PERRY ELLIS INTERNATIONAL, INC
Form 10-Q
September 02, 2016
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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 July 30, 2016

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)

Florida	**59-1162998**
(State or other jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
3000 N.W. 107 Avenue	
Miami, Florida	**33172**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (305) 592-2830

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 x 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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

The number of shares outstanding of the registrant s common stock is 15,496,000 (as of August 29, 2016).

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(amounts in thousands, except share data)

	July 30, 2016	January 30, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 27,882	$ 31,902
Accounts receivable, net	120,639	132,066
Inventories	134,414	182,750
Investments, at fair value	13,633	9,782
Prepaid income taxes		1,818
Prepaid expenses and other current assets	8,347	8,461
Total current assets	304,915	366,779
Property and equipment, net	63,796	63,908
Other intangible assets, net	187,485	187,919
Deferred income tax	392	442
Other assets	2,757	2,927
TOTAL	$ 559,345	$ 621,975
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 55,740	$ 103,684
Accrued expenses and other liabilities	22,879	26,497
Accrued interest payable	1,487	1,521
Income taxes payable	459	
Unearned revenues	3,857	4,213
Deferred pension obligation	12,206	12,107
Total current liabilities	96,628	148,022
Senior subordinated notes payable, net	49,600	49,528
Senior credit facility	33,865	61,758
Real estate mortgages	20,873	21,318
Unearned revenues and other long-term liabilities	18,464	14,853
Deferred income taxes	36,007	35,015
Total long-term liabilities	158,809	182,472

Total liabilities	255,437	330,494
Commitment 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; 15,609,579 shares issued and outstanding as of July 30, 2016 and 15,409,310 shares issued and outstanding as of January 30, 2016	156	154
Additional paid-in-capital	146,868	144,025
Retained earnings	172,495	161,810
Accumulated other comprehensive loss	(15,611)	(14,508)
Total equity	303,908	291,481
TOTAL	$ 559,345	$ 621,975

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Revenues:				
Net sales	$ 193,341	$ 204,638	$ 444,216	$ 462,895
Royalty income	8,312	8,661	18,731	16,818
Total revenues	201,653	213,299	462,947	479,713
Cost of sales	127,822	137,357	294,032	313,671
Gross profit	73,831	75,942	168,915	166,042
Operating expenses:				
Selling, general and administrative expenses	72,654	68,254	142,588	137,862
Depreciation and amortization	3,716	3,446	7,183	6,768
Total operating expenses	76,370	71,700	149,771	144,630
Loss on sale of long-lived assets				(697)
Operating (loss) income	(2,539)	4,242	19,144	20,715
Costs of early extinguishment of debt		5,121		5,121
Interest expense	1,889	1,943	3,914	5,570
Net (loss) income before income taxes	(4,428)	(2,822)	15,230	10,024
Income tax (benefit) provision	(863)	(1,541)	4,545	1,894
Net (loss) income	$ (3,565)	$ (1,281)	$ 10,685	$ 8,130
Net (loss) income per share:				
Basic	$ (0.24)	$ (0.09)	$ 0.72	$ 0.55
Diluted	$ (0.24)	$ (0.09)	$ 0.71	$ 0.53
Weighted average number of shares outstanding				
Basic	14,953	15,048	14,882	14,849
Diluted	14,953	15,048	15,139	15,283

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(UNAUDITED)

(amounts in thousands)

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Net (loss) income	$ (3,565)	$ (1,281)	$ 10,685	$ 8,130
Other Comprehensive income:				
Foreign currency translation adjustments, net	(3,093)	153	(1,430)	1,091
Unrealized gain on pension liability, net of tax	155	135	310	270
Unrealized gain (loss) on investments	10		17	(7)
Total other comprehensive (loss) income	(2,928)	288	(1,103)	1,354
Comprehensive (loss) income	$ (6,493)	$ (993)	$ 9,582	$ 9,484

