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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the Fiscal Year Ended December 31, 2003**

**Commission File Number 1-11893**

# GUESS?, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction<br>of incorporation or organization) | **95-3679695**<br>(I.R.S. Employer<br>Identification Number) |

**1444 South Alameda Street
Los Angeles, California 90021
(213) 765-3100**

(Address, including zip code, and telephone number, including area code)

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| common stock, par value $0.01 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

As of the close of business on June 28, 2003 the aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was $76,327,000 based upon the closing price $6.04 on the New York Stock Exchange composite tape on such date. For this computation, the registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the registrant and certain other stockholders, but has included the market value of all shares of its common stock reported as beneficially owned by Armand Marciano; such exclusion shall not be deemed to constitute an admission that any such person is an "affiliate' of the registrant.

As of the close of business on March 11, 2004, the registrant had 43,818,866 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the registrant's 2004 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

## TABLE OF CONTENTS
## PART I


| Item | Description | Page |
|---|---|---|
| 1 | Business | 1 |
| 2 | Properties | 13 |
| 3 | Legal Proceedings | 14 |
| 4 | Submission of Matters to a Vote of Security Holders | 14 |
| | **PART II** | |
| 5 | Market for Registrant's Common Equity and Related Stockholder Matters | 15 |
| 6 | Selected Financial Data | 15 |
| 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations | 16 |
| 7A | Quantitative and Qualitative Disclosures About Market Risk | 29 |
| 8 | Financial Statements and Supplementary Data | 29 |
| 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 30 |
| 9A | Controls and Procedures | 30 |
| | **PART III** | |
| 10 | Directors and Executive Officers of the Registrant | 31 |
| 11 | Executive Compensation | 31 |
| 12 | Security Ownership of Certain Beneficial Owners and Management | 31 |
| 13 | Certain Relationships and Related Transactions | 31 |
| 14 | Principal Accountant Fees and Services | 31 |
| | **PART IV** | |
| 15 | Exhibits, Consolidated Financial Statement Schedules and Reports on Form 8-K | 32 |


## PART I

## ITEM 1. BUSINESS

### Important Factors Regarding Forward-Looking Statements

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

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. Certain statements in this Form 10-K, including those relating to the Company's expected results of operations, the accuracy of data relating to, and anticipated levels of, future inventory and gross margins, anticipated cash requirements and sources, cost containment efforts, estimated charges, plans regarding store openings and closings, e-commerce and business seasonality, are forward-looking statements. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances.

For additional information regarding forward-looking statements, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein.

### General

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

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

Our products are sold through three primary distribution channels: in our own stores, to a network of wholesale accounts and through the Internet. GUESS? branded products, some of which are produced under license, are also sold internationally through a series of licensees and distributors. Our core customer is a style-conscious consumer primarily between the ages of 15 and 30. These consumers are part of a highly desirable demographic group that we believe is growing rapidly and has significant disposable income. We also appeal to customers outside this group through specialty product lines that include GUESS Collection, a more sophisticated fashion line targeted to women, and GUESS Kids, targeted to boys and girls ages 6 to 12.



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

### Business Segments

The business segments of the Company are retail, wholesale and licensing. In the first quarter of 2003, the Company revised its segment reporting to better reflect how its three business segments—retail, wholesale and licensing—are managed and each segment's performance is evaluated. The earnings from operations for each segment now include those costs that are specifically related to each segment, consisting primarily of store operations, distribution, selling and merchandising, depreciation, amortization and employee compensation directly related to that business segment. In addition, the Company is continuing to allocate design and advertising charges to the business segments based on the assessed benefit derived from the respective expenditures. The new structure excludes from the segment results corporate overhead costs, which consist of shared costs of the organization. These costs are presented separately and include, among others, the following corporate costs: information technology, human resources, accounting and finance, executive compensation, facilities and legal. All amounts for 2002 and 2001 have been revised to conform to the 2003 presentation. Financial information about each segment for the fiscal years ended December 31, 2003, 2002 and 2001 are included under Note 15 to the Consolidated Financial Statements contained herein.

In 2003, 70.3% of our net revenue was generated from retail operations, 23.5% from wholesale operations and 6.2% from licensing operations. Our total net revenue in 2003 was $636.6 million and net earnings were $7.3 million.

### Business Strengths

We believe we have several business strengths which are necessary for the execution of our strategies. These business strengths include:

**Brand Equity.** We believe that our name is one of the most familiar in fashion and is one of our most valuable assets. We believe the enduring strength of the GUESS? brand name and image is due mainly to our consistent emphasis on innovative and distinctive product designs that stand for exceptional styling and quality. Our industry is highly competitive and subject to rapidly changing consumer preferences and tastes. The success of our brand depends on our ability to anticipate the fashion preferences of our customers. We have a team of designers who, under the direction of Maurice Marciano, our Co-Chairman and Co-Chief Executive Officer, seek to identify global fashion trends and interpret them for the style-conscious consumer while retaining the distinctive GUESS? image. Through our award-winning advertising, under the creative leadership and vision of Paul Marciano, our Co-Chairman and Co-Chief Executive Officer, we have achieved worldwide recognition of the GUESS? brand name. By retaining control over advertising and marketing activities from our headquarters in Los Angeles, we maintain the integrity, consistency and direction of the GUESS? brand image worldwide, while realizing substantial cost savings when compared to the use of outside advertising agencies.

We have developed the "GUESS? signature image" and "GUESS? lifestyle concept," through the use of our strong and distinctive images, merchandising display themes, logos, and trademarks which are registered in approximately 170 countries.

**Advertising and Marketing.** We control all of our worldwide advertising, marketing activities and promotional materials from our headquarters in Los Angeles. GUESS Jeans, GUESS U.S.A. and Guess?, Inc. images have been showcased in dozens of major publications and in outdoor and broadcast media throughout the United States and worldwide. Our advertising campaigns promote the GUESS? image with our award winning advertising and a consistent emphasis on innovative and distinctive designs.

We communicate this message through the use of our signature black and white print advertisements, as well as color print advertisements, designed by our in-house Advertising Department. Led by Paul



Marciano, our Co-Chairman and Co-Chief Executive Officer, this team has won numerous awards and contributed to making the GUESS? brand one of the most recognizable fashion brands. We have maintained a high degree of consistency in our advertisements, by using similar themes and images. We require our licensees and distributors to invest a percentage of their net sales of licensed products and net purchases of GUESS? products, in Company-approved advertising, promotion and marketing.

**Retail Distribution.** At December 31, 2003, we operated a total of 265 stores in the United States and Canada, consisting of 182 full-price retail stores, 10 kids stores and 73 factory outlet stores, and two retail stores in Florence, Italy that are an integral part of our European design activities. Our retail network creates an upscale and inviting shopping environment and enhances our image. Distribution through our retail stores allows us to influence the merchandising and presentation of our products, build brand equity and test market new product design concepts. Our retail stores carry a full assortment of men's and women's merchandise, including most of the GUESS? licensed products. Our kids stores offer product for boys, girls and infants ages 3 months to 12 years. Our factory outlet stores are primarily located in outlet malls generally operating outside the shopping radius of our wholesale customers and our own retail stores.

In the fourth quarter of 2003, we made the decision to exit the kids stores which were performing below our expectations. These stores are expected to remain open through the first half of 2004. During 2003, these stores generated $6.1 million in revenues and had a combined operating loss of $1.8 million.

**Licensee Stores.** Our international licensees and distributors were also operating 232 GUESS? stores in 37 countries outside the US and Canada at December 31, 2003. These stores carry apparel and accessories that are similar to those sold in the United States, including some that are tailored for local fashion sensibilities. We work closely with international licensees and distributors to ensure that their store designs and merchandise programs protect the reputation of the GUESS? trademarks. Our international licenses and distribution agreements also allow for the sale of GUESS? brand products in better department stores and upscale specialty retail stores.

**Wholesale Distribution.** We have both domestic and international wholesale distribution channels. Domestic wholesale customers consist primarily of better department stores and select specialty retailers and upscale boutiques, which have the image and merchandising expertise that we require for the effective presentation of our products. Leading domestic wholesale customers include Federated Department Stores, Inc., The May Department Stores Company, Dillard's, Inc. and Marshall Field's (a division of Target Corporation). At December 31, 2003, our products were sold directly to consumers from 846 doors in the United States. These locations include 547 shop-in-shops, an exclusive selling area within a department store that offers a wide array of our products and incorporates GUESS? signage and fixture designs. These shop-in-shops allow us to reinforce the GUESS? brand image with our customers. Many department stores have more than one shop-in-shop, with each one featuring women's or men's apparel. Through our foreign subsidiaries and our network of international distributors, our products are also found in major cities throughout Africa, Asia, Australia, Europe, the Middle East, North America and South America.

**Licensing Operations.** The desirability of the GUESS? brand name among consumers has allowed us to selectively expand our product offerings and global markets through trademark licensing arrangements, with minimal capital investment or on-going operating expenses. We carefully select our trademark licensees and approve in advance all product design, advertising and packaging materials of all licensed products in order to maintain a consistent GUESS? image. We currently have 23 domestic and international licenses that include watches, eyewear, footwear, handbags, leather apparel, fragrance, jewelry and related accessories. We have granted licenses for the manufacture and sale of GUESS? branded products in markets which include Africa, Asia, Australia, Europe, the Middle East, North America and South America.



**Business Growth Strategies**

We regularly evaluate and implement initiatives that we believe will build brand equity, grow our business and enhance profitability. Our key growth strategies are as follows:

**Leveraging the GUESS? Brand.** We believe the GUESS? brand is an integral part of our business, a significant strategic asset and a primary source of sustainable competitive advantage. It communicates a distinctive image that is fun, fashionable and sexy. Brand loyalty, name awareness, perceived quality, strong brand images, public relations, publicity, promotional events and trademarks all contribute to brand integrity. Our design teams visit the world's premier fashion locations in order to identify important style trends and to discover new fabrics. We will continue this practice while promoting our innovative designs through stylish advertising campaigns that advance the GUESS? image. Our marketing programs are designed to convey a uniform style image for the brand and are aimed at increasing the desire of the target group to join our GUESS? customer group.

**Acquisition Strategy.** We evaluate strategic acquisitions and alliances that support and contribute to our overall growth approach. In September 2001, we completed the acquisition of the remaining 40% of the outstanding shares of Guess? Canada Corporation not already owned by the Company. We paid nominal consideration in exchange for the remaining shares of Guess? Canada Corporation and made an additional investment during the second quarter of 2001 of $3.0 million in the Canadian business to fund its ongoing operations. We further integrated the Canadian business with our U.S. business during 2003. Guess? Canada Corporation has a solid wholesale and retail presence in Canada that will help us continue to expand operations.

**Retail Store Strategy and Expansion Plans.** Our retail growth strategy is to increase retail sales and profitability by expanding our network of retail stores and improving the performance of existing stores. During 2003, we opened a total of 20 new stores consisting of 12 new full-price retail stores and 8 factory outlet stores and closed 4 under-performing stores in the United States and Canada.

Our retail locations build brand awareness and contribute to market penetration and growth of the brand in concert with our wholesale operations. In 2003, we increased our retail square footage by 8.2% to 1,372,000 square feet in the United States and Canada. For 2004, we plan to further increase our square footage and remodel approximately 10 existing locations. We continue to be very selective with new store locations and expect to open approximately 26 new stores in 2004, consisting of about 9 retail and 17 factory outlet stores. We also plan to close approximately 6 stores in addition to the kids stores.

In 2003, total sales in the United States and Canada at our stores open for at least one year (also called "comparable store sales") increased by 9.3% from 2002. We believe the increase in total comparable store sales is attributable to our commitment to several ongoing initiatives, including leadership in new product development, a more fashion-focused product mix, improvements in merchandising and visual presentation, the remodeling of select stores to promote a consistent brand message, and the development of a motivated team of sales professionals to service our customers and provide a favorable shopping experience.

The look and feel of GUESS? retail and factory outlet stores play an important role in building our brand equity. To enhance the quality of our presentation, we remodeled 4 stores during 2003 and plan to remodel approximately 10 stores during 2004.

As part of our growth strategy we are also placing additional emphasis on our Guess Collection and accessories lines. This includes greater focus on these products in our existing stores as well as developing alternative store strategies in order to feature these products.

**Continue to Develop Licensee Portfolio and Expand International Business.** A primary objective of our Company is to maintain the quality and reputation of the GUESS? brand. In order to accomplish this goal, we will continue to strategically reposition our licensing portfolio by constantly monitoring and



evaluating the performance of our licensees worldwide and their strength and capabilities to appropriately represent our brand. As part of this process, we will consider bringing in-house apparel licenses, where appropriate, or license lines which we produce as we did with our kids business in 2001. If we determine that licensees are performing inadequately, we will, from time to time, discontinue the existing relationship and seek out a stronger replacement licensee.

Our girls' and boys' apparel lines are prominently featured in girls' and boys' shop-in-shops. During 2001, we decided to license our existing kid's business, then produced in-house, to the licensee of our Baby GUESS line. This new license became effective for 2002 operations. In 2003, we granted a new license for fragrances and related products. We will continue to examine opportunities to expand our licensee portfolio through strategically developing new licensees that can expand our brand penetration and are consistent with the GUESS? image.

We believe there are significant growth opportunities in international markets. We are working closely with our international licensees and distributors to develop these opportunities and to expand the availability of the GUESS? brand throughout the world. In 2003, we granted a new license to manufacture and distribute children's clothing in certain territories of Europe.

**Improved Product Sourcing.** Over the past several years, we have refocused our product sourcing strategies to increase efficiencies, reduce costs and improve quality. We currently purchase approximately 83% of our finished products from international vendors, primarily in Asia and Mexico. This is a significant change from years ago when we purchased the majority of our goods from domestic sources. We have increased our utilization of lower-cost, offshore "packaged purchases" in which we supply the product design and fabric selection, and the vendor manufactures and delivers the finished product. We have strategically aligned ourselves with sourcing vendors worldwide, who will take full responsibility for delivering quality, finished products in a timely manner. By continuing to use these packaged programs, we believe we can improve product gross margins, reduce carrying costs of raw materials and improve the timing of our deliveries and product quality. We also retain a close relationship with a number of domestic vendors located primarily in Los Angeles as we believe it is important to react to last minute trends as well as to respond to rush reorders.

**Logistics.** In 2000, we opened an automated distribution center in Louisville, Kentucky, to replace our distribution center in Los Angeles. This 500,000 square-foot facility is near United Parcel Service's national transit hub and has contributed to the reduction of our shipping time to our stores and wholesale accounts that are east of the Mississippi River. Operating expenses relating to the Kentucky distribution center continued to decrease in 2003 from 2002, 2001 and 2000. Depending on processing volumes and productivity improvements, we expect that we will continue to reduce operating cost per unit by reducing handling costs in the new facility and will provide better service to our customers by faster shipping and reduced response times. We currently utilize approximately 50% of this facility.

We focused on all aspects of our supply chain in 2003 and expect to continue in 2004. This has included the implementation of new systems which should improve operating efficiencies through automation. These systems along with other actions we are taking, should result in lower processing and freight costs in the future.

**E-Commerce.** Our Website, www.guess.com, a virtual storefront that promotes the GUESS? brand, became fully operational in April 1999. Designed as a customer shopping center, the site showcases GUESS? products in an easy-to-navigate format, allowing customers to see and purchase our collections of casual apparel and accessories. Not only has this virtual store become a successful additional retail distribution channel, but also it has improved customer service and is a fun and entertaining alternative-shopping environment. The site also provides fashion information, provides a mechanism for customer feedback, promotes customer loyalty and enhances our brand identity through interactive content. In 2003 and 2002, the site generated net sales comparable with the top retail GUESS? stores in the chain.



**GUESS? Products**

We derive net revenue from four primary sources: the sale of GUESS? men's, women's, girls' and boys' apparel, the sale of our licensees' products through our network of retail and factory outlet stores primarily in the United States, the sale of GUESS? men's, women's, girls' and boys' apparel worldwide to wholesale customers and distributors, and royalties from worldwide licensing activities.

The following table sets forth our net revenue from our business segments:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | | 2002 | | 2001 | |
| | (dollars in thousands) | | | | | |
| Net revenue: | | | | | | |
| Retail operations | $ 447,693 | 70.3% | $ 384,456 | 65.9% | $ 380,576 | 56.2% |
| Wholesale operations | 149,113 | 23.5 | 159,625 | 27.4 | 260,124 | 38.4 |
| Net revenue from product sales | 596,806 | 93.8 | 544,081 | 93.3 | 640,700 | 94.6 |
| Licensing operations | 39,779 | 6.2 | 39,058 | 6.7 | 36,920 | 5.4 |
| Total net revenue | $ 636,585 | 100.0% | $ 583,139 | 100.0% | $ 677,620 | 100.0% |

**Products.** Our product line is organized into four primary categories: men's, women's, girls' and boys' apparel. Beginning in 2001, the product assortment was refocused with a narrower and deeper buying strategy using fewer stock keeping units ("SKUs") to give our customers more depth of popular styles. These efforts have continued in 2003. To take advantage of contemporary trends, we complement our core basic styles with more fashion-oriented items. Within our basic denim assortment, we have added new denim fabrics and washes. In addition, we have also added "immediates" and "nows" to our merchandise assortment; these are fashion forward styles that complement our current product line and are produced on an expedited basis.

Our line of women's apparel also includes the GUESS Collection product line, a full collection of better women's apparel incorporating a sophisticated, high fashion combination of colors and styles. These products currently are sold primarily through our retail stores and the Internet. This contemporary line is designed to complement our denim line. We believe these products have significant potential and are placing additional emphasis on this line in 2004.

**Licensed Products.** The high level of desirability of the GUESS? brand among consumers has allowed us to selectively expand our product offerings and distribution channels worldwide through trademark licensing arrangements. We currently have 23 trademark licenses. Worldwide sales of licensed products (as reported to us by our licensees) were approximately $545 million in 2003. Our net royalties from these sales, including advances and renewal fees, were $39.8 million in 2003. Approximately 67.9% of our net royalties were derived from our top 5 licensees in 2003 and approximately 63.6% were derived from domestic licensees.

### Design

Under the direction of Maurice Marciano, our Co-Chairman and Co-Chief Executive Officer, GUESS? apparel is designed by an in-house staff of three design teams (men's, women's, and GUESS Collection) located in Los Angeles, California. GUESS? design teams travel throughout the world in order to monitor fashion trends and discover new fabrics. Fabric shows in Europe, Asia and the United States provide additional opportunities to discover and sample new fabrics. These fabrics, together with the trends observed by our designers, serve as the primary source of inspiration for our lines and collections. We also maintain a fashion library consisting of antique and contemporary garments as another source of creative concepts. In addition, our design teams regularly meet with members of the sales, merchandising and retail operations teams to further refine our products to meet the particular needs of our markets.



### Domestic Retail Operations

At December 31, 2003, our domestic retail operations, which includes stores in both the United States and Canada, consisted of 182 full-price retail, 10 kids and 73 factory outlet stores which sell GUESS?-labeled products and which we own and operate directly. Below is a summary of store statistics for the three years ended December 31, 2003.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Retail Stores: | | | |
| US | 147 | 138 | 118 |
| Canada | 35 | 33 | 32 |
| | 182 | 171 | 150 |

| | | | |
|---|---|---|---|
| Factory Stores: | | | |
| US | 66 | 60 | 59 |
| Canada | 7 | 7 | 7 |
| | 73 | 67 | 66 |
| Kids Stores: | 10 | 11 | 11 |
| Total | 265 | 249 | 227 |
| Square Footage | 1,372,000 | 1,277,000 | 1,171,000 |
| Sales per Square Foot | $ 336 | $ 312 | $ 334 |

**Retail Stores.** Our full price domestic retail stores occupy approximately 929,000 square feet and range in size from approximately 2,000 to 13,500 square feet, with most stores between 3,000 and 6,000 square feet. Our retail stores carry a full assortment of men's and women's GUESS? merchandise, including most of our licensed products as well as GUESS Collection, our premier line that is almost exclusively available in our stores. Our domestic GUESS kids stores occupy approximately 27,000 square feet and carry our girls' and boys' lines which is supplied by one of our licensees beginning with the Spring 2002 line, as well as infant's clothing, which is supplied by the same licensee. In the fourth quarter of 2003, we made the decision to exit the kids stores which were performing below our expectations. These stores are expected to remain open through the first half of 2004. During 2003, we opened 11 new retail stores and closed 1 kids store. Sales per square foot for our domestic retail stores increased from $320 in 2002 to $332 in 2003.

**Factory Outlet Stores.** Our domestic factory outlet stores occupy approximately 416,000 square feet and range in size from approximately 2,300 to 10,700 square feet, with most stores between 5,000 and 6,000 square feet. They are primarily located in outlet malls generally operating outside the shopping radius of our wholesale customers and our retail stores. These stores sell selected styles of GUESS? apparel and licensed products at a discount to value-conscious customers. We also use the factory outlet stores to liquidate excess inventory and thereby protect the GUESS? image. During 2003, we opened 9 new factory stores and closed 3 under-performing stores. Sales per square foot for our domestic factory outlet stores increased from $294 in 2002 to $345 in 2003.

