and/or other store asset impairments; violations of, or changes to, domestic or international laws and regulations; risks associated with the acts or omissions of our licensees and third party vendors, including a failure to comply with our vendor code of conduct or other policies; risks associated with cyber security incidents and other cyber security risks; risks associated with our ability to properly collect, use, manage and secure consumer and employee data; risks associated with our vendors' ability to maintain the strength and security of information technology systems; changes in economic, political, social and other conditions affecting our foreign operations and sourcing, including the impact of currency fluctuations, global income tax rates and economic and market conditions in the various countries in which we operate; impacts of inflation and further inflationary pressures; fluctuations in quarterly performance; slowing in-person customer traffic; increases in labor costs; increases in wages; risks relating to activist investor activity; and the significant voting power of our family founders. In addition to these factors, the economic, technological, managerial, and other risks identified in "Part I, Item 1A. Risk Factors" of our most recent Annual Report on Form 10-K, "Part II, Item 1A. Risk Factors" herein and other filings with the Securities and Exchange Commission, including but not limited to the risk factors discussed therein, could cause actual results to differ materially from current expectations. The current global economic climate, the ongoing conflicts in Ukraine and Gaza, possible instability in the banking system, the possibility of a government shutdown in the U.S., and uncertainty surrounding potential changes in U.S. policies and regulations may amplify many of these risks. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Update, Market Trends and Uncertainties

Macroeconomic conditions, including inflation, higher interest rates, foreign exchange rate fluctuations, declines in consumer spending, the impact of the war in Ukraine and the lingering effects of public health crises continue to negatively impact our business. These conditions have also negatively impacted global supply chains, contributing to industry-wide increases to product and freight costs relative to pre-pandemic levels. We have been working actively to mitigate these headwinds to the extent possible through a number of global supply chain initiatives.

We continue to carefully monitor and respond to developments in market conditions, including by strategically managing expenses in order to protect profitability. The duration and scope of these conditions cannot be predicted, and therefore, any anticipated negative financial impact to our operating results cannot be reasonably estimated.

Business Segments

Our businesses are grouped into five reportable segments for management and internal financial reporting purposes: Europe, Americas Retail, Americas Wholesale, Asia and Licensing. Our Europe, Americas Retail, Americas Wholesale and Licensing reportable segments are the same as their respective operating segments. Certain components of our Asia operating segment are separate operating segments based on region, which have been aggregated into the Asia reportable segment for disclosure purposes.

We evaluate segment performance based primarily on revenues and earnings (loss) from operations before corporate performance-based compensation costs, asset impairment charges, net gains (losses) on lease modifications, restructuring charges and certain non-recurring credits (charges), if any. We believe this segment reporting reflects how our business segments are managed and how each segment's performance is evaluated by our chief operating decision maker to assess performance and make resource allocation decisions. Information regarding these segments is summarized in "Part I, Item 1. Financial Statements – Note 8 – Segment Information."

Products

We derive our net revenue from the sale of GUESS?, G by GUESS (GbG), GUESS Kids and MARCIANO apparel and certain accessories and our licensees' products through our worldwide network of directly-operated and licensed retail stores, wholesale customers and distributors, as well as our online sites. We also derive royalty revenue from worldwide licensing activities.

Foreign Currency Volatility

Since the majority of our international operations are conducted in currencies other than the U.S. dollar (primarily the euro, British pound, Canadian dollar, Chinese yuan, Japanese yen, Korean won, Mexican peso, Polish zloty, Russian rouble and Turkish lira), currency fluctuations can have a significant impact on the translation of our international revenues and earnings (loss) into U.S. dollars.

Some of our transactions, primarily those in Europe, Canada, South Korea, China, Hong Kong and Mexico, are denominated in U.S. dollars, Swiss francs, British pounds and Russian roubles, exposing them to exchange rate fluctuations when these transactions (such as inventory purchases or periodic lease payments) are converted to their functional currencies. As a result, fluctuations in exchange rates can impact the operating margins of our foreign operations and reported earnings (loss), and are largely dependent on the transaction timing and magnitude during the period that the currency fluctuates. When these foreign exchange rates weaken versus the U.S. dollar at the time the respective U.S. dollar denominated payment is made relative to the payments made in the comparable period, our product margins have been and could continue to be unfavorably impacted.

In addition, there are certain real estate leases denominated in a currency other than the functional currency of the respective entity that entered into the agreement (primarily Swiss francs, Russian roubles and Polish zloty). As a result, we may be exposed to volatility related to unrealized gains or losses on the translation of present value of future lease payment obligations when translated at the exchange rate as of a reporting period-end.

During the first nine months of fiscal 2024, the average U.S. dollar rate was stronger against the Turkish lira, Canadian dollar, Russian rouble, Japanese yen, Korean won and Chinese yuan and weaker against the euro, British pound, Polish zloty and Mexican peso compared to the average rate in the same prior-year period. Overall this had a minimal favorable impact on the translation of our international revenues and an unfavorable impact on earnings from operations for the nine months ended October 28, 2023 compared to the same prior-year period.

For the remainder of fiscal 2024, if the U.S. dollar strengthens relative to the respective fiscal 2023 foreign exchange rates, foreign exchange could negatively impact our revenues and operating results, as well as our international cash and other balance sheet items, particularly in Canada, Europe (primarily the euro, Turkish lira, British pound and Russian rouble) and Mexico. Alternatively, if the U.S. dollar weakens relative to the respective fiscal 2023 foreign exchange rates, our revenues and operating results, as well as our other cash balance sheet items, could be positively impacted by foreign currency fluctuations during the remainder of fiscal 2024, particularly in these regions. At roughly prevailing exchange rates, we expect currencies to continue to represent a headwind to operating profit and margin for the full fiscal year 2024.

We enter into derivative financial instruments to offset some, but not all, of the exchange risk on foreign currency transactions. For additional discussion regarding our exposure to foreign currency risk, forward contracts designated as hedging instruments and forward contracts not designated as hedging instruments, refer to "Item 3. Quantitative and Qualitative Disclosures About Market Risk."

Inflation Impacts

Our financial results have been and may continue to be impacted by inflationary pressures affecting our overall cost structure, including transportation, employee compensation, raw materials and other costs. We estimate certain of our costs are impacted by inflation and other factors as follows:

Transportation. Our inbound and outbound transportation costs vary by the method of shipping, including air, ocean and ground. Each of these methods may be impacted by various factors, including inflation and other considerations, such as an imbalance between the overall freight capacity on the marketplace and demand. Compared to pre-pandemic levels, the increase in our transportation costs was primarily attributable to higher inbound freight costs.

Employee Compensation. We have been impacted by the ongoing shortage of available qualified candidates for employment, as well as increases in compensation to attract and retain employees. We continue to evaluate our compensation and benefit offerings to be competitive with the current market and evaluate strategies to be more effective and efficient at all levels within the organization, including how to best serve our customers.

Raw Materials. The costs of raw materials for our products have increased, both as a result of inflation and our ongoing initiatives to improve the quality and sustainability of our products. In addition, because a significant portion of our products are manufactured in other countries, declines in the relative value of local currencies versus the U.S. dollar have exacerbated many of these pricing pressures.

We seek to minimize the impact of inflation by continuously optimizing our supply chain, including logistics, as well as efficiently managing our workforce. It is difficult to determine the portion of cost increases solely attributable to inflation versus other factors, such as the cost of improvements to our products and imbalances in the supply chain.

These increased costs have negatively impacted our margins and expenses. Continued inflationary and other pressures could further impact our gross margin and selling, general and administrative expenses as a percentage of net sales if the sales price of our products does not increase with higher costs. Furthermore, prolonged inflationary conditions could have an adverse impact on consumer discretionary spending, which could negatively impact our sales and results in the future. In addition, inflation could materially increase the interest rates on any future debt we may incur.

We expect inflationary pressures will persist in the near term. The extent to which such pressures may impact our business depends on many factors, including our customers' ability and willingness to accept price increases, our ability to improve our margins and potential downward pricing pressures if our competitors do not also raise their prices. Please refer to "Part I, Item 1A. Risk Factors" of our most recent Annual Report on Form 10-K for further information on the potential impacts and risk associated with inflation.

Russia-Ukraine Conflict

We are currently operating in Russia through our wholesale and retail channels and we have immaterial wholesale operations through local wholesale partners in Belarus and Ukraine. Our operations in Russia are operated primarily through Guess? CIS, LLC ("Guess CIS"), a wholly-owned Russian subsidiary. As more fully described below, we held a 70% interest in Guess CIS until May 2023, at which time we acquired the remaining 30% interest in Guess CIS from the noncontrolling interest holder. Guess CIS currently operates 45 retail stores in Russia and acts as a distributor for our wholesale partners in Russia. We also operate in Russia through other local wholesale partners and by selling directly to retail customers through our European online store. Prior to February 2022, we also sold directly to retail customers in Ukraine and Belarus through our European online store.

Our operations in Russia, Belarus and Ukraine represented slightly more than 3% of our total revenue for the year ended January 28, 2023 and slightly more than 4% for the nine months ended October 28, 2023, with our operations in Russia comprising over 90% of this total revenue. As of October 28, 2023, our total assets in Russia, all of which are held by Guess CIS, represented less than 2% of our total assets, consisting primarily of leasehold right of use assets, store inventory, furnishings and fixtures, and receivables. We only maintain inventory in Russia in an amount sufficient for operating our Russian retail stores. We do not maintain inventory or hold any other significant assets in Belarus or Ukraine. We do not rely, directly or indirectly, on goods sourced in Russia, Belarus or Ukraine. Other than such labor and services necessary to conduct our direct operations in Russia in the ordinary course of business, we do not rely, directly or indirectly, on services sourced in Russia, Belarus or Ukraine.

There has been no material impact to our existing operations as a result of the ongoing conflict in Ukraine, although we are limited in our ability to expand our business in Russia due to the U.S. ban on new investments in Russia described below under "—Impact of Sanctions and Trade Restrictions." With respect to our supply and distribution channels, we have experienced increased costs and transit times associated with deliveries related to our Russia operations, due in part to new procedures and sanctions screening implemented in response to the conflict in Ukraine and the imposition of related sanctions. These costs and delays have not materially impacted our business or results of operations. Additionally, retail deliveries for online orders to

Ukraine and Belarus have been suspended since February 2022 due to increased logistics costs and other difficulties in delivering to these regions. While we intend to re-open online orders to Ukraine and Belarus when appropriate, the suspension of these shipments has not had, and is not anticipated to have, a material impact on our business or results of operations. Our wholesale partner in Ukraine partially suspended its operations at the outset of the conflict; however, sales were re-opened in July 2022, and our business and results of operations were not materially impacted.

In addition, pursuant to an agreement entered into in 2018, our European subsidiary, Guess Europe SAGL has also counter-guaranteed up to $900,000 of Guess CIS's obligations under its local Russian guarantee line, as required by certain lease agreements.

In connection with our investment in Guess CIS, we were previously party to a put arrangement with respect to the securities that represented the remaining noncontrolling interest for Guess CIS (the "Put Option"). The Put Option provided the noncontrolling interest holder of Guess CIS, a non-sanctioned Russian citizen (the "Minority Holder"), the right to compel us, through a wholly-owned European subsidiary, to purchase the remaining 30% of the total outstanding equity interest of Guess CIS at its sole discretion by providing written notice to us during the period after December 28, 2020, the fifth anniversary of the agreement, through December 31, 2025. The redemption value of the Put Option was based on a multiple of Guess CIS's earnings before interest, taxes, depreciation and amortization, subject to certain adjustments. The carrying value of the redeemable noncontrolling interest related to Guess CIS was €8.0 million ($8.7 million) as of January 28, 2023.