See Notes to Unaudited Condensed Consolidated Financial Statements

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	Six Months Ended July 30, 2016	Six Months Ended August 1, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,685	$ 8,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,382	7,087
Provision for bad debts	478	279
Amortization of debt issue cost	205	266
Amortization of premiums and discounts	28	94
Amortization of unrealized (gain) loss on pension liability	310	270
Costs on early extinguishment of debt		1,158
Deferred income taxes	1,042	1,613
Share-based compensation	3,786	2,286
Loss on sale of long-lived assets		697
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable, net	10,087	13,199
Inventories	47,604	30,149
Prepaid income taxes	1,874	190
Prepaid expenses and other current assets	110	(759)
Other assets	37	107
Accounts payable and accrued expenses	(52,572)	(41,175)
Accrued interest payable	(34)	(2,534)
Income taxes payable	344	
Unearned revenues and other liabilities	3,469	(666)
Deferred pension obligation	99	85
Net cash provided by operating activities	34,934	20,476
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,609)	(7,345)
Purchases of investments	(9,039)	(2,641)
Proceeds from investment maturities	5,205	11,860
Proceeds on sale of intangible assets		2,500
Net cash (used in) provided by investing activities	(10,443)	4,374
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from senior credit facility	179,380	255,065
Payments on senior credit facility	(207,273)	(196,854)

Payments on senior subordinated notes		(100,000)
Payments on real estate mortgages	(423)	(410)
Payments on capital leases	(129)	(77)
Deferred financing fees		(569)
Proceeds from exercise of stock options	5	1,339
Tax benefit from exercise of equity instruments		(201)
Net cash used in financing activities	(28,440)	(41,707)
Effect of exchange rate changes on cash and cash equivalents	(71)	575
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,020)	(16,282)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	31,902	43,547
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 27,882	$ 27,265

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) Continued

(amounts in thousands)

	Six Months Ended	
	July 30, 2016	August 1, 2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 3,715	$ 7,746
Income taxes	$ 700	$ 366
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Accrued purchases of property and equipment	$ 407	$

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. The 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 30, 2016, filed with the Securities and Exchange Commission on April 14, 2016.

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 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09*, Revenue from Contracts with Customers.* ASU No. 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards (IFRS) that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. ASU No. 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Companies can choose to apply the ASU using either the full retrospective approach or a modified retrospective approach. The Company is currently evaluating both methods of adoption and the impact, if any, that the adoption of this ASU will have on the Company s results of operations or the Company s financial position.

In March 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30)* , which is simplifying the Presentation of Debt Issuance Costs. The standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for interim periods beginning after December 15, 2015. The Company adopted the accounting standard in the first quarter of fiscal 2017. Prior to the adoption, debt issuance costs were classified as other assets. This presentation change was applied retrospectively to the condensed consolidated balance sheet and consequently, amounts related to debt issuance costs are presented as a direct deduction of the corresponding debt liability for all periods presented.