**Domestic Wholesale Customers**

Our domestic wholesale customers consist primarily of better department stores and select specialty retailers and upscale boutiques, which have the image and merchandising expertise that we require for the effective presentation of our products. Leading domestic wholesale customers include Federated Department Stores, Inc., The May Department Stores Company, Dillard's, Inc. and Marshall Field's (a



division of Target Corporation). During 2003, our products were sold directly to consumers from 846 doors in the United States.

A major element of our merchandising strategy is our focus on trend right products supported by key fashion basics. For the women's line, we are capitalizing on feminine looks and stretch denim, with an emphasis to grow the non-denim and basics categories. The men's line is more updated with natural rugged fabrics and fashion denim with new washes.

We have sales representatives in our showrooms in New York and Los Angeles. They coordinate with customers to determine the inventory level and product mix that should be carried in each store to maximize retail sell-throughs and enhance the customers' profit margins. The inventory level and product mix are then used as the basis for developing sales projections and product needs for each wholesale customer and for scheduling production. Additionally, we use merchandise coordinators who work with the stores to ensure that our products are displayed appropriately.

A few of our domestic wholesale customers, including some under common ownership, have accounted for significant portions of our net revenue. During 2003, Bloomingdale's, Macy's and other affiliated stores owned by Federated Department Stores, Inc. were our largest domestic wholesale customers and together accounted for approximately 6.4% of our net revenue.

**International Business**

We derive net revenue and earnings outside the United States and Canada from two principal sources: sales of GUESS? brand apparel directly to seven foreign distributors who distribute it to better department stores, upscale specialty retail stores and GUESS?-licensed retail stores operated by our international distributors, and royalties from licensees who manufacture and distribute GUESS? branded products outside the United States. We sell products through distributors and licensees throughout Africa, Asia, Australia, Europe, the Middle East, North America and South America.

At December 31, 2003, 232 GUESS? retail and outlet stores were owned and operated internationally, outside the United States and Canada, by licensees and distributors. Our retail store license agreements generally provide detailed guidelines for store fixtures and merchandising programs. The appearance, merchandising and service standards of these stores are closely monitored to ensure that our image and brand integrity are maintained. We have been advised by our distributors and licensees that in 2004 they plan to open approximately 19 new retail stores and to remodel approximately 22 existing locations. We also own and operate two flagship GUESS? retail stores in Florence, Italy.

**License Agreements and Terms**

Our trademark license agreements customarily provide for a three- to five-year initial term with a possible option to renew prior to expiration for an additional multi-year period. In addition to licensing trademarks for products which complement our apparel products, we have granted trademark licenses for the manufacture and sale of GUESS? branded products similar to ours, including men's and women's denim and knitwear, in markets such as Europe, Japan, the Philippines, Mexico, South Africa and South Korea. Licenses granted to certain licensees that have produced high-quality products and have demonstrated solid operating performance, such as GUESS? handbags and GUESS? eyewear, have been renewed and in some cases expanded to include new products or markets. In other cases, products that were formerly licensed, such as our women's knits line, are now being produced in-house. The typical license agreement requires that the licensee pay us the greater of a royalty based on a percentage of the licensee's net sales of licensed products or a guaranteed annual minimum royalty that typically increases over the term of the license agreement. Generally, licensees are required to spend a percentage of the net sales of licensed products for advertising and promotion of the licensed products and in many cases we place the ads on behalf of the licensee and are reimbursed. In addition, to protect and increase the value of our trademarks, our license agreements include strict quality control and manufacturing standards.



To protect the GUESS? trademark and brand, our Licensing Department meets regularly with licensees to ensure consistency with our overall merchandising and design strategies and to monitor quality control. The Licensing Department approves in advance all GUESS? licensed products, advertising, promotional and packaging materials.

**Advertising and Marketing**

Our advertising, public relations and marketing strategy is designed to promote a consistent high impact image which endures regardless of changing consumer trends. Since our inception, Paul Marciano, our Co-Chairman and Co-Chief Executive Officer, has had principal responsibility for the GUESS? brand image and creative vision. All worldwide advertising and promotional material is controlled through our Advertising Department based in Los Angeles. GUESS Jeans, GUESS U.S.A. and GUESS?, Inc. images have been showcased in dozens of major publications and outdoor and broadcast media throughout the United States and the world.

Our advertising strategy promotes the GUESS? image and products, with an emphasis on brand image. Our signature black and white print advertisements, as well as color print advertisements, have garnered prestigious awards, including Clio, Belding and Mobius awards for creativity and excellence. These awards, which we have received on numerous occasions in our history, are generally given based on the judgment of prominent members of the advertising industry. We have maintained a high degree of consistency in our advertisements, using similar themes and images. We require our licensees and distributors to invest a percentage of their net sales of licensed products and net purchases of GUESS? products in approved advertising, promotion and marketing.

Our Advertising Department is responsible for all worldwide advertising, which includes approval of all advertising strategies and media placements from our licensees and distributors. We use a variety of media which emphasizes print and outdoor advertising. We have focused advertisement placement in national and international contemporary fashion/beauty and lifestyle magazines including Vanity Fair, Marie Claire, Elle, W and Vogue. By retaining control over our advertising programs, we are able to maintain the integrity of the GUESS? brand image while realizing substantial cost savings compared to outside agencies.

We further strengthen communications with customers through our website (www.guess.com). This global medium enables us to provide timely information in an entertaining fashion to consumers about our history, GUESS? products and store locations, and it allows us to receive and respond directly to customer feedback.

**Sourcing and Product Development**

We source products through numerous suppliers, many of whom have established long-term relationships with us. We seek to achieve the most efficient means for timely delivery of our products. Our fabric specialists work with fabric mills in the United States, Mexico, Europe and Asia to develop woven and knitted fabrics that enhance the products' comfort, design and appearance. For a substantial portion of our apparel products, production planning takes place generally four to five months prior to the corresponding selling season. Delivery of certain basic products is accomplished through our Quick Response EDI (Electronic Data Interchange) replenishment system which ensures shipment of such products generally within 48 hours of receipt of customer orders.

We do not own any production equipment other than cutting machinery. To remain competitive, in recent years we have increasingly been sourcing our finished products globally. During 2003, we sourced approximately 83% of our finished products from third-party suppliers located outside the United States. Most of these finished products are acquired as package purchases where we supply the design and fabric selection and the vendor delivers the finished product. Although we have long-term relationships with many of our vendors, we do not have long-term written agreements with them. Our production and sourcing staff in Los Angeles oversees aspects of apparel manufacturing, quality control and production, and researches and develops new sources of supply.

### Sources and Availability of Raw Materials

Our products use a variety of raw materials, principally consisting of woven denim, woven cotton and knitted fabrics and yarns. Historically, we have had to make commitments for a significant portion of our fabric well in advance of sales. During the last few years we have been able to reduce our raw materials inventory by increasing the use of packaged purchases.

### Quality Control

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

### Distribution Centers

We utilize distribution centers at strategically located sites. Until 1999, distribution of our products in the United States was centralized in our facility in Los Angeles, California, which we operate and lease from a related party. In January 2000, we opened an automated distribution center in Louisville, Kentucky, to replace the distribution center in Los Angeles. This facility was fully operational in the second quarter of 2000. Distribution of our products in Canada is handled from our distribution center in Montreal, Canada. We also own ten percent of a licensee that operates a distribution center in Florence, Italy and services Europe. Additionally, we utilize a contract warehouse in Hong Kong that services the Pacific Rim.

At our distribution center in Kentucky, we use fully integrated and automated distribution systems. The bar code scanning of merchandise, picking tickets and distribution cartons, together with radio frequency communications, provide timely, controlled, accurate and instantaneous updates to the distribution information systems. As of December 31, 2003, this facility was approximately 50% utilized. We continue to monitor our distribution center integration as our business grows and the center matures.

### Competition

The apparel industry is highly competitive and fragmented, and is subject to rapidly changing consumer demands and preferences. We believe that our success depends in large part upon our ability to anticipate, gauge and respond to changing consumer demands and fashion trends in a timely manner and upon the continued appeal to consumers of the GUESS? brand. We compete with numerous apparel manufacturers and distributors and several well-known designers that have recently entered or re-entered the designer denim market. Our retail and factory outlet stores face competition from other retailers, including some of our major wholesale customers. Our licensed apparel and accessories also compete with a substantial number of designer and non-designer lines and various other well-known brands. Many of our competitors, including The Gap, Abercrombie & Fitch, DKNY, Polo Ralph Lauren and Tommy Hilfiger, among others, have greater financial resources than we do. Although the level and nature of competition differ among our product categories, we believe that we compete on the basis of our brand image, quality of design, workmanship and product assortment.



### Information Systems

We believe that high levels of automation and technology are essential to maintain our competitive position and support our strategic objectives and we continue to invest in computer hardware, system applications and networks. Our computer information systems consist of a full range of financial, distribution, merchandising, in-store, supply chain and other systems. During 2003, we implemented both a new supply chain system and a retail store inventory allocation system.

### Trademarks

We own numerous trademarks, including GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, Question Mark and Triangle Design, BRAND G, and a stylized G, GUESS Kids, Baby GUESS, and GUESS Collection. At December 31, 2003, we had approximately 2,200 United States and internationally registered trademarks or trademark applications pending with the trademark offices in 170 countries around the world, including the United States. From time to time, we adopt new trademarks in connection with the marketing of new product lines. We consider our trademarks to have significant value in the marketing of our products and act aggressively to register and protect our trademarks worldwide.

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

See "Important Factors Regarding Forward-Looking Statements" included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein.

### Wholesale Backlog

We maintain a model stock program in our basic denim products which generally allows replenishment of a customer's inventory within 48 hours. We typically receive orders for our fashion apparel 90 to 120 days prior to the time the products are delivered to stores. At March 6, 2004, we had unfilled wholesale orders, consisting primarily of orders for fashion apparel, of approximately $42.8 million, compared to $41.6 million for such orders at March 8, 2003. The backlog of wholesale orders at any given time is affected by various factors, including seasonality and the scheduling of manufacturing and shipment of products. Accordingly, a comparison of backlogs of wholesale orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

### Employees

We strongly believe that our employees ("associates") are our most valuable resources. At December 31, 2003, there were approximately 4,800 associates, including corporate personnel employed by GUESS in the United States and Canada. Associates include approximately 700 in our wholesale and corporate operations and 4,100 in our retail operations.

We are not a party to any labor agreements and none of our associates is represented by a labor union. We consider our relationship with our associates to be good.

### Environmental Matters

We are subject to federal, state and local laws, regulations and ordinances that govern activities or operations that may have adverse environmental effects (such as emissions to air, discharges to water, and the generation, handling, storage and disposal of solid and hazardous wastes). We are also subject to laws, regulations and ordinances that impose liability for the costs of clean up or other remediation of contaminated property, including damages from spills, disposals or other releases of hazardous substances or wastes, in certain circumstances without regard to fault. Certain of our operations routinely involve the handling of chemicals and wastes, some of which are or may become regulated as hazardous substances.



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We have not incurred, and do not expect to incur, any significant expenditures or liabilities for environmental matters. As a result, we believe that our environmental obligations will not have a material adverse effect on our consolidated financial condition or results of operations.

### Financial Information About Geographic Areas

See Note 15 to the Notes to the Consolidated Financial Statements for a discussion regarding our domestic and foreign operations.

### Website Access to Our Periodic Securities and Exchange Commission ("SEC") Reports

Our Internet website can be found at www.guess.com. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. We may from time to time provide important disclosures to our investors by posting them in the investor relations section of our website, as allowed by SEC rules.



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### ITEM 2. Properties

Certain information concerning our principal facilities, all of which are leased at December 31, 2003, is set forth below:

| Location | Use | Approximate Area in Square Feet |
|---|---|---:|
| 1444 South Alameda Street<br>Los Angeles, California | Principal executive and administrative offices, design facilities, sales offices, distribution and warehouse facilities, production control, and sourcing used by our Wholesale and Retail segments, and our Corporate groups. | 355,000 |
| 1610 Freeport Drive<br>Louisville, Kentucky | Distribution and warehousing facility used by our Wholesale and Retail segments | 506,000 |
| 144 S. Beverly Drive<br>Beverly Hills, California | Administrative offices used by our Licensing segment and advertising department | 5,600 |
| 1385 Broadway<br>New York, New York | Administrative offices, public relations, and showrooms used by our Wholesale and Retail segments | 36,000 |

| | | |
|---|---|---|
| Dallas, Texas | Showrooms used by our Wholesale segment | 6,500 |
| Los Angeles, California | Showrooms used by our Wholesale segment | 4,400 |
| Montreal, Canada | Administrative offices and warehouse facilities used by our Wholesale and Retail segments | 76,000 |
| Kowloon, Hong Kong | Distribution and licensing coordination facilities used by our Wholesale segment | 4,400 |
| Florence, Italy | Administrative office and showrooms used by our Wholesale segment, and two retail stores | 3,400 |

Our corporate, wholesale and retail headquarters and certain production and warehousing facilities are located in Los Angeles, California and in Beverly Hills, California, consisting of five buildings totaling approximately 360,600 square feet. All of these properties are leased by us, and certain of these facilities are leased from limited partnerships in which the sole partners are trusts controlled by and for the benefit of Maurice Marciano and Paul Marciano (the "Principal Stockholders"), Armand Marciano, their brother and former executive of the Company, and their families pursuant to leases that expire in February 2006 and July 2008. The total lease payments to these limited partnerships are $234,000 per month with aggregate minimum lease commitments to these partnerships at December 31, 2003, totaling approximately $12.1 million. See "Item 13. Certain Relationships and Related Transactions."

Through early 2000, distribution of our products in the United States was centralized in our Los Angeles, California facility. In 2000, we leased an automated distribution center in Louisville, Kentucky, to replace the distribution center in Los Angeles. Our Canadian business operates a distribution facility located in Montreal, Canada. We also own ten-percent of a licensee that leases and operates a distribution center in Florence, Italy and services Europe. Additionally, we utilize a contract warehouse in Hong Kong that services the Pacific Rim.

We lease our showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facility and retail and factory outlet store locations under non-cancelable operating lease agreements expiring on various dates through March 2016. These facilities are located principally in the United States, with aggregate minimum lease commitments, at December 31, 2003, totaling approximately $322.7 million.



The current terms of our store leases, excluding renewal options, expire as follows:

| Years Lease Terms Expire | Number of Stores |
|---|---|
| 2004-2006 | 55 |
| 2007-2009 | 70 |
| 2010-2012 | 101 |
| 2013-2014 | 36 |
| Thereafter | 3 |

We believe our existing facilities are well maintained, in good operating condition and are adequate to support our present level of operations. See Notes 11 and 12 of the Notes to Consolidated Financial Statements for further information regarding current lease obligations.

**ITEM 3. Legal Proceedings**

On approximately January 15, 1999, UNITE filed an unfair labor practice charge against us, alleging that attorney Dennis Hershewe violated Section 8(a)(1) of the National Labor Relations Act ("the Act") by questioning our employee Maria Perez about her union activities at the deposition he conducted in her workers' compensation case. Mr. Hershewe represents Fireman's Fund Insurance Company, our workers' compensation insurance carrier. GUESS? investigated the charge and responded to it on March 10, 1999. The NLRB issued a complaint on part of the charge on October 14, 1999, and we filed an answer on October 21, 1999. On July 6, 2000, the complaint was dismissed in its entirety. The NLRB appealed the decision which was reversed on June 30, 2003. On July 24, 2003 GUESS? filed a Petition for Review with the United States Court of Appeals for the D.C. Circuit. On August 21, 2003 the NLRB filed a cross-application for enforcement of the order. On October 31, 2003, the parties settled the matter. On November 13, 2003, the United States Court of Appeals, upon consideration of the joint motion of the parties to voluntary dismiss, dismissed both the petition for review and cross-application for enforcement.

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

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

No matters were submitted to a vote during the fourth quarter of fiscal year 2003.



## PART II

**ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Since August 8, 1996, the Company's common stock has been listed on the New York Stock Exchange under the symbol "GES.' The following table sets forth, for the periods indicated, the high and low sales prices of the Company's Common Stock, as reported on the New York Stock Exchange Composite Tape:

| | High | Low |
|---|---|---|
| **Year ended December 31, 2003** | | |
| First Quarter 2003 | $ 4.24 | $ 3.30 |
| Second Quarter 2003 | 6.60 | 3.38 |
| Third Quarter 2003 | 9.80 | 5.85 |
| Fourth Quarter 2003 | 15.60 | 8.39 |
| **Year ended December 31, 2002** | | |
| First Quarter 2002 | $ 9.35 | $ 7.30 |
| Second Quarter 2002 | 8.25 | 6.25 |
| Third Quarter 2002 | 7.31 | 4.29 |
| Fourth Quarter 2002 | 5.45 | 3.30 |

On March 9, 2004, the closing sales price per share of the Company's common stock, as reported on the New York Stock Exchange Composite Tape, was $17.10. On March 9, 2004, there were 232 holders of record of the Company's common stock.

**Dividend Policy**

We intend to use our cash flow from operations in 2004 principally to finance the expansion and remodel of our retail stores, shop-in-shop programs, systems, infrastructure and operations. Any future determination as to the payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors. The agreement governing our revolving credit facility restricts the payment of dividends by the Company. Since our initial public offering on August 8, 1996, we have not declared any dividends on our common stock.

**ITEM 6. Selected Financial Data**

The selected financial data set forth below have been derived from the audited consolidated financial statements of the Company and the related notes thereto. The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes



contained herein and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (in thousands, except per share data) | | | | |
| **Statement of operations data:** | | | | | |
| Net revenue | $ 636,585 | $ 583,139 | $ 677,620 | $ 779,217 | $ 599,650 |
| Earnings (loss) from operations | 20,600 | (8,526) | 23,829 | 42,468 | 93,776 |
| Income taxes (benefit) | 5,500 | (5,550) | 4,500 | 13,100 | 35,200 |
| Net earnings (loss) | 7,286 | (11,282) | 6,242 | 16,493 | 51,900 |
| **Earnings (loss) per share:** | | | | | |
| Basic | $ 0.17 | $ (0.26) | $ 0.14 | $ 0.38 | $ 1.21 |

| | | | | | |
|---|---|---|---|---|---|
| Diluted | $ 0.17 | $ (0.26) | $ 0.14 | $ 0.38 | $ 1.20 |
| Weighted number of shares outstanding—basic | 43,279 | 43,392 | 43,656 | 43,464 | 43,005 |
| Weighted number of shares outstanding—diluted | 43,558 | 43,392 | 43,958 | 43,819 | 43,366 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (in thousands) | | | | |
| **Balance sheet data:** | | | | | |
| Working capital(1) | $ 99,769 | $ 21,426 | $ 95,263 | $ 96,289 | $ 97,944 |
| Total assets | 362,765 | 349,532 | 362,463 | 419,683 | 369,036 |
| Notes payable and long-term debt, excluding current installments | 54,161 | 1,480 | 80,119 | 103,781 | 83,363 |
| Net stockholders' equity | 182,782 | 166,280 | 177,924 | 175,156 | 167,355 |

(1) Working capital at December 31, 2002, reflects the $79.6 million of 9 $^{1}/_{2}$% Senior Subordinated Notes due 2003, as current debt and therefore a reduction in working capital.

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

### Summary

We derive our net revenue from the sale of GUESS? men's, women's, boys' and girls' apparel and our licensees' products through our network of retail and factory outlet stores primarily in the United States, from the sale of GUESS? men's, women's, boys' and girls' apparel worldwide to wholesale customers and distributors, from net royalties from worldwide licensing activities, from the sale of GUESS? apparel through the retail and wholesale channels of our 100% owned Canadian subsidiary, GUESS? Canada Corporation ("Guess Canada"), and from the sale of GUESS? men's, women's, boys' and girls' apparel and our licensee products through our on-line store at www.guess.com.

The business segments of the Company are wholesale, retail and licensing operations. Management evaluates segment performance based primarily on revenue and earnings from operations. Information relating to these segments is summarized in Note 15 to the consolidated financial statements. In the first quarter of 2003, the Company revised its segment reporting to better reflect how its three business segments—retail, wholesale and licensing—are managed and each segment's performance is evaluated. The earnings from operations for each segment now include those costs that are specifically related to each segment, consisting primarily of store operations, distribution, selling and merchandising, depreciation, amortization and employee compensation directly related to that business segment. In addition, the Company is continuing to allocate design and advertising charges to the business segments based on the assessed benefit derived from the respective expenditures. The new structure excludes from the segment results corporate overhead costs, which consist of shared costs of the organization. These costs are



presented separately and include, among others, the following corporate costs: information technology, human resources, accounting and finance, executive compensation, facilities and legal. All amounts for 2002 and 2001 have been revised to conform to the 2003 presentation.