In November 2022, the Minority Holder exercised the Put Option, triggering a contractual obligation for us to purchase the Minority Holder's 30% interest in Guess CIS. Following a comprehensive review of the various economic sanctions imposed by the United States and European governments with respect to Russia and obtaining guidance from the U.S. Department of the Treasury's Office of Foreign Assets Control, we determined that our acquisition of the Minority Holder's 30% interest in Guess CIS pursuant to our pre-sanctions contractual obligation to fulfill the Minority Holder's exercise of the Put Option was not prohibited by current economic sanctions, including the U.S. ban on new investment in Russia. As such, following the exercise of the Put Option by the Minority Holder, we entered into an agreement with the Minority Holder to proceed with our acquisition of the Minority Holder's 30% interest in Guess CIS for a purchase price of €8.0 million, subject to the formal approval of the acquisition by the relevant Russian government commission and certain other customary conditions. This formal approval was received, and the purchase was completed, in May 2023. As a result of this transaction, there was no redeemable noncontrolling interest related to Guess CIS as of October 28, 2023.

Impact of Sanctions and Trade Restrictions

Our Russian operations are subject to various sanctions and export control measures targeting Russia, Belarus and the Russian-controlled regions of Ukraine (Crimea, Donetsk and Luhansk). These measures include: (i) blocking sanctions prohibiting dealings with various Russian senior government officials, and companies in various sectors important to the Russian economy, including major Russian financial institutions; (ii) expanded sectoral sanctions related to designated Russian entities' ability to raise capital; (iii) the disconnection of certain Russian and Belarusian banks from the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") financial messaging network; (iv) a ban on new investment in Russia; (v) a ban on the provision of certain services in Russia in the areas of accounting, trust formation, management consulting, quantum computing, architecture, engineering and in relation to the maritime transport of Russian-origin crude oil and petroleum products; (vi) bans on the import into the United States of certain Russian origin products, including various energy products; (vii) bans on the conduct of business or investment activity in the Russian-controlled Crimea, Donetsk and Luhansk regions of Ukraine; and (viii) restrictions on the export of various products to Russia and Belarus, including certain dual-use industrial and commercial products, and luxury goods. Additionally, certain logistics operators have imposed bans on direct air deliveries to Russia and restrictions on land deliveries to and from Russia, Belarus and Ukraine, none of which have had a material impact on our operations to date. We assessed the applicability of these sanctions and trade restrictions based on internal assessments of relevant regulations and concluded our existing operations in Russia and Belarus have not been materially affected by these sanctions and trade restrictions, although we are limited from further expansion of our business in Russia. All of our deliveries (both wholesale and retail) undergo sanctions screening, including screening for maximum product value of $300 and €300 per item and prevention of shipments to sanctioned final recipients.

Our assessment of the impact of the various sanctions and export control measures targeting Russia, Belarus and the Russian-controlled regions of Ukraine is subject to the following uncertainties and assumptions:

- The duration and extent of the armed conflict in Ukraine;
- The impact of sanctions and trade restrictions targeting Russia and Belarus, and the possibility that such sanctions or trade restrictions may be expanded, or new sanctions or trade restrictions may be imposed;
- The possibility of significant exchange rate volatility related to the Russian rouble;
- Potential disruptions of normal cash flow resulting from the removal of Russian and Belarusian banks from the SWIFT financial messaging network and regulations of the Russian and Belarusian governments;
- Disruptions of transport access to and from Russia, Belarus or Ukraine; and
- The suspension of our online retail shipments to Belarus and Ukraine.

We continue to assess all of our operations in Russia to ensure compliance with applicable sanctions, including most notably the U.S. ban on new investment in Russia.

We are actively monitoring the situation in Ukraine. While the extent to which our future operations in Russia, Belarus and Ukraine will be impacted by the ongoing conflict is impossible to predict, the impact is not expected to be material to our results of operations, financial condition or cash flows.

Strategy

Our strategic vision and implementation plan for execution includes several key priorities to drive revenue and operating profit growth. These priorities are: (i) brand relevancy and brand elevation; (ii) product excellence; (iii) customer centricity; (iv) global footprint; (v) functional capabilities; and (vi) growth; each as further described below:

Brand Relevancy and Brand Elevation. We continue to optimize our brand architecture to be relevant with our three target consumer groups: Heritage, Millennials and Generation Z. We have developed and launched one global line of product for all categories. We seek to elevate our Guess and Marciano brands and improve the quality and sustainability of our products, allowing us to realize more full-priced sales and rely less on promotional activity. We continue to use unique go-to-market strategies and execute celebrity and influencer partnerships and collaborations as we believe that they are critical to engage more effectively with a younger and broader audience.

Product Excellence. We believe product is a key factor of success in our business. We strive to design and make great products and will extend our product offering to provide our customers with products for the different occasions of their lifestyles. We will seek to better address local product needs.

Customer Centricity. We continue to place the customer at the center of everything we do. We plan to implement processes and platforms to provide our customers with a seamless omni-channel experience and expand our digital business.

Global Footprint. We continue to expand the reach of our brands by optimizing the productivity and profitability of our current footprint and expanding our distribution channels.

Functional Capabilities. We continue to drive operational improvements to leverage and support our global business more effectively, primarily in the areas of logistics, sourcing, product development and production, inventory management and overall infrastructure.

Growth. We intend to leverage our infrastructure and capabilities, as well as the strength of our brands, to drive revenue growth. We will focus on increasing the productivity of our existing network, growing organically in existing and new markets, pursuing brand extensions and category expansions and considering opportunities that leverage our global infrastructure and network of licensees and wholesale partners.

Capital Allocation

We plan to continue to prioritize capital allocation toward investments that support growth and infrastructure, while remaining highly disciplined in the way we allocate capital across projects, including new store development, store remodels, technology and logistics investments and others. When we prioritize investments, we will focus on their strategic significance and their return on invested capital expectations. We also plan to manage product buys and inventory ownership rigorously and optimize overall working capital management consistently. In addition, we plan to continue to return value to shareholders through dividends and share repurchases, as appropriate, and we will consider opportunities that leverage our global infrastructure and network of licensees and wholesale partners.

In April 2023, we issued $275 million aggregate principal amount of 3.75% convertible senior notes due April 2028 (the “2028 Notes”) and retired approximately $184.9 million aggregate principal amount of the existing 2.00% convertible senior notes due April 2024 (the “2024 Notes”, and together with the 2028 Notes, the “Notes”) in a private offering. During the first quarter of fiscal 2024, in connection with the exchange and subscription offering related to the 2024 Notes and the 2028 Notes, we repurchased approximately 2.2 million shares of our common stock for $42.8 million, including excise tax, through broker-assisted market transactions, pursuant to our existing share repurchase program.

As of October 28, 2023, we had $115.1 million remaining aggregate principal amount of the 2024 Notes, which have a scheduled maturity in April 2024. We anticipate having sufficient cash, cash equivalents and available borrowing capacity to repay the principal amount of the 2024 Notes in cash and any excess in shares, with respect to any convertible notes for which the holders of the 2024 Notes elect early conversion, or upon maturity of the 2024 Notes in April 2024.

Retail Comparable Sales

We report National Retail Federation calendar retail comparable sales on a quarterly basis for our retail businesses which include the combined results from our brick-and-mortar retail stores and our e-commerce sites. We also separately report the impact of e-commerce sales on our retail comparable sales metric. As a result of our omni-channel strategy, our e-commerce business has become strongly intertwined with our brick-and-mortar retail store business. Therefore, we believe that the inclusion of e-commerce sales in our retail comparable sales metric provides a more meaningful representation of our retail results.

Sales from our brick-and-mortar retail stores include purchases that are initiated, paid for and fulfilled at our retail stores and directly-operated concessions as well as merchandise that is reserved online but paid for and picked up at our retail stores. Sales from our e-commerce sites include purchases that are initiated and paid for online and shipped from either our distribution centers or our retail stores as well as purchases that are initiated in a retail store, but due to inventory availability at the retail store, are ordered and paid for online and shipped from our distribution centers or picked up from a different retail store.

Store sales are considered comparable after the store has been open for 13 full fiscal 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 sales are removed from the comparable store base until the store has been opened at its new size, in its new location or under its new concept for 13 full fiscal months. Stores that are permanently closed or temporarily closed (including as a result of pandemic-related closures) for more than seven days in any fiscal month are excluded from the calculation in the fiscal month that they are closed. E-commerce sales are considered comparable after the online site has been operational in a country for 13 full fiscal months and exclude any related revenue from shipping fees. These criteria are consistent with the metric used by management for internal reporting and analysis to measure performance of the store or online sites. Definitions and calculations of retail comparable sales used by us may differ from similarly titled measures reported by other companies.

Other

We operate on a 52/53-week fiscal year calendar which ends on the Saturday nearest to January 31 of each year. The nine months ended October 28, 2023 had the same number of days as the nine months ended October 29, 2022. All references herein to "fiscal 2024" represent the 53-week fiscal year ending February 3, 2024, with the extra week occurring in the fourth quarter of the year. All references herein to "fiscal 2023" and "fiscal 2022" represent the results of the 52-week fiscal years ended January 28, 2023 and January 29, 2022, respectively.

Executive Summary

Overview

Net earnings attributable to Guess?, Inc. increased 155.1% to $55.7 million, or diluted net earnings per share ("EPS") of $0.82 per common share, for the quarter ended October 28, 2023, compared to $21.8 million, or diluted EPS of $0.34 per common share, for the quarter ended October 29, 2022.

During the quarter ended October 28, 2023, we recognized $1.7 million in asset impairment charges; $0.5 million in net losses on lease modifications; $0.8 million for certain professional service and legal fees and related (credits) costs; $0.2 million of amortization of debt discount related to our Notes; and $31.2 million for certain discrete income tax adjustments (or a combined $28.7 million, or $0.33 per share, positive impact after considering the related income tax benefit of $0.8 million). Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. was $27.0 million and adjusted diluted EPS was $0.49 per common share for the quarter ended October 28, 2023.

During the quarter ended October 29, 2022, we recognized $1.8 million in asset impairment charges; $0.1 million in net gains on lease modifications; $1.5 million for certain professional services and legal fees and related (credits) costs; and $0.2 million for certain discrete income tax adjustments (or a combined $2.9 million negative impact after considering the related income tax benefit of $0.4 million); and we excluded the dilutive share impact of the Notes in our adjusted EPS (or a combined $0.10 negative per share impact). Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. was $24.7 million and adjusted diluted EPS was $0.44 per common share for the quarter ended October 29, 2022. References to financial results excluding the impact of these items are non-GAAP measures and are addressed below under "Non-GAAP Measures."

Highlights of our performance for the quarter ended October 28, 2023 compared to the same prior-year quarter are presented below, followed by a more comprehensive discussion under "Results of Operations": (References to constant currency results are non-GAAP measures and are addressed under "Non-GAAP Measures.")

Operations

- Total net revenue increased 2.8% to $651.2 million for the quarter ended October 28, 2023, compared to $633.4 million in the same prior-year quarter. In constant currency, net revenue increased by 1.2%.
- Gross margin (gross profit as a percentage of total net revenue) increased 220 basis points to 44.7% for the quarter ended October 28, 2023, compared to 42.5% in the same prior-year quarter.
- Selling, general and administrative ("SG&A") expenses as a percentage of total net revenue ("SG&A rate") increased 240 basis points to 36.0% for the quarter ended October 28, 2023, compared to 33.6% in the same prior-year quarter. SG&A expenses increased 10.0% to $234.1 million for the quarter ended October 28, 2023, compared to $212.9 million in the same prior-year quarter.
- During the quarter ended October 28, 2023, we recognized $1.7 million of asset impairment charges, compared to $1.8 million in the same prior-year quarter.