The effect on the condensed consolidating balance sheet as of January 30, 2016, as a result of this change in presentation, is a decrease of ($0.5) million in other assets, and a decrease of ($0.5) million in senior subordinated notes payable.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which requires inventory measured using any method other than last-in, first out (LIFO) or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. Early application is permitted. The adoption of ASU No. 2015-11 is not expected to have a material impact on the Company s results of operations or the Company s financial position.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which requires an entity that is a lessee to recognize the assets and liabilities arising from leases on the balance sheet. This guidance also requires disclosures about the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, using a modified retrospective approach, and early adoption is permitted. The Company is evaluating the effect that the adoption will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting,* which eliminates the requirement to retroactively adjust an investment that subsequently qualifies for equity method accounting (as a result of an increase in level of ownership interest or degree of influence) as if the equity method of accounting had been applied during all prior periods that the investment was held. The new standard requires that the investor add the cost of acquiring additional ownership interest in the investee to its current basis and prospectively adopt the equity method of accounting. Any unrealized gains or losses in an available-for-sale investment that subsequently qualifies as an equity method investment should be recognized in earnings at the date the investment qualifies as an equity method investment. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. This new guidance is not expected to have a material impact on the Company s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which is part of the FASB s Simplification Initiative. The updated guidance simplifies the accounting for share-based payment transactions. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* , which amends certain aspects of the FASB s new revenue standard, ASU 2014-09, *Revenue from Contracts with Customers* , specifically the standard s guidance on identifying performance obligations and the implementation guidance on licensing. The amendments clarify when promised goods or services are separately identifiable (i.e., distinct within the context of a contract), an important step in determining whether goods and services should be accounted for as separate performance obligations. In addition, the amendments allow entities to disregard goods or services that are immaterial in the context of a contract and provide an accounting policy election for accounting for certain shipping and handling activities. The amendments also clarify how an entity should evaluate the nature of its promise in granting a license of intellectual property (IP), which will determine whether the entity recognizes revenue over time or at a point in time. The amendments revise the guidance to address how entities should apply the exception for sales- and usage-based royalties to licenses of IP, recognize revenue for licenses that are not separate performance obligations and evaluate different types of license restrictions (e.g., time-based, geography-based). The new guidance s effective date and transition provisions are aligned with the requirements in the new revenue standard, which is not yet effective. The Company is currently evaluating the impact, if any, that the adoption of this ASU will have on the Company s results of operations or the Company s financial position.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the new revenue standard, ASU 2014-09, *Revenue from Contracts with Customers* . The amendments are intended to provide clarifying guidance in a few narrow areas such as collectability, contract modifications, completed contracts at transition, and non-cash considerations. The new guidance s effective date and transition provisions are aligned with the requirements in the new revenue standard, which is not yet effective. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which provides guidance for the accounting for credit losses on instruments within its scope. The amendments guide on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The amendments require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments also require that credit losses on available-for-sale debt securities be presented as an allowance. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. The amendments in this

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update are effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of:

	July 30, 2016	January 30, 2016
	(in thousands)	
Trade accounts	$ 133,691	$ 144,708
Royalties	4,442	5,892
Other receivables	1,011	1,769
Total	139,144	152,369
Less: allowances	(18,505)	(20,303)
Total	$ 120,639	$ 132,066

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:

	July 30, 2016	January 30, 2016
	(in thousands)	
Finished goods	$ 134,414	$ 182,414
Raw materials and in process		336
Total	$ 134,414	$ 182,750

5. INVESTMENTS

The Company s investments include marketable securities and certificates of deposit at July 30, 2016 and included certificates of deposit at January 30, 2016. Marketable securities are classified as available-for-sale and consist of corporate bonds with maturity dates less than two years. Certificates of deposit are classified as available-for-sale with $10.4 million with maturity dates within one year or less. Investments are stated at fair value. The estimated fair value of the marketable securities is based on quoted prices in an active market (Level 1 fair value measures).

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Investments consisted of the following as of July 30, 2016:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Marketable securities	$ 3,264	$ 12	$	$ 3,276
Certificates of deposit	10,361		(4)	10,357
Total investments	$ 13,625	$ 12	$ (4)	$ 13,633

Investments consisted of the following as of January 30, 2016:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Certificates of deposit	$ 9,791	$	$ (9)	$ 9,782
Total investments	$ 9,791	$	$ (9)	$ 9,782

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of:

	July 30, 2016	January 30, 2016
	(in thousands)	
Furniture, fixtures and equipment	$ 87,713	$ 84,634
Buildings and building improvements	20,420	19,462
Vehicles	523	523
Leasehold improvements	48,078	46,882
Land	9,430	9,430
Total	166,164	160,931
Less: accumulated depreciation and amortization	(102,368)	(97,023)
Total	$ 63,796	$ 63,908

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

	July 30,	January 30,

	2016	2016
	(in thousands)	
Furniture, fixtures and equipment	$ 810	$ 810
Less: accumulated depreciation and amortization	(317)	(182)
Total	$ 493	$ 628

For the three months ended July 30, 2016 and August 1, 2015, depreciation and amortization expense relating to property and equipment amounted to $3.6 million and $3.3 million, respectively. For the six months ended July 30, 2016 and August 1, 2015, depreciation and amortization expense relating to property and equipment amounted to $6.9 million and $6.6 million, respectively. These amounts include amortization expense for leased property under capital leases.