### Executive Summary

During 2003, Guess? began to see improvement in its business after a steady decline in net earnings since 1999. We have seen a continuation of the positive trends we have experienced since last spring and we are benefiting from the initiatives we have undertaken on both the operational and product sides of our business. This improvement is demonstrated by a 9.2% increase in net revenues to $636.6 million in 2003 from $583.1 million in 2002. The Company also returned to profitability in 2003 with net earnings of $7.3 million compared with a loss of $11.3 million in 2002. The Company has also seen significant improvement in its balance sheet with continued emphasis on reducing inventory levels and improving cash flow. During the year, inventory was reduced by 12.7% even though product sales increased by 9.7%. With strong cash management and improving operating performance, the Company has also reduced total borrowings by $13.5 million or 16.6% during the year and has increased cash and restricted cash by $39.9 million by year end.

Our retail segment, including full-priced retail, kids, factory outlet, Canada, and E-commerce, generated net sales of $447.7 million during 2003, an increase of 16.4%, from $384.5 million in the prior year. This growth was driven by a comparable store sales increase of 9.3% and a larger store base, which represented an 8.2% increase in average square footage as compared to 2002. The comparable store sales increase reflects the improved results of both the men's and women's lines and our accessories business. In addition to strong same store sales growth, our retail stores also increased their margins and managed expenses effectively to deliver a substantial improvement in operating results. While the full-priced retail and factory outlet stores continued to show operating performance improvements, the kids stores have struggled. As a result, management made a decision in the fourth quarter of 2003 to exit the kids store business and took a $1.2 million impairment charge to write-down these assets to their net realizable value. The Company plans to close these stores in the second half of 2004 and expects to incur additional charges at that time related to lease termination costs. These charges are expected to be less than $2 million.

We are still experiencing challenges in our wholesale segment. The wholesale segment revenues for 2003 decreased 6.6% to $149.1 million from $159.6 million in 2002. However, in the fourth quarter of 2003 the Company experienced a sales increase in wholesale reflecting a stabilization of the number of locations in which our product is sold, and a reduction in the amount of markdown allowances granted to our wholesale customers. We expect our wholesale business to continue to be stable in 2004. Our products were sold in 846 doors at the end of 2003 compared with 864 doors at the end of 2002. International wholesale revenue was about flat in 2003 compared to 2002.

Our licensing segment performed well with 2003 revenues of $39.8 million compared to $39.0 million in 2002. We had 23 licenses at the end of 2003 as compared to 21 at the end of 2002. Licensing operating earnings increased to $32.3 million from $29.1 million in last year.

The Company has continued to make investments to improve operating efficiencies and inventory management. To this end, we implemented a new manufacturing system to gain further operating efficiencies through automation. This system, along with other actions we are taking, should result in improved product visibility and lower processing and freight costs in the future. In addition, a new inventory allocation system we are rolling out is resulting in improved inventory turnover and in-stock positions in the stores, and is contributing to higher store sales volumes with less inventory.

We believe that our bottom line has started to reflect the efforts we have made to utilize our resources efficiently and ensure that our cost structure is as streamlined as possible. This has included looking for every opportunity to eliminate unproductive activities and improve expense management in our corporate offices as well as our retail stores. These efforts have resulted in lower S,G&A expense for the year, despite an 8.2% larger store base, and over 300 basis points of improvement in our S,G&A rate as a percentage of



net revenues for 2003. This improvement underscores the leverage of our retail business model and its significant opportunity for further profit growth.

**Application of Critical Accounting Policies**

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on its historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management evaluates its estimates and judgments on an ongoing basis including those related to the valuation of inventories, accounts receivable allowances, the useful life of assets for depreciation, restructuring expense and accruals, evaluation of impairment, recoverability of deferred taxes and evaluation of net recoverable amounts and accruals for the sublet of certain lease obligations. The Company believes that of its significant accounting policies the following involve a higher degree of judgment and complexity.

*Accounts Receivable reserves:*

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

Costs associated with customer markdowns are recorded as a reduction to net revenues, and are included in the allowance for doubtful accounts. These costs result from seasonal negotiations with the Company's wholesale customers, as well as historic trends and the evaluation of the impact of current economic conditions.

*Inventory reserves:*

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

*Valuation of goodwill, intangible and other long-lived assets:*

The Company assesses the impairment of its long-lived assets (i.e., goodwill, and property and equipment), which requires the Company to make assumptions and judgments regarding the carrying value of these assets on an annual basis or when a triggering event occurs. The assets are considered to be impaired if the Company determines that the carrying value may not be recoverable based upon its assessment of the asset's ability to continue to generate income from operations and positive cash flow in future periods or if significant changes in the Company's strategic business objectives and utilization of the assets occurred. If the assets (other than goodwill) are assessed to be recoverable, they are amortized over the periods benefited. If the assets are considered to be impaired, the impairment recognized is the



amount by which the carrying value of the assets exceeds the fair value of those assets. Fair value is determined based upon the undiscounted cash flows derived from the underlying asset.

*Litigation reserves:*

Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in the consolidated balance sheets. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the favorable or unfavorable outcome of the particular litigation. Both the amount and range of loss on the remaining pending litigation is uncertain. As such, the Company is unable to make a reasonable estimate of the liability that could result from unfavorable outcomes in litigation. As additional information becomes available, the Company will assess the potential liability related to pending litigation and revise estimates. Such revisions in estimates of the potential liability could materially impact the results of operations and financial position.

**Results of Operations**

The following table sets forth actual operating results for the 2003, 2002 and 2001 fiscal years as a percentage of net revenue:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Product sales | 93.8% | 93.3% | 94.6% |
| Net royalties | 6.2 | 6.7 | 5.4 |
| Total net revenue | 100.0 | 100.0 | 100.0 |
| Cost of product sales | 65.4 | 65.8 | 66.1 |
| Gross profit | 34.6 | 34.2 | 33.9 |
| Selling, general and administrative expenses | 31.0 | 34.8 | 29.7 |
| Litigation settlement | — | (0.7) | — |
| Gain on disposition of property and equipment | — | — | (0.1) |
| Restructuring, impairment and severance charges | 0.4 | 1.6 | 0.8 |
| Earnings (loss) from operations | 3.2 | (1.5) | 3.5 |
| Interest, net | 1.2 | 1.6 | 1.9 |
| Other, net | — | (0.1) | 0.1 |
| Earnings (loss) before income taxes | 2.0 | (3.0) | 1.5 |
| Income taxes | 0.9 | (1.0) | 0.6 |
| Net earnings (loss) | 1.1% | (2.0%) | 0.9% |

**Year ended December 31, 2003 Compared to Year ended December 31, 2002.**

*Net revenue.* Net revenue increased $53.5 million or 9.2% to $636.6 million for the year ended December 31, 2003, from $583.1 million for the year ended December 31, 2002. The increase was primarily attributable to sales growth in the retail segment.

Net revenue from retail operations increased $63.2 million, or 16.4%, to $447.7 million for the year ended December 31, 2003, from $384.5 million for the year ended December 31, 2002. The increase was driven by a comparable store sales increase of 9.3% which accounted for $34.6 million of the increase and a $28.6 million increase due to average 19 new store openings with an 8.2% increase in square footage as compared to last year. The most significant increases were in our domestic factory outlet stores and our Canadian retail stores.

Net revenue from wholesale operations decreased $10.5 million or 6.6% to $149.1 million for the year ended December 31, 2003, from $159.6 million for the year ended December 31, 2002. Domestic wholesale net revenue decreased $11.8 million, or 11.0%, to $95.5 million from $107.3 million. The decrease in



domestic wholesale revenue is attributable to the decrease in the average number of locations in which our products are offered. International wholesale net revenues increased $1.3 million, or 2.5%, to $53.6 million from $52.3 million. International wholesale net revenue increased primarily due to improved sales in Europe partially offset by reduced sales in the Middle East and South America.

Net royalties from licensing operations increased by $0.8 million, or 1.8%, to $39.8 million for the year ended December 31, 2003, from $39.0 million for the year ended December 31, 2002. The increase in net royalties is primarily due to positive royalty adjustments from licensee audits. The composition of licensees has remained consistent in 2003 as compared to 2002, increasing from 21 licensees in 2002 to 23 at the end of 2003.

*Gross profit.* Gross profit increased $20.8 million or 10.4% to $220.1 million for the year ended December 31, 2003, from $199.3 million for the year ended December 31, 2002. The increase is attributable to improved margins at retail, partially offset by lower wholesale margins. Gross profit for the retail segment increased $23.3 million, or 19.9%, to $140.3 million due to the increase in comparable store sales resulting in better leverage of the store occupancy costs. Gross profit for the wholesale segment decreased $3.3 million, or 7.4%, to $40.0 million. The decline in gross profit for wholesale was primarily due to the $10.5 million reduction in sales, which accounted for $2.8 million of the decrease.

Gross margin (gross profit as a percentage of total net revenue) improved slightly to 34.6% for the year ended December 31, 2003, from 34.2% for the year ended December 31, 2002. Gross margin from product sales increased to 30.2% for the year ended December 31, 2003, from 29.5% for the year ended December 31, 2002. Higher gross margin in the retail segment was offset by lower gross margin in the wholesale segment as a result of lower initial margins.

The Company's gross margins may not be comparable to other entities since some entities include all of the costs related to their distribution in cost of product sales and others, like the Company, exclude a portion of them, related to the wholesale segment's distribution costs, from gross margin, including them instead in selling, general and administrative expenses.

*Selling, general and administrative expenses.* Selling, general and administrative ("SG&A") expenses decreased $5.8 million, or 2.9%, to $197.1 million, or 31.0% of net revenues for the year ended December 31, 2003, from $202.9 million, or 34.8% of net revenues for the year ended December 31, 2002.

The improvement in SG&A expenses resulted from $5.4 million in lower advertising expenses and $5.6 million in other cost-cutting actions taken over the past year partially offset by a $5.2 million increase for the operation of an average of 19 net new stores. The improvement in the SG&A rate as a percent of net revenues reflects lower SG&A expenses and the increase in comparable store sales.

*Litigation settlement.* During 2002, the Company received approximately $4.3 million in a litigation settlement.

*Restructuring, impairment and severance charges.* During the year ended December 31, 2003, the Company recorded restructuring, impairment and severance charges of $2.4 million ($1.4 million after tax or $0.06 per diluted share), which represented a charge of $0.8 million related to severance payments for the reduction in the Company's workforce and $1.6 million of the charges represented the write-down of the value of certain impaired assets, of which $1.2 million related to the Company's fourth quarter decision to close its 10 under-performing kids' stores.

During the year ended December 31, 2002, the Company recorded restructuring, impairment and severance charges of $9.2 million ($6.2 million after tax or $0.14 per diluted share). Included in this charge, the Company recorded $1.5 million in additional costs for rent paid, estimated rent to be paid and lease exit costs related to excess leased facilities and under -performing stores which were abandoned or closed in 2003. In addition, $6.9 million of the charges represented the write-down of the value of certain impaired assets, including fixed assets related to unprofitable stores. The remaining $0.8 million of the charge was related to severance costs for the termination of 59 employees, which was part of the



Company's continuing efforts to reduce costs, improve productivity, streamline its corporate structure and consolidate operations. The employees severance was paid in 2002 and 2003.

*Earnings from operations.* Earnings from operations increased $29.1 million to $20.6 million in 2003 from a loss of $8.5 million in 2002. The 2003 results included restructuring, impairment and severance charges of $2.4 million, while the 2002 results included restructuring, impairment and severance charges of $9.2 million offset by a litigation settlement of $4.3 million. The retail segment generated earnings from operations of $32.4 million in 2003 compared to earnings from operations of $4.4 million in 2002. The increase in earnings from operations was primarily attributable to a 9.3% increase in comparable store sales for 2003 partially offset by $5.2 million higher costs related to operating an average of 19 net new stores. The loss from operations for the wholesale segment was $9.0 million in 2003 compared to a loss from operations of $4.7 million in 2002. The increase in the operating loss for the wholesale segment was principally due to a $3.3 million decrease in wholesale gross margin attributable to a 6.6% decline in revenues, lower initial margins and an increased loss on off-price sales plus $1.0 million higher expenses primarily resulting from a restructuring charge of $0.5 million related to severance payments. Earnings from operations for the licensing operating segment increased to $32.3 million in 2003, from $29.1 million in 2002 due primarily to the reduced advertising expenses of $2.5 million. The cost of unallocated corporate overhead declined to $35.1 million in 2003 from $37.3 million in 2002 due to cost savings initiatives. partially offset by the proceeds from a litigation settlement of $4.3 million received in 2002.

*Interest expense.* Interest expense decreased $1.4 million or 15.6% to $8.0 million for the year ended December 31, 2003, from $9.4 million for the year ended December 31, 2002 reflecting the lower interest rate of 6.75% on the Secured Notes issued on April 28, 2003 compared to 9.5% on the Senior Subordinated Notes redeemed on May 27, 2003. Total debt at December 31, 2003 was $68.1 million, which included $66.8 million of the Company's 6.75% Secured Notes due 2012. On a comparable basis, the average debt balance for the year ended December 31, 2003 was $80.6 million, with an average effective interest rate of 9.9%, versus an average debt balance of $91.4 million, with an average effective interest rate of 10.3%, for the year ended December 31, 2002.

*Income taxes.* Income tax for the year ended December 31, 2003 was $5.5 million, or a 43.0% effective tax rate, compared to the income tax benefit of $5.5 million, or a 33.0% effective tax rate, for the year ended December 31, 2002. The change in the effective tax rate was the result of income in 2003 compared to a loss in 2002. While the federal loss can be carried back and fully utilized, certain states do not allow carryback resulting in a lower effective tax benefit rate.

*Net earnings (loss).* Net earnings increased by $18.6 million to $7.3 million for the year ended December 31, 2003, from a loss of $11.3 million for the year ended December 31, 2002. The 2002 results included litigation settlement proceeds of $4.3 million, or $2.9 million, net of tax, and restructuring, impairment and severance charges of $9.2 million, or $6.2 million, net of tax.

**Year ended December 31, 2002 Compared to Year ended December 31, 2001.**

*Net revenue.* Net revenue decreased $94.5 million or 13.9% to $583.1 million for the year ended December 31, 2002, from $677.6 million for the year ended December 31, 2001. The decrease was primarily attributable to the decline of wholesale revenues.

Net revenue from retail operations increased $3.9 million, or 1.0%, to $384.5 million for the year ended December 31, 2002, from $380.6 million for the year ended December 31, 2001. A comparable stores sales decline of 4.1% for the year, or approximately $15.3 million, was more than offset by sales at 22 net new stores aggregating $20.1 million. The highly promotional conditions and an overall difficult retail environment negatively impacted sales for 2002.

Net revenue from wholesale operations decreased $100.5 million or 38.6% to $159.6 million for the year ended December 31, 2002, from $260.1 million for the year ended December 31, 2001. Net revenue



from domestic and international wholesale operations decreased, for the year ended December 31, 2002, by $96.7 million to $107.3 million and by $3.8 million to $52.3 million, respectively. Wholesales revenue in 2001 included $27.6 million of kids business, which was licensed out beginning in the first quarter of 2002. Of the total kid's business, $24.9 million was sold to domestic wholesale customers and $2.7 million was sold to international wholesale customers. Excluding the kids business for the prior year results, wholesale revenue declined by $72.9 million or 31.4%. The decrease in 2002 domestic wholesale net revenue was attributable to continued cautious purchasing by department store buyers in response to lower consumer spending and higher allowances, together with a decrease in the number of locations in which our product was sold and the promotional environment at retailers. Our products were sold in 864 doors at the end of 2002 compared with approximately 1,549 doors, excluding the kid's business, at the end of 2001. International wholesale net revenue decreased primarily as a result of decreased sales in Asia partially offset by improved sales in Europe for the 2002 fiscal year.

Net royalties from licensing operations increased by $2.1 million, or 5.7%, to $39.0 million for the year ended December 31, 2002, from $36.9 million for the year ended December 31, 2001. The increase in net royalties was primarily due to the licensing of our kids line in 2002, which resulted in $1.6 million of additional royalties, and positive royalty adjustments from licensee audits. The composition of licensees remained comparable from 2001 to 2002, except for the addition of the kids license.

*Gross profit.* Gross profit decreased $30.5 million or 13.3% to $199.3 million for the year ended December 31, 2002, from $229.8 million for the year ended December 31, 2001. Gross profit for the retail segment increased $6.3 million, or 5.7%, to $117.0 million in 2002 compared to $110.7 million in 2001 primarily due to higher sales and lower store occupancy costs. Gross profit for the wholesale segment decreased $38.9 million, or 47.4%, to $43.3 million in year 2002 compared to $82.2 million in 2001. The decrease in gross profit for wholesale was due to the $100.5 million reduction in sales, which accounted for $31.8 million of the decrease and a lower gross margin percentage resulting from the Company's decision to clear more inventory through the wholesale off-price channels and factory stores, and from a higher level of markdown allowances to department store customers which accounted for $7.1 million of the decrease in gross profit.

Gross margin (gross profit as a percentage of total net revenue) improved slightly to 34.2% for the year ended December 31, 2002, from 33.9% for the year ended December 31, 2001. Gross margin from product sales decreased to 29.5% for the year ended December 31, 2002, from 30.1% for the year ended December 31, 2001.

Gross margin in our retail operations in 2002 was positively impacted by better sourcing partially offset by promotional markdowns and higher occupancy costs due to the lower sales productivity of new and existing stores. However, gross margins in the wholesale domestic operations were adversely impacted by higher markdown allowances to the Company's department store customers and sales to off-price channels at prices below cost. Partially offsetting the decrease in margin from product sales was the increase in royalty revenue as a percentage of total revenue, which has no associated cost of sales. Royalty revenue as a percentage of total net revenue increased from 5.4% in 2001 to 6.7% in 2002.

*Selling, general and administrative expenses.* SG&A expenses increased $1.4 million, or 0.7%, to $202.9 million, or 34.8% of net revenues for the year ended December 31, 2002, from $201.5 million, or 29.7% of net revenues for the year ended December 31, 2001.

The increase of SG&A expenses in 2002 compared to 2001 was the result of higher retail store selling expenses related to 24 new stores and higher advertising costs of $4.0 million, partially offset by continuous cost containment initiatives that were implemented beginning in late 2000 and continued throughout 2002, in both the retail and wholesale businesses.

*Litigation settlement.* During 2002, the Company received approximately $4.3 million in a litigation settlement.



*Restructuring, impairment and severance charges.* During the year ended December 31, 2002, the Company recorded restructuring, impairment and severance charges of $9.2 million ($6.2 million after tax or $0.14 per diluted share). Included in this charge, the Company recorded $1.5 million in additional costs for rent paid, estimated rent to be paid and lease exit costs related to excess leased facilities and under-performing stores which were abandoned or closed in 2003. In addition, $6.9 million of the charges represented the write-down of the value of certain impaired assets, including fixed assets related to unprofitable stores. The remaining $0.8 million of the charge was related to severance costs for the termination of 59 employees, which was part of the Company's continuing efforts to reduce costs, improve productivity, streamline its corporate structure and consolidate operations. Approximately $0.4 million of the severance remained unpaid and accrued on the balance sheet at the end of 2002. The remaining severance costs were paid during 2003.

*Earnings from operations.* Earnings from operations decreased $32.3 million, or 135.7%, to a loss of $8.5 million in 2002 from earnings of $23.8 million, or 3.5% of net revenue in 2001. The results included the restructuring, impairment and severance charges of $9.2 million and $5.5 million, in 2002 and 2001, respectively, and the litigation settlement of $4.3 million in 2002. Earnings from operations decreased in the retail segment to $4.4 million in 2002 from $7.9 million in 2001 primarily due to a 4.1% decline in comparable store sales and the costs of operating 24 new stores for 2002. The wholesale segment reported a loss of $4.7 million in 2002 as compared to earnings of $28.2 million in 2001. The increase in the operating loss for the wholesale segment was principally attributable to a 38.6% decrease in sales which accounted for $31.8 million of the decrease and lower margins due to increased promotional activity and losses on sales through the off-price channel accounting for $7.1 million of the decrease, partially offset by lower selling, general, and administrative expenses of $6.0 million. Earnings from operations for the licensing operating segment decreased to $29.1 million in 2002, from $29.4 million in 2001. The cost of unallocated corporate overhead declined to $37.3 million in 2002, from $41.7 million in 2001 due to a litigation settlement of $4.3 million in 2002.

*Interest expense.* Interest expense decreased $3.3 million or 25.7% to $9.4 million for the year ended December 31, 2002, from $12.7 million for the year ended December 31, 2001. This decrease is attributable to a lower outstanding average debt, resulting from a lower inventory position, successful cost containment measures and slightly lower capital expenditures during 2002. For the year ended December 31, 2002, the average debt balance was $91.4 million, with an average effective interest rate of 10.3%. For the year ended December 31, 2001, the average debt balance was $130.2 million, with an average effective interest rate of 9.8%.