- During the quarter ended October 28, 2023, we recorded $0.5 million net losses on lease modifications, compared to gains of $0.1 million in the same prior-year quarter.
- Operating margin decreased 20 basis points to 8.4% for the quarter ended October 28, 2023, compared to 8.6% in the same prior-year quarter. The decrease in operating margin was driven primarily by higher expenses, including higher performance-based compensation, the unfavorable impact of currency, partially offset by higher initial markups and the favorable impact of business mix. Earnings from operations remained flat at $54.8 million for the quarter ended October 28, 2023, compared to $54.8 million in the same prior-year quarter.
- Other expense, net, totaled $11.0 million for the quarter ended October 28, 2023, compared to $15.2 million in the same prior-year quarter.
- The effective income tax rate decreased by 76.1% to a benefit of 44.5% for the quarter ended October 28, 2023, compared to an expense of 31.6% in the same prior-year quarter. The change in the effective income tax rate was primarily due to a discrete income tax benefit recognized during the third quarter of fiscal 2024 as a result of the consolidation of certain business functions into Switzerland and, to a lesser extent, the lower losses incurred in certain tax jurisdictions during the quarter ended October 28, 2023 compared to the same prior-year quarter.

Key Balance Sheet Accounts

- We had $244.1 million in cash and cash equivalents as of October 28, 2023 compared to $174.1 million at October 29, 2022.
  - As of October 28, 2023, we had $13.9 million in outstanding borrowings under our term loans and $121.8 million in outstanding borrowings under our credit facilities compared to $29.0 million in outstanding borrowings under our term loans and $123.2 million in outstanding borrowings under our credit facilities as of October 29, 2022.
  - In April 2023, we issued $275 million aggregate principal amount of the 2028 Notes and retired approximately $184.9 million aggregate principal amount of the 2024 Notes in separate, privately-negotiated transactions, for which we received total cash proceeds of $80.3 million. In connection with these transactions, we (i) entered into convertible note hedge transactions for which we paid an aggregate $51.8 million, (ii) sold warrants for which we received aggregate proceeds of $20.2 million and (iii) terminated a portion of the convertible note hedge transactions and warrant transactions entered into in connection with the issuance of the 2024 Notes, for which we received net proceeds of $6.2 million. These transactions are intended to reduce the potential dilution with respect to our common stock upon conversion of the notes and/or offset any cash payments we may be required to make in excess of the principal amount of the converted notes.
  - During the nine months ended October 28, 2023, in connection with the exchange and subscription offering related to the 2024 Notes and the 2028 Notes in April 2023, we repurchased 2.2 million shares of our common stock for $42.8 million, including excise tax, through broker-assisted market transactions.
- Inventory decreased by $12.2 million, or 2.1%, to $562.4 million as of October 28, 2023, from $574.6 million at October 29, 2022. On a constant currency basis, inventory decreased by $21.1 million, or 3.7%, when compared to October 29, 2022. The decrease was mainly driven by the residual effect of last year's initiative to mitigate supply chain disruptions by ordering products earlier.
- Accounts receivable consists of trade receivables relating primarily to our wholesale business in Europe and, to a lesser extent, to our wholesale businesses in the Americas and Asia, royalty receivables relating to our licensing operations, credit card and retail concession receivables related to our retail businesses and certain other receivables. Accounts receivable increased by $21.4 million, or 6.7%, to $340.8 million as of October 28, 2023 compared to $319.3 million at October 29, 2022. On a constant currency basis, accounts receivable increased by $11.2 million, or 3.5%, when compared to October 29, 2022.

Global Store Count

During the quarter ended October 28, 2023, together with our partners, we opened 20 new stores worldwide, consisting of seven stores in Europe and the Middle East, seven stores in Asia and the Pacific and six stores in the Americas. Together with our partners, we closed 30 stores worldwide, consisting of nine stores in Europe and the Middle East, 12 stores in Asia and the Pacific and nine stores in the Americas.

As of October 28, 2023, we had stores and concessions worldwide comprised as follows:

	Stores			Concessions		
Region	**Total**	**Directly-Operated**	**Partner Operated**	**Total**	**Directly-Operated**	**Partner Operated**
United States	234	234	—	—	—	—
Canada	57	57	—	—	—	—
Central and South America	104	73	31	29	29	—
Total Americas	395	364	31	29	29	—
Europe and the Middle East	767	545	222	58	58	—
Asia and the Pacific	397	106	291	241	133	108
Total	1,559	1,015	544	328	220	108

Of the total stores, 1,291 were GUESS? stores, 178 were GUESS? Accessories stores, 60 were G by GUESS (GbG) stores and 30 were MARCIANO stores.

Results of Operations

Three Months Ended October 28, 2023 and October 29, 2022

Consolidated Results

The following presents our condensed consolidated statements of income (in thousands, except per share data):

	Three Months Ended					
	Oct 28, 2023		Oct 29, 2022		$ change	% change
Net revenue	$ 651,170	100.0 %	$ 633,403	100.0 %	$ 17,767	2.8 %
Cost of product sales	360,000	55.3 %	364,032	57.5 %	(4,032)	(1.1 %)
Gross profit	291,170	44.7 %	269,371	42.5 %	21,799	8.1 %
Selling, general and administrative expenses	234,123	36.0 %	212,927	33.6 %	21,196	10.0 %
Asset impairment charges	1,737	0.3 %	1,789	0.3 %	(52)	(2.9 %)
Net (gains) losses on lease modifications	537	0.0 %	(146)	(0.0 %)	683	(467.8 %)
Earnings from operations	54,773	8.4 %	54,801	8.6 %	(28)	(0.1 %)
Interest expense, net	(2,742)	(0.4 %)	(2,817)	(0.4 %)	75	(2.7 %)
Other expense, net	(11,004)	(1.7 %)	(15,211)	(2.4 %)	4,207	(27.7 %)
Earnings before income tax expense (benefit)	41,027	6.3 %	36,773	5.8 %	4,254	11.6 %
Income tax expense (benefit)	(18,277)	(2.8 %)	11,616	1.8 %	(29,893)	(257.3 %)
Net earnings	59,304	9.1 %	25,157	4.0 %	34,147	135.7 %
Net earnings attributable to noncontrolling interests	3,603	0.5 %	3,322	0.6 %	281	8.5 %
Net earnings attributable to Guess?, Inc.	$ 55,701	8.6 %	$ 21,835	3.4 %	33,866	155.1 %
Net earnings per common share attributable to common stockholders:						
Basic	$ 1.04		$ 0.40		$ 0.64	
Diluted	$ 0.82		$ 0.34		$ 0.48	
Effective income tax rate	(44.5 %)		31.6 %			

Net Revenue. Net revenue increased by $18 million, or 3%, for the quarter ended October 28, 2023 compared to the same prior-year quarter. Currency translation fluctuations relating to our non-U.S. operations favorably impacted net revenue by $10 million compared to the same prior-year quarter. In constant currency, net revenue increased by 1%. The increase in constant currency was mainly driven by growth in our licensing segment.

Gross Margin. Gross margin increased by 2.2% for the quarter ended October 28, 2023 compared to the same prior-year quarter, driven by 210 basis points from higher initial markups and 110 basis points due to favorable revenue mix, partially offset by 70 basis points from unfavorable currency impact and 50 basis points due to higher expenses.

Gross Profit. Gross profit increased $22 million for the quarter ended October 28, 2023 compared to the same prior-year quarter. The increase in gross profit was driven by $13 million of higher initial markups and $11 million due to favorable business mix, partially offset by $3 million of higher expenses. Currency translation fluctuations relating to our foreign operations favorably impacted gross profit by $5 million, which was offset by an unfavorable currency transactional impact of $5 million.

Distribution costs, including labor, inbound freight charges, purchasing costs and related overhead, related to supplying inventory to store locations within our retail business are included in cost of product sales. We also include net royalties received on our inventory purchases of licensed product as a reduction to cost of product sales. We generally exclude wholesale-related distribution costs from gross margin, including them instead in SG&A expenses. Additionally, we include retail store occupancy costs in cost of product sales. As a result, our gross margin may not be comparable to that of other entities. To ensure expenses are separated appropriately, we track activities at each distribution center location and record the costs associated with our shipments of goods either as cost of sales or as selling, general and administrative expenses, accordingly.

SG&A Rate. Our SG&A rate increased 2.4% for the quarter ended October 28, 2023 from the same prior-year quarter. The unfavorable change in SG&A rate was mainly driven by 140 basis points of higher performance-based compensation, 90 basis points of higher expenses and 50 basis points of unfavorable currency impact, partially offset by 20 basis points of favorable revenue mix.

SG&A Expenses. SG&A expenses increased $21 million for the quarter ended October 28, 2023 from the same prior-year quarter. The increase in SG&A expenses was mainly driven by $9 million of higher performance-based compensation, $7 million of unfavorable currency impact and $6 million of higher expenses primarily from store labor costs, investment in infrastructure and inflationary pressures.

Asset Impairment Charges. During the quarters ended October 28, 2023 and October 29, 2022, we recognized $1.7 million and $1.8 million, respectively, of property and equipment and operating lease ROU asset impairment charges related to certain retail locations resulting from under-performance and expected store closures.

Net (Gains) Losses on Lease Modifications. During the quarters ended October 28, 2023 and October 29, 2022, we recorded net losses of $0.5 million and net gains of $0.1 million on lease modifications, respectively, related primarily to the early termination of certain lease agreements.

Operating Margin. Operating margin decreased 0.2% for the quarter ended October 28, 2023 compared to the same prior-year quarter. The decrease in operating margin was driven primarily by 140 basis points due to higher expenses, 120 basis points due to higher performance-based compensation and 120 basis points from the unfavorable impact of currency, partially offset by 210 basis points from higher initial markups and 140 basis points from the favorable impact of business mix. Excluding the impact of asset impairment charges, certain professional service and legal fees and related (credits) costs and net (gains) losses on lease modifications, our operating margin would have decreased 0.2% compared to the same prior-year quarter.

Earnings from Operations. As a result of the foregoing, earnings from operations remained flat for the quarter ended October 28, 2023 compared to the same prior-year quarter. Currency fluctuations relating to our foreign operations unfavorably impacted earnings from operations by $7 million, including $1 million of unfavorable translational impact.

Other Expense, Net. Other expense, net for the quarter ended October 28, 2023 was $11 million compared to $15 million in the same prior-year quarter. The change was primarily due to lower net realized and unrealized losses from foreign currency exposures, as well as higher net unrealized and realized gains from foreign exchange currency contracts, compared to the same prior-year quarter.

Income Tax Expense (Benefit). Income tax benefit for the quarter ended October 28, 2023 was $18 million, or a negative 44.5% effective income tax rate, compared to an expense of $12 million, or a 31.6% effective income tax rate in the same prior-year quarter. Income tax expense (benefit) for the interim periods is computed using the income tax rate estimated to be applicable for the full fiscal year, adjusted for discrete items, which is subject to ongoing review and evaluation by management. The change in the effective income tax rate was primarily due to a discrete income tax benefit recognized during the third quarter of fiscal 2024 as a result of the consolidation of certain business functions into Switzerland and, to a lesser extent, the lower losses incurred in certain tax jurisdictions during the quarter ended October 28, 2023 compared to the same prior-year quarter.