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7. OTHER INTANGIBLE ASSETS

Trademarks

Trademarks included in other intangible assets, net, are considered indefinite-lived assets and totaled $184.1 million at July 30, 2016 and January 30, 2016.

On March 19, 2015, the Company entered into an agreement to sell the intellectual property of its C&C California brand to a third party. The sales price was $2.5 million, which was collected during the first quarter of fiscal 2016. In connection with this transaction, the Company recorded a loss of ($0.7) million in the licensing segment.

Other

Other intangible assets represent customer lists as of:

	July 30, 2016	January 30, 2016
	(in thousands)	
Customer lists	$ 8,450	$ 8,450
Less: accumulated amortization	(5,111)	(4,677)
Total	$ 3,339	$ 3,773

For the three months ended July 30, 2016 and August 1, 2015, amortization expense relating to customer lists amounted to approximately $0.2 million for each of the periods. For the six months ended July 30, 2016 and August 1, 2015, amortization expense relating to customer lists amounted to $0.4 million for each of the periods. Other intangible assets are amortized over their estimated useful lives of 10 years. Assuming no impairment, the table sets forth the estimated amortization expense for future periods based on recorded amounts as of January 30, 2016:

	(in thousands)
2017	$ 868
2018	$ 835
2019	$ 793
2020	$ 734
2021	$ 543

8. LETTER OF CREDIT FACILITIES

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

	July 30, 2016	January 30, 2016
	(in thousands)	

Total letter of credit facilities	$ 30,264	$ 30,286
Outstanding letters of credit	(11,470)	(11,395)
Total credit available	$ 18,794	$ 18,891

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9. 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 $3.7 million and $3.2 million for the three months ended July 30, 2016 and August 1, 2015, respectively, and $8.0 million and $7.0 million for the six months ended July 30, 2016 and August 1, 2015, respectively, and are included in selling, general and administrative expenses.

10. NET (LOSS) INCOME PER SHARE

Basic net (loss) income per share is computed by dividing net income by the weighted average shares of outstanding common stock. The calculation of diluted net (loss) 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), and unvested restricted shares as determined using the treasury stock method.

The following table sets forth the computation of basic and diluted (loss) income per share:

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
	(in thousands, except per share data)			
Numerator:				
Net (loss) income	$ (3,565)	$ (1,281)	$ 10,685	$ 8,130
Denominator:				
Basic-weighted average shares	14,953	15,048	14,882	14,849
Dilutive effect: equity awards			257	434
Diluted-weighted average shares	14,953	15,048	15,139	15,283
Basic (loss) income per share	$ (0.24)	$ (0.09)	$ 0.72	$ 0.55
Diluted (loss) income per share	$ (0.24)	$ (0.09)	$ 0.71	$ 0.53
Antidilutive effect:[1]	1,103	1,220	604	517

[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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11. EQUITY

The following table reflects the changes in equity:

	Changes in Equity (in thousands)
Equity at January 30, 2016	$ 291,481
Comprehensive income	9,582
Share transactions under employee equity compensation plans	2,845
Equity at July 30, 2016	$ 303,908
Equity at January 31, 2015	$ 302,017
Comprehensive income	9,484
Share transactions under employee equity compensation plans	2,199
Equity at August 1, 2015	$ 313,700

During the second quarter of fiscal 2016, the Company retired 770,753 shares of treasury stock recorded at a cost of approximately $15.7 million. Accordingly, during the second quarter of fiscal 2016, the Company reduced common stock and additional paid in capital by $7,000 and $15.7 million, respectively.