*Income taxes.* The income tax benefit for the year ended December 31, 2002, was $5.5 million, or a 33.0% effective tax rate. The income tax provision for the year ended December 31, 2001, was $4.5 million, or a 41.9% effective tax rate. The change in the effective tax rate was the result of an overall loss in 2002 compared to income in 2001.

*Net earnings (loss).* Net earnings decreased by $17.5 million to a loss of $11.3 million for the year ended December 31, 2002, from earnings of $6.2 million for the year ended December 31, 2001.



**Liquidity and Capital Resources**

The following table summarizes the Company's contractual obligations at December 31, 2003 and the effects such obligations are expected to have on liquidity and cash flow in future periods (in thousands):

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations:** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| Long-term debt obligations | $ 68,092 | $ 13,931 | $ 26,408 | $ 21,824 | $ 5,929 |
| Operating lease obligations | 322,712 | 56,630 | 99,195 | 74,447 | 92,440 |
| Total | $ 390,804 | $ 70,561 | $ 125,603 | $ 96,271 | $ 98,369 |

Our need for liquidity will primarily arise from the funding of capital expenditures, working capital requirements and payment of our indebtedness. We have historically financed our operations primarily from internally generated funds and borrowings under our Credit Facility (defined below). Please see "Important Factors Regarding Forward-Looking Statements" below for a discussion of risk factors which could reasonably likely result in a decrease of internally generated funds available to finance capital expenditures and working capital requirements. As of December 31, 2003, the Company had no borrowings under our Credit Facility (defined below) and had available borrowing capacity of $41.6 million.

On September 27, 2002, the Company entered into a new credit facility led by Wachovia Securities, Inc., as Arranger and Administrative Agent ("Credit Facility"), which replaced a previous credit agreement. The term of the Credit Facility is for a period of four years and provides for a maximum line of credit of $85 million, including an amount made available to the Company's Canadian subsidiaries under a separate credit agreement (currently $15 million). The Credit Facility includes a $47.5 million sub-limit for letters of credit. Borrowings available under the Credit Facility are subject to a borrowing base and outstanding borrowings are secured by inventory, accounts receivable and substantially all other personal property of the borrowers. For borrowings under the Credit Facility, the Company may elect an interest rate based on either the Prime Rate or a Eurodollar rate plus a margin, which fluctuates depending on availability under the Credit Facility and the Company's financial performance as measured by a cash flow test. This margin ranges from 0 to 75 basis points for Prime Rate loans and from 175 to 250 basis points for Eurodollar rate loans. Monthly commitment fees under the Credit Facility are 37.5 basis points per annum times the difference between $60 million and the amount of outstanding loans and letters of credit. The Credit Facility requires the Company to maintain a minimum tangible net worth if excess availability under the Credit Facility is less than $20 million. The agreement also restricts the payment of dividends by the Company, the incurrence of certain indebtedness and certain loans, and investments other than capital expenditures. At December 31, 2003, the Company had no borrowings under the Credit Facility; it had $2.3 million in outstanding standby letters of credit, $17.3 million in outstanding documentary letters of credit, and approximately $41.6 million available for future borrowings. As of December 31, 2003, the Company was in compliance with all of its covenants under the Credit Facility.

On April 28, 2003 Guess? Royalty Finance LLC, an indirect wholly owned subsidiary of the Company (the "Issuer"), issued in a private placement $75 million of 6.75% asset-backed notes ("Secured Notes"). The Secured Notes are secured by rights and interests in receivables generated from specific license agreements of specified Guess? trademarks and all royalty monies payable or becoming payable under such license agreements, and a security interest in specified assets consisting primarily of such Guess? trademarks and the specified license agreements. Payment of principal and interest on the Secured Notes is guaranteed by Guess? IP Holder L.P. ("IP Holder"), an indirect wholly owned subsidiary of the Company, which is the owner of substantially all of the Company's domestic and many of the Company's foreign trademarks. Under the terms of the Secured Notes, the Issuer, IP Holder and the applicable indenture trustee have each agreed that none of them will take any action that would result in a material breach or impairment of any of the rights of any licensee under any license of the trademarks held by IP



Holder, including the concurrent license of such trademarks back to the Company. The Secured Notes due June 2012 pay interest and amortize principal quarterly. The Secured Notes are subject to an interest reserve account in an amount equal to the greater of (1) the product of the interest rate and the outstanding principal amount or (2) $1,750,000. At December 31, 2003, the Company had $4.5 million of restricted cash related to the interest reserve. The net proceeds, after interest reserves and expenses, of approximately $66.8 million, along with available cash and borrowings under the Credit Facility, were used to repay the 9 1/2% Senior Subordinated Notes due in August 2003. The Company called the 9 1/2% Senior Subordinated Notes for redemption on May 27, 2003.

During the fiscal year 2003, the Company relied on trade credit along with available cash and borrowings under the Credit Facility, and internally generated funds to finance its operations and expansion. Net cash provided by operating activities was $62.4 million for the year ended December 31, 2003 compared to $29.6 million of net cash provided by operating activities for the year ended December 31, 2002. The increase in cash provided by operating activities reflects an $18.6 million improvement in net earnings in 2003. The increase was also impacted by $15.0 million combined decrease in inventory and accounts receivable during the 2003 fiscal year compared to a combined increase of $5.5 million in accounts receivable and inventory during the 2002 fiscal year. Cash provided by operating activities was also impacted by an increase in restricted cash of $4.5 million. At December 31, 2003, the Company had working capital of $99.8 million compared to $21.4 million at December 31, 2002. Working capital as of December 31, 2002, included the $79.6 million of 9 1/2% Senior Subordinated Notes due August 2003 as a current liability.

Capital expenditures totaled $18.2 million, net of lease incentives granted of $3.5 million for the year ended December 31, 2003, compared to $22.7 million, net of lease incentives granted of $6.7 million for the year ended December 31, 2002. The Company's capital expenditures planned for 2004 are approximately $30 million, primarily for retail store expansion of approximately 26 stores, significant store remodeling programs, investments in information systems and enhancements in other infrastructure.

The Company's primary working capital needs are for inventory and accounts receivable. The Company's inventory levels decreased $12.2 million in 2003 to $83.5 million at December 31, 2003 from $95.7 million at December 31, 2002. A new inventory allocation system we have implemented is resulting in improved inventory turnover and in-stock positions in the stores, and is contributing to higher store sales volumes with less inventory. The Company anticipates that it will be able to satisfy its ongoing cash requirements during the next twelve months for working capital, capital expenditures, and interest and principal payments on its debt, primarily with cash flow from operations supplemented by borrowings under the Credit Facility.

In January 2002, the Company established a qualified employee stock purchase plan ("ESPP"), the terms of which allow for qualified employees to participate in the purchase of designated shares of the Company's common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each quarterly stock purchase period. On January 23, 2002, the Company filed with the SEC a Registration Statement on Form S-8 registering 2,000,000 shares of common stock for the ESPP. During 2003, 80,239 shares of the Company's common stock were issued pursuant to the ESPP at an average price of $3.85 per share for a total of $0.3 million.

In May 2001, the Company's Board of Directors authorized the Company to repurchase shares of its own stock in an amount of up to $15 million from time to time in open market transactions. During 2002, the Company purchased 606,000 shares at an aggregate cost of

$3.2 million, or an average of $5.21 per share. No share repurchases were made during the year ended December 31, 2003. Since the inception of the share repurchase program in May 2001, the Company has purchased 1,137,000 shares at an aggregated cost of $7.1 million, or an average of $6.26 per share.



### Seasonality

The Company's business is impacted by the general seasonal trends characteristic of the apparel and retail industries. Retail operations are generally stronger in the third and fourth quarters, and wholesale operations generally experience stronger performance in the third quarter. As the timing of the shipment of products may vary from year to year, the result for any particular quarter may not be indicative of results for the full year.

### Inflation

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

#### Impact of Recent Accounting Pronouncements

On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Furthermore, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002. We have included the required disclosures in the notes to the consolidated financial statements.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The adoption of SFAS 149 did not have any impact on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The adoption of SFAS 150 did not have any impact on the Company's consolidated financial position or results of operations.

In December 2003, the SEC published Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition." SAB 104 updates portions of the SEC staff's interpretive guidance provided in SAB 101. SAB 104 also deletes interpretive material no longer necessary, and conforms the interpretive material retained, because of pronouncements issued by the FASB's EITF on various revenue recognition topics. The adoption of SAB 104 did not have a significant impact on the Company's consolidated financial position or results of operations.

In January 2003, the Financial Accounting Standards Board ("FASB") Issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," which addresses consolidation by business enterprises of variable interest entities ("VIEs") either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional



subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest.

In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 ("Revised Interpretations") resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. Special Purpose Entities ("SPEs") created prior to February 1, 2003 may be accounted for under the original or revised interpretation's provisions. Non-SPEs created prior to February 1, 2003, should be accounted for under the Revised Interpretation's provisions. The Revised Interpretations are effective for periods after June 15, 2003 for VIEs in which the Company holds a variable interest it acquired before February 1, 2003. For entities acquired or created before February 1, 2003, the Revised Interpretations are effective no later than the end of the first reporting period that ends after March 15, 2004, except for those VIEs that are considered to be special-purpose entities, for which the effective date is no later that the end of the first reporting period that ends after December 31, 2003. The adoption of FIN 46 and the Revised Interpretations has not and is not expected to have an impact on the consolidated financial statements.

**Important Factors Regarding Forward-Looking Statements**

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

Although the Company believes that the expectations reflected in any of the forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. Certain statements in this Form 10-K, including those relating to the Company's expected results of operations, the accuracy of data relating to, and anticipated levels of, future inventory and gross margins, anticipated cash requirements and sources, cost containment efforts, estimated charges, plans regarding store openings and closings, e-commerce and business seasonality, are forward-looking statements. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. The Company does not intend, and undertakes no obligation, to update the forward-looking statements to reflect future events or circumstances.

Specific risks and uncertainties of which you should be aware include, but are not limited to, the following:

**Our business is dependent on the fashion industry and could suffer from adverse changes including the following:**

- reduced levels of consumer spending resulting from (1) a general economic downturn, (2) changes in interest rates, (3) the availability of consumer credit, (4) changes in taxation rates, (5) consumer confidence in future economic conditions, or (6) reduced levels of consumer disposable income;
- introduction of new products or pricing changes by our competitors; or
- a lower number of fashion retailers carrying our products or an increase in the ownership concentration of fashion retailers.



**Our revenue from the sales of products would decline if there was a decline in the demand for our products, including licensee products. A decline in demand for our products could arise from our inability to:**

- identify and respond appropriately to changing consumer demands and fashion trends;
- maintain favorable brand recognition and customer acceptance of our existing and future products;
- appropriately price our products;
- obtain sufficient retail floor space and effective presentation of our products at retail or expand our network of retail stores; or
- control the quality, focus, image, financial stability or distribution of our licensed products.

**Our revenue from the sale of products is impacted by our relationships with third party customers and suppliers and could be adversely affected by:**

- a decision by the controlling owner of a group of department stores or any other significant customer to decrease the amount purchased from us or to cease carrying GUESS products;
- possible cancellation of wholesale orders;
- our general failure to maintain and control our existing distribution and licensing arrangements or to procure additional distribution and licensing relationships;
- our inability to ensure product availability and optimize supply chain efficiencies with suppliers and retailers;
- increased costs due to reliance on third-party suppliers and contract manufacturers; or
- a failure by our suppliers to produce our products to our quality standards or to comply with acceptable labor practices.

**Our business is impacted by general economic and political conditions and could be adversely affected by:**

- unfavorable changes in regional, national and global economic conditions;

- social, political, legal or economic instability or changes resulting in the disruption of trade with the countries in which our contractors, suppliers or customers are located;

- the imposition of additional regulations relating to imports, the imposition of additional duties, taxes and other charges on imports; or

- significant fluctuations in the value of the dollar against foreign currencies or restrictions on the transfer of funds.

**Our business is subject to a number of other risks. Our business could be adversely affected by any:**

- lack of continued availability of sufficient working capital;

- inability to integrate new stores into existing operations;

- inability to strengthen our inventory cost accounting controls and procedures;

- continued or accelerated decline in the revenues of our wholesale segment;

- negative outcomes of pending and future litigation;

- third party's infringement upon or any other inability to protect our existing trademarks and proprietary rights;

- foreclosure upon the trademarks and/or trademark license agreements pledged as collateral to holders of notes issued by our wholly owned subsidiary Guess? Royalty Finance LLC ("Pledged License Agreements");

- appointment of a third party to act as servicer of the Pledged License Agreements;

- failure by licensees of our trademarks to maintain the quality, focus, image or distribution of our licensed products;

- loss or retirement of our key executives or other key employees;

- inability to generate sufficient cash flow to service debt obligations for our notes and other line of credit facilities; or

- inability to comply with debt covenant restrictions, which may trigger payment acceleration provisions.



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

*Exchange Rate Risk*

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

The Company may enter into derivative financial instruments, including forward exchange contracts, to manage exchange risk on foreign currency transactions. These financial instruments can be used to protect the Company from the risk that the eventual net cash inflows from the foreign currency transactions will be adversely affected by changes in exchange rates. Changes in the fair value of derivative financial instruments are either recognized periodically through the income statement or through stockholders' equity as a component of comprehensive income or loss. The classification depends on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives designated as fair value hedges are matched in the income statement against the respective gain or loss relating to the hedged items. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income or loss net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are currently reported in income.

| Forward Exchange Contracts | U.S. Dollar Equivalent | Maturity Date | Fair Value in U.S. $ at December 31, 2003 |
|---|---|---|---|
| Canadian dollars | $ 1,000,000 | January 5, 2004 to January 30, 2004 | $ 1,084,302 |
| Canadian dollars | 1,000,000 | February 2, 2004 to February 27, 2004 | 1,054,854 |
| Canadian dollars | 250,000 | February 2, 2004 to February 27, 2004 | 253,434 |
| Canadian dollars | 1,000,000 | March 1, 2004 to March 31, 2004 | 1,004,384 |
| Canadian dollars | 1,000,000 | March 1, 2004 to March 31, 2004 | 1,056,400 |

| | | | |
|---|---|---|---|
| Canadian dollars | 1,000,000 | April 1, 2004 to April 30, 2004 | 1,046,584 |
| Canadian dollars | 1,000,000 | May 3, 2004 to May 28, 2004 | 1,047,744 |
| Canadian dollars | 1,000,000 | June 1, 2004 to June 30, 2004 | 1,049,135 |

Based upon the rates at December 31, 2003, the cost to buy the equivalent U.S. dollars discussed above was approximately $9.4 million Canadian currency. At December 31, 2003, the Company had forward exchange contracts to purchase $7.3 million U.S. dollars and the fair value of those contracts at that date was $7.6 million U.S. dollars. The corresponding amounts at December 31, 2002, were $4.0 million U.S. dollars and $4.0 million U.S. dollars, respectively.

*Interest Rate Risk*

At December 31, 2003, 98.1% of the Company's indebtedness contained a fixed interest rate of 6.75%. At December 31, 2002, 98.2% of the Company's indebtedness contained a fixed interest rate of 9.5%. Substantially all of the Company's remaining indebtedness, including borrowings under the Credit Facility, is at variable rates of interest. Accordingly, changes in interest rates would impact the Company's results of operations in future periods. A 100 basis point change in interest rates is not expected to significantly impact the Company's consolidated operating results.



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

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

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

None.

**ITEM 9A. Controls and Procedures**

Under the supervision and with the participation of the Company's management, including Maurice Marciano and Paul Marciano as Co-Chief Executive Officers, Carlos Alberini as President and Chief Operating Officer and Frederick G. Silny as Senior Vice President and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of the disclosure controls and procedures within 90 days of the filing date of this annual report, and, based on the evaluation, Maurice Marciano, Paul Marciano, Carlos Alberini and Frederick G. Silny have concluded that these controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

The Company's controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that are filed under the Exchange Act is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.



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**PART III**

**ITEM 10. Directors and Executive Officers of the Registrant**

The policies comprising our code of conduct are set forth in the Company's Code of Conduct (the "Code of Conduct"), which is attached as an exhibit to this annual report. These policies satisfy the SEC's requirements for a "code of ethics," and apply to all directors, officers (including our principal executive officers, principal financial officer and principal accounting officer or controller) and employees. The Code of Conduct is published on our website at www.guess.com. Any person may request a copy of the Code of Conduct, at no cost, by writing to us at the following address: Guess?, Inc., 1444 South Alameda Street, Los Angeles, California 90021, Attn: General Counsel.

The remaining information required by this item can be found under the captions "Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's Proxy Statement (the "Proxy Statement") to be distributed on or about April 12, 2004, for the 2004 Annual Meeting of Stockholders to be held on May 10, 2004. Such information is incorporated herein by reference.

**ITEM 11. Executive Compensation**

The information in the Proxy Statement set forth under the caption "Executive Compensation" is incorporated herein by reference.

### ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the caption "Security Ownership and Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

### ITEM 13. Certain Relationships and Related Transactions

The information set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

### ITEM 14. Principal Accountant Fees and Services

The information set forth under the caption "Relationship with Independent Auditors" in the Proxy Statement is incorporated herein by reference.



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## PART IV

### ITEM 15. Exhibits, Consolidated Financial Statement Schedule, and Reports on Form 8-K

(a) Documents Filed with Report

(1) Independent Auditors' Report

(2) Consolidated Financial Statements

The financial statements listed on the accompanying Index to Consolidated Financial Statements are filed as part of this report.

(3) Consolidated Financial Statement Schedule

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

(4) Exhibits

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

(b) Reports on Form 8-K

Form 8-K filed on October 27, 2003 announcing the financial results for the quarter ended September 27, 2003.



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

**Items 8, and 15(a) and 15(d)**
**Index to Consolidated Financial Statements and Financial Statement Schedule**


| | |
|---|---|
| 1 Independent Auditors' Report | F-2 |
| 2 Consolidated Financial Statements | |
| Consolidated Balance Sheets at December 31, 2003 and 2002 | F-3 |
| Consolidated Statements of Operations for the Years ended December 31, 2003, 2002 and 2001 | F-4 |
| Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years ended December 31, 2003, 2002 and 2001 | F-5 |

| | | |
|---|---|---|
| | Consolidated Statements of Cash Flows for the Years ended December 31, 2003, 2002 and 2001 | F-6 |
| | Notes to Consolidated Financial Statements | F-7 |
| 3 | Consolidated Financial Statement Schedule — Valuation and Qualifying Accounts | F-30 |




## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Guess?, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule, as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Guess?, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* on January 1, 2002.

