

PERRY ELLIS INTERNATIONAL INC

Form 10-Q

December 04, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 27, 2012

OR

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

Commission File Number: 0-21764

PERRY ELLIS INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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| | |
|--|--|
| <p>Florida (State or other jurisdiction of Incorporation or Organization)</p> <p>3000 N.W. 107 Avenue</p> <p>Miami, Florida (Address of Principal Executive Offices)</p> | <p>59-1162998 (I.R.S. Employer Identification No.)</p> <p>33172 (Zip Code)</p> <p>Registrant's Telephone Number, Including Area Code: (305) 592-2830</p> |
|--|--|

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

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

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

| | |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Small reporting company <input type="checkbox"/> |

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

The number of shares outstanding of the registrant's common stock is 16,028,458 (as of November 30, 2012).

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PERRY ELLIS INTERNATIONAL, INC.

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(amounts in thousands, except share data)

| | October 27, 2012 | January 28, 2012 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 51,659 | \$ 24,116 |
| Accounts receivable, net | 154,947 | 145,563 |
| Inventories | 157,473 | 198,264 |
| Deferred income taxes | 12,216 | 11,873 |
| Prepaid income taxes | 6,738 | 8,247 |
| Other current assets | 9,835 | 13,613 |
| Total current assets | 392,868 | 401,676 |
| Property and equipment, net | 54,337 | 56,496 |
| Other intangible assets, net | 248,517 | 242,634 |
| Goodwill | 13,794 | 13,794 |
| Other assets | 9,296 | 9,595 |
| TOTAL | \$ 718,812 | \$ 724,195 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 89,418 | \$ 80,253 |
| Accrued expenses and other liabilities | 21,058 | 23,142 |
| Accrued interest payable | 1,018 | 4,186 |
| Unearned revenues | 4,363 | 4,179 |
| Total current liabilities | 115,857 | 111,760 |
| Senior subordinated notes payable, net | 150,000 | 150,000 |
| Senior credit facility | | 21,679 |
| Real estate mortgages | 24,415 | 25,114 |
| Deferred pension obligation | 15,618 | 17,326 |
| Unearned revenues and other long-term liabilities | 15,326 | 15,425 |
| Deferred income taxes | 18,844 | 16,396 |
| Total long-term liabilities | 224,203 | 245,940 |
| Total liabilities | 340,060 | 357,700 |
| Commitments and contingencies | | |
| Equity: | | |
| Preferred stock \$.01 par value; 5,000,000 shares authorized; no shares issued or outstanding | | |
| Common stock \$.01 par value; 100,000,000 shares authorized; 17,033,861 shares issued and outstanding as of October 27, 2012 and 16,787,161 shares issued and outstanding as of January 28, 2012 | 170 | 167 |
| Additional paid-in-capital | 164,947 | 160,997 |
| Retained earnings | 239,881 | 229,467 |

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| | | |
|--|-------------------|-------------------|
| Accumulated other comprehensive loss | (7,706) | (8,178) |
| Total | 397,292 | 382,453 |
| Treasury stock at cost; 1,290,022 shares as of October 27, 2012 and 1,157,300 shares as January 28, 2012 | (18,540) | (15,958) |
| Total equity | 378,752 | 366,495 |
| TOTAL | \$ 718,812 | \$ 724,195 |

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(amounts in thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | October 27, 2012 | October 29, 2011 | October 27, 2012 | October 29, 2011 |
| Revenues: | | | | |
| Net sales | \$ 229,330 | \$ 242,116 | \$ 691,436 | \$ 733,487 |
| Royalty income | 6,918 | 6,304 | 19,772 | 17,657 |
| Total revenues | 236,248 | 248,420 | 711,208 | 751,144 |
| Cost of sales | 160,453 | 165,970 | 478,348 | 499,456 |
| Gross profit | 75,795 | 82,450 | 232,860 | 251,688 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 63,984 | 66,356 | 196,434 | 193,101 |
| Depreciation and amortization | 3,424 | 3,369 | 10,314 | 9,982 |
| Total operating expenses | 67,408 | 69,725 | 206,748 | 203,083 |
| Operating income | 8,387 | 12,725 | 26,112 | 48,605 |
| Costs on early extinguishment of debt | | | | 1,306 |
| Interest expense | 3,689 | 3,868 | 11,011 | 12,303 |
| Net income before income taxes | 4,698 | 8,857 | 15,101 | 34,996 |
| Income tax provision | 1,518 | 2,348 | 4,687 | 11,262 |
| Net income | \$ 3,180 | \$ 6,509 | \$ 10,414 | \$ 23,734 |
| Net income per share: | | | | |
| Basic | \$ 0.22 | \$ 0.42 | \$ 0.71 | \$ 1.58 |
| Diluted | \$ 0.21 | \$ 0.40 | \$ 0.68 | \$ 1.47 |
| Weighted average number of shares outstanding | | | | |
| Basic | 14,662 | 15,317 | 14,669 | 15,009 |
| Diluted | 15,295 | 16,391 | 15,275 | 16,131 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(amounts in thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | October 27, 2012 | October 29, 2011 | October 27, 2012 | October 29, 2011 |
| Net income | \$ 3,180 | \$ 6,509 | \$ 10,414 | \$ 23,734 |
| Other Comprehensive income: | | | | |
| Foreign currency translation adjustments, net | 568 | (784) | 472 | 39 |
| Comprehensive income | \$ 3,748 | \$ 5,725 | \$ 10,886 | \$ 23,773 |

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(amounts in thousands)

| | Nine Months Ended | |
|---|---------------------|---------------------|
| | October 27, 2012 | October 29, 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 10,414 | \$ 23,734 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 10,237 | 9,837 |
| Provision for bad debts | 111 | 186 |
| Tax benefit from exercise of stock options | (384) | (456) |
| Amortization of debt issue cost | 533 | 377 |
| Amortization of premiums and discounts | 38 | (32) |
| Deferred income taxes | 2,105 | 2,757 |
| Share based compensation | 2,968 | 4,556 |
| Gain on sale of intangible asset | (410) | |
| Change in fair value and settlement of derivatives | | (1,832) |
| Costs on early extinguishment of debt | | 1,306 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (9,271) | (20,441) |
| Inventories | 41,125 | (22,064) |
| Other current assets and prepaid income taxes | 1,137 | (3,437) |
| Other assets | 161 | (324) |
| Deferred pension obligation | (1,708) | (1,633) |
| Accounts payable and accrued expenses | 6,689 | (8,328) |
| Accrued interest payable | (3,168) | (2,480) |
| Unearned revenues and other liabilities | (370) | (738) |
| Net cash provided by (used in) operating activities | 60,207 | (19,012) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (6,415) | (9,548) |
| Proceeds on sale of intangible assets | 410 | 2,875 |
| Payment on purchase of intangible assets | (7,000) | (535) |
| Proceeds in connection with purchase price adjustment | 4,547 | |
| Payment on purchase of operating leases | | (904) |
| Redemption of restricted funds as collateral | | 9,369 |
| Net cash (used in) provided by investing activities | (8,458) | 1,257 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings from senior credit facility | 237,047 | 303,013 |
| Payments on senior credit facility | (258,726) | (376,269) |
| Payments on real estate mortgages | (534) | (381) |
| Proceeds from issuance of senior subordinated notes | | 150,000 |
| Debt issuance costs | | (3,504) |
| Deferred financing fees | (100) | (103) |
| Payments on senior subordinated notes | | (105,792) |
| Payments on capital leases | (258) | (281) |
| Proceeds from exercise of stock options | 601 | 454 |
| Tax benefit from exercise of stock options | 384 | 456 |

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| | | |
|--|-----------|-----------|
| Proceeds from issuance of common stock | | 56,000 |
| Stock issuance costs | | (3,074) |
| Purchase of treasury stock | (2,582) | |
| Net cash (used in) provided by financing activities | (24,168) | 20,519 |
| Effect of exchange rate changes on cash and cash equivalents | (38) | 120 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 27,543 | 2,884 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 24,116 | 18,524 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 51,659 | \$ 21,408 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ 13,966 | \$ 15,082 |
| Income taxes | \$ 5,622 | \$ 6,503 |
| NON-CASH FINANCING AND INVESTING ACTIVITIES: | | |
| Accrued purchases of property and equipment | \$ 1 | \$ 562 |
| Capital lease financing | \$ 888 | \$ 66 |
| Investment in joint venture | \$ 396 | \$ |

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited condensed consolidated financial statements of Perry Ellis International, Inc. and subsidiaries ("Perry Ellis" or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the requirements of the Securities and Exchange Commission on Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and changes in cash flows required by GAAP for annual financial statements. These condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended January 28, 2012, filed with the Securities and Exchange Commission on April 12, 2012.

The information presented reflects all adjustments, which are in the opinion of management of a normal and recurring nature, necessary for a fair presentation of the interim periods. Results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire fiscal year.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 provides amendments to Topic 820 effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Early adoption is not permitted for public entities. The adoption of ASU 2011-04 did not have a material impact on the Company's results of operations or the Company's financial position.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 simplifies how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of ASU No. 2011-08 is not expected to have a material impact on the Company's results of operations or the Company's financial position.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 provides for additional disclosures of both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in this update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and disclosures required by these amendments should be provided retrospectively for all comparative periods presented. The adoption of ASU No. 2011-11 is not expected to have a material impact on the Company's results of operations or the Company's financial position.

In July 2012, the FASB issued ASU 2012-02, *Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. Examples of intangible assets subject to the guidance include indefinite-lived trademarks, licenses, and distribution rights. The

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amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 is not expected to have a material impact on the Company's results of operations or the Company's financial position.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. ASU 2012-04 contains amendments to clarify the Accounting Standards Codification (ASC), correct unintended application of guidance, or make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, the amendments are intended to make the ASC easier to understand and the fair value measurement guidance easier to apply by eliminating inconsistencies and providing needed clarifications. The amendments that do not have transition guidance were effective upon issuance. The amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on the Company's results of operations or the Company's financial position.

3. ACQUISITIONS*Acquisition of Ben Hogan*

On February 16, 2012, the Company acquired the world-wide intellectual property rights of the Ben Hogan family of brands from Callaway Golf Company for a purchase price of \$7.0 million. The acquisition was financed through existing cash and borrowings under the Company's existing senior credit facility. Ben Hogan brands are ideally positioned to strengthen the Company's golf business within the Men's Sportswear and Swim segment.