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in accumulated other comprehensive loss by component, net of tax:

	Unrealized (Loss) Gain on Pension Liability	Foreign Currency Translation Adjustments, Net	Unrealized Gain (Loss) on Investments	Total
		(in thousands)		
Balance, January 30, 2016	$ (7,368)	$ (7,131)	$ (9)	$ (14,508)
Other comprehensive (loss) income before reclassifications		(1,430)	17	(1,413)
Amounts reclassified from accumulated other comprehensive income	310			310
Balance, July 30, 2016	$ (7,058)	$ (8,561)	$ 8	$ (15,611)

	Unrealized (Loss) Gain on Pension Liability	Foreign Currency Translation Adjustments, Net	Unrealized (Loss) Gain on Investments	Total
		(in thousands)		
Balance, January 31, 2015	$ (8,085)	$ (4,774)	$ 7	$ (12,852)
Other comprehensive income (loss) before reclassifications		1,091	(7)	1,084
Amounts reclassified from accumulated other comprehensive income	270			270
Balance, August 1, 2015	$ (7,815)	$ (3,683)	$	$ (11,498)

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A summary of the impact on the condensed consolidated statements of operations line items is as follows:

	Three Months Ended		
	July 30, 2016	August 1, 2015	
	(in thousands)		
Amortization of defined benefit pension items			
Actuarial gains	$ 155	$ 135	Selling, general and administrative expenses
Tax provision			Income tax provision
Total, net of tax	$ 155	$ 135	

	Six Months Ended		
	July 30, 2016	August 1, 2015	
	(in thousands)		
Amortization of defined benefit pension items			
Actuarial gains	$ 310	$ 270	Selling, general and administrative expenses
Tax provision			Income tax provision
Total, net of tax	$ 310	$ 270	

13. 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 fiscal 2011 through fiscal 2016 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 fiscal 2005 through fiscal 2017, depending on each state s particular statute of limitation. As of July 30, 2016, the fiscal 2011, 2012 and 2013 U.S. federal income tax returns are under examination as well as various state, local, and foreign income tax returns by various taxing authorities.

The Company has a $1.1 million liability recorded for unrecognized tax benefits as of January 30, 2016, which includes interest and penalties of $0.2 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 months and six months ended July 30, 2016, the total amount of unrecognized tax benefits increased by approximately $37,000 and $87,000, respectively. The change to the total amount of the unrecognized tax benefit for the three and six months ended July 30, 2016 included an increase in interest and penalties of approximately $15,000 and $41,000, respectively.

The Company does not currently anticipate a resolution within the next twelve months for any of the remaining unrecognized tax benefits as of July 30, 2016. The statute of limitations related to the Company s fiscal 2011, 2012 and 2013 U.S. federal tax years has been extended as part of the examination and is not expected to lapse within the next twelve months.

At the end of fiscal 2016, the Company maintained a $46.2 million valuation allowance against its remaining domestic deferred tax asset; including, but not limited to, the federal net operating loss carryforward and the U.S. state net operating loss carryforwards, utilization of which is not restricted by factors beyond the Company s control. The establishment of valuation allowances and development of projected annual effective tax rates requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. An accumulation of recent pretax losses is considered strong negative evidence in that evaluation. Although the Company recognized pretax earnings through the six months ended July 30, 2016, by itself that does not represent sufficient positive evidence that its deferred tax asset will be realized to warrant removing the valuation allowances established against the U.S. deferred tax assets. Deferred tax assets without valuation allowances remain in certain foreign tax jurisdictions, where supported by the evidence.

14. STOCK OPTIONS, STOCK APPRECIATION RIGHTS AND RESTRICTED SHARES

During the first and second quarters of fiscal 2017, the Company granted an aggregate of 86,173 and 14,914 shares of restricted stock to certain key employees, which vest primarily over a three-year period, at an estimated value of $1.6 million and $0.3 million, respectively. This value is being recorded as compensation expense on a straight-line basis over the vesting period of the restricted stock.

Also, during the second quarter of fiscal 2017, the Company awarded to six directors an aggregate of 31,902 shares of restricted stock. The restricted stock awarded vests primarily over a one-year period, at an estimated value of $0.7 million. This value is being recorded as compensation expense on a straight-line basis over the vesting period of the restricted stock.

During the first quarter of fiscal 2017, the Company granted performance based restricted stock to certain key employees. Such stock generally vests 100% in April 2019, provided that each employee is still an employee of the Company on such date, and that the Company has met certain performance criteria. A total of 184,004 shares of performance-based restricted stock were issued at an estimated value of $3.5 million.