/s/ KPMG LLP
Los Angeles, California
February 17, 2004



## GUESS?, INC. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS
## December 31, 2003 and 2002

| | 2003 | 2002 |
|---|---|---|
| | (in thousands, except share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 67,163 | $ 31,753 |
| Restricted cash | 4,509 | — |
| Receivables, net | 32,602 | 35,437 |
| Inventories, net | 83,530 | 95,683 |
| Prepaid expenses and other current assets | 13,341 | 11,278 |
| Deferred tax assets | 9,499 | 14,836 |
| Total current assets | 210,644 | 188,987 |
| Property and equipment, at cost, net of accumulated depreciation and amortization | 114,403 | 128,097 |
| Goodwill | 11,610 | 10,970 |
| Long-term deferred tax assets | 16,244 | 15,920 |
| Other assets, at cost, net of accumulated amortization | 9,864 | 5,558 |
| | $ 362,765 | $ 349,532 |

| | | |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current installments of notes payable and long-term debt | $ 13,931 | $ 80,138 |
| Accounts payable | 44,888 | 44,460 |
| Accrued expenses | 52,056 | 42,963 |
| Total current liabilities | 110,875 | 167,561 |
| Notes payable and long-term debt, excluding current installments | 54,161 | 1,480 |
| Other liabilities | 14,947 | 14,211 |
| | 179,983 | 183,252 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding | — | — |
| Common stock, $0.01 par value. Authorized 150,000,000 shares; issued 64,719,287 and 64,203,462 shares at 2003 and 2002, outstanding 43,672,831 and 43,076,767 shares at 2003 and 2002, respectively | 155 | 150 |
| Paid-in capital | 173,638 | 170,111 |
| Deferred compensation | (509) | (729) |
| Retained earnings | 163,182 | 155,896 |
| Accumulated other comprehensive income (loss) | 3,300 | (1,565) |
| Treasury stock, 21,046,456 and 21,126,695 shares repurchased at 2003 and 2002, respectively | (156,984) | (157,583) |
| Stockholders' equity | 182,782 | 166,280 |
| | $ 362,765 | $ 349,532 |

See accompanying notes to consolidated financial statements



**GUESS?, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**Years ended December 31, 2003, 2002 and 2001**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands, except per share data) | |
| Net revenue: | | | |
| Product sales | $ 596,806 | $ 544,081 | $ 640,700 |
| Net royalties | 39,779 | 39,058 | 36,920 |
| | 636,585 | 583,139 | 677,620 |
| Cost of product sales | 416,430 | 383,806 | 447,825 |
| Gross profit | 220,155 | 199,333 | 229,795 |
| Selling, general and administrative expenses | 197,130 | 202,930 | 201,527 |
| Gain on disposition of property and equipment | — | — | (1,063) |
| Litigation settlement | — | (4,250) | — |
| Restructuring, impairment and severance charges | 2,425 | 9,179 | 5,502 |
| Earnings (loss) from operations | 20,600 | (8,526) | 23,829 |
| Other expense (income): | | | |
| Interest expense | 7,974 | 9,444 | 12,705 |
| Interest income | (134) | (313) | (100) |
| Other, net | (26) | (825) | 482 |

| | | | |
|---|---|---|---|
| | 7,814 | 8,306 | 13,087 |
| Earnings (loss) before income taxes (benefit) | 12,786 | (16,832) | 10,742 |
| Income taxes (benefit) | 5,500 | (5,550) | 4,500 |
| Net earnings (loss) | $ 7,286 | $ (11,282) | $ 6,242 |
| **Earnings (loss) per share:** | | | |
| Basic | $ 0.17 | $ (0.26) | $ 0.14 |
| Diluted | $ 0.17 | $ (0.26) | $ 0.14 |
| **Weighted number of shares outstanding** | | | |
| Basic | 43,279 | 43,392 | 43,656 |
| Diluted | 43,558 | 43,392 | 43,958 |

See accompanying notes to consolidated financial statements



## GUESS?, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
### Years ended December 31, 2003, 2002 and 2001

| | Compre-hensive Income (loss) | Common Stock | Paid-in Capital | Deferred Compensation | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | |
| Balance at December 31, 2000 | | $ 146 | $ 167,833 | $ (950) | $ 160,936 | $ (2,033) | $ (150,776) | $ 175,156 |
| Comprehensive income: | | | | | | | | |
| Net earnings | $ 6,242 | — | — | — | 6,242 | — | — | 6,242 |
| Foreign currency translation adjustment | (803) | — | — | — | — | (803) | — | (803) |
| Unrealized gain on investments, net of tax effect | 389 | — | — | — | — | 389 | — | 389 |
| Total comprehensive income | $ 5,828 | | | | | | | |
| Issuance of common stock under stock option plan including tax effect | | 1 | 211 | — | — | — | — | 212 |
| Deferred compensation | | — | 56 | 630 | — | — | — | 686 |
| Purchase of treasury stock | | — | — | — | — | — | (3,958) | (3,958) |
| Balance at December 31, 2001 | | 147 | 168,100 | (320) | 167,178 | (2,447) | (154,734) | 177,924 |
| Comprehensive loss: | | | | | | | | |
| Net loss | $ (11,282) | — | — | — | (11,282) | — | — | (11,282) |
| Foreign currency translation adjustment | 1,011 | — | — | — | — | 1,011 | — | 1,011 |
| Unrealized loss on investments, net of tax effect | (129) | — | — | — | — | (129) | — | (129) |
| Total comprehensive loss | $ (10,400) | | | | | | | |
| Issuance of common stock under stock compensation plans including tax effect | | 2 | 619 | — | — | — | — | 621 |
| Issuance of stock under ESPP | | 1 | 16 | — | — | — | 309 | 326 |
| Deferred compensation | | — | 1,376 | (409) | — | — | — | 967 |
| Purchase of treasury stock | | — | — | — | — | — | (3,158) | (3,158) |
| Balance at December 31, 2002 | | 150 | 170,111 | (729) | 155,896 | (1,565) | (157,583) | 166,280 |
| Comprehensive income: | | | | | | | | |
| Net earnings | $ 7,286 | — | — | — | 7,286 | — | — | 7,286 |
| Foreign currency translation adjustment | 4,525 | — | — | — | — | 4,525 | — | 4,525 |
| Unrealized gain on investments, net of tax effect | 340 | — | — | — | — | 340 | — | 340 |
| Total comprehensive income | $ 12,151 | | | | | | | |
| Issuance of common stock under stock compensation plans, including tax effect | | 5 | 3,663 | — | — | — | — | 3,668 |
| Issuance of stock under ESPP | | — | (290) | — | — | — | 599 | 309 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Deferred compensation | — | 154 | 220 | — | — | — | 374 |
| Balance at December 31, 2003 | $ 155 | $ 173,638 | $ (509) | $ 163,182 | $ 3,300 | $ (156,984) | $ 182,782 |



**GUESS?, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years ended December 31, 2003, 2002 and 2001**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Cash flows from operating activities: | | | |
| Net earnings (loss) | $ 7,286 | $ (11,282) | $ 6,242 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization of property and equipment | 34,924 | 37,727 | 39,751 |
| Amortization of other assets | 20 | 252 | 1,271 |
| Deferred income taxes | 5,013 | (8,867) | 1,480 |
| Loss on disposition of property and equipment | 3,034 | 8,152 | 797 |
| Other items, net | 1,639 | 362 | 211 |
| Changes in operating assets and liabilities: | | | |
| Restricted cash | (4,509) | — | — |
| Accounts receivable | 2,835 | 5,063 | (6,117) |
| Inventories | 12,153 | 422 | 48,115 |
| Prepaid expenses and other assets | (6,717) | (370) | 9,868 |
| Accounts payable | 428 | (3,473) | (36,110) |
| Accrued expenses | 6,368 | 1,603 | 6,272 |
| Net cash provided by operating activities | 62,474 | 29,589 | 71,780 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment, net of lease incentives | (18,200) | (22,692) | (22,866) |
| Proceeds from the disposition of property and equipment | 6 | 1,494 | 3,096 |
| Net proceeds from the sale of long-term investments | (190) | 75 | 55 |
| Acquisition of license | — | (1,347) | (500) |
| Net cash used in investing activities | (18,384) | (22,470) | (20,215) |
| Cash flows from financing activities: | | | |
| Proceeds from notes payable and long-term debt | 342,468 | 48,919 | 150,160 |
| Repayment of notes payable and long-term debt | (355,994) | (55,029) | (180,014) |
| Issuance of common stock | 4,351 | 1,914 | 898 |
| Purchase of treasury stock | — | (3,158) | (3,958) |
| Net cash used in financing activities | (9,175) | (7,354) | (32,914) |
| Effect of exchange rates on cash and cash equivalents | 495 | 118 | (113) |
| Net increase (decrease) in cash and cash equivalents | 35,410 | (117) | 18,538 |
| Cash and cash equivalents at beginning of year | 31,753 | 31,870 | 13,332 |
| Cash and cash equivalents at end of year | $ 67,163 | $ 31,753 | $ 31,870 |
| Supplemental disclosures | | | |
| Cash paid (received) during the year for: | | | |
| Interest | $ 9,989 | $ 9,221 | $ 12,647 |
| Income taxes | (5,324) | 1,186 | (6,796) |

See accompanying notes to consolidated financial statements





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

*Classification of Certain Costs and Expenses*

The Company includes inbound freight charges, purchasing costs, retail store occupancy costs and a portion of the Company's distribution costs related to its retail business in costs of product sales. Distribution costs related to the wholesale business are included in selling, general and administrative expenses and amounted to $7.6 million and $8.3 million for the years ended December 31, 2003 and December 31, 2002, respectively. The Company includes store selling, selling and merchandising, advertising, wholesale distribution costs, design and other corporate overhead costs as a component of selling, general and administrative expenses.

*Shipping Income and Expenses*

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

*Principles of Consolidation*

The consolidated financial statements include the accounts of Guess?, Inc. and its wholly-owned subsidiaries as follows: GUESS? Retail, Inc., GUESS? Licensing, Inc., Guess.com, Inc., Guess? Value LLC, Guess? IP LP LLC, Guess? IP GP LLC, Guess? IP Holder L.P., Guess? Royalty Finance LLC, Guess Europe, B.V., a Netherlands corporation ("GEBV"), and GUESS? Canada Corporation ("Guess Canada", formerly named Strandel Inc.), a Canadian corporation. GEBV holds two wholly-owned subsidiaries: Guess Asia, a Hong Kong corporation, and Guess Italia, S.r.l., an Italian corporation. In 2000, Guess held a 60% interest in Guess Canada and acquired the remaining 40% in 2001. The Company recorded 100% of the results of GUESS? Canada in both 2003 and 2002. Accordingly, all references herein to "Guess?, Inc." include the consolidated results of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated during the consolidation process.

*Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant areas requiring the use of management estimates relate to the valuation of inventories, accounts receivable allowances, the useful life of assets for depreciation, restructuring expense and accruals, evaluation of impairment, recoverability of deferred taxes and evaluation of net recoverable amounts and accruals for the sublet of certain lease obligations. Actual results could differ from those estimates.



*Investment Securities*

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

*Earnings (Loss) per Share*

Basic earnings (loss) per share represents net earnings (loss) divided by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings (loss) per share represents net earnings divided by the weighted-average number of shares outstanding, inclusive of the dilutive impact of common stock equivalents such as stock options.

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Weighted average shares used in basic computations | 43,279 | 43,392 | 43,656 |
| Dilutive stock options | 279 | — | 302 |
| Weighted average shares used in diluted computation | 43,558 | 43,392 | 43,958 |

For the fiscal years 2003 and 2001, the difference between basic and diluted earnings per share was due to the potential dilutive impact of options to purchase common stock. The diluted loss per share for fiscal year 2002 was computed using the basic weighted-average number of shares outstanding and excluded 132,189 potentially dilutive shares, as their effect would be anti-dilutive when applied to losses. Options to purchase 1,294,477, and 1,043,251 shares of common stock at prices ranging from $6.51 to $27.31, and $7.00 to $27.31 were outstanding during 2003 and 2001, respectively, but were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the shares of common stock and therefore such options would be anti-dilutive.

*Concentration of Credit Risk*

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. The Company maintains cash with various major financial institutions and performs evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any institution. The Company extends credit to corporate customers based upon an evaluation of the customer's financial condition and credit history and generally requires no collateral. The Company's customers are principally located throughout North America, and their ability to pay amounts due to the Company may be dependent on the prevailing economic conditions of their geographic region. However, such credit risk is considered limited due to the Company's large customer base. Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and records a provision for doubtful accounts based on these evaluations. The Company's



credit losses for the periods presented are insignificant and have not significantly exceeded management's estimates. A few of the Company's domestic wholesale customers, including some under common ownership, have accounted for significant portions of its total net revenue. Bloomingdale's, Macy's and other affiliated stores owned by Federated Department Stores, Inc. together accounted for approximately 6.4%, 8.9%, and 11.3% of the Company's net revenue in 2003, 2002 and 2001, respectively.

*Inventories*

Inventories are valued at the lower of cost (first-in, first-out and weighted average method) or market. The Company continually evaluates its inventories by assessing slow moving current product as well as prior seasons' inventory. Market value of non-current inventory is estimated based on historical sales trends for this category of inventory of the Company's individual product lines, the impact of market trends, an evaluation of economic conditions and the value of current orders relating to the future sales of this type of inventory.

*Revenue Recognition*

The Company recognizes retail operations revenue at the point of sale, and wholesale operations revenue from the sale of merchandise when products are shipped and the customer takes title and assumes risk of loss, collection of relevant receivable is probable, pervasive evidence of an arrangement exists, and the sales price is fixed or determinable. Royalty income is based upon a percentage, as defined in the underlying agreement, of the licensees' actual net sales or minimum net sales, whichever is greater. The Company may receive payments in consideration of the grant of license rights. These payments are recognized as revenue over the term of the license agreement. The Company accrues for estimated sales returns and other allowances in the period in which the related revenue is recognized.

*Depreciation and Amortization*

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

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

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

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which eliminated amortization of goodwill. Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, was amortized on a straight-line basis over the expected periods to be benefited, generally 10 to 15 years. For the year ended

December 31, 2001, goodwill amortization totaled $1.2 million. The impact on net earnings and



earnings per share in 2001 if goodwill amortization had been excluded was to increase net earnings by $700,000 and earnings per share by $0.02 per diluted share.

*Foreign Currency Translation*

In accordance with SFAS No. 52, "Foreign Currency Translation," assets and liabilities of the Company's foreign operations are translated from foreign currencies into U.S. dollars at year-end rates, while income and expenses are translated at the weighted-average exchange rates for the year. The related translation adjustments are reflected as a foreign currency translation adjustment in other comprehensive income (loss) as a separate component of stockholders' equity. Foreign currency transaction losses included in the determination of net earnings (loss) were ($785,000), ($238,000) and ($252,000) for the three years ended December 31, 2003, 2002 and 2001, respectively.

*Foreign Currency Contracts*

The Company may enter into forward foreign exchange contracts in the ordinary course of business to mitigate the risk associated with foreign exchange rate fluctuations related to Canadian purchases of U.S. goods. The Company's foreign currency contracts are not designated as hedges for accounting purposes and changes in fair value of the derivative instruments are included in earnings (loss). At December 31, 2003, the Company had forward exchange contracts to purchase $7.3 million U.S. dollars for approximately $9.8 million Canadian dollars.

Unrealized gains and losses on outstanding foreign currency exchange contracts, used to mitigate currency risk on future revenues and purchases are included in earnings as a component of other income or expense and were not significant for the years ended December 31, 2003, 2002 and 2001.

*Income Taxes*

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

*Comprehensive Income (Loss)*

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

The unrealized loss on investments, net of tax effect, for the year ended December 31, 2000, includes the reclassification to "Restructuring, impairment and severance charges" in the consolidated statement of operations for unrealized losses of $2.4 million, $1.3 million net of tax, due to an other than temporary decline in the market value of an investment in marketable equity securities. See Note 18 to the consolidated financial statements.



*Business Segment Reporting*

The Company reports information about business segments and related disclosures about products and services, geographic areas and major customers. The business segments of the Company are retail, wholesale and licensing. Information regarding these segments is summarized in Note 15 to the consolidated financial statements.

*Fair Value of Financial Instruments*

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

The fair value of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At December 31, 2003 and 2002, the carrying value of all financial instruments was not materially different from fair value, as the fixed rate debt approximates rates currently available to the Company.

*Long-Lived Assets*

The Company reports long-lived assets, including intangibles, except for goodwill, at amortized cost. Long-lived assets and intangibles, including goodwill, are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If this assessment indicates that the assets will not be recoverable, as determined by the non-discounted cash flow generated by the asset, the carrying value of the Company's long-lived assets would be reduced to its estimated fair market value based on the discounted cash flows. Effective on January 1, 2002, goodwill and other intangible assets are accounted for under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." Other long-lived assets are accounted for under Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

*Advertising Costs*

The Company expenses the cost of advertising as incurred. Advertising expenses charged to operations for the years ended December 31, 2003, 2002 and 2001 were $17.4 million, $21.6 million, and $17.5 million, respectively.

*Reclassifications*

Certain reclassifications have been made to prior years' consolidated financial statements to conform to classifications used in the current year. These reclassifications had no impact on previously reported results.

*Employee Stock Options*

The Company has stock-based employee compensation plans, which are described more fully in Note 16. The company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost for stock options is reflected in net earnings, as all options granted under



those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company records compensation expense related to its restricted stock award plan in which the market price of the underlying stock at grant is recorded as unearned compensation and amortized to expense over the vesting period. The following table illustrates the effect on net earnings (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," as amended, to stock-based employee compensation (in thousands, except per share data):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net earnings (loss), as reported | $ 7,286 | $ (11,282) | $ 6,242 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 228 | 649 | 397 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (2,718) | (2,917) | (2,379) |
| Pro forma net earnings (loss) | $ 4,796 | $ (13,550) | $ 4,260 |
| Earnings (loss) per share: | | | |
| Basic—as reported | $ 0.17 | $ (0.26) | $ 0.14 |
| Basic—pro forma | $ 0.11 | $ (0.31) | $ 0.10 |
| Diluted—as reported | $ 0.17 | $ (0.26) | $ 0.14 |
| Diluted—pro forma | $ 0.11 | $ (0.31) | $ 0.10 |

**(2) New Accounting Standards**

On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Furthermore, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002. We have included the required disclosures in the notes to the consolidated financial statements.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The adoption of SFAS 149 did not have any impact on the Company's consolidated financial position or results of operations.



In May 2003, the FASB issued SFAS No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The adoption of SFAS 150 did not have any impact on the Company's consolidated financial position or results of operations.

In December 2003, the SEC published Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition." SAB 104 updates portions of the SEC staff's interpretive guidance provided in SAB 101. SAB 104 also deletes interpretive material no longer necessary, and conforms the interpretive material retained because of pronouncements issued by the FASB's EITF on various revenue recognition topics. The adoption of SAB 104 did not have a significant impact on the Company's consolidated financial position or results of operations.

In January 2003, the Financial Accounting Standards Board ("FASB") Issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," which addresses consolidation by business enterprises of variable interest entities ("VIEs") either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest.

In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 ("Revised Interpretations") resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. Special Purpose Entities ("SPEs") created prior to February 1, 2003 may be accounted for under the original or revised interpretation's provisions. Non-SPEs created prior to February 1, 2003, should be accounted for under the Revised Interpretation's provisions. The Revised Interpretations are effective for periods after June 15, 2003 for VIEs in which the Company holds a variable interest it acquired before February 1, 2003. For entities acquired or created before February 1, 2003, the Revised Interpretations are effective no later than the end of the first reporting period that ends after March 15, 2004, except for those VIEs that are considered to be special-purpose entities, for which the effective date is no later that the end of the first reporting period that ends after December 31, 2003. The adoption of FIN 46 and the Revised Interpretations has not and is not expected to have an impact on the consolidated financial statements.

**(3) Investments**

At December 31, 2003 and 2002, short-term investments included in other current assets consist of $1.6 million and $1.0 million, respectively, of marketable securities available for sale.

Long-term investments consist of certain marketable equity securities aggregating $0.4 million and $0.2 million at December 31, 2003 and 2002, respectively, and are included in other assets in the accompanying consolidated balance sheets. Unrealized gains related to marketable equity securities at December 31, 2003, amounted to $0.3 million, net of deferred tax liabilities of $0.3 million, and unrealized losses of $0.1 million at December 31, 2002, net of deferred tax assets of $0.1 million are included as a component of stockholders' equity and comprehensive income (loss).



**(4) Accounts Receivable**

Accounts receivable consists of trade receivables, less reserves aggregating $8,092,000 and $8,347,000, and royalty receivables, less allowance for doubtful accounts of $1,705,000 and $1,013,000 at December 31, 2003 and 2002, respectively.

**(5) Inventories**

Inventories at December 31, are summarized as follows (in thousands):

| | 2003 | 2002 |
|---|---|---|
| Raw materials | $ 7,312 | $ 7,026 |
| Work in process | 1,718 | 1,049 |
| Finished goods—retail | 52,090 | 53,974 |
| Finished goods—wholesale | 22,410 | 33,634 |
| | $ 83,530 | $ 95,683 |

At both December 31, 2003 and 2002, reserves for write-downs of inventories to the lower of cost or market totaled $7.9 million.

**(6) Property and Equipment**

Property and equipment at December 31, is summarized as follows (in thousands):

| | 2003 | 2002 |
|---|---|---|
| Land and land improvements | $ 3,237 | $ 3,237 |
| Building and building improvements | 3,324 | 3,520 |
| Leasehold improvements | 123,054 | 119,208 |
| Machinery and equipment | 149,798 | 156,392 |
| Corporate aircraft | 6,601 | 6,601 |
| Shop fixtures | 36,637 | 38,250 |
| Construction in progress | 8,530 | 4,956 |
| | 331,181 | 332,164 |
| Less accumulated depreciation and amortization | 216,778 | 204,067 |
| | $ 114,403 | $ 128,097 |

Construction in progress at December 31, 2003 and 2002 represents the costs associated with the construction of buildings and improvements used in the Company's operations and other capitalizable expenses in progress. During the years ended December 31, 2003, 2002 and 2001, interest costs capitalized in construction in progress amounted to $411,000, $156,000, and $300,000, respectively.

The Company recorded a charge for the impairment of long-lived assets of $1.6 million and $6.9 million during fiscal 2003 and 2002, respectively, to write down the net book value of property and equipment related to certain under-performing stores, consisting primarily of leasehold improvements, and machinery and equipment. These write-downs resulted in a direct reduction of leasehold improvements of $2.4 million and $7.3 million in 2003 and 2002, respectively, and a reduction in machinery and equipment of $1.6 million and $2.5 million in 2003 and 2002, respectively. Additionally, accumulated depreciation and



amortization was reduced by $2.4 million and $2.9 million in 2003 and 2002, respectively, as a result of these impairments.