The assets acquired were composed of tradenames, which have been identified as indefinite useful life assets and are not subject to amortization.

Pro forma information for the acquisition of Ben Hogan has not been provided as it is immaterial to the Company's consolidated operations.

Acquisition of Rafaella

On January 28, 2011, the Company completed the acquisition of substantially all of the assets of Rafaella Apparel Group, Inc. (Rafaella), Rafaella Apparel Far East Limited (Rafaella Far East) and Verrazano, Inc. (Verrazano) pursuant to the Asset Purchase Agreement dated as of January 7, 2011 (the Agreement) by and among Rafaella, Rafaella Far East and Verrazano (collectively, the Sellers) and the Company.

At January 28, 2011, the initial consideration paid by the Company totaled \$80.0 million in cash and a warrant to purchase 106,565 shares of the Company's common stock valued at approximately \$2.6 million. During the fourth quarter of fiscal 2012, the cash portion of the purchase price was adjusted as set forth in the Agreement based on a post-closing true-up of net working capital, which resulted in total adjusted cash paid by the Company totaling \$75.4 million. The original cash paid was reduced by \$4.5 million, and such amount was included as a receivable from the Sellers in other current assets in the consolidated balance sheet as of January 28, 2012. The \$4.5 million was collected during the first quarter of fiscal 2013.

4. INVENTORIES

Inventories are stated at the lower of cost (weighted moving average cost) or market. Cost principally consists of the purchase price, customs, duties, freight, and commissions to buying agents.

Inventories consisted of the following as of:

| | October 27, 2012 | January 28, 2012 |
|------------------------------|---------------------|---------------------|
| | (in thousands) | |
| Finished goods | \$ 156,117 | \$ 195,473 |
| Raw materials and in process | 1,356 | 2,791 |
| Total | \$ 157,473 | \$ 198,264 |

Table of Contents**5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of:

| | October 27, 2012 | January 28, 2012 |
|---|-----------------------------|-----------------------------|
| | (in thousands) | |
| Furniture, fixtures and equipment | \$ 92,233 | \$ 91,638 |
| Buildings and building improvements | 19,545 | 19,525 |
| Vehicles | 896 | 902 |
| Leasehold improvements | 31,749 | 30,577 |
| Land | 9,426 | 9,210 |
| Total | 153,849 | 151,852 |
| Less: accumulated depreciation and amortization | (99,512) | (95,356) |
| Total | \$ 54,337 | \$ 56,496 |

The above table of property and equipment includes assets held under capital leases as of:

| | October 27, 2012 | January 28, 2012 |
|---|-----------------------------|-----------------------------|
| | (in thousands) | |
| Furniture, fixtures and equipment | \$ 938 | \$ 1,093 |
| Less: accumulated depreciation and amortization | (152) | (921) |
| Total | \$ 786 | \$ 172 |

For the three months ended October 27, 2012 and October 29, 2011, depreciation and amortization expense relating to property and equipment amounted to \$3.3 million and \$3.1 million, respectively. For the nine months ended October 27, 2012 and October 29, 2011, depreciation and amortization expense relating to property and equipment amount to \$9.5 million and \$9.1 million, respectively. These amounts include amortization expense for leased property under capital leases.

6. OTHER INTANGIBLE ASSETS*Trademarks*

Trademarks included in other intangible assets, net, are considered indefinite-lived assets and totaled \$241.8 million at October 27, 2012 and \$235.2 million at January 28, 2012.

Other

Other intangible assets represent customer lists as of:

| | October 27, 2012 | January 28, 2012 |
|--------------------------------|-----------------------------|-----------------------------|
| | (in thousands) | |
| Customer lists | \$ 8,450 | \$ 8,450 |
| Less: accumulated amortization | (1,693) | (972) |

| | | |
|-------|----------|----------|
| Total | \$ 6,757 | \$ 7,478 |
|-------|----------|----------|

For the three months ended October 27, 2012 and October 29, 2011, amortization expense relating to customer lists amounted to approximately \$0.2 million for each period. For the nine months ended October 27, 2012 and October 29, 2011, amortization expense relating to customer lists amounted to approximately \$0.7 million for each period.

7. INVESTMENT IN JOINT VENTURE

On April 20, 2012, the Company formed a joint venture, Manhattan China Limited, with China Outfitters Holdings Limited (COHL). Under the joint venture agreement, Manhattan China Limited has 10,000,000 initial authorized shares of capital (joint venture shares). COHL holds 7,500,000 joint venture shares, a 75% ownership

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interest in the joint venture, and the Company holds 2,500,000 joint venture shares, a 25% ownership interest in Manhattan China Limited, which is accounted for under the equity method. The Company has a put option to sell its 2,500,000 joint venture shares to COHL in exchange for cash or COHL shares at any time before April 20, 2020. As of October 27, 2012, the Company's investment in unconsolidated joint venture, which is classified as an other long-term asset in the accompanying condensed consolidated balance sheets, was approximately \$0.4 million. The Company did not have equity income (loss) for the three and nine months ended October 27, 2012, as the joint venture had not commenced operations.

8. LETTER OF CREDIT FACILITIES

Borrowings and availability under letter of credit facilities consist of the following as of:

| | October 27, 2012 | January 28, 2012 |
|-----------------------------------|---------------------|---------------------|
| | (in thousands) | |
| Total letter of credit facilities | \$ 55,322 | \$ 55,314 |
| Outstanding letters of credit | (12,140) | (4,555) |
| Total letters of credit available | \$ 43,182 | \$ 50,759 |

9. REAL ESTATE MORTGAGES

In July 2010, the Company paid off the then existing real estate mortgage loan and refinanced its main administrative office, warehouse and distribution facility in Miami with a \$13.0 million mortgage loan. The loan is due on August 1, 2020. Principal and interest of \$83,000 were due monthly based on a 25 year amortization with the outstanding principal due at maturity. Interest was fixed at 5.80%. In October 2011, the Company amended the mortgage agreement to modify the interest rate. The interest rate was reduced to 5.00% per annum and the terms were restated to reflect new monthly payments of principal and interest of \$77,000 based on a 25 year amortization with the outstanding principal due at maturity. In September 2012, the Company again amended the mortgage agreement to modify the interest rate. The interest rate was reduced to 4.25% per annum and the terms were restated to reflect new monthly payments of principal and interest of \$71,000, based on a 25 year amortization with the outstanding principal due at maturity. At October 27, 2012, the balance of the real estate mortgage loan totaled \$12.1 million, net of discount, of which \$302,000 is due within one year.

In June 2006, the Company entered into a mortgage loan for \$15 million secured by the Company's Tampa facility. The loan is due on June 7, 2016. In June 2010, the Company negotiated with the bank to accelerate the rate reset that was scheduled to occur in June 2011, and the interest rate was reduced to 5.75% per annum, among other changes to the loan. In October 2011, the Company amended the mortgage loan agreement to modify the interest rate again. The interest rate was reduced to 4.95% per annum and the terms were restated to reflect new quarterly payments of principal and interest of approximately \$268,000, based on a 20 year amortization with the outstanding principal due at maturity. In July 2012, the Company again amended the mortgage loan agreement to modify the interest rate. The interest rate was reduced to 4.00% per annum and the terms were restated to reflect new quarterly payments of principal and interest of approximately \$248,000, based on a 20 year amortization with the outstanding principal due at maturity. At October 27, 2012, the balance of the real estate mortgage loan totaled \$13.1 million, net of discount, of which approximately \$465,000 is due within one year.

The real estate mortgage loans contain certain covenants. The Company is not aware of any non-compliance with any of the covenants. If the Company violates any covenants, the lender under the real estate mortgage loan could declare all amounts outstanding thereunder to be immediately due and payable, which the Company may not be able to satisfy. A covenant violation could constitute a cross-default under the Company's senior credit facility, the letter of credit facilities and the indenture relating to its senior subordinated notes resulting in all of its debt obligations becoming immediately due and payable, which the Company may not be able to satisfy.

Table of Contents**10. ADVERTISING AND RELATED COSTS**

The Company's accounting policy relating to advertising and related costs is to expense these costs in the period incurred. Advertising and related costs were approximately \$3.8 million and \$4.6 million for the three months ended October 27, 2012 and October 29, 2011, respectively, and \$11.4 million and \$11.7 million for the nine months ended October 27, 2012 and October 29, 2011, respectively, and are included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

11. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average shares of outstanding common stock. The calculation of diluted net income per share is similar to basic earnings per share except that the denominator includes potentially dilutive common stock. The potentially dilutive common stock included in the Company's computation of diluted net income per share includes the effects of stock options, stock appreciation rights (SARS), warrants and unvested restricted shares as determined using the treasury stock method.

The following table sets forth the computation of basic and diluted net income per share:

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | October 27, 2012 | October 29, 2011 | October 27, 2012 | October 29, 2011 |
| | (in thousands, except per share data) | | | |
| Numerator: | | | | |
| Net income | \$ 3,180 | \$ 6,509 | \$ 10,414 | \$ 23,734 |
| Denominator: | | | | |
| Basic-weighted average shares | 14,662 | 15,317 | 14,669 | 15,009 |
| Dilutive effect: equity awards | 526 | 967 | 499 | 1,015 |
| Dilutive effect: warrant | 107 | 107 | 107 | 107 |
| Diluted-weighted average shares | 15,295 | 16,391 | 15,275 | 16,131 |
| Basic net income per share | \$ 0.22 | \$ 0.42 | \$ 0.71 | \$ 1.58 |
| Diluted net income per share | \$ 0.21 | \$ 0.40 | \$ 0.68 | \$ 1.47 |
| Antidilutive effect: ⁽¹⁾ | 771 | 573 | 1,142 | 549 |

⁽¹⁾ Represents weighted average of stock options to purchase shares of common stock, SARS and restricted stock that were not included in computing diluted income per share because their effects were antidilutive for the respective periods.