The Organization for Economic Co-operation and Development (“OECD”) Pillar 2 guidelines address the increasing digitalization of the global economy, re-allocating taxing rights among countries. The European

Union, many other member states and various other governments have adopted, or are in the process of adopting, Pillar 2, which calls for a global minimum tax of 15% to be effective for tax years beginning in 2024. The OECD guidelines published to date include transition and safe harbor rules around the implementation of the Pillar 2 global minimum tax. We are monitoring developments and evaluating the impacts these new rules will have on our tax rate, including eligibility to qualify for these safe harbor rules.

Net Earnings Attributable to Guess?, Inc. Net earnings attributable to Guess?, Inc. increased $34 million for the quarter ended October 28, 2023, compared to the same prior-year quarter. The results for the third quarter of fiscal 2024 included a net positive impact of $31.2 million from discrete tax adjustments related primarily to the consolidation of certain business functions into Switzerland. Diluted EPS increased $0.48 for the quarter ended October 28, 2023 compared to the same prior-year quarter. We estimate a positive impact from share buybacks of $0.02 and a negative impact from currency of $0.03 on diluted EPS in the quarter ended October 28, 2023 when compared to the same prior-year quarter.

Refer to “Non-GAAP Measures” for an overview of our non-GAAP, or adjusted, financial results for the quarters ended October 28, 2023 and October 29, 2022. Excluding the impact of these non-GAAP items, adjusted net earnings attributable to Guess?, Inc. increased $2 million and adjusted diluted EPS increased $0.05 for the quarter ended October 28, 2023, compared to the same prior-year quarter. We estimate a positive impact from our share buybacks of $0.02 and a negative impact from currency of $0.02 on adjusted diluted EPS in the quarter ended October 28, 2023 when compared to the same prior-year quarter.

Information by Business Segment

The following presents our net revenue and earnings (loss) from operations by segment (in thousands):

	Three Months Ended			
	Oct 28, 2023	Oct 29, 2022	$ change	% change
Net revenue:				
Europe	$ 344,472	$ 323,754	$ 20,718	6.4 %
Americas Retail	153,872	165,603	(11,731)	(7.1 %)
Americas Wholesale	55,288	53,181	2,107	4.0 %
Asia	64,498	63,118	1,380	2.2 %
Licensing	33,040	27,747	5,293	19.1 %
Total net revenue	$ 651,170	$ 633,403	17,767	2.8 %
Earnings (loss) from operations:				
Europe	$ 35,555	$ 36,222	$ (667)	(1.8 %)
Americas Retail	8,086	11,365	(3,279)	(28.9 %)
Americas Wholesale	16,106	10,229	5,877	57.5 %
Asia	636	(5)	641	(12,820.0 %)
Licensing	30,770	24,849	5,921	23.8 %
Total segment earnings from operations	91,153	82,660	8,493	10.3 %
Corporate overhead	(34,106)	(26,216)	(7,890)	30.1 %
Asset impairment charges	(1,737)	(1,789)	52	(2.9 %)
Net gains (losses) on lease modifications	(537)	146	(683)	(467.8 %)
Total earnings from operations	$ 54,773	$ 54,801	(28)	(0.1 %)
Operating margins:				
Europe	10.3 %	11.2 %		
Americas Retail	5.3 %	6.9 %		
Americas Wholesale	29.1 %	19.2 %		
Asia	1.0 %	(0.0 %)		
Licensing	93.1 %	89.6 %		
Total Company	8.4 %	8.6 %		

Europe

Net revenue from our Europe segment increased by $21 million, or 6%, for the quarter ended October 28, 2023 from the same prior-year quarter. Currency translation fluctuations had a favorable impact on net revenue of $5 million. In constant currency, net revenue increased by 5%. The increase in net revenue in constant currency was mainly driven by $10 million due to positive retail comparable sales, $2 million due to higher wholesale revenue and $2 million due to higher productivity levels from newly net opened and remodeled stores. Retail comparable sales (including e-commerce) increased 8% in U.S. dollars and 7% in constant currency compared to the same prior-year quarter. The inclusion of our e-commerce sales had a minimal impact on the retail comparable sales percentage in U.S. dollars and a negative impact of 1% in constant currency. Our retail sales in Turkey, a relatively small market, had an outsized impact on our retail comparable sales (including e-commerce) for the quarter ended October 28, 2023, contributing a minimal impact in U.S. dollars and a positive impact of 2% in constant currency, largely due to the current hyper-inflationary environment in Turkey. As of October 28, 2023, we directly operated 545 stores in Europe compared to 561 stores at October 29, 2022, excluding concessions, which represents a 3% decrease from the same prior-year quarter.

Operating margin decreased 0.9% for the quarter ended October 28, 2023 compared to the same prior-year quarter. The decrease in operating margin was driven primarily by 240 basis points of both higher expenses and unfavorable currency impacts, as well as 20 basis points of higher markdowns, partially offset by 350 basis points of higher initial markups and a 130 basis point impact of higher revenues.

Earnings from operations from our Europe segment decreased by $1 million, or 2%, for the quarter ended October 28, 2023 compared to the same prior-year quarter. The decrease in operating profit was mainly driven by $8 million of unfavorable currency impacts, including $3 million of unfavorable translation impact, $8 million from higher expenses and $1 million from lower markdowns, partially offset by $12 million of higher initial markups and $6 million from higher revenues.

Americas Retail

Net revenue from our Americas Retail segment decreased by $12 million, or 7%, for the quarter ended October 28, 2023 from the same prior-year quarter. Currency translation fluctuations relating to our non-U.S. retail stores and e-commerce sites had a favorable impact on net revenue of $1 million. In constant currency, net revenue decreased by 8% compared to the same prior-year quarter. The decrease in net revenue in constant currency was primarily driven by $8 million due to negative retail comparable sales and $4 million due to the impact of net store closures. Retail comparable sales (including e-commerce) decreased 5% in both U.S. dollars and constant currency compared to the same prior-year quarter. The inclusion of our e-commerce sales had a minimal impact on the retail comparable sales percentage in U.S. dollars and a positive impact of 1% in constant currency. As of October 28, 2023, we directly operated 364 stores in the Americas compared to 383 stores at October 29, 2022, excluding concessions, which represents a 5% decrease from the same prior-year quarter.

Operating margin decreased 1.6% for the quarter ended October 28, 2023 from the same prior-year quarter. Approximately 160 basis points of the decrease was driven by the unfavorable impact of lower revenues, 60 basis points from higher expenses and 30 basis points from higher markdowns, partially offset by 110 basis points from higher initial markups.

Earnings from operations from our Americas Retail segment decreased by $3 million, or 29%, for the quarter ended October 28, 2023 from the same prior-year quarter. The decrease was primarily driven by $3 million due to lower revenues, $1 million due to higher expenses and less than $1 million from higher markdowns, partially offset by $2 million of higher initial markups.

Americas Wholesale

Net revenue from our Americas Wholesale segment increased by $2 million, or 4%, for the quarter ended October 28, 2023 from the same prior-year quarter. Currency translation fluctuations relating to our non-U.S. wholesale businesses had a favorable impact on net revenue of $3 million. In constant currency, net revenue decreased by 1%. The decrease in net revenues in constant currency was mainly driven by lower shipments in our U.S. and Canada businesses partially offset by higher shipments in our Mexico business.

Operating margin increased 9.9% for the quarter ended October 28, 2023 compared to the same prior-year quarter. The increase in operating margin was mainly driven by 850 basis points of higher product margin including lower markdowns, 80 basis points from favorable currency impacts and 20 basis points from lower expenses.

Earnings from operations from our Americas Wholesale segment increased by $6 million, or 57%, for the quarter ended October 28, 2023 from the same prior-year quarter, mainly driven by $4 million from higher product margin including lower markdowns and $1 million from favorable currency impact.

Asia

Net revenue from our Asia segment increased by $1 million, or 2%, for the quarter ended October 28, 2023 from the same prior-year quarter. Currency translation fluctuations had a favorable impact on net revenue of $1 million. In constant currency net revenue remained flat, mainly driven by $2 million due to net new store openings and $1 million of higher e-commerce revenues offset by $3 million due to negative retail comparable sales. Retail comparable sales (including e-commerce) decreased 8% in U.S. dollars and 9% in constant currency compared to the same prior-year quarter. The inclusion of our e-commerce sales negatively impacted the retail comparable sales percentage by 1% in both U.S. dollars and constant currency.

Operating margin increased 1.0% for the quarter ended October 28, 2023 from the same prior-year quarter, mainly driven primarily by 220 basis points from the favorable impact of business mix, partially offset by 100 basis points of higher expenses.

Earnings from operations from our Asia segment increased by $1 million for the quarter ended October 28, 2023 compared to a relative break-even point in the same prior-year quarter, mainly driven by the impact of $1 million due to favorable business mix partially offset by $1 million of higher expenses. Currency translation fluctuations relating to our Asia operations favorably impacted the earnings from operations by $0.4 million.

Licensing

Net royalty revenue from our Licensing segment increased by $5 million, or 19%, for the quarter ended October 28, 2023 from the same prior-year quarter, mainly driven by higher royalties in our fragrance and handbag categories as well as a one-time adjustment.

Earnings from operations from our Licensing segment increased by 24% for the quarter ended October 28, 2023 from the same prior-year quarter primarily driven by the increase in revenues.

Corporate Overhead

Unallocated corporate overhead increased by $8 million, or 30%, for the quarter ended October 28, 2023 compared to the same prior-year quarter, primarily due to higher performance-based compensation.

Nine months ended October 28, 2023 and October 29, 2022

Consolidated Results

The following presents our condensed consolidated statements of income (in thousands, except per share data):

	Nine Months Ended					
	Oct 28, 2023		Oct 29, 2022		$ change	% change
Net revenue	$ 1,885,480	100.0 %	$ 1,869,566	100.0 %	$ 15,914	0.9 %
Cost of product sales	1,067,882	56.6 %	1,082,545	57.9 %	(14,663)	(1.4 %)
Gross profit	817,598	43.4 %	787,021	42.1 %	30,577	3.9 %
Selling, general and administrative expenses	694,748	36.8 %	638,801	34.2 %	55,947	8.8 %
Asset impairment charges	6,293	0.4 %	5,252	0.3 %	1,041	19.8 %
Net gains on lease modifications	(1,894)	(0.1 %)	(1,654)	(0.1 %)	(240)	14.5 %
Earnings from operations	118,451	6.3 %	144,622	7.7 %	(26,171)	(18.1 %)
Interest expense, net	(7,326)	(0.4 %)	(8,112)	(0.4 %)	786	(9.7 %)
Loss on extinguishment of debt	(7,696)	(0.4 %)	—	— %	(7,696)	100.0 %
Other expense, net	(18,227)	(1.0 %)	(40,716)	(2.2 %)	22,489	(55.2 %)
Earnings before income tax expense (benefit)	85,202	4.5 %	95,794	5.1 %	(10,592)	(11.1 %)
Income tax expense (benefit)	(5,370)	(0.3 %)	32,743	1.7 %	(38,113)	(116.4 %)
Net earnings	90,572	4.8 %	63,051	3.4 %	27,521	43.6 %
Net earnings attributable to noncontrolling interests	7,643	0.4 %	9,284	0.5 %	(1,641)	(17.7 %)
Net earnings attributable to Guess?. Inc.	$ 82,929	4.4 %	$ 53,767	2.9 %	29,162	54.2 %
Net earnings per common share attributable to common stockholders:						
Basic	$ 1.53		$ 0.93		$ 0.60	
Diluted	$ 1.30		$ 0.80		$ 0.50	
Effective income tax rate	(6.3 %)		34.2 %			

Net Revenue. Net revenue increased by $16 million for the nine months ended October 28, 2023 compared to the same prior-year period. Currency translation fluctuations relating to our non-U.S. operations had a minimal impact on net revenue compared to the same prior-year period. In constant currency, net revenue increased by 1%. The increase in constant currency was mainly driven by net new concession revenues.