**(7) Other Assets**

Other assets at December 31, is summarized as follows (in thousands):

| | 2003 | 2002 |
|---|---|---|
| Intangible assets, net of accumulated amortization | $ 2,119 | $ 1,036 |
| Artwork | 3,523 | 3,510 |
| Other | 4,222 | 1,012 |
| | $ 9,864 | $ 5,558 |

**(8) Accrued Expenses**

Accrued expenses at December 31, are summarized as follows (in thousands):

| | 2003 | 2002 |
|---|---|---|
| Accrued compensation and benefits | $ 12,377 | $ 7,850 |
| Sales and use taxes, and property taxes | 11,032 | 6,832 |
| Store credits and gift certificates | 5,588 | 5,420 |
| Deferred lease incentive and rent | 8,082 | 6,218 |
| Construction costs | 2,497 | 1,819 |
| Accrued interest | 160 | 2,829 |
| Other | 12,320 | 11,995 |
| | $ 52,056 | $ 42,963 |

**(9) Notes Payable and Long-Term Debt**

Notes payable and long-term debt at December 31, are summarized as follows (in thousands):

| | 2003 | 2002 |
|---|---|---|
| $9^{1}/2$% Senior Subordinated Notes due 2003 with interest payable semi-annually in February and August, redeemed in full in May 2003 | $ — | $ 79,562 |
| 6.75% Secured Notes due 2012 with interest payable quarterly in March, June, September and December | 66,785 | — |
| $85 million revolving credit facility | — | 1,468 |
| Other obligations, maturing in varying amounts through 2004 | 1,307 | 588 |
| | 68,092 | 81,618 |
| Less current installments | 13,931 | 80,138 |
| Long-term debt, excluding current installments | $ 54,161 | $ 1,480 |



On September 27, 2002, the Company entered into a new credit facility led by Wachovia Securities, Inc., as Arranger and Administrative Agent ("Credit Facility"), which replaces a previous credit agreement. The term of the Credit Facility is for a period of four years and provides for a maximum line of credit of $85 million, including an amount made available to the Company's Canadian subsidiaries under a separate credit agreement (currently $15 million). The Credit Facility includes a $47.5 million sub-limit for letters of credits. Borrowings available under the Credit Facility are subject to a borrowing base and outstanding borrowings are secured by inventory, accounts receivable and substantially all other personal property of the borrowers.

For borrowings under the Credit Facility, the Company may elect an interest rate based on either the Prime Rate or a Eurodollar rate plus a margin, which fluctuates depending on availability under the Credit Facility and the Company's financial performance as measured by a cash flow test. This margin ranges from 0 to 75 basis points for Prime Rate loans and from 175 to 250 basis points for Eurodollar rate loans. Monthly commitment fees for unused borrowings up to $60 million under the Credit Facility are 37.5 basis points per annum. The Credit Facility requires the Company to maintain a minimum tangible net worth, as defined, if excess availability under the Credit Facility is less than $20 million. The agreement also restricts the payment of dividends by the Company, the incurrence of certain indebtedness and certain loans, and investments other than capital expenditures. At December 31, 2003, the Company had no borrowings under the Credit Facility; it had $2.3 million in outstanding standby letters of credit, $17.3 million in outstanding documentary letters of credit, and approximately $41.6 million available for future borrowings. As of December 31, 2003, the Company was in compliance with all of its covenants under the Credit Facility.

On April 28, 2003, Guess? Royalty Finance LLC, an indirect wholly owned subsidiary of the Company (the "Issuer"), issued in a private placement $75 million of 6.75% asset-backed notes due June 2012 ("Secured Notes"). The Secured Notes are secured by rights and interests in receivables generated from specific license agreements of specified Guess? trademarks and all royalty monies payable or becoming payable under such license agreements, and a security interest in specified assets consisting primarily of such Guess? trademarks and the specified license agreements. The Secured Notes pay interest and amortize principal quarterly. Payment of principal and interest on the Secured Notes is guaranteed by Guess? IP Holder L.P. ("IP Holder"), an indirect wholly owned subsidiary of the Company, which is the owner of substantially all of the Company's domestic and many of the Company's foreign trademarks. Under the terms of the Secured Notes, the Issuer, IP Holder and the applicable indenture trustee have each agreed that none of them will take any action that would result in a material breach or impairment of any of the rights of any licensee under any license of the trademarks held by IP Holder, including the concurrent license of such trademarks back to the Company. The Secured Notes are subject to an interest reserve account in an amount equal to the greater of (1) the product of the interest rate and the outstanding principal amount or (2) $1,750,000. At December 31, 2003, the Company had $4.5 million of restricted cash related to the interest reserve. The net proceeds, after interest reserves and expenses, of approximately $66.8 million, along with available cash and borrowings under the Credit Facility, were used to repay the $9^{1}/2$% Senior Subordinated Notes due August 2003. The Company called the $9^{1}/2$% Senior Subordinated Notes for redemption on May 27, 2003.



Maturities of long-term debt at December 31, 2003 are as follows (in thousands):

| | |
|---|---|
| 2004 | $ 13,931 |
| 2005 | 13,413 |
| 2006 | 12,995 |
| 2007 | 12,887 |
| 2008 | 8,937 |
| 2009 and thereafter | 5,929 |
| | $ 68,092 |

## (10) Income Taxes

Income taxes are summarized as follows (in thousands):

| | Year ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Federal: | | | |
| Current | $ (704) | $ (2,492) | $ 3,697 |
| Deferred | 4,312 | (4,475) | 877 |
| State: | | | |
| Current | 493 | (93) | 1,295 |
| Deferred | 235 | (926) | (41) |
| Foreign: | | | |
| Current | 994 | 1,113 | (2,664) |
| Deferred | 170 | 1,323 | 1,336 |
| Total | $ 5,500 | $ (5,550) | $ 4,500 |

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

| | Year ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Computed "expected" tax expense | $ 4,475 | $ (5,891) | $ 3,760 |
| State taxes, net of Federal benefit | 472 | (662) | 815 |
| Foreign taxes (benefit) | 213 | 259 | (128) |
| Other | 340 | 744 | 53 |
| Total | $ 5,500 | $ (5,550) | $ 4,500 |



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

| | Year ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Operations | $ 5,500 | $ (5,550) | $ 4,500 |
| Stockholders' equity | 14 | (159) | 562 |
| Total income taxes | $ 5,514 | $ (5,709) | $ 5,062 |

The tax effect of the components of other comprehensive income were allocated as follows (in thousands):

| | Year ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| Foreign Currency translation adjustment | $ 1,071 | — | — |
| Unrealized loss on investment | (257) | (100) | 266 |
| Total income taxes | $ 814 | $ (100) | $ 266 |

Total pretax income (loss) was allocated as follows (in thousands):

Year ended December 31,

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Domestic operations | $ 10,109 | $ (23,000) | $ 14,171 |
| Foreign operations | 2,677 | 6,168 | (3,429) |
| Total pretax income (loss) | $ 12,786 | $ (16,832) | $ 10,742 |



The tax effects of temporary differences that give rise to significant portions of current and non-current deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are presented below (in thousands):

| | 2003 | 2002 |
|---|---|---|
| Deferred tax assets: | | |
| Fixed asset basis difference | $ 8,488 | $ 10,082 |
| Bad debt and other reserves | 2,844 | 3,011 |
| Deferred lease incentives | 4,440 | 3,760 |
| Uniform capitalization adjustment | 1,657 | 1,975 |
| Rent expense | 1,505 | 1,782 |
| Inventory valuation | 1,087 | 1,154 |
| Retail store closure reserves | 418 | 722 |
| Unrealized loss on investments | 1,588 | 960 |
| Other | 4,877 | 5,242 |
| | 26,904 | 28,688 |
| Deferred tax liabilities | (3,155) | (2,927) |
| NOL carryback/carryforward | 2,148 | 3,869 |
| Foreign tax credits carryback | 0 | 1,252 |
| Valuation reserve | (154) | (126) |
| Net deferred tax assets | $ 25,743 | $ 30,756 |

Included above at December 31, 2003 and 2002, are $9.5 million and $14.8 million for current deferred tax assets, respectively, and $16.2 million and $15.9 million in non-current deferred tax assets at December 31, 2003 and 2002, respectively. At December 31, 2003, the Company's Canadian operation had net operating loss carryforwards of $6 million which are available to reduce future taxable Canadian income through 2008.

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



**(11) Related Party Transactions**

The Company is engaged in various transactions with entities affiliated with trusts for the respective benefit of Maurice and Paul Marciano, who are executives of the Company, Armand Marciano, their brother and former executive of the Company, and certain of their children (the "Marciano Trusts").

*License Agreements and Licensee Transactions*

On September 28, 1990, the Company entered into a license agreement with Charles David of California ("Charles David"). Charles David is controlled by the father-in-law of Maurice Marciano. The Marciano Trusts and Nathalie Marciano (the spouse of Maurice Marciano) together own 50% of Charles David, and the remaining 50% is owned by the father-in-law of Maurice Marciano. The license agreement grants Charles David the rights to manufacture worldwide and distribute worldwide (except Japan and certain European countries) for men, women and some children, leather and rubber footwear which bear the Guess trademark. The license also includes related shoe care products and accessories. In 2002, the license agreement was renewed for six years and includes athletic footwear. There are no other rights and obligations between the Company and Charles David. The Charles David license agreement was terminated effective December 31, 2004 for athletic footwear and June 30, 2005 for fashion footwear. The Company is currently negotiating with replacement licensees.

Gross royalties earned by the Company under such license agreement for the fiscal years ended December 31, 2003, 2002 and 2001 were $2.4 million, $2.0 million, and $2.0 million, respectively. Additionally, the Company purchased $5.9 million, $5.7 million, and $5.0 million of products from Charles David for resale in the Company's retail stores during the same periods. At December 31, 2003 and 2002, the Company had royalty receivables due from Charles David of $367,000 and $299,000, respectively.

In May 1997, the Company sold substantially all of the assets and liabilities of Guess? Italia to Maco Apparel, S.p.a. ("Maco"). The effect of the net asset disposal was immaterial to the Company's results of operations. In connection with this sale, the Company also purchased a 10% ownership interest in Maco and entered into an approximate 10-year license agreement with Maco granting it the right to manufacture and distribute certain men's and women's jeanswear apparel, which bear the Guess trademark, in certain parts of Europe. In addition to royalty fees, the Company also received $14.1 million over a four-year period in consideration of the grant of the license rights for men's and women's jeanswear apparel. During each of 2001 and 2000 the Company recorded $2.8 million in revenue in connection with the grant of such license rights, which was paid in full at the end of 2001. Additionally, the Company recorded $5.8 million, $4.7 million and $2.8 million in royalty fees related to product sales in 2003, 2002 and 2001, respectively. The royalty fees for fiscal year 2003 included a $0.7 million positive royalty adjustment from a licensee audit. At December 31, 2003 and 2002, the Company had royalty receivables due from MACO of $0.9 million and $0.3 million, respectively.

In September 2001, the Company completed the acquisition of the remaining 40% of the outstanding shares of Guess? Canada Corporation not already owned by the Company. The Company paid a nominal consideration in exchange for the remaining shares of Guess? Canada Corporation and made an additional investment during the second quarter of 2001 of $3.0 million in the Canadian business to fund its ongoing operations. Prior to the minority interest acquisition, the Company included 100% of the results of operations of Guess? Canada Corporation in its financial statements, therefore, this transaction did not have a material impact on the Company's financial statements. The Company recorded the amount representing 40% of the assets and liabilities at their respective fair values. No significant goodwill was generated from this transaction. In August 1999, the Company increased its ownership of Guess? Canada



Corporation to 60% from 40%. As part of that transaction, the Company paid $2.0 million and provided long-term debt financing of up to $13.4 million to Guess? Canada Corporation to expand its Canadian retail operations of which $13.0 million was outstanding as of December 31, 2003. The acquisition was accounted for as a purchase and the results of Guess? Canada Corporation were included in the Company's consolidated financial statements from the date of acquisition. The excess of the purchase price over the fair value of net assets acquired amounted to $1.1 million and was allocated to goodwill and was amortized through 2001.

January 1, 2003, the Company entered into a license agreement with BARN S.r.l. ("BARN"), an Italian corporation, under which the Company granted BARN the right to manufacture and distribute children's clothing in certain territories of Europe. The license has an initial term of three years and has terms substantially similar to the Company's other license agreements. Two key employees of the Company's wholly-owned subsidiary Guess Italia, S.r.l. own BARN. In addition, Guess Italia, S.r.l. provides office space and services for BARN. During 2003, the Company recorded $0.3 million in revenues related to this license and had an outstanding receivable at December 31, 2003 of $0.1 million.

*Leases*

The Company leases manufacturing, warehouse and administrative facilities from partnerships affiliated with the Marciano Trusts and certain of its affiliates. There are two leases in effect at December 31, 2003, which expire in February 2006 and July 2008. The total lease payments to these limited partnerships are currently $0.2 million per month. Aggregate lease payments under leases in effect for the fiscal years ended December 31, 2003, 2002 and 2001 were $3.4 million, $2.9 million, and $3.0 million, respectively. The related party leases have not been significantly affected by the fact that the Company and the lessors are related. See lease commitments to related parties at Note 12 to the consolidated financial statements.

**(12) Commitments and Contingencies**

*Leases*

The Company leases its showrooms and retail store locations under operating lease agreements expiring on various dates through March 2016. Some of these leases require the Company to make periodic payments for property taxes and common area operating expenses. Certain leases include rent abatements and scheduled rent escalations, for which the effects are being amortized and recorded over the lease term. The Company also leases some of its equipment under operating lease agreements expiring at various dates through 2008.



Future minimum rental payments under non-cancelable operating leases at December 31, 2003 are as follows (in thousands):

| | Non-Related Parties | Related Parties | Total |
|---|---|---|---|
| 2004 | $ 53,880 | $ 2,750 | $ 56,630 |
| 2005 | 48,522 | 2,750 | 51,272 |
| 2006 | 45,349 | 2,573 | 47,922 |
| 2007 | 38,146 | 2,538 | 40,684 |

| | | | |
|---|---|---|---|
| 2008 | 32,290 | 1,474 | 33,764 |
| Thereafter | 92,440 | — | 92,440 |
| | $ 310,627 | $ 12,085 | $ 322,712 |

Rental expense for all operating leases during the years ended December 31, 2003, 2002, and 2001 aggregated $59.2 million, $53.1 million, and $49.6 million, respectively.

*Incentive Bonuses*

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

*Litigation*

On approximately January 15, 1999, UNITE filed an unfair labor practice charge against us, alleging that attorney Dennis Hershewe violated Section 8(a)(1) of the National Labor Relations Act ("the Act") by questioning our employee Maria Perez about her union activities at the deposition he conducted in her workers' compensation case. Mr. Hershewe represents Fireman's Fund Insurance Company, our workers' compensation insurance carrier. GUESS? investigated the charge and responded to it on March 10, 1999. The NLRB issued a complaint on part of the charge on October 14, 1999, and we filed an answer on October 21, 1999. On July 6, 2000, the complaint was dismissed in its entirety. The NLRB appealed the decision which was reversed on June 30, 2003. On July 24, 2003 GUESS? filed a Petition for Review with the United States Court of Appeals for the D.C. Circuit. On August 21, 2003 the NLRB filed a cross-application for enforcement of the order. On October 31, 2003, the parties settled the matter. On November 13, 2003, the United States Court of Appeals, upon consideration of the joint motion of the parties to voluntary dismiss, dismissed both the petition for review and cross-application for enforcement.

Most major corporations, particularly those operating retail businesses, become involved from time to time in a variety of employment-related claims and other matters incidental to their business in addition to the one described above. In the opinion of our management, the resolution of any of these pending incidental matters is not expected to have a material adverse effect on our results of operations or financial condition; however, we cannot predict the outcome of these matters. No material amounts were accrued as of December 31, 2003 and 2002, related to the Company's litigation.



## (13) Savings Plan

The Company established the Guess?, Inc. Savings Plan (the "Savings Plan") under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, employees ("associates") may contribute up to 15% of their compensation per year subject to the elective limits as defined by IRS guidelines and the Company may make matching contributions in amounts not to exceed 1.5% of the associates' annual compensation. Investment selections consist of cash and mutual funds and do not include any Company common stock. The Company's contributions to the Savings Plan for the year ended December 31, 2003, 2002 and 2001 amounted to $0.3 million, $0.3 million, and $0.4 million, respectively.

In January 2002, the Company established a qualified employee stock purchase plan ("ESPP"), the terms of which allow for qualified employees (as defined) to participate in the purchase of designated shares of the Company's common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each quarterly stock purchase period. The ESPP is a straight purchase plan and is not subject to any holding period, however all Company employees are subject to the terms of the Company's securities trading policy which generally prohibits the purchase or sale of any Company securities during the two weeks before the end of each fiscal quarter through the public announcement by the Company of its earnings for that period. On January 23, 2002, the Company filed with the Securities and Exchange Commission Form S-8 registering 2,000,000 shares of common stock for the ESPP.

During the fiscal year 2003, 80,239 shares of the Company's common stock were issued pursuant to the ESPP at an average price of $3.85 per share for a total of $0.3 million.

## (14) Quarterly Information (unaudited)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 2003 and 2002 (in thousands, except per share data):

| Year ended December 31, 2003 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Net revenue | $ 139,584 | $ 131,042 | $ 166,674 | $ 199,285 |
| Gross profit | 41,349 | 40,987 | 61,596 | 76,223 |
| Net earnings (loss) | (5,773) | (5,445) | 6,697 | 11,807 |
| Earnings (loss) per share: | | | | |
| Basic | $ (0.13) | $ (0.13) | $ 0.15 | $ 0.27 |
| Diluted | $ (0.13) | $ (0.13) | $ 0.15 | $ 0.27 |

| Year ended December 31, 2002 | | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter |
|---|---|---|---|---|---|---|---|---|
| Net revenue | $ | 138,179 | $ | 119,789 | $ | 157,798 | $ | 167,373 |
| Gross profit | | 45,116 | | 40,408 | | 56,759 | | 57,050 |
| Net earnings (loss) | | (3,601) | | (6,432) | | 3,374 | | (4,623) |
| Earnings (loss) per share: | | | | | | | | |
| Basic | $ | (0.08) | $ | (0.15) | $ | 0.08 | $ | (0.11) |
| Diluted | $ | (0.08) | $ | (0.15) | $ | 0.08 | $ | (0.11) |

During the second quarter ended June 28, 2003, the Company recorded restructuring, impairment and severance charges of $0.8 million related to severance payments for the reduction in the Company's workforce.



During the fourth quarter of 2003, the Company recorded $1.6 million of impairment charges which represented the write-down of the value of certain impaired assets.

During the first quarter ended March 30, 2002, the Company recorded $0.7 million in additional costs for estimated rent to be paid and lease exit costs related to idle leased facilities identified as part of the restructuring charge recorded during the fourth quarter of 2000. These properties were sublet in the second quarter of 2002.

During the third quarter ended September 28, 2002, the Company received approximately $4.0 million as part of a litigation settlement.

During the fourth quarter of 2002, the Company recorded restructuring, impairment and severance charges of $8.5 million. The charge included $0.8 million estimated additional lease exit costs related to excess leased facilities and under performing stores which will be abandoned or closed in 2003, and $6.9 million of the charges represented the write-down of the value of certain impaired assets. The remaining $0.8 million of the charge was related to severance costs for the termination of 59 employees, which was part of the Company's continuing efforts to reduce costs, improve productivity, streamline its corporate structure and consolidate operations. In addition, the Company received another $0.3 million as part of a litigation settlement.

**(15) Segment Information**

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



Segment information is summarized as follows for the years ended December 31, 2003, 2002 and 2001 (in thousands):

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2003 | | 2002 | | 2001 |
| Net revenue: | | | | | | |
| Retail operations | $ | 447,693 | $ | 384,456 | $ | 380,576 |
| Wholesale operations | | 149,113 | | 159,625 | | 260,124 |
| Licensing operations | | 39,779 | | 39,058 | | 36,920 |
| | $ | 636,585 | $ | 583,139 | $ | 677,620 |
| Earnings (loss) from operations: | | | | | | |
| Retail operations | $ | 32,370 | $ | 4,373 | $ | 7,930 |
| Wholesale operations | | (8,976) | | (4,738) | | 28,214 |
| Licensing operations | | 32,281 | | 29,092 | | 29,402 |
| Corporate overhead | | (35,075) | | (37,253) | | (41,717) |
| | $ | 20,600 | $ | (8,526) | $ | 23,829 |

| | | | |
|---|---|---|---|
| Capital expenditures: | | | |
| Retail operations | $ 11,887 | $ 12,968 | $ 16,389 |
| Wholesale operations | 1,208 | 1,976 | 2,159 |
| Licensing operations | — | — | 256 |
| Corporate overhead | 5,105 | 7,748 | 4,062 |
| | $ 18,200 | $ 22,692 | $ 22,866 |

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| Total assets | | |
| Retail operations | $ 135,732 | $ 157,270 |
| Wholesale operations | 109,511 | 107,699 |
| Licensing operations | 1,096 | 8,818 |
| Corporate overhead | 116,426 | 75,745 |
| | $ 362,765 | $ 349,532 |



The table below presents information related to geographic areas in which the Company operated during 2003, 2002 and 2001 (in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net revenue: | | | |
| United States | $ 513,537 | $ 477,700 | $ 572,629 |
| Canada | 67,673 | 52,709 | 56,340 |
| Europe | 35,256 | 30,251 | 22,902 |
| Asia | 16,252 | 17,166 | 17,181 |
| South America | 1,962 | 2,986 | 5,761 |
| Mexico | 956 | 1,896 | 1,852 |
| Other | 949 | 431 | 955 |
| | $ 636,585 | $ 583,139 | $ 677,620 |

**(16) Stock Option Plan and Non-Vested Stock**

On July 30, 1996, the Board of Directors adopted the Guess?, Inc. 1996 Non-Employee Directors' Stock Option Plan pursuant to which the Board of Directors may grant stock and stock options to non-employee directors. This plan authorizes grants of options to purchase up to 500,000 authorized but unissued shares of common stock. At December 31, 2003, 2002, and 2001, there were 388,842, 280,526, and 189,257 options issued under this plan, respectively. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Annual option grants to outside directors were at 85% of fair market value until May, 2002. Subsequently such grants have been at 100% of fair market value. Stock granted under the Plan is done so without restriction. Stock options have ten-year terms and vest and become fully exercisable in increments of one-fourth of the shares granted on each anniversary from the date of grant.