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The following table reflects the changes in equity:

| | Changes in Equity (in thousands) |
|---|--|
| Equity at January 29, 2012 | \$ 366,495 |
| Comprehensive income | 10,886 |
| Share transactions under employee equity compensation plans | 3,953 |
| Purchase of treasury stock | (2,582) |
| Equity at October 27, 2012 | \$ 378,752 |
| Equity at January 30, 2011 | \$ 302,940 |
| Comprehensive income | 23,773 |
| Share transactions under employee equity compensation plans | 5,466 |
| Issuance of common stock | 52,926 |
| Equity at October 29, 2011 | \$ 385,105 |

During November 2007, the Company's Board of Directors authorized the Company to purchase, from time to time and as market and business conditions warranted, up to \$20 million of its common stock for cash in the open market or in privately negotiated transactions over a 12-month period. In September 2008, 2009 and 2010, the Board of Directors extended the stock repurchase program for the next twelve months. In November 2011, the Board of Directors increased and extended the stock repurchase program to authorize the Company to repurchase up to \$40 million of the Company's common stock for cash over the next twelve months. In June 2012, the Company's Board of Directors increased and extended the stock repurchase program to authorize the Company to repurchase up to \$60 million of the Company's common stock for cash through October 31, 2013. Although the Board of Directors allocated a maximum of \$60 million to carry out the program, the Company is not obligated to purchase any specific number of outstanding shares and will reevaluate the program on an ongoing basis.

During September 2011, the Company's Board of Directors authorized the retirement of 2,462,196 shares of treasury stock which were recorded at a cost of approximately \$17.4 million on the consolidated balance sheets. Accordingly, the Company reduced common stock and additional paid-in-capital by \$25,000 and \$17.4 million, respectively. During fiscal 2012, the Company repurchased shares of its common stock at a cost of \$16.0 million. Additionally, the Company repurchased shares of its common stock during the nine months ended October 27, 2012 at a cost of \$2.6 million, bringing total purchases under the plan to \$36.0 million. As of October 27, 2012 and January 28, 2012, there were 1,290,022 shares of treasury stock at a cost of approximately \$18.5 million and 1,157,300 shares of treasury stock at a cost of approximately \$16.0 million, respectively.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss at October 27, 2012 and January 28, 2012 was comprised of the following:

| | October 27, 2012 | January 28, 2012 |
|--|-------------------------|-------------------------|
| | (in thousands) | |
| Foreign currency translation | \$ (583) | \$ (1,055) |
| Unrealized loss on pension liability, net of tax | (7,123) | (7,123) |
| Total | \$ (7,706) | \$ (8,178) |

Table of Contents**14. DERIVATIVES**

In August 2009, the Company entered into an interest rate cap agreement (the "\$75 million Cap Agreement") for an aggregate notional amount of \$75 million associated with the 8⁷/₈% senior subordinated notes payable due 2013. The \$75 million Cap Agreement became effective on December 15, 2010 and was scheduled to terminate on September 15, 2013. The \$75 million Cap Agreement was being used to manage cash flow risk associated with the Company's floating interest rate exposure pursuant to the Swap Agreement. The \$75 million Cap Agreement did not qualify for hedge accounting treatment. In connection with the redemption of the 8⁷/₈% Senior Subordinated Notes Due 2013, the Company elected to terminate the \$75 million Cap Agreement. The Company made a \$1.6 million termination payment during March 2011.

The location and amount of (losses) on derivative instruments not designated as hedging instruments reported in the consolidated statements of income are as follows:

| Derivatives Not Designed As Hedging Instruments | Location of (Loss) Recognized in Income | Three Months Ended | | Nine Months Ended | |
|---|--|-----------------------|---------------------|---------------------|---------------------|
| | | October 27, 2012 | October 29, 2011 | October 27, 2012 | October 29, 2011 |
| (in thousands) | | | | | |
| Derivative : 75 Million Cap Agreement | Interest expense | \$ | \$ | \$ | \$ (103) |
| Total | | \$ | \$ | \$ | \$ (103) |

Refer to Note 19, Fair Value Measurements, for disclosures of the fair value and line item caption of derivative instruments recorded on the condensed consolidated balance sheets.

15. INCOME TAXES

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company's U.S. federal income tax returns for 2010 through 2013 are open tax years. The Company's state tax filings are subject to varying statutes of limitations. The Company's unrecognized state tax benefits are related to open tax years from 2005 through 2013, depending on each state's particular statute of limitation. As of October 27, 2012, various state, local, and foreign income tax returns are under examination by taxing authorities. There are currently no U.S. federal income tax returns under examination.

The Company has a \$1.4 million liability recorded for unrecognized tax benefits as of January 28, 2012, which includes interest and penalties of \$0.4 million. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. All of the unrecognized tax benefits, if recognized, would affect the Company's effective tax rate. During the three and nine months ended October 27, 2012, the total amount of unrecognized tax benefits decreased by approximately \$32,000 and \$0.7 million, respectively. The year to date change includes a settlement payment of \$0.3 million made in the first quarter. The change to the total amount of the unrecognized tax benefit for the three and nine months ended October 27, 2012 included a decrease in interest and penalties of approximately \$1,000 and \$0.2 million, respectively.

During the quarter ended April 28, 2012, the Company reached a settlement with the State of New Jersey regarding the income tax liabilities pertaining to the 2004 through 2011 tax years. The liability was settled for less than the recorded amount resulting in a \$0.5 million benefit recorded to income tax expense. The Company does not currently anticipate a resolution within the next twelve months for any of the remaining unrecognized tax benefits as of October 27, 2012. However, the statute of limitations related to the Company's 2010 U.S. federal tax year will expire within the next twelve months. The lapse in the statute of limitations would be expected to decrease tax expense within the next twelve months. The expiration of the statute of limitations related to the Company's 2010 U.S. federal tax year could result in a tax benefit of up to approximately \$0.1 million.

16. STOCK OPTIONS, STOCK APPRECIATION RIGHTS AND RESTRICTED SHARES

During the first and third quarters of fiscal 2013, the Company granted an aggregate of 329,199 SARs, to be settled in shares of common stock, to certain key employees. The SARs exercise prices range from \$18.19 to \$22.46, generally vest over a three-year period and have a seven-year term. The total fair value of the SARs, based on the Black-Scholes Option Pricing Model, amounted to approximately \$3.4 million, which is being recorded as compensation expense on a straight-line basis over the vesting period of each SAR.

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During the first quarter of fiscal 2013, the Company granted performance based restricted stock to certain key employees pursuant to the Company's 2005 Long Term Incentive Compensation Plan, as amended and restated, and subject to certain conditions in the grant agreement. Such stock generally vests 100% in May 2015, provided that each employee is still an employee of the Company on such date and the Company has met certain performance criteria. A total of 83,817 shares of restricted stock were issued at an estimated fair value of \$1.5 million, which is being recorded as compensation expense on a straight-line basis over the vesting period.

In July 2012, the Company reversed approximately \$0.4 million of previously recognized compensation expense into earnings, since it was no longer probable that the previously established performance targets would be met on certain performance based restricted shares and those equity awards were no longer expected to vest. Additionally, in connection with these long term incentive plans, the cash portion, which was also subject to performance based targets, was reversed in the amount of approximately \$0.5 million of previously recognized compensation. Performance targets will not be met, and as such, no cash will be awarded in connection with these long term incentive plans.

Also, during the first quarter and second quarter of fiscal 2013, the Company granted 5,500 shares and 132,693 shares, respectively, of restricted stock to certain key employees, which vest over a three-year period at an estimated fair value of \$0.1 million and \$2.3 million, respectively. During the third quarter of fiscal 2013, the Company granted 9,000 shares of restricted stock to certain key employees, which vest over a three-year period at an estimated fair value of \$0.2 million. These values are being recorded as compensation expense on a straight-line basis over the vesting period of the restricted stock.

During the second quarter of fiscal 2013, the Company awarded to five directors 16,305 shares of restricted stock, which vest over a three-year period at an estimated fair value of \$0.3 million. This value is being recorded as compensation expense on a straight-line basis over the vesting period of the restricted stock.

17. SEGMENT INFORMATION

The Company has four reportable segments: Men's Sportswear and Swim, Women's Sportswear, Direct-to-Consumer and Licensing. The Men's Sportswear and Swim and Women's Sportswear segments derive revenues from the design, import and distribution of apparel to department stores and other retail outlets, principally throughout the United States. The Direct-to-Consumer segment derives its revenues from the sale of the Company's branded and licensed products through its retail stores and e-commerce platform. The Licensing segment derives its revenues from royalties associated with the use of its brand names, principally Perry Ellis, Jantzen, John Henry, Original Penguin, Gotcha, Farah, Savane, Pro Player, Manhattan and Munsingwear. Segment results of prior periods were recast to conform to the current presentation.

The Company allocates certain corporate selling, general and administrative expenses based primarily on the revenues generated by the segments.

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| | Three Months Ended | | Nine Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | October 27, 2012 | October 29, 2011 | October 27, 2012 | October 29, 2011 |
| | (in thousands) | | | |
| Revenues: | | | | |
| Men's Sportswear and Swim | \$ 165,517 | \$ 174,864 | \$ 514,981 | \$ 554,818 |
| Women's Sportswear | 45,105 | 50,506 | 118,033 | 130,539 |
| Direct-to-Consumer | 18,708 | 16,746 | 58,422 | 48,130 |
| Licensing | 6,918 | 6,304 | 19,772 | 17,657 |
| Total revenues | \$ 236,248 | \$ 248,420 | \$ 711,208 | \$ 751,144 |
| Depreciation and amortization | | | | |
| Men's Sportswear and Swim | \$ 2,108 | \$ 2,279 | \$ 6,377 | \$ 6,789 |
| Women's Sportswear | 531 | 351 | 1,466 | 1,054 |
| Direct-to-Consumer | 712 | 598 | 2,169 | 1,776 |
| Licensing | 73 | 141 | 302 | 363 |
| Total depreciation and amortization | \$ 3,424 | \$ 3,369 | \$ 10,314 | \$ 9,982 |
| Operating income (loss) | | | | |
| Men's Sportswear and Swim | \$ 3,910 | \$ 7,338 | \$ 14,607 | \$ 34,095 |
| Women's Sportswear | 327 | 3,294 | (139) | 6,588 |
| Direct-to-Consumer | (2,267) | (3,165) | (4,886) | (6,221) |
| Licensing | 6,417 | 5,258 | 16,530 | 14,143 |
| Total operating income | \$ 8,387 | \$ 12,725 | \$ 26,112 | \$ 48,605 |
| Total costs on early extinguishment of debt | | | | 1,306 |
| Total interest expense | 3,689 | 3,868 | 11,011 | 12,303 |
| Total net income before income taxes | \$ 4,698 | \$ 8,857 | \$ 15,101 | \$ 34,996 |

18. BENEFIT PLAN

The Company sponsors a qualified pension plan. The following table provides the components of net benefit cost for the plan during the three and nine months ended fiscal 2013 and 2012:

| | Three Months Ended | | Nine Months Ended | |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | October 27, 2012 | October 29, 2011 | October 27, 2012 | October 29, 2011 |
| | (in thousands) | | | |
| Service cost | \$ 63 | \$ 63 | \$ 189 | \$ 189 |
| Interest cost | 433 | 509 | 1,299 | 1,527 |
| Expected return on plan assets | (483) | (544) | (1,449) | (1,632) |
| Amortization of net loss | 131 | 4 | 393 | 12 |
| Net periodic benefit cost | \$ 144 | \$ 32 | \$ 432 | \$ 96 |

19. FAIR VALUE MEASUREMENTS

Accounts receivable, accounts payable, accrued interest payable and accrued expenses. The carrying amounts reported in the balance sheets approximate fair value due to the short-term nature of these instruments.