During the first and second quarters of fiscal 2017, a total of 159,862 and 11,343 shares of restricted stock vested, of which 46,000 and 3,105 shares were withheld to cover the employees statutory income tax requirements. The estimated value of the withheld shares was $880,000 and $60,000, respectively.

15. 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 the Company s retail stores and e-commerce platforms. The Licensing segment derives its revenues from royalties associated from the use of the Company s brand names, principally Perry Ellis, Original Penguin, Laundry, Gotcha, Pro Player, Farah, Ben Hogan and John Henry.

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

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
	(in thousands)			
Revenues:				
Men s Sportswear and Swim	$ 145,148	$ 150,488	$ 343,073	$ 348,941
Women s Sportswear	24,136	29,882	56,625	68,705
Direct-to-Consumer	24,057	24,268	44,518	45,249
Licensing	8,312	8,661	18,731	16,818
Total revenues	$ 201,653	$ 213,299	$ 462,947	$ 479,713
Depreciation and amortization:				
Men s Sportswear and Swim	$ 2,006	$ 1,863	$ 3,903	$ 3,738
Women s Sportswear	764	566	1,378	1,066
Direct-to-Consumer	889	971	1,785	1,875
Licensing	57	46	117	89
Total depreciation and amortization	$ 3,716	$ 3,446	$ 7,183	$ 6,768
Operating (loss) income:				
Men s Sportswear and Swim	$ (2,425)	$ 822	$ 14,517	$ 12,152
Women s Sportswear	(3,106)	(1,051)	(3,457)	331
Direct-to-Consumer	(2,933)	(2,147)	(6,305)	(4,013)

Licensing [1]	5,925	6,618	14,389	12,245
Total operating (loss) income	$ (2,539)	$ 4,242	$ 19,144	$ 20,715
Costs on early extinguishment of debt		5,121		5,121
Total interest expense	1,889	1,943	3,914	5,570
Total net (loss) income before income taxes	$ (4,428)	$ (2,822)	$ 15,230	$ 10,024

(1) Operating income for the licensing segment for the six months ended July 30, 2016, includes a loss on sale of long-lived assets in the amount of $0.7 million. See footnote 7 to the consolidated financial statements for further information.

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16. 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 six months of fiscal 2017 and 2016:

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
	(in thousands)			
Service cost	$ 63	$ 63	$ 126	$ 126
Interest cost	124	337	248	674
Expected return on plan assets	(87)	(658)	(174)	(1,316)
Amortization of net gain	155	135	310	270
Net periodic benefit cost	$ 255	$ (123)	$ 510	$ (246)

17. SENIOR SUBORDINATED NOTES PAYABLE

In March 2011, the Company issued $150 million 7 ⅞ % senior subordinated notes, due April 1, 2019. The proceeds of this offering were used to retire the $150 million 8 ⅞ % senior subordinated notes due September 15, 2013 and to repay a portion of the outstanding balance on the senior credit facility. The proceeds to the Company were $146.5 million yielding an effective interest rate of 8.0%.

On April 6, 2015, the Company elected to call for the partial redemption of $100 million of its $150 million 7 ⅞% senior subordinated notes due 2019 and a notice of redemption was sent to all registered holders of the senior subordinated notes. The redemption terms provided for the payment of a redemption premium of 103.938% of the principal amount redeemed. On May 6, 2015, the Company completed the redemption of the $100 million of its senior subordinated notes. The Company incurred debt extinguishment costs of approximately $5.1 million in connection with the redemption, including the redemption premium as well as the write-off of note issuance costs. At July 30, 2016, the balance of the 7 ⅞% senior subordinated notes totaled $49.6 million, net of debt issuance cost in the amount of $0.4 million. At January 30, 2016, the balance of the 7 ⅞% senior subordinated notes totaled $49.5 million, net of debt issuance cost in the amount of $0.5 million.