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

At December 31, 2003, 2002 and 2001, there were 1,115,914, 1,421,577, and 1,699,441 additional shares available for grant under the plan, respectively. Using the Black Scholes option pricing model, the weighted-average per share fair value of stock options granted during 2003, 2002 and 2001 was $3.32, $4.54, and $3.57, respectively. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2003, 2002 and 2001, respectively: risk-free interest rates of 2.97%, 3.82%, and 4.56%; volatility factors of the expected market price of the Company's common stock of 64%, 64%, and 60%; no expected dividend yield; and a weighted-average expected life of the option of four years.



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

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the accompanying consolidated financial statements, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. The Company granted 69,000, 198,250 and 10,000 shares during 2003, 2002 and 2001, respectively, of common stock to key employees, which vest through 2006. Upon granting of the stock, unearned compensation equivalent to the market value of the stock at the date of issuance was charged to stockholders' equity. This is being amortized on a straight-line basis over the vesting period and is recognized as compensation expense.

Stock option activity under all of the Company's stock plans during the period indicated is as follows:

| | Number of Shares | Weighted-Average Exercise Price |
|---|---|---|
| Balance at December 31, 2000 | 1,787,198 | $ 10.68 |
| Granted | 588,048 | 6.36 |
| Exercised | (123,982) | (4.09) |
| Forfeited | (414,433) | (17.03) |
| Balance at December 31, 2001 | 1,836,831 | $ 8.47 |
| Granted | 451,100 | 6.80 |
| Exercised | (52,125) | (4.90) |
| Forfeited | (371,486) | (12.35) |
| Balance at December 31, 2002 | 1,864,320 | $ 8.37 |
| Granted | 622,550 | 5.48 |
| Exercised | (409,259) | (6.39) |
| Forfeited | (343,612) | (9.10) |
| Balance at December 31, 2003 | 1,733,999 | $ 7.67 |



The following table summarizes information about stock options outstanding and exercisable at December 31, 2003.

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding December 31, 2003 | Weighted Average Remaining Contractual life | Weighted Average Exercise Price | Number Exercisable at December 31, 2003 | Weighted Average Exercise Price |
| $3.63 to $4.63 | 808,000 | 7.75 years | $ 4.28 | 317,950 | $ 4.60 |
| $5.00 to $6.55 | 214,249 | 8.58 years | 5.42 | 40,250 | 5.58 |
| $7.00 to $7.75 | 391,125 | 8.61 years | 7.37 | 38,650 | 7.39 |
| $8.21 to $18.31 | 197,925 | 6.68 years | 12.54 | 111,800 | 14.65 |
| $21.06 to $27.31 | 122,700 | 6.10 years | 26.96 | 104,651 | 26.89 |
| | 1,733,999 | 7.82 years | $ 7.67 | 613,301 | $ 10.48 |

At December 31, 2003, 2002 and 2001, the number of options exercisable for each year was 613,301, 752,065, and 594,939, respectively. The weighted-average exercise price of those options was $10.48, $9.67, and $11.11, respectively.

## (17) Share Repurchase Program

In May 2001, the Company's Board of Directors authorized the Company to repurchase shares of its own stock in an amount of up to $15 million from time to time in open market transactions. During the fiscal year of 2002, the Company purchased 606,000 shares at an aggregate cost of $3.2 million, or an average of $5.21 per share. Since the inception of the share repurchase program in May 2001, the Company has purchased 1,137,000 shares at an aggregated cost of $7.1 million, or an average of $6.26 per share.

## (18) Restructuring, Impairment and Severance Charges

During the year ended December 31, 2003, the Company recorded restructuring, impairment and severance charges of $2.4 million ($1.4 million after tax or $0.06 per diluted share). In addition to the charge of $0.8 million related to severance payments for the reduction in the Company's workforce, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," an impairment charge $1.6 million represented the write-down of the net book value of property and equipment related to certain under-performing stores, consisting primarily of leasehold improvements, and machinery and equipment. These assets became impaired as the Company evaluated certain unprofitable stores that performed below expectations. Estimated future cash flows related to these stores indicated that an impairment of the full value had occurred.

During the year ended December 31, 2002, the Company recorded restructuring, impairment and severance charges of $9.2 million ($6.2 million after tax or $0.14 per diluted share). The Company recorded $1.5 million in additional costs for rent paid, estimated rent to be paid and lease exit costs related to excess leased facilities and under performing stores which were abandoned or closed in 2003. In addition, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," an impairment charge of $6.9 million was recorded in the fourth quarter of 2002 to write down the net book value of property and equipment related to certain under-performing stores, consisting primarily



of leasehold improvements, and machinery and equipment. These assets became impaired as the Company evaluated certain unprofitable stores that performed below expectations. Estimated future cash flows related to these stores indicated that an impairment of the full value had occurred.

The remaining $0.8 million of the charge was related to severance costs for the termination of 59 employees, which was part of the Company's continuing efforts to reduce costs, improve productivity, streamline its corporate structure and consolidate operations. Approximately $0.4 million of the severance remained unpaid and accrued as of December 31, 2002. The Company paid the remaining severance costs during 2003.

During the year ended December 31, 2001, the Company recorded restructuring, impairment and severance charges of $5.5 million ($3.2 million after tax or $0.07 per diluted share). Based on the real estate market conditions following the events of September 11, 2001, the Company recorded $2.2 million in additional costs for rent paid, estimated rent to be paid and lease exit costs related to idle leased facilities identified as part of the restructuring charge recorded during the fourth quarter 2000. In addition, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," $1.3 million of the charges represented the write-down of the value of certain impaired assets, including fixed assets related to unprofitable stores, consisting of leasehold improvements, and machinery and equipment. These assets became impaired as the Company evaluated certain unprofitable stores that performed below expectations. Estimated future cash flows related to these stores indicated that an impairment of the full value had occurred. The remaining $2.0 million of the charge was related to severance costs for the termination of 211 employees, which was part of the Company's continuing efforts to reduce costs. All amounts have been paid.

The following table shows the Company's activity associated with restructuring accruals for the years ended December 31, 2003, 2002, and 2001:

| | January 1, 2001 | Restructuring Charges | Payments | December 31, 2001 |
|---|---|---|---|---|
| Long-term lease obligations | $ 1,687 | $ 2,966 | $ 2,177 | $ 2,476 |
| Severance | $ — | $ 1,971 | $ 1,355 | $ 616 |

| | January 1, 2002 | Restructuring Charges | Payments | December 31, 2002 |
|---|---|---|---|---|
| Long-term lease obligations | $ 2,476 | $ 1,521 | $ 2,382 | $ 1,615 |
| Severance | $ 616 | $ 799 | $ 1,013 | $ 402 |

| | January 1, 2003 | Restructuring Charges | Payments | December 31, 2003 |
|---|---|---|---|---|
| Long-term lease obligations | $ 1,615 | $ — | $ 744 | $ 871 |
| Severance | $ 402 | $ 846 | $ 1,098 | $ 150 |

## SCHEDULE II
## GUESS?, INC. & SUBSIDIARIES
## VALUATION AND QUALIFYING ACCOUNTS
### Years ended December 31, 2003, 2002, and 2001
### (in thousands)

| Description | Balance at beginning of period | Charged to costs and expenses | Deductions and write-offs | Balance at end of period |
|---|---|---|---|---|
| As of December 31, 2003 | | | | |
| Accounts receivable | $ 8,347 | $ 6,657 | $ (6,912) | $ 8,092 |
| Royalties | 1,013 | 692 | — | 1,705 |
| As of December 31, 2002 | | | | |
| Accounts receivable | $ 10,220 | $ 13,482 | $ (15,355) | $ 8,347 |
| Royalties | 1,298 | 20 | (305) | 1,013 |
| As of December 31, 2001 | | | | |
| Accounts receivable | $ 15,811 | $ 12,600 | $ (18,191) | $ 10,220 |
| Royalties | 841 | 457 | — | 1,298 |



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on March 12, 2004.

GUESS?, INC.

By: /s/ MAURICE MARCIANO

Maurice Marciano
*Co-Chairman of the Board,*
*Co-Chief Executive Officer and Director*

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ MAURICE MARCIANO<br>Maurice Marciano | Co-Chairman of the Board,<br>Co-Chief Executive Officer and Director<br>(Principal Executive Officer) | March 12, 2004 |
| /s/ PAUL MARCIANO<br>Paul Marciano | Co-Chairman of the Board,<br>Co-Chief Executive Officer and Director | March 12, 2004 |
| /s/ CARLOS ALBERINI<br>Carlos Alberini | President, Chief Operating Officer and Director | March 12, 2004 |
| /s/ FREDERICK G. SILNY<br>Frederick G. Silny | Chief Financial Officer<br>(Principal Financial Officer and<br>Chief Accounting Officer) | March 12, 2004 |
| /s/ ANTHONY CHIDONI | | |

| | | |
|---|---|---|
| Anthony Chidoni | Director | March 12, 2004 |
| /s/ ALICE KANE | | |
| Alice Kane | Director | March 12, 2004 |
| /s/ HOWARD WEITZMAN | | |
| Howard Weitzman | Director | March 12, 2004 |

**Exhibit Index**

| Exhibit Number | Description |
|---|---|
| 3.1. | Restated Certificate of Incorporation of the Registrant.(1) |
| 3.2. | Bylaws of the Registrant.(2) |
| 4.1. | Indenture, dated as of April 28, 2003, by and among Guess? Royalty Finance LLC and BNY Midwest Trust, as Indenture Trustee for the 6.75% Secured Notes issued by Guess? Royalty Finance LLC (the "6.75% Secured Notes").(3) |
| 4.2. | Guarantee and Collateral Agreement dated as of April 28, 2003, made by Guess? IP Holder L.P. in favor of BNY Midwest Trust Company, as Indenture Trustee for the 6.75% Secured Notes.(3) |
| 4.3. | Specimen stock certificate.(1) |
| 10.22. | 1996 Equity Incentive Plan.(1) |
| 10.23. | 1996 Non-Employee Directors' Stock Option Plan.(1) |
| 10.24. | Annual Incentive Plan.(1) |
| 10.25. | Employment Agreement between the Registrant and Maurice Marciano.(4) |
| 10.26. | Employment Agreement between the Registrant and Paul Marciano.(4) |
| 10.28. | Registration Rights Agreement among the Registrant and certain stockholders of the Registrant.(4) |
| 10.29. | Indemnification Agreement among the Registrant and certain stockholders of the Registrant.(4) |
| 10.30. | Indemnification Agreements between the Registrant and certain executives and directors.(4) |
| 10.33. | Amended and Restated 1996 Non-Employee Directors' Stock Option Plan, as amended through March 3, 1997.(5) |
| 10.36. | Amendment No. 1 to The Guess?, Inc. Amended and Restated 1996 Non- Employee Directors' Stock Option Plan.(6) |
| 10.40. | Lease Agreement between Guess?, Inc. and Robert Pattillo Properties, Inc.(7) |
| 10.42. | Employment Agreement between the Registrant and Carlos Alberini.(8) |
| 10.45. | Employment Agreement dated November 11, 2001 between Registrant and Frederick G. Silny.(9) |
| 10.46. | Lease Agreement between Guess?, Inc. and MAP Properties, Ltd.(9) |
| 10.47. | 2002 Employee Stock Purchase Plan.(10) |
| 10.48. | Amended and Restated Loan and Security Agreement by and among Congress Financial Corporation (Western) as Lender and Wachovia Securities, Inc., as the Arranger and Administrative Agent and Guess?, Inc., Guess? Retail, Inc. and Guess.com, Inc., as borrowers, dated as of December 20, 2002.(9) |
| 10.49. | First Amendment to Amended and Restated Loan and Security Agreement dated as of February 25, 2003, by and among Congress Financial Corporation (Western) as Lender and Wachovia Securities, Inc., as the Arranger and Administrative Agent and Guess?, Inc., Guess? Retail, Inc. and Guess.com, Inc., as borrowers.(9) |
| 10.50. | Canadian Loan and Security Agreement by and among Congress Financial Corporation (Canada), as Lender, Wachovia Securities, Inc., as Global Arranger and Guess? Canada Corporation and Guess? Canada Retail Inc., as borrowers, dated as of December 20, 2002.(9) |
| 10.51. | Employment Agreement dated August 16, 2002 between Registrant and Nancy Shachtman.(9) |
| 10.52. | Guess? Contribution Agreement dated as of April 28, 2003, by and between the Company and Guess? IP Holder L.P.(3) |
| 10.53. | Licensing Contribution Agreement dated as of April 28, 2003, by and between Guess? Licensing, Inc. and Guess? IP Holder L.P.(3) |
| 10.54. | Receivables Contribution Agreement dated as of April 28, 2003, by and between Guess? IP Holder L.P. and Guess? Royalty Finance LLC.(3) |
| 10.55. | Guess? License Agreement dated as of April 28, 2003, by and between Guess? IP Holder L.P. and the Company.(3) |
| 10.56. | Termination of Amended and Restated Shareholders' Agreement.(11) |
| 10.57. | First Amendment of Employment Agreement between the Registrant and Carlos Alberini.(11) |
| *14.1. | Code of Conduct of the Company. |
| 18.0. | Letter regarding change in accounting principles.(6) |
| *21.1. | List of Subsidiaries. |
| *23.1. | Independent Auditors' Consent. |
| *31.1. | Certification of Co-Chief Executive Officer and Director pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.(12) |
| *31.2. | Certification of Co-Chief Executive Officer and Director pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.(12) |
| *31.3. | Certification of President, Chief Operating Officer and Director pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(12) |
| *31.4. | Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of |

| | |
|---|---|
| | 2002.(12) |
| *32.1. | Certification of Co-Chief Executive Officer and Director pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.(13) |
| *32.2. | Certification of Co-Chief Executive Officer and Director pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.(13) |
| *32.3. | Certification of President, Chief Operating Officer and Director pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.(13) |
| *32.4. | Certification of Senior Vice President, Chief Financial Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.(13) |

* Filed herewith

(b) Financial Statement Schedule: Description Schedule II Valuation and Qualifying Accounts

(1) Incorporated by reference from the Registration Statement on Form S-1 (Registration No. 333-4419) filed by the Company on June 24, 1996, as amended.

(2) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 29, 2001

(3) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 29, 2003.

(4) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

(5) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

(6) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1998.

(7) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

(8) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(9) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

(10) Incorporated by reference from the Company's Registration Statement on Form S-8 (Registration No. 333-81274) filed by the Company on January 23, 2002.

(11) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 2003.

(12) A signed original of this written statement required by Section 302 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

(13) A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

QuickLinks

TABLE OF CONTENTS PART I
PART I

ITEM 1. BUSINESS

ITEM 2. Properties
ITEM 3. Legal Proceedings
ITEM 4. Submission of Matters to a Vote of Security Holders

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters
ITEM 6. Selected Financial Data
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk
ITEM 8. Financial Statements and Supplementary Data
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
ITEM 9A. Controls and Procedures

PART III

ITEM 10. Directors and Executive Officers of the Registrant
ITEM 11. Executive Compensation
ITEM 12. Security Ownership of Certain Beneficial Owners and Management
ITEM 13. Certain Relationships and Related Transactions
ITEM 14. Principal Accountant Fees and Services

PART IV

ITEM 15. Exhibits, Consolidated Financial Statement Schedule, and Reports on Form 8-K

INDEPENDENT AUDITORS' REPORT
GUESS?, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS December 31, 2003 and 2002
GUESS?, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS Years ended December 31, 2003, 2002 and 2001
GUESS?, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended December 31, 2003, 2002 and 2001
GUESS?, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SCHEDULE II GUESS?, INC. & SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS Years ended December 31, 2003, 2002, and 2001 (in thousands)
SIGNATURES
Exhibit Index

**Exhibit 14.1**

## CODE OF CONDUCT

This code of conduct ("Code") applies to every director, officer and employee of GUESS?, INC. ("GUESS?" or the "Company") and each of its subsidiaries and may be furnished to others performing services for the Company. Each of us is expected to read this document promptly upon receiving it. In addition to the ethical guidelines included in this Code, there are many laws and regulations that affect us in each of the markets where we do business. Each of us must comply with the requirements of all applicable law. If a law conflicts with a policy in this Code, you must comply with the law. Those who violate the law or standards of this Code will be subject to disciplinary action, up to and including dismissal and termination of employment. If you are in a situation which you believe may violate or lead to a violation of this Code, follow the guidelines described under the caption "Compliance with the Code" below.

### *PERSONAL RESPONSIBILITY*

All of us are expected to protect and enhance the assets and reputation of GUESS?. Ethical conduct has and continues to be the foundation of the Company. Honesty and integrity are cornerstones of ethical behavior—and trustworthiness and dependability are essential to lasting relationships. In our rapidly evolving business, each of us is challenged by a complex environment that often requires fast responses under pressure. No written policy can definitively set forth the appropriate action for all business situations. Accordingly, rather than a set of specific rules, this Code emphasizes a standard of ethical conduct that must permeate all business dealings and relationships. GUESS? is committed to conducting its business in accordance with applicable laws and regulations. You should consult your supervisor, the Human Resources Department or the General Counsel, as appropriate, whenever you have a question about the legality of a proposed or completed course of action.

### *CONFLICTS OF INTEREST*

A "conflict of interest" exists when a person's private interest interferes in any way with the interest of the Company. A conflict situation can arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her Company work objectively and effectively. Conflicts of interest may also arise when an employee, officer or director, or members of his or her family, receives improper personal benefits as a result of his or her position in the Company. Loans to, or guarantees of obligations of, employees, officers, directors and their family members may create conflicts of interest.

It is almost always a conflict of interest for a Company employee to work simultaneously for a competitor, customer or supplier. You are not allowed to work for a competitor as a consultant or board member. The best policy is to avoid any direct or indirect business connection with our customers, suppliers or competitors except on our behalf. Conflicts of interest are prohibited as a matter of Company policy, except as approved by the Board of Directors. Conflicts of interest may not always be clear cut, so if you have a question, you should consult with higher levels of management or the General Counsel. Any employee, officer or director who becomes aware of a conflict or potential conflict should bring it to the attention of a supervisor, manager or other appropriate personnel or consult the procedures described under the caption "Compliance with the Code" below.

This Code does not attempt to describe all possible conflicts of interest which could develop. Some of the more common conflicts from which employees, officers and directors must refrain are:

- *Assisting a Competitor or Competing Against GUESS?*—An obvious conflict of interest is providing assistance to an organization that markets products in competition with GUESS?'s



current or proposed product offerings or the products offered by GUESS? Licensees. Without GUESS?'s consent you may not: (a) work for such an organization as an employee, consultant or member of its board of directors; or (b) have any ownership interest in any enterprise which competes with any business of the Company, except as a holder of less than 1% of publicly traded stock in a company. Such activities are prohibited because they divide your loyalty between GUESS? and that organization. Obviously, you may not market products in competition with the Company's current or proposed product offerings or the products offered by GUESS? licensees. It is your responsibility to consult with your supervisor to determine whether any planned activity will compete with any of the Company's actual or proposed product lines. This should be done before you pursue the activity.

- *Supplying GUESS?*—Generally, you may not be a supplier or vendor to GUESS?, represent or work for a supplier or vendor to GUESS? while you work for GUESS?. In addition, you may not accept money or benefits of any kind for any advice or services you may provide to a supplier in connection with its business with GUESS?.

- *Someone Close to You Working in the Industry*—You may find yourself in a situation where your spouse, another member of your immediate family, or someone else you are close to is a competitor or supplier of GUESS? or is employed by one. While everyone is entitled to choose and pursue a career, such situations call for extra sensitivity to security, confidentiality and conflicts of interest. The closeness of the relationship might lead you to inadvertently compromise GUESS?'s interests. There are several factors to consider in assessing such a situation. Among them: the relationship between GUESS? and the other company; the nature of your responsibilities as a GUESS? employee and those of the person close to you; and the access each of you has to your respective employer's confidential information. The very appearance of a conflict of interest can create problems, regardless of the behavior of the GUESS? employee involved. To remove any doubts or suspicions, you should review your specific situation with your supervisor to assess the nature and extent of any concern and how it can be resolved. Frequently, any risk to GUESS?'s interest is sufficiently remote that your supervisor need only remind you to guard against inadvertently disclosing GUESS? confidential information. However, in some instances, a change in the job responsibilities of one of the people involved may be necessary.