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Real estate mortgages. (classified within Level 2 of the valuation hierarchy) - The carrying amounts of the real estate mortgages were approximately \$25.2 million and \$25.8 million at October 27, 2012 and January 28, 2012, respectively. The carrying values of the real estate mortgages at October 27, 2012 and January 28, 2012 approximate fair value since they were recently entered into and thus the interest rates approximate market.

Senior credit facility. The carrying amount of the senior credit facility approximates fair value due to the frequent resets of its floating interest rate.

Senior subordinated notes payable. (classified within Level 1 of the valuation hierarchy) - The carrying amounts of the senior subordinated notes payable were approximately \$150.0 million at October 27, 2012 and January 28, 2012, respectively. As of October 27, 2012 and January 28, 2012, the fair value of the 7⁷/₈% senior subordinated notes payable was approximately \$158.3 million and \$154.3 million, respectively, based on quoted market prices.

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Interest rate cap. The interest rate cap agreement was terminated during March 2011, therefore no fair value measurements were reported as of October 27, 2012 and January 28, 2012, respectively.

These estimated fair value amounts have been determined using available market information and appropriate valuation methods.

20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Company and several of its subsidiaries (the Guarantors) have fully and unconditionally guaranteed the senior subordinated notes payable on a joint and several basis. The following are condensed consolidating financial statements, which present, in separate columns: Perry Ellis International, Inc. (Parent Only), the Guarantors on a combined, or where appropriate, consolidated basis, and the Non-Guarantors on a consolidated basis. Additional columns present eliminating adjustments and consolidated totals as of October 27, 2012 and January 28, 2012 and for the three and nine months ended October 27, 2012 and October 29, 2011. The combined Guarantors are 100% owned subsidiaries of Perry Ellis International, Inc. and have fully and unconditionally guaranteed the senior subordinated notes payable on a joint and several basis.

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)

AS OF OCTOBER 27, 2012

(amounts in thousands)

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|-------------------|-------------------|-------------------|---------------------|-------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ | \$ 20,313 | \$ 31,346 | \$ | \$ 51,659 |
| Accounts receivable, net | | 130,508 | 24,439 | | 154,947 |
| Intercompany receivable | 188,811 | | | (188,811) | |
| Inventories | | 134,123 | 23,350 | | 157,473 |
| Other current assets | | 28,334 | 1,573 | (1,118) | 28,789 |
| Total current assets | 188,811 | 313,278 | 80,708 | (189,929) | 392,868 |
| Property and equipment, net | | 49,103 | 5,234 | | 54,337 |
| Intangible assets, net | | 222,981 | 39,330 | | 262,311 |
| Investment in subsidiaries | 338,318 | | | (338,318) | |
| Other assets | 5,998 | 2,692 | 606 | | 9,296 |
| TOTAL | \$ 533,127 | \$ 588,054 | \$ 125,878 | \$ (528,247) | \$ 718,812 |
| LIABILITIES AND EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable, accrued expenses and other current liabilities | \$ 4,375 | \$ 98,016 | \$ 16,823 | \$ (3,357) | \$ 115,857 |
| Intercompany payable | | 142,523 | 47,482 | (190,005) | |
| Total current liabilities | 4,375 | 240,539 | 64,305 | (193,362) | 115,857 |
| Notes payable and senior credit facility | 150,000 | | | | 150,000 |
| Other long-term liabilities | | 66,321 | 5,643 | 2,239 | 74,203 |
| Total long-term liabilities | 150,000 | 66,321 | 5,643 | 2,239 | 224,203 |
| Total liabilities | 154,375 | 306,860 | 69,948 | (191,123) | 340,060 |
| Total equity | 378,752 | 281,194 | 55,930 | (337,124) | 378,752 |
| TOTAL | \$ 533,127 | \$ 588,054 | \$ 125,878 | \$ (528,247) | \$ 718,812 |

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)

AS OF JANUARY 28, 2012

(amounts in thousands)

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|-------------------|-------------------|-------------------|---------------------|-------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ | \$ 294 | \$ 23,822 | \$ | \$ 24,116 |
| Accounts receivable, net | | 124,016 | 21,547 | | 145,563 |
| Intercompany receivable | 191,614 | | | (191,614) | |
| Inventories | | 169,800 | 28,464 | | 198,264 |
| Other current assets | | 31,069 | 5,843 | (3,179) | 33,733 |
| Total current assets | 191,614 | 325,179 | 79,676 | (194,793) | 401,676 |
| Property and equipment, net | | 51,745 | 4,751 | | 56,496 |
| Intangible assets, net | | 216,702 | 39,726 | | 256,428 |
| Investment in subsidiaries | 327,904 | | | (327,904) | |
| Other assets | 6,333 | 3,182 | 80 | | 9,595 |
| TOTAL | \$ 525,851 | \$ 596,808 | \$ 124,233 | \$ (522,697) | \$ 724,195 |
| LIABILITIES AND EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable, accrued expenses and other current liabilities | \$ 9,356 | \$ 91,712 | \$ 16,110 | \$ (5,418) | \$ 111,760 |
| Intercompany payable | | 139,786 | 53,495 | (193,281) | |
| Total current liabilities | 9,356 | 231,498 | 69,605 | (198,699) | 111,760 |
| Notes payable and senior credit facility | 150,000 | 21,679 | | | 171,679 |
| Other long-term liabilities | | 66,262 | 5,760 | 2,239 | 74,261 |
| Total long-term liabilities | 150,000 | 87,941 | 5,760 | 2,239 | 245,940 |
| Total liabilities | 159,356 | 319,439 | 75,365 | (196,460) | 357,700 |
| Total equity | 366,495 | 277,369 | 48,868 | (326,237) | 366,495 |
| TOTAL | \$ 525,851 | \$ 596,808 | \$ 124,233 | \$ (522,697) | \$ 724,195 |

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED OCTOBER 27, 2012

(amounts in thousands)

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|-------------|------------|----------------|--------------|--------------|
| Revenue | \$ | \$ 204,566 | \$ 31,682 | \$ | \$ 236,248 |
| Gross profit | | 61,729 | 14,066 | | 75,795 |
| Operating income | | 5,726 | 2,661 | | 8,387 |
| Interest and income taxes | | 5,103 | 104 | | 5,207 |
| Equity in earnings of subsidiaries, net | 3,180 | | | (3,180) | |
| Net income | 3,180 | 623 | 2,557 | (3,180) | 3,180 |
| Comprehensive income | 3,748 | 623 | 3,125 | (3,748) | 3,748 |

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED OCTOBER 29, 2011

(amounts in thousands)

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|-------------|------------|----------------|--------------|--------------|
| Revenue | \$ | \$ 218,905 | \$ 29,515 | \$ | \$ 248,420 |
| Gross profit | | 68,774 | 13,676 | | 82,450 |
| Operating income | | 10,922 | 1,803 | | 12,725 |
| Interest and income taxes | | 6,165 | 51 | | 6,216 |
| Equity in earnings of subsidiaries, net | 6,509 | | | (6,509) | |
| Net income | 6,509 | 4,757 | 1,752 | (6,509) | 6,509 |
| Comprehensive income | 5,725 | 4,757 | 968 | (5,725) | 5,725 |

Table of Contents**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)****FOR THE NINE MONTHS ENDED OCTOBER 27, 2012****(amounts in thousands)**

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|--------------------|-------------------|-----------------------|---------------------|---------------------|
| Revenue | \$ | \$ 611,066 | \$ 100,142 | \$ | \$ 711,208 |
| Gross profit | | 188,547 | 44,313 | | 232,860 |
| Operating income | | 18,457 | 7,655 | | 26,112 |
| Interest and income taxes | | 14,633 | 1,065 | | 15,698 |
| Equity in earnings of subsidiaries, net | 10,414 | | | (10,414) | |
| Net income | 10,414 | 3,824 | 6,590 | (10,414) | 10,414 |
| Comprehensive income | 10,886 | 3,824 | 7,062 | (10,886) | 10,886 |

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)****FOR THE NINE MONTHS ENDED OCTOBER 29, 2011****(amounts in thousands)**

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|--------------------|-------------------|-----------------------|---------------------|---------------------|
| Revenue | \$ | \$ 665,204 | \$ 85,940 | \$ | \$ 751,144 |
| Gross profit | | 210,826 | 40,862 | | 251,688 |
| Operating income | | 40,476 | 8,129 | | 48,605 |
| Costs on early extinguishment of debt | | 1,306 | | | 1,306 |
| Interest and income taxes | | 23,513 | 52 | | 23,565 |
| Equity in earnings of subsidiaries, net | 23,734 | | | (23,734) | |
| Net income | 23,734 | 15,657 | 8,077 | (23,734) | 23,734 |
| Comprehensive income | 23,773 | 15,657 | 8,116 | (23,773) | 23,773 |

PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)****FOR THE NINE MONTHS ENDED OCTOBER 27, 2012****(amounts in thousands)**

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|--------------------|-------------------|-----------------------|---------------------|---------------------|
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | \$ (1,678) | \$ 47,096 | \$ 14,789 | \$ | \$ 60,207 |

CASH FLOWS FROM INVESTING ACTIVITIES:

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| | | | |
|--|-----------|-----------|-----------------------|
| Purchase of property and equipment | (5,201) | (1,214) | (6,415) |
| Proceeds on sale of intangible assets | 410 | | 410 |
| Payment on purchase of intangible assets | (7,000) | | (7,000) |
| Proceeds in connection with purchase price adjustment | 4,547 | | 4,547 |
| Net cash used in investing activities | (7,244) | (1,214) | (8,458) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Borrowings on senior credit facility | 237,047 | | 237,047 |
| Payments on senior credit facility | (258,726) | | (258,726) |
| Payments on real estate mortgages | (534) | | (534) |
| Deferred financing fees | (100) | | (100) |
| Payments on capital leases | (258) | | (258) |
| Proceeds from exercise of stock options | 601 | | 601 |
| Tax benefit from exercise of stock options | 384 | | 384 |
| Purchase of treasury stock | (2,582) | | (2,582) |
| Intercompany transactions | 3,313 | 2,738 | (6,013) (38) |
| Net cash provided by (used in) financing activities | 1,716 | (19,833) | (6,013) (38) (24,168) |
| Effect of exchange rate changes on cash and cash equivalents | (38) | | (38) 38 (38) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 20,019 | 7,524 | 27,543 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 294 | 23,822 | 24,116 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 20,313 | \$ 31,346 | \$ 51,659 |

Table of Contents**PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)****FOR THE NINE MONTHS ENDED OCTOBER 29, 2011****(amounts in thousands)**

| | Parent Only | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|-------------|-------------|----------------|--------------|--------------|
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | \$ 25,085 | \$ (80,788) | \$ 36,041 | \$ 650 | \$ (19,012) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Purchase of property and equipment | | (7,981) | (1,567) | | (9,548) |
| Proceeds on sale of intangible assets | | | 2,875 | | 2,875 |
| Payment on purchase of intangible assets | | (535) | | | (535) |
| Payment on purchase of operating leases | | (904) | | | (904) |
| Redemption of restricted funds as collateral | | 9,369 | | | 9,369 |
| Net cash (used in) provided by investing activities | | (51) | 1,308 | | 1,257 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Borrowings from senior credit facility | | 303,013 | | | 303,013 |
| Payments on senior credit facility | | (376,269) | | | (376,269) |
| Payments on real estate mortgages | | (381) | | | (381) |
| Proceeds from issuance of senior subordinated notes | 150,000 | | | | 150,000 |
| Debt issuance costs | (3,504) | | | | (3,504) |
| Deferred financing fees | | (103) | | | (103) |
| Payments on senior subordinated notes | (105,792) | | | | (105,792) |
| Payments on capital leases | | (281) | | | (281) |
| Proceeds from exercise of stock options | 454 | | | | 454 |
| Tax benefit from exercise of stock options | 456 | | | | 456 |
| Proceeds from issuance of common stock | 56,000 | | | | 56,000 |
| Stock issuance costs | (3,074) | | | | (3,074) |
| Intercompany transactions | (119,745) | 154,969 | (35,344) | 120 | |
| Net cash (used in) provided by financing activities | (25,205) | 80,948 | (35,344) | 120 | 20,519 |
| Effect of exchange rate changes on cash and cash equivalents | 120 | | 120 | (120) | 120 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 109 | 2,125 | 650 | 2,884 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | | 19,174 | (650) | 18,524 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ | \$ 109 | \$ 21,299 | \$ | \$ 21,408 |

21. SUBSEQUENT EVENTS

Pursuant to FASB ASC TOPIC 855 - *Subsequent Events*, the Company evaluated subsequent events through the date the financial statements were issued for potential recognition or disclosure in the consolidated financial statements.

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Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, all references to Perry Ellis, the Company, we, us or our include Perry Ellis International, Inc. and its subsidiaries. This management's discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended January 28, 2012, filed with the Securities and Exchange Commission on April 12, 2012.

Forward Looking Statements

We caution readers that this report includes forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations rather than historical facts and they are indicated by words or phrases such as anticipate, believe, budget, contemplate, continue, could, envision, estimate, expect, guidance, indicate, intend, may, potential, predict, probably, pro-forma, project, seek, should, target, or will or the negative thereof or other variations thereon and their derivatives or phrases or comparable terminology. We have based such forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, many of which are beyond our control. Some of the factors that could affect our financial performance, cause actual results to differ from our estimates, or underlie such forward-looking statements, are set forth in various places in this report. These factors include, but are not limited to:

general economic conditions,

a significant decrease in business from or loss of any of our major customers or programs,

anticipated and unanticipated trends and conditions in our industry, including the impact of recent or future retail and wholesale consolidation,

recent and future economic conditions, including turmoil in the financial and credit markets,

the effectiveness of our planned advertising, marketing and promotional campaigns,

our ability to contain costs,

disruptions in the supply chain,

our future capital needs and our ability to obtain financing,

our ability to protect our trademarks,

our ability to integrate acquired businesses, trademarks, tradenames and licenses,

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our ability to predict consumer preferences and changes in fashion trends and consumer acceptance of both new designs and newly introduced products,

the termination or non-renewal of any material license agreements to which we are a party,

changes in the costs of raw materials, labor and advertising,

our ability to carry out growth strategies including expansion in international and direct to consumer retail markets,

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the level of consumer spending for apparel and other merchandise,

our ability to compete,

exposure to foreign currency risk and interest rate risk,

possible disruption in commercial activities due to terrorist activity and armed conflict, and

other factors set forth in this report and in our other Securities and Exchange Commission (SEC) filings.

You are cautioned that all forward-looking statements involve risks and uncertainties, detailed in our filings with the SEC. You are cautioned not to place undue reliance on these forward-looking statements, which are valid only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise.

Critical Accounting Policies

Included in the footnotes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended January 28, 2012 is a summary of all significant accounting policies used in the preparation of our consolidated financial statements. We follow the accounting methods and practices as required by accounting principles generally accepted in the United States of America (GAAP). In particular, our critical accounting policies and areas in which we use judgment are in the areas of revenue recognition, the estimated collectability of accounts receivable, the recoverability of obsolete or overstocked inventory, the impairment of long-lived assets that are our trademarks and goodwill, and the measurement of retirement related benefits. We believe that there have been no significant changes to our critical accounting policies during the three and nine months ended October 27, 2012 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended January 28, 2012.

Table of Contents**Results of Operations**

The following table sets forth, for the periods indicated, selected financial data expressed by segments and includes a reconciliation of EBITDA to operating income, the most directly comparable GAAP financial measure:

| | Three Months Ended October 27, 2012 | October 29, 2011 | Nine Months Ended October 27, 2012 | October 29, 2011 |
|--|--|------------------------|---|------------------------|
| | (in thousands) | | | |
| Revenues by segment: | | | | |
| Men's Sportswear and Swim | \$ 165,517 | \$ 174,864 | \$ 514,981 | \$ 554,818 |
| Women's Sportswear | 45,105 | 50,506 | 118,033 | 130,539 |
| Direct-to-Consumer | 18,708 | 16,746 | 58,422 | 48,130 |
| Licensing | 6,918 | 6,304 | 19,772 | 17,657 |
| Total revenues | \$ 236,248 | \$ 248,420 | \$ 711,208 | \$ 751,144 |
| | | | | |
| | Three Months Ended October 27, 2012 | October 29, 2011 | Nine Months Ended October 27, 2012 | October 29, 2011 |
| | (in thousands) | | | |
| Reconciliation of operating income to EBITDA | | | | |
| Operating income (loss) by segment: | | | | |
| Men's Sportswear and Swim | \$ 3,910 | \$ 7,338 | \$ 14,607 | \$ 34,095 |
| Women's Sportswear | 327 | 3,294 | (139) | 6,588 |
| Direct-to-Consumer | (2,267) | (3,165) | (4,886) | (6,221) |
| Licensing | 6,417 | 5,258 | 16,530 | 14,143 |
| Total operating income | \$ 8,387 | \$ 12,725 | \$ 26,112 | \$ 48,605 |
| Add: | | | | |
| Depreciation and amortization | | | | |
| Men's Sportswear and Swim | \$ 2,108 | \$ 2,279 | \$ 6,377 | \$ 6,789 |
| Women's Sportswear | 531 | 351 | 1,466 | 1,054 |
| Direct-to-Consumer | 712 | 598 | 2,169 | 1,776 |
| Licensing | 73 | 141 | 302 | 363 |
| Total depreciation and amortization | \$ 3,424 | \$ 3,369 | \$ 10,314 | \$ 9,982 |
| EBITDA by segment: | | | | |
| Men's Sportswear and Swim | \$ 6,018 | \$ 9,617 | \$ 20,984 | \$ 40,884 |
| Women's Sportswear | 858 | 3,645 | 1,327 | 7,642 |
| Direct-to-Consumer | (1,555) | (2,567) | (2,717) | (4,445) |
| Licensing | 6,490 | 5,399 | 16,832 | 14,506 |
| Total EBITDA | \$ 11,811 | \$ 16,094 | \$ 36,426 | \$ 58,587 |
| EBITDA margin by segment | | | | |
| Men's Sportswear and Swim | 3.6% | 5.5% | 4.1% | 7.4% |
| Women's Sportswear | 1.9% | 7.2% | 1.1% | 5.9% |
| Direct-to-Consumer | (8.3%) | (15.3%) | (4.7%) | (9.2%) |
| Licensing | 93.8% | 85.6% | 85.1% | 82.2% |

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| | | | | |
|---------------------|------|------|------|------|
| Total EBITDA margin | 5.0% | 6.5% | 5.1% | 7.8% |
|---------------------|------|------|------|------|

EBITDA consists of earnings before interest, taxes, depreciation and amortization. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States of America, and does not represent cash flow from operations. The most directly comparable GAAP financial measure, presented above, is operating income. EBITDA and EBITDA margin are presented solely as a supplemental disclosure because management believes that they are a common measure of operating performance in the apparel industry.