Gross Margin. Gross margin increased 1.3% for the nine months ended October 28, 2023 compared to the same prior-year period, driven by 210 basis points due to higher initial markups and 70 basis points due to favorable revenue mix, partially offset by 90 basis points of unfavorable currency impact and 50 basis points of higher store occupancy costs.

Gross Profit. Gross profit increased $31 million for the nine months ended October 28, 2023 compared to the same prior-year period. The increase in gross profit was driven by $39 million due to higher initial markups and $20 million from the favorable business mix, partially offset by $16 million due to the unfavorable impact of currency, including $3 million of favorable currency translational impact, as well as $9 million of higher store occupancy costs.

Distribution costs, including labor, inbound freight charges, purchasing costs and related overhead, related to supplying inventory to store locations within our retail business are included in cost of product sales. We also include net royalties received on our inventory purchases of licensed product as a reduction to cost of product sales. We generally exclude wholesale-related distribution costs from gross margin, including them instead in SG&A expenses. Additionally, we include retail store occupancy costs in cost of product sales. As a result, our gross margin may not be comparable to that of other entities. To ensure expenses are separated appropriately, we track activities at each distribution center location and record the costs associated with our shipments of goods either as cost of sales or as selling, general and administrative expenses, accordingly.

SG&A Rate. Our SG&A rate increased 2.6% for the nine months ended October 28, 2023 from the same prior-year period. The unfavorable change in SG&A rate was mainly driven by 170 basis points due to higher expenses, 60 basis points due to lower COVID-related government subsidies and 50 basis points due to higher performance-based compensation.

SG&A Expenses. SG&A expenses increased $56 million for the nine months ended October 28, 2023 from the same prior-year period. The increase in SG&A expenses was mainly driven by $33 million of higher expenses primarily from store labor costs, investment in infrastructure and inflationary pressures, $12 million of lower COVID-related government subsidies and $9 million due to higher performance-based compensation. Currency translation fluctuations relating to our foreign operations unfavorably impacted SG&A expenses by $5 million.

Asset Impairment Charges. During the nine months ended October 28, 2023 and October 29, 2022, we recognized $6.3 million and $5.3 million, respectively, of property and equipment and operating lease ROU asset impairment charges related to certain retail locations resulting from under-performance and expected store closures.

Net Gains on Lease Modifications. During the nine months ended October 28, 2023 and October 29, 2022, we recorded net gains on lease modifications of $1.9 million and $1.7 million, respectively, related primarily to the early termination of lease agreements for certain retail locations.

Operating Margin. Operating margin decreased 1.4% for the nine months ended October 28, 2023 compared to the same prior-year period. The decrease in operating margin was driven primarily by 270 basis points of higher expenses, including higher performance-based compensation, 110 basis points due to unfavorable currency impact and 80 basis points from lower government subsidies compared to the same prior-year period, partially offset by 210 basis points from higher initial markups and 80 basis points from the favorable impact of business mix. Excluding the impact of asset impairment charges, certain professional service and legal fees and related (credits) costs and net (gains) losses on lease modifications, our operating margin would have decreased 1.7% compared to the same prior-year period.

Earnings from Operations. As a result of the foregoing, earnings from operations decreased by $26 million for the nine months ended October 28, 2023 compared to the same prior-year period. Currency fluctuations relating to our foreign operations unfavorably impacted earnings from operations by $21 million, including $2 million of unfavorable translational impact.

Loss on Extinguishment of Debt. During the nine months ended October 28, 2023, we recorded a loss of $8 million related to the partial extinguishment of our 2024 Notes. There was no loss on extinguishment of debt during the nine months ended October 29, 2022.

Other Expense, Net. Other expense, net for the nine months ended October 28, 2023 was $18 million compared to $41 million in the same prior-year period. The change was primarily due to lower net realized and unrealized losses from foreign currency exposures and, to a lesser extent, lower net unrealized losses on the Company's SERP-related assets compared to the same prior-year period.

Income Tax Expense (Benefit). Income tax benefit for the nine months ended October 28, 2023 was $5 million, or a negative 6.3% effective income tax rate, compared to an expense of $33 million, or a 34.2% effective income tax rate in the same prior-year period. Income tax expense (benefit) for the interim periods is computed using the income tax rate estimated to be applicable for the full fiscal year, adjusted for discrete items, which is subject to ongoing review and evaluation by management. The change in the effective income tax rate was primarily due to a discrete income tax benefit recognized during the third quarter of fiscal 2024 as a result of the consolidation of certain business functions into Switzerland and, to a lesser extent, the lower losses incurred in certain tax jurisdictions during the nine months ended October 28, 2023 compared to the same prior-year period.

The OECD Pillar 2 guidelines address the increasing digitalization of the global economy, re-allocating taxing rights among countries. The European Union, many other member states and various other governments have adopted, or are in the process of adopting, Pillar 2, which calls for a global minimum tax of 15% to be effective for tax years beginning in 2024. The OECD guidelines published to date include transition and safe harbor rules around the implementation of the Pillar 2 global minimum tax. We are monitoring developments and evaluating the impacts these new rules will have on our tax rate, including eligibility to qualify for these safe harbor rules.

Net Earnings Attributable to Guess?, Inc. Net earnings attributable to Guess?, Inc. increased $29 million for the nine months ended October 28, 2023 compared to the same prior-year period. The results for the nine months ended October 28, 2023 included a net positive impact of $30.7 million from discrete tax adjustments related primarily to the consolidation of certain business functions into Switzerland. Diluted EPS increased $0.50 for the nine months ended October 28, 2023 compared to the same prior-year period. We estimate a positive impact from share buybacks of $0.09 and a negative impact from currency of $0.01 on diluted EPS in the nine months ended October 28, 2023 when compared to the same prior-year period.

Refer to "Non-GAAP Measures" for an overview of our non-GAAP, or adjusted, financial results for the nine months ended October 28, 2023 and October 29, 2022. Excluding the impact of these non-GAAP items, adjusted net earnings attributable to Guess?, Inc. remained flat and adjusted diluted EPS increased $0.08 for the nine months ended October 28, 2023 compared to the same prior-year period. We estimate a positive impact from our share buybacks of $0.10 and a negative impact from currency of $0.03 on adjusted diluted EPS in the nine months ended October 28, 2023 when compared to the same prior-year period.

Information by Business Segment

The following presents our net revenue and earnings (loss) from operations by segment (in thousands):

	Nine Months Ended			
	Oct 28, 2023	Oct 29, 2022	$ change	% change
Net revenue:				
Europe	$ 990,981	$ 936,470	$ 54,511	5.8 %
Americas Retail	464,984	513,743	(48,759)	(9.5 %)
Americas Wholesale	150,361	171,733	(21,372)	(12.4 %)
Asia	194,210	168,705	25,505	15.1 %
Licensing	84,944	78,915	6,029	7.6 %
Total net revenue	$ 1,885,480	$ 1,869,566	15,914	0.9 %
Earnings (loss) from operations:				
Europe	$ 84,344	$ 88,650	$ (4,306)	(4.9 %)
Americas Retail	20,060	49,552	(29,492)	(59.5 %)
Americas Wholesale	40,264	39,068	1,196	3.1 %
Asia	3,927	(6,792)	10,719	(157.8 %)
Licensing	79,419	70,499	8,920	12.7 %
Total segment earnings from operations	228,014	240,977	(12,963)	(5.4 %)
Corporate overhead	(105,164)	(92,757)	(12,407)	13.4 %
Asset impairment charges	(6,293)	(5,252)	(1,041)	19.8 %
Net gains on lease modifications	1,894	1,654	240	14.5 %
Total earnings from operations	$ 118,451	$ 144,622	(26,171)	(18.1 %)
Operating margins:				
Europe	8.5 %	9.5 %		
Americas Retail	4.3 %	9.6 %		
Americas Wholesale	26.8 %	22.7 %		
Asia	2.0 %	(4.0 %)		
Licensing	93.5 %	89.3 %		
Total Company	6.3 %	7.7 %		

Europe

Net revenue from our Europe segment increased by $55 million, or 6%, for the nine months ended October 28, 2023 from the same prior-year period. Currency translation fluctuations had an unfavorable impact on net revenue of $1 million. In constant currency, net revenue increased by 6%. The increase in net revenue in constant currency was mainly driven by increases of $42 million due to positive retail comparable sales, $9 million due to higher productivity levels from net newly opened and remodeled stores and $4 million of higher e-commerce sales. Retail comparable sales (including e-commerce) increased 10% in both U.S. dollars and constant currency compared to the same prior-year period. The inclusion of our e-commerce sales negatively impacted the retail comparable sales percentage by 1% in U.S. dollars and 2% in constant currency. Our retail sales in Turkey, a relatively small market, had an outsized impact on our retail comparable sales (including e-commerce) for the nine months ended October 28, 2023, contributing a positive impact of 1% in U.S. dollars and 3% in constant currency, largely due to the current hyper-inflationary environment in Turkey. As of October 28, 2023, we directly operated 545 stores in Europe compared to 561 stores at October 29, 2022, excluding concessions, which represents a 3% decrease from the same prior-year period.

Operating margin decreased 1.0% for the nine months ended October 28, 2023 from the same prior-year period. The decrease in operating margin was driven primarily by 230 basis points of unfavorable currency impact, 180 basis points of higher expenses and 130 basis points of lower government subsidies compared to the prior year, partially offset by 310 basis points from higher initial markups and 180 basis points due to the favorable impact of higher revenues.

Earnings from operations from our Europe segment decreased by $4 million, or 5%, for the nine months ended October 28, 2023 compared to the same prior-year period. The decrease in operating profit was mainly driven by $23 million of unfavorable currency impact, $18 million of higher expenses and $12 million of lower COVID-related government subsidies, partially offset by $30 million due to higher initial markups and a $23 million favorable impact of higher revenues.

Americas Retail

Net revenue from our Americas Retail segment decreased by $49 million, or 9%, for the nine months ended October 28, 2023 compared to the same prior-year period. Currency translation fluctuations relating to our non-U.S. retail stores and e-commerce sites had a favorable impact of $1 million on net revenue. In constant currency, net revenue decreased by 10% compared to the same prior-year period. The decrease in net revenue in constant currency was primarily driven by $36 million due to negative retail comparable sales, $12 million due to the impact of net store closures and $2 million due to lower e-commerce revenues. Retail comparable sales (including e-commerce) decreased 8% in both U.S. dollars and constant currency compared to the same prior-year period. The inclusion of our e-commerce sales had a minimal impact on the retail comparable sales percentage in U.S. dollars and a positive impact of 1% in constant currency. As of October 28, 2023, we directly operated 364 stores in the Americas compared to 383 stores at October 29, 2022, excluding concessions, which represents a 5% decrease from the same prior-year period.

Operating margin decreased 5.3% for the nine months ended October 28, 2023 compared to the same prior-year period. The decrease was driven primarily by 240 basis points from the unfavorable impact of lower revenues, 220 basis points from higher expenses, including store costs, and 90 basis points from higher markdowns.

Earnings from operations from our Americas Retail segment decreased $29 million for the nine months ended October 28, 2023 compared to the same prior-year period. The change was primarily driven by $16 million of lower revenues, $10 million of higher expenses, including higher store costs, and $4 million of higher markdowns.