- *Relationship of Company with Third Parties*. You may not engage in any conduct or activities that are inconsistent with the Company's best interests or that disrupt or impair the Company's relationship with any person or entity with which the Company has or proposes to enter into a business or contractual relationship.

- *Compensation from Non-Company Sources.* You may not accept compensation, in any form, for services performed for the Company from any source other than the Company.

- *Gifts, Entertainment and Improper Payments*— You and members of your family may not request or accept from, or offer, promise or give to, any person or entity dealing or desiring to deal with the Company, any payments, gifts, entertainment, services, travel, lodging, or any other forms of compensation for personal benefit. For these purposes, a "gift" generally does not include articles of nominal value ordinarily used for sales promotion, and "entertainment" does not include ordinary business meals or reasonable entertainment (including tickets for sports, concerts or similar events) considered to be a normal part of a business relationship that is accepted only on a very infrequent basis and that does not detract or have the appearance of detracting from the integrity of the relationship. Furthermore, in deciding whether or not it is appropriate to accept entertainment from a vendor or other entity, you should consider if you can reciprocate with entertainment at the same or a similar level before being entertained again by that vendor or other entity. Participation in entertainment activities also must be with a



representative of the vendor or other entity in attendance at the activity. Giving or receiving any payment or gift in the nature of a bribe, kickback or other improper influence is absolutely prohibited.

***RESPONSIBILITIES OF CEO AND SENIOR FINANCIAL OFFICERS***

In addition to the matters set forth in the remainder of this Code, the Co-CEOs and senior financial officers are subject to the following additional specific policies:

- *Disclosure*. The Co-CEOs and all senior financial officers are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the Securities and Exchange Commission. Accordingly, it is the responsibility of the Co-CEOs and each senior financial officer promptly to bring to the attention of the General Counsel or, if unavailable, the Human Resources Department any material information of which he or she may become aware that affects the disclosures made by the Company in its public filings or otherwise assist the General Counsel or, if unavailable, the Human Resources Department, in fulfilling the responsibilities specified in the Company's applicable policies.

- *Internal Controls; Fraud*. The Co-CEOs and each senior financial officer shall promptly bring to the attention of the General Counsel or, if unavailable, the Human Resources Department, any information he or she may have concerning (a) significant deficiencies in the design and operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.

- *Code of Conduct*. The Co-CEOs and each senior financial officer shall promptly bring to the attention of the General Counsel or the Co-CEOs and to the Audit Committee any information he or she may have concerning any violation of this Code, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Company's financial reporting, disclosure or internal controls.

- *Violations*. The Co-CEOs and each senior financial officer shall promptly bring to the attention of the General Counsel or the Co-CEOs and to the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof, or of violation of this Code.

***INSIDER TRADING***

Employees, officers and directors who have access to confidential information are not permitted to use or share that information for stock trading purposes except in the conduct of our business. All non-public information about the Company should be considered confidential information. To use non-public information for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also illegal. In order to assist with compliance with laws against insider trading, the Company has adopted a specific policy governing employees', officers' and directors' trading in securities of the Company. This policy has been distributed to every employee, officer and director of the Company. If you have any questions, please consult the General Counsel.

***CONFIDENTIALITY***

Employees must maintain the confidentiality of confidential information entrusted to them by the Company or its customers, except when disclosure is authorized by the General Counsel or required by laws or regulations. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed. It also includes information that suppliers and customers have entrusted to us. The obligation to preserve confidential information continues even after employment ends. In connection with this obligation, every employee should have executed a confidentiality agreement when he or she began his or her employment with the Company.

***CORPORATE OPPORTUNITIES***

Employees, officers and directors are prohibited from taking for themselves personally opportunities that are discovered through the use of corporate property, information or position without the consent of the Board of Directors. No employee may use corporate property, information or position for improper personal gain, and no employee may compete with the Company directly or indirectly. Employees, officers and directors owe a duty to the Company to advance its legitimate interest when the opportunity to do so arises.

***BOOKS AND RECORDS***

*Accuracy and Completeness*—Each employee, officer and director must do his or her part to ensure that the books of account and financial records of the Company meet the highest standards of accuracy and completeness. The responsibility does not rest exclusively with the Company's accounting personnel. If you have reason to believe that any of the Company's books and records are not being maintained in an accurate or complete manner, you are expected to report this immediately to your supervisor or to the General Counsel. Similarly, the Company relies on you to speak up if you ever feel or if you actually are being pressured to destroy documents which would not normally be destroyed, or if you become aware that any misleading, incomplete or false statement was made to an accountant, auditor, attorney or government official in connection with any audit, examination or filing with a government agency, such as the United States Securities and Exchange Commission.

*Financial Statements and Accounts*—All employees who are involved in supplying any kind of supporting documentation, determining account classification or approving transactions will be held responsible for ensuring that transactions are reported accurately, completely and in reasonable detail. All transactions must be recorded appropriately to ensure full accountability for all assets and activities of the Company and to supply the data needed in connection with the preparation of financial statements. Each employee involved in the preparation of the Company's financial statements must prepare them according to generally accepted accounting principles and other applicable standards and rules, so that the statements fairly and completely reflect the operations and financial condition of the Company.

*Payments and Expense Accounts*—No payment on behalf of the Company may be approved or made if any part of it is to be used for any purpose other than that described by the supporting documents. All receipts and disbursements must be fully and accurately described in the books and records of the Company and must be supported by appropriate descriptive documentation. Employees should request reimbursement for business-related expenses in strict accordance with the Company's travel and entertainment policies.

*Retention of Documents*—Document and records must be retained for the periods of time specified by the Company. Also, if you are aware of an imminent or ongoing investigation, audit or examination initiated by the Company or any government agency, you should retain all documents and records in your custody or control relating to the matter under review. Please note that the destruction of falsification of a document in order to impede a governmental investigation, audit or examination may



lead to prosecution for obstruction of justice. If you are not sure that a document can be destroyed, consult your supervisor or the General Counsel before doing so.

***TREATMENT OF EMPLOYEES***

The Company has established comprehensive programs to ensure compliance with labor and employment laws, including equal employment opportunity policies and procedures, safety and health programs, and wage and hour procedures. For further information on particular labor and employment compliance policies, see your supervisor or contact the Human Resources Department.

*Safety, Health and the Environment*—The Company is committed to maintaining a safe work environment by eliminating recognized hazards in the workplace. You are required to comply with all applicable health, safety and environmental laws and with all related Company policies. To further your own safety and that of your fellow employees, your are also required to report to your supervisor any unsafe conditions, hazards, broken equipment or accidents.

*Nondiscrimination and Equal Employment Opportunity*—GUESS? is an equal opportunity employer. We embrace and value a diverse workforce and pledge to provide equal employment opportunity to all job applicants and employees. We will not tolerate discrimination against applicants or employees based on any impermissible classification including their race, religion, color, gender, age, marital status, national origin, sexual orientation, citizenship status, disability or status as a disabled veteran. We require all employees to refrain from unlawful discrimination in any aspect of employment, including decisions concerning recruitment, hiring, termination, promotions, salary treatment, or any other condition of employment or career development. This also means we will treat all GUESS? employees, customers, suppliers and other people with whom we come in contact with respect, dignity and honesty. We will not tolerate the use of discriminatory slurs, or any other remarks, jokes or conduct that in the judgment of GUESS? encourages or permits an offensive or hostile work environment.

*Sexual and other Forms of Harassment*—GUESS? policy, as well as federal, state and local laws, strictly prohibits any form of harassment in the workplace, including unlawful harassment based on race or gender. This prohibition also applies to the harassment of GUESS? employees by non-employees. Sexual harassment includes linking, either explicitly or implicitly, a person's submission to, or rejection of, sexual advances to any decision regarding that person's terms or conditions of employment. It also includes the existence of a sexually abusive or hostile working environment. This can be characterized by unwelcome sexual advances or verbal or physical conduct of a sexual nature.

*Reporting Responsibilities and Procedures*—If you believe that you have been subjected to harassment of any kind or any other type of unlawful discrimination, you may wish to confront the offender and state that the conduct is unacceptable. If you are uncomfortable with this approach or if you have already tried it unsuccessfully, you should report the matter to the Human Resources Department or the General Counsel. Complaints of harassment, abuse or discrimination will be investigated promptly and thoroughly and will be kept confidential to the extent possible. If you feel that you have been discriminated against or subjected to sexual or other prohibited forms of harassment, or if you feel retaliated against because of filing a complaint, you should bring the matter to the attention of the Human Resources Department or the General Counsel. Employees found to have engaged in sexual harassment or any other kind of abusive behavior shall be subject to disciplinary action, which may include termination. However, false accusations of harassment also violate GUESS? policy.

***TRADEMARKS AND COPYRIGHTS***

*Trademarks and Copyrights*—Each employee has an obligation to protect the Company's trademarks and copyrights. These "intellectual properties" may not be tangible like our buildings or equipment, but they are among the most valuable of the Company's assets. Our logos and the name "GUESS?" are



examples of Company trademarks recognized around the world. Company publications and even software programs developed for or by the Company are the types of material that can be protected by copyright or otherwise. Each of us is responsible for using Company trademarks properly and consistently, and in keeping with the Company's high standards for quality and ethical business conduct. You must advise senior management or the General Counsel of infringements by others or if you are unsure about a proposed use of Company trademarks or copyrights or any other materials for public dissemination. All Internet, Intranet and e-mail activities are to be conducted for legitimate business purposes only. You acknowledge that the Company owns and has all rights to monitor, inspect, disclose and expunge all electronic files and records on Company systems, and that you should have no expectation of privacy with respect to all such files and records. Employee use of all Company computing resources, including personal computers, networked services and Internet and e-mail access (including web surfing), must at all times comply with all Company policies and applicable laws, including those relating to intellectual property, privacy, defamation (libel and slander) and unfair competition. You are reminded that all on-line and e-mail activities, intentionally or not, are potentially public in nature. We must never act in a way that would bring liability, loss of credibility or embarrassment to the Company. Adhering to these guidelines with respect to trademarks, copyrights and computer use is very important, as violation may result in significant civil and even criminal penalties for both you and the Company.

***FAIR DEALING***

We seek to outperform our competition fairly and honestly. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosure by past or present employees of other companies is prohibited. Each employee should endeavor to respect the rights of and deal fairly with the Company's customers, suppliers competitors and employees. No employee should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other intentional unfair-dealing practice.

*Pricing Policies*—In all contacts with competitors, avoid discussing pricing policy, terms and conditions, costs, inventories, marketing and product plans, market surveys and studies, production plans and capabilities—and of course, any other proprietary or confidential information. Collaboration or discussion of these subjects with competitors can be illegal. If a competitor raises any of them, even lightly or with apparent innocence, you should object, stop the conversation immediately, and tell the competitor that under no circumstances can you discuss these matters. If necessary, you should leave the meeting. In summary, disassociate yourself and GUESS? from participation in any possibly illegal activity with competitors, confine your communication to what is clearly legal and proper. Finally, immediately report any incident associated with a prohibited subject to the General Counsel.

*Competition Law and Conduct*—Laws governing competition exist in most of the industrialized countries in which GUESS? does business. The purpose of competition laws, which may also be known as antitrust, monopoly, fair trade or cartel laws, is to prevent interference with the functioning of a competitive market system. While the purpose of such laws is primarily economic, their effect is often seen as going beyond consumer welfare to protect other values of society, including individual freedoms. Under these laws, companies may not enter into agreements with competitors, customers or suppliers, however informally, that unreasonable restrict the functioning of the competitive system. A good example of such a prohibited agreement is one between GUESS? and a competitor on timing the markdown dates for non-private label items sold by GUESS?. Other examples include: agreements between competitors to divide markets, to divide customers or to restrict their output; or a company's agreement with its suppliers that they will not sell to its competitors. These and any other agreements that would limit competition are highly questionable if not outright illegal. Under no circumstances



shall anyone at GUESS? engage in prohibited anti-competitive behavior. If you have any questions regarding your actions in light of the antitrust laws, you should contact the General Counsel.

***PAYMENTS TO GOVERNMENT PERSONNEL***

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country.

In addition, the U.S. government has a number of laws and regulations regarding business gratuities which may be accepted by U.S. government personnel. The promise, offer or delivery to any official or employee of the U.S. government of a gift, favor or other gratuity in violation of these rules would not only violate Company policy, but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules. The General Counsel can provide guidance to you in this area.

***DISCLOSURE OBLIGATIONS AND PROCEDURES***

The Company's policy is to release data of public importance at the earliest appropriate time consistent with the need to both maintain confidentiality of information before final decisions are made and to avoid endangering the Company's business through disclosure of information potentially advantageous to competitors. All public statements, oral or written, must be accurate, with no material omissions. Information that could reasonably be expected to have an impact on the market for GUESS? securities may be released only through the Co-Chief Executive Officers, President, Chief Financial Officer, or General Counsel. All inquiries from financial analysts, media representatives, or financial consultants should also be directed to the Co-Chief Executive Officers, President, Chief Financial Officer or the General Counsel. Financial information and results, including projections, forecasts, and forward looking statements, should not be supplied in business proposals, presentations, or advertising, presented to the press or released to local media without express prior approval and review by either the Co-Chief Executive Officers, President, or Chief Financial Officer.

***COMPANY PROPERTY***

You are entrusted with protecting the Company's property and ensure its efficient use. Acts of dishonesty against the Company or its customers involving theft, destruction or misappropriation of property, including inventory, money, office equipment or supplies or any other items of value, are, of course, prohibited. Falsification, alteration or substitution of records for the purpose of concealing or aiding such acts is also prohibited. All Company property should be used for legitimate business purposes.

***WAIVERS OF THE CODE OF CONDUCT***

Any waiver of this Code for executive officers or directors may be made only by the Board or a Board committee and will be promptly disclosed as required by law or stock exchange regulation.

***COMPLIANCE WITH THE CODE***

The Company takes this Code of Conduct very seriously. You must understand this Code and take responsibility for seeking the advice of your supervisor or other appropriate officials of the Company if you need clarification on any point.

*Reporting Violations*—If you believe you violated this Code or applicable law or regulation, you must report the violation so that the Company can take appropriate action. The fact that you reported the violation will be given consideration in determining appropriate disciplinary action, if any. In many



cases, a prompt report of a violation can substantially reduce the adverse impact of a violation on all involved, on third parties, on the Company and on you. If you become aware that another employee, of whatever level of seniority, has, in all likelihood, violated this Code, including any law or regulation applicable to the Company's businesses, you are under a duty to report that violation, so that the Company can take steps to rectify the problem and prevent a recurrence. Violations may be reported to your supervisor, the Human Resources Department or the General Counsel, as appropriate. Such reports will be treated confidentially to the extent possible, and no person will be subject to retaliation for reporting a suspected violation in good faith. Employees are expected to cooperate in internal investigations of misconduct. Employees charged with financial reporting responsibilities must be familiar with the Company's complaint procedures for accounting and auditing procedures, which describe the Company's procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters. Any employee may submit a good faith concern regarding questionable accounting or auditing matters without fear of dismissal or retaliation of any kind.

*Disciplinary Action*—GUESS? intends to use every reasonable effort to prevent the occurrence of conduct not in compliance with this Code of Conduct, and to halt any such conduct that may occur as soon as reasonably possible after its discovery. GUESS? employees and officers who violate this Code and other GUESS? policies and procedures may be subject to disciplinary actions, which may include termination. In addition, disciplinary measures will apply to anyone who directs or approves infractions, or has knowledge of them and does not move promptly to correct them in accordance with Company policies. In addition, persons who violate the law during the course of their employment may be subject to criminal and civil penalties, as well as payment of civil damages to others.

The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of violations of this Code by either of the Co-CEOs or the Company's senior financial officers. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to this Code and shall include written notices to the individuals involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation appears to have been intentional or inadvertent, whether the individual in question has been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 21.1**

## Guess?, Inc.
## List of Subsidiaries

| Investment In | Location | Owned By | Percentage of Ownership |
|---|---|---|---|
| Guess? Retail, Inc. | United States | Guess?, Inc. | 100% |
| Guess? Licensing, Inc. | United States | Guess?, Inc. | 100% |
| Guess.com, Inc. | United States | Guess?, Inc. | 100% |
| Guess? Value LLC | United States | Guess?, Inc. | 100% |
| Guess? IP GP LLC | United States | Guess?, Inc. | 100% |
| Guess? IP LP LLC | United States | Guess?, Inc. | 100% |
| Guess? IP Holder L.P. | United States | Guess?, Inc. | 100% |
| Guess? Royalty Finance, LLC | United States | Guess?, Inc. | 100% |
| Guess? Canada Corporation | Canada | Guess?, Inc. | 100% |
| Guess? Europe, B.V. | Netherlands | Guess?, Inc. | 100% |
| Guess Italia, S.r.l. | Italy | Guess? Europe, B.V. | 100% |

QuickLinks

Guess?, Inc. List of Subsidiaries

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 23.1**

## Independent Auditors' Consent

We consent to incorporation by reference in the registration statements (no. 333-10069, 333-81274, 333-105041 and 333-111895) of our report dated February 17, 2004, relating to the consolidated balance sheet of Guess?, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2003, and the related financial statement schedule, which report appears in the December 31, 2003 annual report on Form 10-K of Guess?, Inc. Our report refers to the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets," in 2002.

/s/ KPMG LLP

Los Angeles, California
March 10, 2004

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QuickLinks

Independent Auditors' Consent

**Exhibit 31.1**

I, Maurice Marciano, Co-Chief Executive Officer and Director, certify that:

1. I have reviewed this annual report on Form 10-K of GUESS?, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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)) 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 annual report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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;

    c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 officers 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 function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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: March 12, 2004 | By: | /s/ MAURICE MARCIANO |
| | | Maurice Marciano<br>Co-Chief Executive Officer and Director |

QuickLinks

Exhibit 31.1

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 31.2**

I, Paul Marciano, Co-Chief Executive Officer and Director, certify that:

1. I have reviewed this annual report on Form 10-K of GUESS?, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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)) 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 annual report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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;

    c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 officers 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 function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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: March 12, 2004 | By: | /s/ PAUL MARCIANO |
| | | Paul Marciano<br>Co-Chief Executive Officer and Director |

QuickLinks

Exhibit 31.2

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 31.3**

I, Carlos Alberini, President, Chief Operating Officer and Director, certify that:

1. I have reviewed this annual report on Form 10-K of GUESS?, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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)) 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 annual report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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;

    c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 officers 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 function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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: March 12, 2004 | By: | /s/ CARLOS ALBERINI |
| | | Carlos Alberini<br>President, Chief Operating Officer and Director |

QuickLinks

Exhibit 31.3

**Exhibit 31.4**

I, Frederick G. Silny, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of GUESS?, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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)) 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 annual report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual 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;

    c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 officers 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 function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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: March 12, 2004 | By: | /s/ FREDERICK G. SILNY |
| | | Frederick G. Silny<br>Senior Vice President and<br>Chief Financial Officer |

QuickLinks

Exhibit 31.4

QuickLinks -- Click here to rapidly navigate through this document

**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, Maurice Marciano, Co-Chief Executive Officer and Director 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 Annual Report on Form 10-K of the Company for the period ended December 31, 2003, 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; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Date: March 12, 2004 | By: | /s/ MAURICE MARCIANO |
| | | Maurice Marciano<br>Co-Chief Executive Officer and Director |

QuickLinks

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

QuickLinks -- Click here to rapidly navigate through this document

**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, Paul Marciano, Co-Chief Executive Officer and Director 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 Annual Report on Form 10-K of the Company for the period ended December 31, 2003, 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; and

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

| | | |
|---|---|---|
| Date: March 12, 2004 | By: | /s/ PAUL MARCIANO |
| | | Paul Marciano<br>Co-Chief Executive Officer and Director |

QuickLinks

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

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 32.3**

**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, President, Chief Operating Officer and Director 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 Annual Report on Form 10-K of the Company for the period ended December 31, 2003, 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; and

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

| | | |
|---|---|---|
| Date: March 12, 2004 | By: | /s/ CARLOS ALBERINI |
| | | Carlos Alberini<br>President, Chief Operating Officer and Director |

QuickLinks

Exhibit 32.3

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

**Exhibit 32.4**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350**

**AS ADOPTED PURSUANT TO SECTION 906**

**OF THE SARBANES-OXLEY ACT OF 2002**

I, Frederick G. Silny, Senior Vice President and 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 Annual Report on Form 10-K of the Company for the period ended December 31, 2003, 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; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Date: March 12, 2004 | By: | /s/ FREDERICK G. SILNY |
| | | Frederick G. Silny<br>Senior Vice President and<br>Chief Financial Officer |

QuickLinks

Exhibit 32.4

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