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The following is a discussion of the results of operations for the three and nine month periods of the fiscal year ending February 2, 2013 (fiscal 2013) compared with the three and nine month periods of the fiscal year ended January 28, 2012 (fiscal 2012).

Results of Operations - three and nine months ended October 27, 2012 compared to the three and nine months ended October 29, 2011.

Net sales. Men's Sportswear and Swim net sales for the three months ended October 27, 2012 were \$165.5 million, a decrease of \$9.4 million, or 5.4%, from \$174.9 million for the three months ended October 29, 2011. Net sales decreased primarily from our expected decrease in Perry Ellis. As we advance into the fourth quarter we have repositioned Perry Ellis and expect to see an improvement in performance. This decrease was partially offset by increases in our core golf business across all brands.

Men's Sportswear and Swim net sales for the nine months ended October 27, 2012, were \$515.0 million, a decrease of \$39.8 million, or 7.2%, from \$554.8 million for the nine months ended October 29, 2011. The net sales decrease was attributable to our expected decrease in Perry Ellis and private label bottoms programs, partially offset by increases in our golf and international businesses.

Women's Sportswear net sales for the three months ended October 27, 2012 were \$45.1 million, a decrease of \$5.4 million, or 10.7%, from \$50.5 million for the three months ended October 29, 2011. Net sales decreased due to the factors described below.

Women's Sportswear net sales for the nine months ended October 27, 2012, were \$118.0 million, a decrease of \$12.5 million, or 9.6%, from \$130.5 million for the nine months ended October 29, 2011. Net sales decreased, as anticipated, primarily due to our Rafaella sportswear business, partially offset by increases in our contemporary Laundry by Shelli Segal dresses and C&C California businesses. We expect improved performance in Rafaella sportswear collection business as we transition into the holiday and spring seasons.

Direct-to-Consumer net sales for the three months ended October 27, 2012 were \$18.7 million, an increase of \$2.0 million, or 12.0%, from \$16.7 million for the three months ended October 29, 2011. Net sales increased due the factors described below.

Direct-to-Consumer net sales for the nine months ended October 27, 2012, were \$58.4 million, an increase of \$10.3 million, or 21.4%, from \$48.1 million for the nine months ended October 29, 2011. The increase is attributable to comparable store increases in our store base. We also realized continued store expansion and growth in our e-commerce platform.

Royalty income. Royalty income for the three months ended October 27, 2012 was \$6.9 million, an increase of \$0.6 million, or 9.5%, from \$6.3 million for the three months ended October 29, 2011. Royalty income increases were primarily attributable to increases in royalty income from Perry Ellis and Original Penguin footwear licenses and fragrance licenses.

Royalty income for the nine months ended October 27, 2012 was \$19.8 million, an increase of \$2.1 million, or 11.9%, from \$17.7 million for the nine months ended October 29, 2011. Royalty income increases were attributable to Perry Ellis and Original Penguin footwear licenses, as well as, fragrance licenses.

Gross profit. Gross profit was \$75.8 million for the three months ended October 27, 2012, a decrease of \$6.7 million, or 8.1%, from \$82.5 million for the three months ended October 29, 2011. Gross profit was \$232.9 million for the nine months ended October 27, 2012, a decrease of \$18.8 million, or 7.5%, as compared to \$251.7 million for the nine months ended October 29, 2011. These decreases are attributed to the reduction in net sales as described above and the factors described within the gross profit margin section below.

Gross profit margin. As a percentage of total revenue, gross profit margins were 32.1% for the three months ended October 27, 2012, as compared to 33.2% for the three months ended October 29, 2011, a decrease of 110 basis points. The decrease in the quarter was largely driven by continued promotional levels in our collection business coupled with the lower gross margins on the transitioned Callaway businesses. Somewhat offsetting this reduction, were stronger gross margins in our core golf and direct to consumer businesses. For the nine months ended October 27, 2012, gross profit margins were 32.7% as a percentage of total revenue as compared to 33.5% for the nine months ended October 29, 2011, a decrease of 80 basis points. This decrease is primarily associated with the impact from the write-down and liquidation of planned exits of brands, the closing of a sourcing office as well as increased promotional activity within our collection businesses, which will be experienced during fiscal 2013. This decrease was partially offset by higher margins in our direct-to-consumer business, golf lifestyle and licensing.

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Selling, general and administrative expenses. Selling, general and administrative expenses for the three months ended October 27, 2012 were \$64.0 million, a decrease of \$2.4 million, or 3.6%, from \$66.4 million for the three months ended October 29, 2011. The decrease was primarily attributable to savings realized in our strategic review, lower incentive compensation expense, partially offset by an increase of approximately \$1.1 million related to our reorganization, which includes the cost of the new Callaway business, duplicate rent at our New York offices during our relocation and severance expense related to exited businesses. Increases also resulted from our retail store expansion in our direct-to-consumer business for new stores opened during fiscal 2012.

Selling, general and administrative expenses for the nine months ended October 27, 2012 were \$196.4 million, an increase of \$3.3 million, or 1.7%, from \$193.1 million for the nine months ended October 29, 2011. The increase was in line with our expectations and was primarily attributed to the direct-to-consumer business for new stores opened during fiscal 2012. Also, we experienced costs in the amount of approximately \$5.4 million related to our reorganization, which primarily encompassed voluntary early retirement costs, the exit and consolidation of our west and east coast third party logistics warehouses, relocation of our New York offices and severance expense related to exited businesses. These increases were partially offset by savings realized in our strategic review as well as lower compensation expense.

EBITDA. Men's Sportswear and Swim EBITDA margin for the three months ended October 27, 2012 decreased 190 basis points to 3.6%, from 5.5% for the three months ended October 29, 2011. Men's Sportswear and Swim EBITDA margin for the nine months ended October 27, 2012, decreased 330 basis points to 4.1%, from 7.4% for the nine months ended October 29, 2011. The EBITDA margin was negatively impacted by the reduction in gross profit margin, which was attributable to higher levels of promotional activity in our Perry Ellis sportswear collection business, partially offset by higher gross profit margins in our golf lifestyle business. We also realized reduced leverage from selling, general and administrative expenses attributable to the expected revenue reductions in this segment.

Women's Sportswear EBITDA margin for the three months ended October 27, 2012 decreased 530 basis points to 1.9%, from 7.2% for the three months ended October 29, 2011. Women's Sportswear EBITDA margin for the nine months ended October 27, 2012 decreased 480 basis points to 1.1%, from 5.9% for the nine months ended October 29, 2011. In addition to the reduction of net sales, as discussed above, the margin was negatively impacted by the costs associated with the exit and consolidation of our east coast warehouse logistics providers. Margin was also negatively impacted by the loss of leverage in selling, general and administrative expenses attributable to the expected revenue reductions in this segment.

Direct-to-Consumer EBITDA margin for the three months ended October 27, 2012 increased 700 basis points to (8.3%), from (15.3%) for the three months ended October 29, 2011. Direct-to-Consumer EBITDA margin for the nine months ended October 27, 2012 improved 450 basis points to (4.7%), from (9.2%) for the nine months ended October 29, 2011. The increase was primarily attributable to the expansion of net sales and gross profit margin as described above. In addition, the segment realized favorable leverage in selling, general and administrative expenses attributable to the revenue increases realized in the segment.

Licensing EBITDA margin for the three months ended October 27, 2012 increased 820 basis points to 93.8%, from 85.6% for the three months ended October 29, 2011. Licensing EBITDA margin for the nine months ended October 27, 2012 increased 290 basis points to 85.1%, from 82.2% for the nine months ended October 29, 2011. These increases were primarily attributed to the increase in license business as discussed above.

Depreciation and amortization. Depreciation and amortization for the three months ended October 27, 2012 and October 29, 2011 remained flat at \$3.4 million, respectively. Depreciation and amortization for the nine months ended October 27, 2012, was \$10.3 million, an increase of \$0.3 million, or 3.0%, from \$10.0 million for the nine months ended October 29, 2011. This increase is attributed to our capital expenditures, primarily in the direct-to-consumer segment.

Costs on early extinguishment of debt. During the first quarter of fiscal 2012, we retired our 8⁷/₈% senior subordinated notes due 2013 payable in the amount of \$104.3 million with the proceeds of our new 7⁷/₈% senior subordinated notes due 2019. In connection with this retirement, we paid an additional \$1.5 million in fees and premiums, wrote-off approximately \$853,000 in unamortized discount and bond fees, and wrote-off the \$1.1 million remaining premium that was associated with the termination of the swap that occurred during fiscal 2011. There were no comparable transactions during fiscal 2013.

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Interest expense. Interest expense for the three months ended October 27, 2012 was \$3.7 million, a decrease of \$0.2 million, or 5.1%, from \$3.9 million for the three months ended October 29, 2011. Interest expense for the nine months ended October 27, 2012 was \$11.0 million, a decrease of \$1.3 million, or 10.6%, from \$12.3 million for the nine months ended October 29, 2011. For the three months ended October 27, 2012, the primary reason for the decrease in interest expense is due to the lower average borrowings on our credit facility as compared to our borrowings in the prior year. Additionally, for the nine months ended October 27, 2012 the decrease is further attributable to the 8⁷/₈% senior subordinated notes and the 7⁷/₈% senior subordinated notes that were outstanding simultaneously for about one month during fiscal 2012 causing us to have approximately \$0.7 million in redundant interest expense. There were no comparable transactions during fiscal 2013.

Income taxes. The income tax provision for the three months ended October 27, 2012, was \$1.5 million, a decrease of \$0.8 million as compared to the income tax provision of \$2.3 million for the three months ended October 29, 2011. For the three months ended October 27, 2012, our effective tax rate was 32.3% as compared to 26.5% for the three months ended October 29, 2011. The overall increase in the effective tax rate is attributed to a change in ratio of income between domestic and foreign operations, of which the domestic operations are taxed at higher statutory tax rates.