Americas Wholesale

Net revenue from our Americas Wholesale segment decreased by $21 million, or 12%, for the nine months ended October 28, 2023 from the same prior-year period. Currency translation fluctuations relating to our non-U.S. wholesale businesses had a favorable impact on net revenue of $5 million. In constant currency, net revenue decreased by 15%. The decrease in net revenues in constant currency was driven by lower shipments in our U.S. wholesale business.

Operating margin increased 4.1% for the nine months ended October 28, 2023 from the same prior-year period. The increase in operating margin was driven primarily by 570 basis points from higher product margin including lower markdowns, partially offset by 230 basis points of higher expenses.

Earnings from operations from our Americas Wholesale segment increased by $1 million, or 3%, for the nine months ended October 28, 2023 from the same prior-year period, mainly driven by $8 million from higher product margin including lower markdowns and $2 million of favorable currency impact, partially offset by $8 million due to fewer shipments and $3 million due to higher expenses.

Asia

Net revenue from our Asia segment increased by $26 million, or 15%, for the nine months ended October 28, 2023 compared to the same prior-year period. Currency translation fluctuations had an unfavorable impact on net revenue of $5 million. In constant currency, net revenue increased by 18%. The increase in net revenue in constant currency was mainly driven by increases of $16 million due to net new concession revenues, including concessions we recently acquired from our wholesale partners in Korea, $6 million due to higher wholesale shipments, $4 million of higher e-commerce revenues and $3 million of positive retail comparable sales. Retail comparable sales (including e-commerce) decreased 1% in U.S. dollars and increased 1% in constant currency compared to the same prior-year period. The inclusion of our e-commerce sales positively impacted the retail comparable sales percentage by 1% in both U.S. dollars and constant currency.

Operating margin increased 6.0% for the nine months ended October 28, 2023 from the same prior-year period, driven primarily by 660 basis points due to the favorable impact of higher revenues, partially offset by 140 basis points from higher expenses.

Earnings from operations from our Asia segment was $4 million for the nine months ended October 28, 2023 compared to a loss of $7 million in the same prior-year period, mainly driven by the impact of $12 million of higher revenues, partially offset by $3 million of higher expenses. Currency translation fluctuations relating to our Asia operations favorably impacted earnings from operations by $1 million.

Licensing

Net royalty revenue from our Licensing segment increased by $6 million, or 8%, for the nine months ended October 28, 2023 compared to the same prior-year period, mainly driven by higher royalties in our fragrance and watches categories as well as a one-time adjustment.

Earnings from operations from our Licensing segment increased by $9 million, or 13%, for the nine months ended October 28, 2023 from the same prior-year period primarily driven by the increase in revenues.

Corporate Overhead

Unallocated corporate overhead increased by $12 million, or 13%, for the nine months ended October 28, 2023 from the same prior-year period, primarily due to higher performance-based compensation.

Non-GAAP Measures

The financial information presented in this Quarterly Report includes non-GAAP financial measures, such as adjusted results and constant currency financial information. For the three and nine months ended October 28, 2023 and October 29, 2022, the adjusted results exclude the impact of certain professional service and legal fees and related (credits) costs, asset impairment charges, net (gains) losses on lease modifications, loss on extinguishment of debt, non-cash amortization of debt discount of our 2028 Notes, the related income tax effects of the foregoing items and the impact from certain discrete income tax adjustments related primarily to the consolidation of certain business functions into Switzerland and, to a lesser extent, the impact from changes in the income tax law in certain tax jurisdictions, in each case where applicable. The weighted average diluted shares outstanding used for adjusted diluted EPS excludes the dilutive impact of the Notes, based on the bond hedge contracts in place. These non-GAAP measures are provided in addition to, and not as alternatives for, our reported GAAP results.

These items affect the comparability of our reported results. The financial results are also presented on a non-GAAP basis, as defined in Section 10(e) of Regulation S-K of the United States Securities and Exchange Commission (the “SEC”), to exclude the effect of these items. We have excluded these items from our adjusted financial measures primarily because we believe these items are not indicative of the underlying performance of our business and the adjusted financial information provided is useful for investors to evaluate the comparability of our operating results and our future outlook (when reviewed in conjunction with our GAAP financial statements).

A reconciliation of reported GAAP results to comparable non-GAAP results follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	Oct 28, 2023	Oct 29, 2022	Oct 28, 2023	Oct 29, 2022
Reported GAAP net earnings attributable to Guess?, Inc.	$ 55,701	$ 21,835	$ 82,929	$ 53,767
Certain professional service and legal fees and related (credits) costs[1]	849	1,508	1,961	7,185
Asset impairment charges[2]	1,737	1,789	6,293	5,252
Net (gains) losses on lease modifications[3]	537	(146)	(1,894)	(1,654)
Loss on extinguishment of debt[4]	—	—	7,696	—
Amortization of debt discount[5]	163	—	351	—
Discrete income tax adjustments[6]	(31,166)	208	(30,669)	624
Income tax impact from adjustments[7]	(815)	(448)	(3,436)	(2,318)
Total adjustments affecting net earnings attributable to Guess?, Inc.	(28,695)	2,911	(19,698)	9,089
Adjusted net earnings attributable to Guess?, Inc.	$ 27,006	$ 24,746	$ 63,231	$ 62,856
Net earnings per common share attributable to common stockholders:				
GAAP diluted	$ 0.82	$ 0.34	$ 1.30	$ 0.80
Convertible notes if-converted method[8]	0.07	0.05	0.13	0.13
Certain professional service and legal fees and related (credits) costs[1]	0.01	0.02	0.02	0.08
Asset impairment charges[2]	0.02	0.02	0.07	0.06
Net (gains) losses on lease modifications[3]	0.01	(0.00)	(0.02)	(0.02)
Loss on extinguishment of debt[4]	—	—	0.09	—
Amortization of debt discount[5]	0.00	—	0.00	—
Discrete income tax adjustments[6]	(0.44)	0.01	(0.45)	0.01
Adjusted diluted[8]	$ 0.49	$ 0.44	$ 1.14	$ 1.06
Weighted average common shares outstanding attributable to common stockholders:				
GAAP diluted	70,331	67,102	68,098	70,705
Adjusted diluted[8]	54,418	55,204	54,726	58,807

Notes:

1 Adjustments represent certain professional service and legal fees and related (credits) costs which we otherwise would not have incurred as part of our business operations. During the third quarter of fiscal 2024, we announced the pending settlement, subject to court approval, of a previously-disclosed stockholder derivative lawsuit brought by the Employees Retirement System of Rhode Island. Consistent with our historical practice, we intend to exclude any settlement amounts recorded in the future related to this matter (including any amounts to be received by us and any court approved attorney's fee award to be paid by us) from our non-GAAP adjusted operating results.

2 Adjustments represent asset impairment charges related primarily to impairment of property and equipment and operating right-of-use assets related to certain retail locations resulting from under-performance and expected store closures.

3 Adjustments represent net (gains) losses on lease modifications related primarily to the early termination of certain lease agreements.

4 Adjustments represent loss on extinguishment of debt from a portion of the exchanged 2024 Notes in April 2023.

5 In April 2023, we issued $275 million principal amount of 3.75% convertible senior notes due 2028 in a private offering. The debt discount, which resulted from the modification accounting for a portion of the exchanged 2024 Notes, will be amortized as non-cash interest expense over the term of the 2028 Notes.

6 Adjustments represent discrete income tax items related primarily to a benefit recognized during the third quarter of fiscal 2024 as a result of the consolidation of certain business functions into Switzerland and, to a lesser extent, the impact from changes in the income tax law in certain tax jurisdictions.

7 The income tax effect of certain professional service and legal fees and related (credits) costs, asset impairment charges, net (gains) losses on lease modifications, loss on extinguishment of debt and amortization of debt discount was based on our assessment of deductibility using the statutory income tax rate (inclusive of the impact of valuation allowances) of the tax jurisdiction in which the charges were incurred.

8 We exclude the dilutive impact of the Notes at stock prices below $44.53 for the 2024 Notes and below $41.51 for the 2028 Notes, based on the bond hedge contracts in place that will deliver shares to offset dilution. At stock prices in excess of $44.53 for the 2024 Notes and $41.51 for the 2028 Notes, we would have an obligation to deliver additional shares in excess of the dilution protection provided by the bond hedges.

Our discussion and analysis herein also includes certain constant currency financial information. Foreign currency exchange rate fluctuations affect the amount reported from translating our foreign revenue, expenses and balance sheet amounts into U.S. dollars. These rate fluctuations can have a significant effect on reported operating results under GAAP. We provide constant currency information to enhance the visibility of underlying business trends, excluding the effects of changes in foreign currency translation rates. To calculate net revenue, retail comparable sales and earnings (loss) from operations on a constant currency basis, operating results for the current-year period are translated into U.S. dollars at the average exchange rates in effect during the comparable period of the prior year. To calculate balance sheet amounts on a constant currency basis, the current period balance sheet amount is translated into U.S. dollars at the exchange rate in effect at the comparable prior-year period end. The constant currency calculations do not adjust for the impact of revaluing specific transactions denominated in a currency that is different from the functional currency of that entity when exchange rates fluctuate.

In calculating the estimated impact of currency fluctuations (including translational and transactional impacts) on other measures such as earnings (loss) per share, we estimate gross margin (including the impact of foreign exchange currency contracts designated as cash flow hedges for anticipated merchandise purchases) and expenses using the appropriate prior-year rates, translate the estimated foreign earnings (loss) at the comparable prior-year rates and consider the year-over-year earnings impact of gains or losses arising from balance sheet remeasurement and foreign exchange currency contracts not designated as cash flow hedges for merchandise purchases. The constant currency information presented may not be comparable to similarly titled measures reported by other companies.

Liquidity and Capital Resources

We use our liquidity globally primarily to fund our working capital, occupancy costs, interest and principal payments on our debt, remodeling and rationalization of our retail stores, shop-in-shop programs, concessions, systems, infrastructure, compensation expenses, other existing operations, expansion plans, international growth and potential acquisitions and investments. Generally, our working capital needs are highest during the late summer and fall as our inventories increase before the holiday selling period. In addition, in the U.S., we need liquidity for payment of dividends to our stockholders and to fund share repurchases, if any.

During the nine months ended October 28, 2023, we relied primarily on trade credit, available cash, real estate and other operating leases, finance leases, proceeds from our credit facilities and term loans and internally generated funds to finance our operations. We anticipate we will be able to satisfy our ongoing cash requirements for the foreseeable future, including at least the next 12 months, for working capital, capital expenditures, payments on our debt, including the 2024 Notes, finance leases and operating leases, as well as lease modification payments, potential acquisitions and investments, expected income tax payments, dividend payments to stockholders and share repurchases, if any, primarily with cash flow from operations and existing cash balances as supplemented by borrowings under our existing credit facilities, proceeds from our term loans and other indebtedness, as needed.

On May 5, 2022, we entered into a €250 million revolving credit facility through a European subsidiary, which replaced certain European short-term borrowing arrangements. As of October 28, 2023, we had approximately $163.8 million of borrowing capacity on this facility. On December 20, 2022, we entered into an amendment of our senior secured asset-based revolving credit facility, which increased borrowing capacity from $120 million to $150 million and extended the maturity date of the credit facility to December 20, 2027. As of October 28, 2023, we had approximately $137.4 million of borrowing capacity on this facility.

Due to the seasonality of our business and cash needs, we may increase borrowings under our established credit facilities or enter new credit facilities from time-to-time during the next 12 months and beyond. If we experience a sustained decrease in consumer demand, we may require access to additional credit, which may not be available to us on commercially acceptable terms or at all.