Our income tax provision for the nine months ended October 27, 2012, was \$4.7 million, a \$6.6 million decrease as compared to \$11.3 million for the nine months ended October 29, 2011. For the nine months ended October 27, 2012, our effective tax rate was 31.0% as compared to 32.2% for the nine months ended October 29, 2011. The decrease in the effective tax rate is attributed to prior year withholding taxes that are not applicable in the current year, as well as a change in the ratio of income earned between domestic and foreign operations, of which the foreign operations are taxed at lower statutory rates.

Net income. The net income for the three months ended October 27, 2012 was \$3.2 million, a decrease of \$3.3 million, or 50.8%, as compared to \$6.5 million for the three months ended October 29, 2011. Net income for the nine months ended October 27, 2012 was \$10.4 million, a decrease of \$13.3 million, or 56.1%, as compared to \$23.7 million for the nine months ended October 29, 2011. The changes in operating results were due to the items described above.

Liquidity and Capital Resources

We rely principally on cash flow from operations and borrowings under our senior credit facility to finance our operations, acquisitions and capital expenditures; and to a lesser extent, on letter of credit facilities for the acquisition of a small portion of our inventory purchases. We believe that our working capital requirements will decrease for fiscal 2013 driven primarily by lower levels of inventory. As of October 27, 2012, our working capital was \$277.0 million as compared to \$289.9 million as of January 28, 2012 and \$303.1 million as of October 29, 2011. We believe that our cash flows from operations and availability under our senior credit facility and letter of credit facilities are sufficient to meet our working capital needs. We also believe that our real estate assets, which had a net book value of \$23.8 million at October 27, 2012, have a higher market value and may provide us with additional capital resources, if needed. Additional borrowings against these real estate assets, however, would be subject to certain loan to value criteria established by lending institutions. As of October 27, 2012, we had mortgage loans on these properties totaling \$25.2 million.

Net cash provided by operating activities was \$60.2 million for the nine months ended October 27, 2012, as compared to cash used in operating activities of \$19.0 million for the nine months ended October 29, 2011.

The cash provided by operating activities for nine months ended October 27, 2012 is primarily attributable to a decrease in inventory of \$41.1 million associated with our inventory management, an increase of our accounts payable and accrued expenses of \$6.7 million and an increase in other current assets and prepaid income taxes of \$1.1 million; partially offset by an increase in accounts receivable of \$9.3 million, and a decrease in accrued interest in the amount of \$3.2 million. As a result of the decrease in inventory for the nine months ended October 27, 2012, our inventory turnover ratio increased to 3.7 as compared to 3.3 for the comparable period in fiscal 2012. The cash used in operating activities for the nine months ended October 29, 2011 is primarily attributable to an increase in inventory of \$22.1 million, an increase in account receivable of \$20.4 million and an increase in other current assets and prepaid income taxes of \$3.4 million, a decrease in accounts payable and accrued expenses of

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\$8.3 million; partially offset by net income of \$23.7 million. As a result of this increase in inventory and the inventory acquired through the Rafaella acquisition in January 2011, our inventory turnover ratio decreased to 3.3 as of October 29, 2011, as compared to 4.4 as of October 30, 2010.

Net cash used in investing activities was \$8.5 million for the nine months ended October 27, 2012, as compared to cash provided by investing activities of \$1.3 million for the nine months ended October 29, 2011. The net cash used during the nine months ended October 27, 2012, primarily reflects the purchase of Ben Hogan in the amount of \$7.0 million and the purchase of property and equipment in the amount of \$6.4 million; offset by the proceeds related to the Rafaella purchase price adjustment of \$4.5 million. The net cash provided in the first nine months of fiscal 2012 primarily reflects the redemption of restricted cash collateralizing letters of credit in the amount of \$9.4 million acquired in the Rafaella acquisition and the proceeds from the sale of certain foreign intangible assets in the amount of \$2.9 million; partially offset by the purchase of property and equipment in the amount of \$9.5 million. We anticipate capital expenditures during fiscal 2013 of \$8.0 million to \$10.0 million in technology, systems, retail stores, and other expenditures.

Net cash used in financing activities for the nine months ended October 27, 2012 was \$24.2 million, as compared to cash provided by financing activities of \$20.5 million for the nine months ended October 29, 2011. The net cash used during the first nine months of fiscal 2013 primarily reflects net payments on our senior credit facility of \$21.7 million and the purchase of treasury stock of \$2.6 million; partially offset by proceeds from exercises of stock options of \$0.6 million and a tax benefit from the exercise of stock options of \$0.4 million. The net cash provided during the first nine months of fiscal 2012 primarily reflects net proceeds from the issuance of our new 7⁷/₈% senior subordinated notes in the amount of \$146.5 million and the net proceeds from our stock offering in the amount of \$52.9 million; partially offset by net payments on our senior credit facility of \$73.3 million and the retirement of our 8⁷/₈% senior subordinated notes in the amount of \$105.8 million, including redemption premiums and commissions of \$1.5 million.

During November 2007, our Board of Directors authorized us to purchase, from time to time and as market and business conditions warranted, up to \$20 million of our common stock for cash in the open market or in privately negotiated transactions over a 12-month period. In September 2008, 2009 and 2010, the Board of Directors extended the stock repurchase program for the next twelve months. In November 2011, the Board of Directors increased and extended the stock repurchase program, to authorize us to repurchase up to \$40 million of our common stock for cash over the next twelve months. In June 2012, our Board of Directors increased and extended the stock repurchase program, to authorize us to repurchase up to \$60 million of our common stock for cash through October 31, 2013. Although the Board of Directors allocated a maximum of \$60 million to carry out the program, we are not obligated to purchase any specific number of outstanding shares and will reevaluate the program on an ongoing basis.

During September 2011, our Board of Directors authorized the retirement of 2,462,196 shares of treasury stock which were recorded at a cost of approximately \$17.4 million on the consolidated balance sheets. Accordingly, we reduced common stock and additional paid-in-capital by \$25,000 and \$17.4 million, respectively. During fiscal 2012, we repurchased shares of our common stock at a cost of \$16.0 million. Additionally, we repurchased shares of our common stock during the nine months ended October 27, 2012 at a cost of \$2.6 million, bringing total purchases under the plan to \$36.0 million. As of October 27, 2012 and January 28, 2012, there were 1,290,022 shares of treasury stock at a cost of approximately \$18.5 million and 1,157,300 shares of treasury stock at a cost of approximately \$16.0 million, respectively.

Acquisitions

Acquisition of Ben Hogan

On February 16, 2012, we acquired the world-wide intellectual property rights of the Ben Hogan family of brands from Callaway Golf Company. The acquisition was financed through existing cash and borrowings under our existing senior credit facility. Ben Hogan brands are ideally positioned to strengthen our golf business within the Men's Sportswear and Swim segment.

The assets acquired were composed of tradenames, which have been identified as indefinite useful life assets and are not subject to amortization.

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Investment in Joint Venture

On April 20, 2012, we formed a joint venture, Manhattan China Limited, with China Outfitters Holdings Limited, (COHL). Under the joint venture agreement Manhattan China Limited has 10,000,000 initial authorized shares of capital or joint venture shares. COHL holds 7,500,000 joint venture shares, a 75% ownership interest in the joint venture, and we hold 2,500,000 joint venture shares, a 25% ownership interest in Manhattan China Limited, which is accounted for under the equity method. We have a put option to sell our 2,500,000 joint venture shares to COHL in exchange for cash or COHL shares at any time before April 20, 2020. As of October 27, 2012, our investment in unconsolidated joint venture, which is classified as an other long-term asset in the accompanying condensed consolidated balance sheets, was approximately \$0.4 million. We did not have equity income (loss) for the three and nine months ended October 27, 2012, as the joint venture had not commenced operations.

Senior Credit Facility

On December 2, 2011, we amended and restated our existing senior credit facility (the Credit Facility), with Wells Fargo Bank, National Association, as agent for the lenders, and Bank of America, N.A., as syndication agent. The Credit Facility provides a revolving credit facility of up to an aggregate amount of \$125 million, subject to increases from time to time in increments of \$25 million up to a maximum of \$200 million. The Credit Facility has a five-year term that expires on December 2, 2016. At October 27, 2012, we had no outstanding balance drawn against the Credit Facility and at January 28, 2012, we had outstanding borrowings of \$21.7 million under the Credit Facility.

Certain Covenants. The Credit Facility contains certain financial and other covenants, which, among other things, require us to maintain a minimum fixed charge coverage ratio if availability falls below certain thresholds. We are not aware of any non-compliance with any of our covenants in this Credit Facility. These covenants may restrict our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness and liens in certain circumstances, redeem or repurchase capital stock, make certain investments or sell assets. We may pay cash dividends subject to certain restrictions set forth in the covenants including, but not limited to, meeting a minimum excess availability threshold and no occurrence of a default. We could be materially harmed if we violate any covenants, as the lenders under the Credit Facility could declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If we are unable to repay those amounts, the lenders could proceed against our assets and the assets of our subsidiaries that are borrowers or guarantors. In addition, a covenant violation that is not cured or waived by the lenders could also constitute a cross-default under certain of our other outstanding indebtedness, such as the indenture relating to our 7 ⁷/₈ % senior subordinated notes due April 1, 2019, our letter of credit facilities, or our real estate mortgage loans. Such a cross-default could result in all of our debt obligations becoming immediately due and payable, which we may not be able to satisfy.

Borrowing Base. Borrowings under the Credit Facility are limited to a borrowing base calculation, which generally restricts the outstanding balance to the sum of (a) 87.5% of eligible receivables plus (b) 87.5% of eligible foreign accounts up to \$1.5 million plus (c) the lesser of (i) the inventory loan limit, which equals 80% of the maximum credit under the Credit Facility at the time, (ii) 70.0% of eligible finished goods inventory, or (iii) 90.0% of the net recovery percentage (as defined in the Credit Facility) of eligible inventory.

Interest. Interest on the outstanding principal balance drawn under the Credit Facility accrues, at our option, at either (a) the greater of the agent's prime lending rate plus a margin of 1.25% per year through March 31, 2012, provided such margin shall be adjusted quarterly thereafter, or the Federal Funds rate in effect on such day plus one half of one percent (.50%); or (b) the rate quoted by the agent as the Eurodollar Rate for one-, two- or three-month Eurodollar deposits, as selected by us, plus a margin of 2.25% per year through March 31, 2012. Thereafter, the margin adjusts quarterly, in a range of 1.75% to 2.50%, based on our previous quarterly average of excess availability plus excess cash on the last day of the previous quarter.

Security. As security for the indebtedness under the Credit Facility, we granted to the lenders a first priority security interest (subject to liens permitted under the Credit Facility to be senior thereto) in substantially all of our existing and future assets, including, without limitation, accounts receivable, inventory, deposit accounts, general intangibles, equipment and capital stock or membership interests, as the case may be, of certain subsidiaries, and real estate, but excluding our non-U.S. subsidiaries and all of our trademark portfolio.

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Letter of Credit Facilities

As of October 27, 2012, we maintained two U.S. dollar letter of credit facilities totaling \$55.0 million and one letter of credit facility totaling \$0.3 million utilized by our United Kingdom subsidiary. Each documentary letter of credit is secured primarily by the consignment of merchandise in transit under that letter of credit and certain subordinated liens on our assets.

During the third quarter of fiscal 2012, we increased one of our two U.S. dollar letters of credit from \$10.0 million to \$15.0 million, under existing terms and reduced the letter of credit facility utilized by our United Kingdom subsidiary from \$1.0 million to \$0.3 million. As of October 27, 2012 and January 28, 2012, there was \$43.2 million and \$50.8 million, respectively available under our existing letter of credit facilities.

8⁷/₈% \$150 Million Senior Subordinated Notes Payable

In fiscal 2004, we issued \$150 million 8⁷/₈% senior subordinated notes, due September 15, 2013. The proceeds of this offering were used to redeem our previously issued \$100 million 12¹/₈% senior subordinated notes and to pay down the outstanding balance of the senior credit facility at that time. The proceeds to us were \$146.8 million yielding an effective interest rate of 9.1%.

On March 8, 2011, the senior subordinated notes due September 15, 2013 were called and subsequently retired by the issuance of new notes more fully described herein. In connection with the call, we incurred an early call premium of \$1.5 million. We also wrote-off the remaining unamortized discount and bond fees associated with the senior subordinated notes.

7⁷/₈% \$150 Million Senior Subordinated Notes Payable

In March 2011, we issued \$150 million 7⁷/₈% senior subordinated notes, due April 1, 2019. The proceeds of this offering were used to retire the \$150 million 8⁷/₈% senior subordinated notes due September 15, 2013 and to repay a portion of the outstanding balance on the senior credit facility. The proceeds to us were \$146.5 million yielding an effective interest rate of 8.0%.

Certain Covenants. The indenture governing the senior subordinated notes contains certain covenants which restrict our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness in certain circumstances, pay dividends or make other distributions on, redeem or repurchase capital stock, make investments or other restricted payments, create liens on assets to secure debt, engage in transactions with affiliates, and effect a consolidation or merger. We are not aware of any non-compliance with any of our covenants in this indenture. We could be materially harmed if we violate any covenants because the indenture's trustee could declare the outstanding notes, together with accrued interest, to be immediately due and payable, which we may not be able to satisfy. In addition, a violation could also constitute a cross-default under the senior credit facility, the letter of credit facilities and the real estate mortgages resulting in all of our debt obligations becoming immediately due and payable, which we may not be able to satisfy.

Real Estate Mortgage Loans

In July 2010, we paid off the then existing real estate mortgage loan and refinanced our main administrative office, warehouse and distribution facility in Miami with a \$13.0 million mortgage loan. The loan is due on August 1, 2020. Principal and interest of \$83,000 were due monthly based on a 25 year amortization with the outstanding principal due at maturity. Interest was fixed at 5.80%. In October 2011, we amended the mortgage loan agreement to modify the interest rate. The interest rate was reduced to 5.00% per annum and the terms were restated to reflect new monthly payments of principal and interest of \$77,000 based on a 25 year amortization with the outstanding principal due at maturity. In September 2012, we again amended the mortgage loan agreement to modify the interest rate. The interest rate was reduced to 4.25% per annum and the terms were restated to reflect new quarterly payments of principal and interest of \$71,000, based on a 25 year amortization with the outstanding principal due at maturity. At October 27, 2012, the balance of the real estate mortgage loan totaled \$12.1 million, net of discount, of which \$302,000 is due within one year.

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In June 2006, we entered into a mortgage loan for \$15 million secured by our Tampa facility. The loan is due on June 7, 2016. In June 2010, we negotiated with the bank to accelerate the rate reset that was scheduled to occur in June 2011, and the interest rate was reduced to 5.75% per annum, among other changes to the loan. In October 2011, we amended the mortgage loan agreement to modify the interest rate again. The interest rate was reduced to 4.95% per annum and the terms were restated to reflect new quarterly payments of principal and interest of \$268,000, based on a 20 year amortization with the outstanding principal due at maturity. In July 2012, we again amended the mortgage loan agreement to modify the interest rate. The interest rate was reduced to 4.00% per annum and the terms were restated to reflect new quarterly payments of principal and interest of approximately \$248,000, based on a 20 year amortization with the outstanding principal due at maturity. At October 27, 2012, the balance of the real estate mortgage loan totaled \$13.1 million, net of discount, of which approximately \$465,000 is due within one year.

The real estate mortgage loans contain certain covenants. We are not aware of any non-compliance with any of these covenants. If we violate any covenants, the lender under the real estate mortgage loan could declare all amounts outstanding thereunder to be immediately due and payable, which we may not be able to satisfy. A covenant violation could also constitute a cross-default under our senior credit facility, the letter of credit facilities and indenture relating to our senior subordinated notes resulting in all our debt obligations becoming immediately due and payable, which we may not be able to satisfy.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements as defined by applicable GAAP and SEC rules.

Effects of Inflation and Foreign Currency Fluctuations

We do not believe that inflation or foreign currency fluctuations significantly affected our results of operations for the three and nine months ended October 27, 2012.

Item 3: Quantitative and Qualitative Disclosures about Market Risks

The market risk inherent in our financial statements represents the potential changes in the fair value, earnings or cash flows arising from changes in interest rates. We manage this exposure through regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Our policy allows the use of derivative financial instruments for identifiable market risk exposure, including interest rate.

Derivatives on \$150 Million Senior Subordinated Notes Payable

In August 2009, we entered into an interest rate cap agreement (the "\$75 million Cap Agreement") for an aggregate notional amount of \$75 million associated with our 8⁷/₈% senior subordinated notes payable. The \$75 million Cap Agreement became effective on December 15, 2010 and was scheduled to terminate on September 15, 2013. The \$75 million Cap Agreement was being used to manage cash flow risk associated with our floating interest rate exposure pursuant to the Swap Agreement. The \$75 million Cap Agreement did not qualify for hedge accounting treatment. We terminated the \$75 million Cap Agreement during March 2011. In connection with the termination, we paid \$1.6 million. The change in fair value did not result in a material increase in interest expense during fiscal 2012.

Commodity Price Risk

We are exposed to market risks for the pricing of cotton and other fibers, which may impact fabric prices. Fabric is a portion of the overall product cost, which includes various components. We manage our fabric prices by using a combination of different strategies including the utilization of sophisticated logistics and supply chain management systems, which allow us to maintain maximum flexibility in our global sourcing of products. This provides us with the ability to re-direct our sourcing of products to the most cost-effective jurisdictions. In addition, we may modify our product offerings to our customers based on the availability of new fibers, yield enhancement techniques and other technological advances that allow us to utilize more cost effective fibers. Finally, we also have the ability to adjust our price points of such products, to the extent market conditions allow. These factors, along with our foreign-based sourcing offices, allow us to procure product from lower cost countries or capitalize on certain tariff-free arrangements, which help mitigate any commodity price increases that may occur. We have not historically managed, and do not currently intend to manage, commodity price exposures by using derivative instruments.

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Our current exposure to foreign exchange risk is not significant and accordingly, we have not entered into any transactions to hedge against those risks.

Item 4: Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) of the Securities Exchange Act. Based upon this evaluation, our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 27, 2012 in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the quarter ended October 27, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

We repurchased the following amounts of our common stock during the third quarter of fiscal 2013:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾ | Maximum Approximate Dollar Value that May Yet Be Purchased under the Plans or Programs |
|--|-------------------------------------|------------------------------------|--|--|
| August 1, 2012 to August 31, 2012 | 122,022 | \$ 19.42 | 122,022 | \$ 24,258,427 |
| October 1, 2012 to October 27, 2012 | 10,700 | \$ 19.85 | 10,700 | \$ 24,045,983 |
| Total shares repurchased during Fiscal 2013 | 132,722 | \$ 19.45 | 132,722 | \$ 24,045,983 |

- ⁽¹⁾ During November 2007, the Board of Directors authorized us to purchase, from time to time and as market and business conditions warrant, up to \$20 million of our common stock for cash in the open market or in privately negotiated transactions over a 12-month period. In September 2008, 2009 and 2010, the Board of Directors extended the stock repurchase program for the next twelve months. In November 2011, the Board of Directors increased and extended the stock repurchase program, to authorize us to repurchase up to \$40 million of our common stock for cash over the next twelve months. In June 2012, the Board Directors increased and extended the stock repurchase program, to authorize us to repurchase up to \$60 million of our common stock for cash through October 31, 2013. Although the Board of Directors allocated a maximum of \$60 million to carry out the program, we are not obligated to purchase any specific number of outstanding shares and will reevaluate the program on an ongoing basis.

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Item 6. Exhibits

Index to Exhibits

| Exhibit Number | Exhibit Description | Where Filed |
|-----------------------|---|--------------------|
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) | Filed herewith. |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) | Filed herewith. |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 1350 | Filed herewith. |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 1350 | Filed herewith. |
| 101.INS | XBRL Instance Document ⁽¹⁾ | Filed herewith. |
| 101.SCH | XBRL Taxonomy Extension Schema ⁽¹⁾ | Filed herewith. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase ⁽¹⁾ | Filed herewith. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase ⁽¹⁾ | Filed herewith. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase ⁽¹⁾ | Filed herewith. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase ⁽¹⁾ | Filed herewith. |

- (1) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Perry Ellis International, Inc.

December 4, 2012

By: /S/ ANITA BRITT
Anita Britt, Chief Financial Officer
(Principal Financial Officer)

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