In April 2023, we issued $275 million aggregate principal amount of 2028 Notes and retired approximately $184.9 million aggregate principal of 2024 Notes in a private offering. We expect to settle the principal amount of our remaining outstanding 2024 Notes in fiscal 2025 and 2028 Notes in fiscal 2029 in cash and any excess in shares. Our outstanding Notes may be converted at the option of the holders as described in “Part I, Item 1. Financial Statements – Note 10 – Convertible Senior Notes and Related Transactions” of this Form 10-Q and in “Note 10 – Convertible Senior Notes and Related Transactions” of the Consolidated Financial Statements included in our Annual Report on Form 10-K. As of October 28, 2023, none of the conditions allowing holders of the Notes to convert had been met. However, beginning November 15, 2023, the 2024 Notes became convertible at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2024 Notes. In addition, pursuant to the terms of the 2028 Notes, if our stock trading price exceeds 130% of the conversion price of the 2028 Notes (currently approximately $24.53 for the 2028 Notes) for at least 20 trading days during the 30 consecutive trading-day period ending on, and including, the last trading day of any calendar quarter, holders of the 2028 Notes would have the right to convert their convertible notes during the next calendar quarter. In accordance with the terms of the indentures governing the 2028 Notes, we are required to adjust the conversion rate and the conversion price of the 2028 Notes for quarterly dividends exceeding $0.225 per share. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, in the manner and subject to the terms and conditions provided in the indenture governing the 2028 Notes. The convertible note hedge transaction we entered into in connection with our issuance of the Notes is expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of the Notes that are converted, as the case may be.

We have historically considered the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested. As a result of the 2017 Tax Cuts and Jobs Act, we had a substantial amount of previously taxed earnings that could be distributed to the U.S. without additional U.S. taxation. As of October 28, 2023, we determined that approximately $67.1 million of such foreign earnings are not indefinitely reinvested. The incremental tax cost to repatriate these earnings to the U.S. is immaterial. We intend to indefinitely reinvest the remaining earnings from our foreign subsidiaries for which a deferred income tax liability has not already been recorded. We continue to evaluate our plans for reinvestment or repatriation of unremitted foreign earnings and regularly review our cash positions and determination of indefinite reinvestment of foreign earnings. If we determine that all or a portion of such foreign earnings are no longer indefinitely reinvested, we may be subject to additional foreign withholding taxes and U.S. state income taxes, beyond the one-time transition tax.

As of October 28, 2023, we had cash and cash equivalents of $244.1 million, of which approximately $110.7 million was held in the U.S. Excess cash and cash equivalents, which represent the majority of our outstanding balance, are held primarily in overnight deposit and short-term time deposit accounts and money market accounts. As of October 28, 2023, we had roughly $315 million of available global borrowing capacity, bringing our combined cash, cash equivalents and borrowing capacity to slightly over $559 million. Please refer to “Forward-Looking Statements” discussed above, “Part II, Item 1A. Risk Factors” in this Form 10-Q and “Part I, Item 1A. Risk Factors” contained in our most recent Annual Report on Form 10-K for the fiscal year ended January 28, 2023 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.

Nine Months Ended October 28, 2023 and October 29, 2022

Operating Activities

Net cash provided by operating activities was $40.9 million for the nine months ended October 28, 2023, compared to net cash used in operating activities of $21.4 million for the same prior-year period, or an improvement of $62.3 million. This improvement was driven primarily by favorable changes in working capital compared to the same prior-year period. The favorable changes in working capital were primarily due to improved inventory and accounts receivable management.

Investing Activities

Net cash used in investing activities was $56.6 million for the nine months ended October 28, 2023, compared to $72.0 million for the same prior-year period. Net cash used in investing activities for the nine months ended October 28, 2023 related primarily to investments in existing store remodeling programs and retail expansion and, to a lesser extent, technology and other infrastructure.

The decrease in cash used in investing activities was driven primarily by lower retail expansion costs and lower investments in infrastructure during the nine months ended October 28, 2023 compared to the same prior-year period. During the nine months ended October 28, 2023, we opened 20 directly-operated stores compared to 59 directly-operated stores that were opened in the same prior-year period.

Financing Activities

Net cash used in financing activities was $9.8 million for the nine months ended October 28, 2023, compared to $131.8 million for the same prior-year period. The improvement of $122.0 million was primarily due to $175 million of share repurchases in the same prior-year period in connection with the accelerated share repurchase agreement (the “2022 ASR Contract”) entered into during March 2022 and convertible senior note transactions entered into in April 2023, partially offset by lower net borrowings in the nine months ended October 28, 2023.

Effect of Exchange Rates on Cash and Cash Equivalents

During the nine months ended October 28, 2023, changes in foreign currency translation rates decreased our reported cash and cash equivalents balance by $6.1 million compared to a decrease of $16.3 million during the same prior-year period. Refer to “Foreign Currency Volatility” for further information on fluctuations in exchange rates.

Working Capital

As of October 28, 2023, we had net working capital (including cash and cash equivalents) of $392.1 million compared to $448.7 million at January 28, 2023 and $417.8 million at October 29, 2022. Our primary working capital needs are for payments for inventories, salaries and wages, and the current portion of lease liabilities, as well as principal payments on the 2024 Notes.

The accounts receivable balance consists of trade receivables relating primarily to our wholesale business in Europe and, to a lesser extent, to our wholesale businesses in the Americas and Asia, royalty receivables relating to our licensing operations, credit card and retail concession receivables related to our retail businesses and certain other receivables. Accounts receivable increased by $21.4 million, or 6.7%, to $340.8 million as of October 28, 2023, from $319.3 million at October 29, 2022. On a constant currency basis, accounts receivable increased by $11.2 million, or 3.5%, when compared to October 29, 2022. As of October 28, 2023, approximately 48% of our total net trade receivables and 62% of our European net trade receivables were subject to credit insurance coverage, certain bank guarantees or letters of credit for collection purposes. Our credit insurance coverage contains certain terms and conditions specifying deductibles and annual claim limits.

Inventory decreased by $12.2 million, or 2.1%, to $562.4 million as of October 28, 2023, from $574.6 million at October 29, 2022. On a constant currency basis, inventory decreased by $21.1 million, or 3.7%, when compared to October 29, 2022, driven primarily by the residual effect of last year’s initiative to mitigate supply chain disruptions, including accelerating product orders.

Capital Expenditures

Gross capital expenditures totaled $52.5 million, before deducting lease incentives of $2.0 million, for the nine months ended October 28, 2023. This compares to gross capital expenditures of $71.7 million for the same prior-year period.

We will periodically evaluate strategic opportunities and pursue those we believe will support and contribute to our overall growth initiatives and/or will leverage our global infrastructure and network of licensees and wholesale partners.

Dividends

On November 21, 2023, we announced a regular quarterly cash dividend of $0.30 per share on our common stock. The cash dividend will be paid on December 22, 2023 to shareholders of record as of the close of business on December 6, 2023. As a result of this dividend declaration and in accordance with the terms of the indentures governing the Notes, we will adjust the conversion rate (which is expected to increase) and the conversion price (which is expected to decrease) of the Notes, effective as of December 5, 2023. A corresponding adjustment is expected to be made to the strike prices with respect to the convertible note hedges and the warrants entered into by the Company in connection with the offering of the corresponding Notes, each of which will be decreased in accordance with the terms of the applicable convertible note hedge confirmations and warrant confirmations.

Decisions on whether, when and in what amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason without prior notice. The payment of cash dividends in the future will be based upon a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service and covenant requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and U.S. and global liquidity.

Share Repurchases

During fiscal 2022, the Board of Directors terminated its previous 2012 $500 million share repurchase program and authorized a new $200 million share repurchase program (the "2021 Share Repurchase Program"). On March 14, 2022, the Board of Directors expanded its repurchase authorization by $100 million. 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 the three months ended October 28, 2023, we did not make any share repurchases. During the nine months ended October 28, 2023, the Company repurchased 2.2 million shares under its 2021 Share Repurchase Program at an aggregate cost of $42.8 million, including excise tax. These shares were repurchased through broker assisted market transactions in connection with the exchange and subscription offering related to the 2024 Notes and the 2028 Notes. During the three months ended October 29, 2022, we did not make any share repurchases. During the nine months ended October 29, 2022, we repurchased 9.0 million shares of our common stock under our 2021 Share Repurchase Program at an aggregate cost of $186.7 million which is inclusive of the shares repurchased under the 2022 ASR Contract. As of October 28, 2023, we had remaining authority under the 2021 Share Repurchase Program to purchase $19.7 million of our common stock.

Borrowings and Finance Lease Obligations and Convertible Senior Notes

In April 2023, we issued $275 million principal amount of the 2028 Notes in a private placement pursuant to separate, privately negotiated exchange and subscription agreements, pursuant to which, we exchanged approximately $184.9 million in aggregate principal amount of the 2024 Notes for $163.0 million in aggregate principal amount of the 2028 Notes and an aggregate of approximately $33.3 million in cash, and issued $112.0 million in aggregate principal amount of the 2028 Notes for cash at par. Immediately following the closing of the transactions, $115.1 million in aggregate principal amount of the 2024 Notes remained outstanding. Refer to “Part I, Item 1. Financial Statements – Note 10 – Convertible Senior Notes and Related Transactions” in this Form 10-Q for disclosures about our convertible senior notes and related transactions.

In addition, refer to “Part I, Item 1. Financial Statements – Note 9 – Borrowings and Finance Lease Obligations” in this Form 10-Q for disclosures about our borrowings and finance lease obligations.

Supplemental Executive Retirement Plan

As a non-qualified pension plan, no dedicated funding of our SERP is required; however, we have made periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP.

The cash surrender values of the insurance policies were $58.9 million and $64.4 million as of October 28, 2023 and January 28, 2023, respectively, and were included in other assets in our condensed consolidated balance sheets. As a result of changes in the value of the insurance policy investments, we recorded unrealized losses of $4.2 million and $4.1 million in other income (expense) during the three and nine months ended October 28, 2023, respectively, and unrealized losses of $4.8 million and $8.3 million in other income (expense) during the three and nine months ended October 29, 2022. The projected benefit obligation was $42.3 million and $42.4 million as of October 28, 2023 and January 28, 2023, respectively, and was included in accrued expenses and other current liabilities and other long-term liabilities in our condensed consolidated balance sheets depending on the expected timing of payments. SERP benefit payments of $0.5 million were made during each of the three months ended October 28, 2023 and October 29, 2022. SERP benefit payments of $1.4 million were made during each of the nine months ended October 28, 2023 and October 29, 2022.

Material Cash Requirements

As of October 28, 2023, except as disclosed above, there were no material changes to our material cash requirements from known contractual and other obligations, including commitments for capital expenditures, outside the ordinary course of business compared to the disclosures included under “Liquidity and Capital Resources - Material Cash Requirements” in Part II, Item 7 in our Form 10-K for the fiscal year ended January 28, 2023. Refer to “Part I, Item 1. Financial Statements – Note 9 – Borrowings and Finance Lease Obligations” and “Part I, Item 1. Financial Statements – Note 10 – Convertible Senior Notes and Related Transactions” for further information.

Application of Critical Accounting Policies and Estimates

Our critical accounting policies reflecting our estimates and judgments are described in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the fiscal year ended January 28, 2023 filed with the SEC on March 24, 2023. There have been no significant changes to our critical accounting policies since the filing of our Annual Report on Form 10-K.

Recently Issued Accounting Guidance

Refer to “Part I, Item 1. Financial Statements – Note 1 – Basis of Presentation” for disclosures about recently issued accounting guidance.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Exchange Rate Risk

More than two-thirds of product sales recorded for the nine months ended October 28, 2023 were denominated in currencies other than the U.S. dollar. Our primary exchange rate risk relates to operations in Europe, Canada, South Korea, China, Hong Kong and Mexico. Changes in currencies affect our earnings in various ways. For further discussion on currency-related risk, please refer to our risk factors under "Part I, Item 1A. Risk Factors" contained in our most recent Annual Report on Form 10-K for the fiscal year ended January 28, 2023.

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 exchange currency contracts (see below), are included in the condensed consolidated statements of income. Net realized and unrealized foreign currency transaction losses of $5.0 million and $23.0 million were included in the determination of net earnings for the nine months ended October 28, 2023 and October 29, 2022, respectively.

Foreign Exchange Currency Contract Sensitivity Analysis

As of October 28, 2023, a sensitivity analysis of changes in 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$200.0 million, the fair value of the instruments would have decreased by $22.2 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 $18.2 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

We are exposed to interest rate risk on our floating-rate debt. We have entered into interest rate swap agreements for certain of these agreements to effectively convert our floating-rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with our floating-rate debt, thus reducing the impact of interest rate changes on future interest payment cash flows. We have elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these contracts.

In April 2023, we issued $275 million aggregate principal amount of 2028 Notes and retired approximately $184.9 million aggregate principal of 2024 Notes in a private offering, leaving approximately $115.1 million aggregate principal amount of 2024 Notes outstanding at October 28, 2023. The fair value of the Notes is subject to interest rate risk, market risk and other factors due to its conversion feature. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines. The interest and market value changes affect the fair value of the Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the Notes at face value, less any unamortized debt issuance costs on our balance sheet and we present the fair value for disclosure purposes only.

Interest Rate Swap Agreement Sensitivity Analysis

As of October 28, 2023, we had borrowings under our credit facility arrangements of $121.8 million which are based on variable rates of interest. Accordingly, changes in interest rates would impact our results of operations in future periods. A 100 basis point increase in interest rates would not have had a significant effect on interest expense for the nine months ended October 28, 2023.

As of October 28, 2023, we had indebtedness related to term loans of $13.9 million, finance lease obligations of $17.8 million and the Mortgage Debt of $16.7 million. The term loans provide for annual interest rates ranging from 1.5% to 6.4%. The finance lease obligations are based on fixed interest rates derived from the respective agreements. For the six months ended July 29, 2023 (through May 1, 2023) and July 30, 2022, the interest rate on the Mortgage Debt was a variable rate based on LIBOR. In May 2023, the Company amended the terms of the Mortgage Debt for the interest rate to be based on SOFR, effective May 1, 2023. The Company also amended its existing interest rate swap agreement, resulting in a swap fixed rate of approximately 3.14% that matures in January 2026 (prior to this amendment, the agreement resulted in a swap fixed rate of approximately 3.06%). The interest rate swap agreement is designated as a cash flow hedge and converts the nature of our Mortgage Debt from SOFR floating-rate debt to fixed-rate debt.

The fair values of our debt instruments are based on the amount of future cash flows associated with each instrument discounted using our incremental borrowing rate. As of October 28, 2023 and January 28, 2023, the carrying value was not materially different from fair value, as the interest rates on our debt approximated rates currently available to us. The fair value of the Notes is determined based on inputs that are observable in the market and have been classified as Level 2 in the fair value hierarchy.

ITEM 4. 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. 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 quarterly period covered by this report.

There was no change in our internal control over financial reporting during the third quarter of fiscal 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

Refer to “Part I, Item 1. Financial Statements – Note 13 – Commitments and Contingencies” in this Form 10-Q for disclosures about our legal and other proceedings.

ITEM 1A. Risk Factors.

Other than the risk factors noted below, there have not been any material changes in the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended January 28, 2023 filed with the SEC on March 24, 2023.

We may be unable to raise the funds necessary to repurchase our $115 million 2.0% convertible senior notes due 2024 (the “2024 Notes”) or our $275 million 3.75% convertible senior notes due 2028 (the “2028 Notes”, and together with the 2024 Notes, the “Notes”) for cash following a fundamental change, or to pay any cash amounts due upon conversion, and our other indebtedness may limit our ability to repurchase the Notes or pay cash upon their conversion.

Holders of our 2024 Notes and 2028 Notes may require us to repurchase their Notes following a fundamental change, at a cash repurchase price generally equal to the principal amount of the applicable series of Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion, we will satisfy part or all of our conversion obligation in cash unless we elect to settle conversions solely in shares of our common stock. We will be required to repay each series of Notes in cash at their respective maturity, unless earlier converted or repurchased. We may not have enough available cash or be able to obtain financing at the time we are required to repurchase each series of Notes or pay the cash amounts due upon conversion. In addition, applicable law, regulatory authorities and the agreements governing our other indebtedness, including our current credit facilities and other agreements we may enter into in the future, may restrict our ability to make payments on each series of Notes other than scheduled principal and interest, and as a result, upon a fundamental change we may not be able to repurchase any or all of the Notes and upon any conversions of the applicable series of Notes may be unable to pay the cash amounts, if any, then due. Our inability to satisfy our obligations under the Notes could affect the terms of other financial obligations, harm our reputation and affect the trading price of our common stock.

Our failure to repurchase any or all of each series of Notes or to pay the cash amounts due upon conversion or at maturity when required will constitute a default under the indenture relating to the 2024 Notes (the “2024 Indenture”) or the indenture relating to the 2028 Notes (the “2028 Indenture”, and together with the 2024 Indenture, the “Indentures”). A default under the Indentures or the fundamental change itself could also lead to a default under agreements governing the Notes and our other indebtedness, which may result in that other indebtedness becoming immediately payable in full. We may not have sufficient funds to satisfy all amounts due under the other indebtedness and the Notes.

Provisions in the Indentures for the 2024 Notes and the 2028 Notes could delay or prevent an otherwise beneficial takeover of us.

Certain provisions in the Indentures for the 2024 Notes and the 2028 Notes could make a third-party attempt to acquire us more difficult or expensive. If a takeover constitutes a fundamental change, then noteholders will have the right to require us to repurchase their respective Notes for cash. In addition, if a takeover constitutes a make-whole fundamental change, then we may be required to temporarily increase the conversion rate. As well, each of the Indentures prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. In such cases, and in other cases, our obligations under the Notes and the Indentures could increase the cost of acquiring us or otherwise discourage a third-party from acquiring us or removing incumbent management, including in a transaction that noteholders or holders of our common stock may view as favorable.

The conditional conversion feature of the 2024 Notes and the 2028 Notes, if triggered, may adversely affect our financial condition and results of operations.

In the event the conditional conversion feature of the 2024 Notes or the 2028 Notes is triggered, noteholders will be entitled to convert their respective Notes at any time during specified periods at their option. If one or more noteholders elect to convert their respective Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock, we would be required to settle all or a portion of the conversion obligation through the payment of cash, which could adversely affect our liquidity. Even if noteholders do not elect to convert their respective Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the applicable series of Notes as a current liability, which would result in a material reduction of our net working capital.

The Notes' hedge and warrant transactions may affect the value of the Notes and our common stock.

In connection with the offering of the 2024 Notes and the 2028 Notes, we entered into convertible note hedge transactions with hedge counterparties. At the time of each offering, the applicable convertible note hedge transactions covered, subject to anti-dilution adjustments substantially similar to those applicable to the respective Notes, the number of shares of common stock that initially underlay the Notes. Concurrently with the convertible note hedge transactions related to each offering, we also entered into warrant transactions with the hedge counterparties relating to the same number of shares of our common stock, subject to customary anti-dilution adjustments. In connection with the retirement of $184.9 million in principal amount of the 2024 Notes in April 2023, we entered into Partial Termination Agreements with the relevant hedge counterparties to unwind a portion of the convertible note transactions and warrant transactions we initially entered into in connection with the issuance of the 2024 Notes. The notional amount of the remaining portion of the convertible note hedge transactions and warrant transactions in connection with the 2024 Notes corresponded to the approximately $115.1 million in aggregate principal amount of the 2024 Notes that remained outstanding at that time. The convertible note hedge transactions are expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. However, the warrant transactions could separately have a dilutive effect on our common stock to the extent that the market price per share of our common stock at maturity exceeds the strike price of the warrants.

It is our understanding that in connection with establishing their initial hedges of the convertible note hedge and warrant transactions, the hedge counterparties or affiliates thereof entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the respective Notes, and may have unwound these derivative transactions and purchased shares of our common stock in open market transactions shortly following the pricing of the respective Notes. These activities could have increased (or reduced the size of any decrease in) the market price of our common stock or the Notes at that time. In addition, the hedge counterparties or affiliates thereof may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market or privately negotiated transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Notes.

ITEM 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

Items (a) and (b) are not applicable.

Item (c). Issuer Purchases of Equity Securities

Our share repurchases during each fiscal month of the third quarter of fiscal 2024 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
July 30, 2023 to August 26, 2023				
Repurchase program[1]	—	—	—	$ 19,748,066
Employee transactions[2]	—	—	—	
August 27, 2023 to September 30, 2023				
Repurchase program[1]	—	—	—	$ 19,748,066
Employee transactions[2]	722	$ 23.85	—	
October 1, 2023 to October 28, 2023				
Repurchase program[1]	—	—	—	$ 19,748,066
Employee transactions[2]	—	—	—	
Total				
Repurchase program[1]	—	—	—	
Employee transactions[2]	722	$ 23.85	—	

Notes:

1 During fiscal 2022, the Board of Directors terminated our previous 2012 $500 million share repurchase program (which had $47.8 million capacity remaining) and authorized a new $200 million share repurchase program. On March 14, 2022, the Board of Directors expanded the repurchase authorization by $100 million, leaving an available capacity of $249.0 million at that time. We did not repurchase any shares of common stock pursuant to the repurchase program during the third quarter of fiscal 2024.

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, us in satisfaction of employee tax withholding obligations that occur upon vesting of restricted stock awards granted under our 2004 Equity Incentive Plan, as amended.

ITEM 5. Other Information.

Insider Trading Arrangements

During the three months ended October 28, 2023, none of the Company's directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. Exhibits.

Exhibit Number	Description
3.1.	Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed July 30, 1996).
3.2.	Certificate of Amendment, dated June 24, 2021, to the Restated Certificate of Incorporation of Guess?, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 30, 2021).
3.3.	Fourth Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on June 30, 2021).
†31.1.	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2.	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
††32.1.	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
††32.2.	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
†101.SCH	XBRL Taxonomy Extension Schema Document
†101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
†101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
†101.LAB	XBRL Taxonomy Extension Label Linkbase Document
†101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
†104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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† Filed herewith
†† Furnished herewith

SIGNATURES

Pursuant to the requirements 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:	December 1, 2023	By:	/s/ CARLOS ALBERINI
			Carlos Alberini Chief Executive Officer
Date:	December 1, 2023	By:	/s/ MARKUS NEUBRAND
			Markus Neubrand Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

I, Carlos Alberini, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guess?, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2023

By: /s/ CARLOS ALBERINI
Carlos Alberini
Chief Executive Officer

Exhibit 31.2

I, Markus Neubrand, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guess?, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2023	By: /s/ MARKUS NEUBRAND
	Markus Neubrand
	Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Carlos Alberini, Chief Executive Officer of Guess?, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended October 28, 2023, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 1, 2023

By: /s/ CARLOS ALBERINI
Carlos Alberini
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Markus Neubrand, Chief Financial Officer of Guess?, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended October 28, 2023, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 1, 2023

By: /s/ MARKUS NEUBRAND
Markus Neubrand
Chief Financial Officer