Certain Covenants. The indenture governing the senior subordinated notes contains certain covenants which restrict the Company s ability and the ability of its 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. The Company is not aware of any non-compliance with any of its covenants in this indenture. The Company could be materially harmed if it violates any covenants because the indenture s trustee could declare the outstanding notes, together with accrued interest, to be immediately due and payable, which the Company 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 the Company s debt obligations becoming immediately due and payable, which the Company may not be able to satisfy.

18. SENIOR CREDIT FACILITY

On April 22, 2015, the Company amended and restated its 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 $200 million. The Credit Facility has been extended through April 30, 2020. In connection with this amendment and restatement, the Company paid fees in the amount of $0.6 million. These fees will be amortized over the term of the credit facility as interest expense. At July 30, 2016, the Company had outstanding borrowings of $33.9 million under the Credit Facility. At January 30, 2016, the Company had outstanding borrowings of $61.8 million, under the Credit Facility.

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Certain Covenants. The Credit Facility contains certain financial and other covenants, which, among other things, require the Company to maintain a minimum fixed charge coverage ratio if availability falls below certain thresholds. The Company is not aware of any non-compliance with any of its covenants in this Credit Facility. These covenants may restrict the Company s ability and the ability of its subsidiaries to, among other things, incur additional indebtedness and liens in certain circumstances, redeem or repurchase capital stock, make certain investments or sell assets. The Company 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. The Company could be materially harmed if it violates 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 the Company is unable to repay those amounts, the lenders could proceed against its assets and the assets of its 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 the Company s other outstanding indebtedness, such as the indenture relating to its 7⁄8% senior subordinated notes due April 1, 2019, its letter of credit facilities, or its real estate mortgage loans. A cross-default could result in all of the Company s debt obligations becoming immediately due and payable, which it may not be able to satisfy. Additionally, the Credit Facility includes a subjective acceleration clause if a material adverse change in the Company s business occurs. The Company believes that the likelihood of the lender exercising this right is remote.

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) a maximum of 70.0% of eligible finished goods inventory with an inventory limit not to exceed $125 million, or 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 the prime rate and at the rate quoted by the agent for Eurodollar loans. The margin adjusts quarterly, in a range of 0.50% to 1.00% for prime rate loans and 1.50% to 2.00% for Eurodollar loans, based on the 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, the Company 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 its 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 its non-U.S. subsidiaries and all of its trademark portfolio.

19. FAIR VALUE MEASUREMENTS

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

Investments. (classified within Level 1 of the valuation hierarchy) The carrying amounts of the available-for-sale investments are measured at fair value on a recurring basis in the consolidated balance sheets.

Real estate mortgages. (classified within Level 2 of the valuation hierarchy) The carrying amounts of the real estate mortgages were approximately $21.7 million and $22.0 million at July 30, 2016 and January 30, 2016, respectively. The carrying values of the real estate mortgages at July 30, 2016 and January 30, 2016, approximate their fair values since 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 7 7⁄8% senior subordinated notes payable were approximately \$49.6 million and \$49.5 million at July 30, 2016 and January 30, 2016. The fair value of the 7 7⁄8% senior subordinated notes payable was approximately \$49.5 million and \$49.0 million as of July 30, 2016 and January 30, 2016, respectively, based on quoted market prices.

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

20. COMMITMENTS AND CONTINGENCIES

On April 20, 2016, the Company entered into an employment agreement with George Feldenkreis, the Company s Executive Chairman. The term of the employment agreement shall continue until Mr. Feldenkreis death or termination of the employment agreement by the Company or Mr. Feldenkreis. He will be paid a base salary of not less than $750,000 per year during the term of employment and, among other things, a lump sum payment of $1.0 million upon the termination of his employment in most circumstances. Additionally, he is entitled to participate in the Company s incentive compensation plans. In connection with the terms of his new employment agreement, the Company accelerated the expense recognition related to his outstanding cash incentive and stock based compensation awards. The impact of the acceleration was a $4.2 million charge during the second quarter of fiscal 2017 to selling, general and administrative expenses.

On April 20, 2016, the Company entered into an employment agreement with Oscar Feldenkreis, the Company s Vice Chairman of the Board of Directors, Chief Executive Officer and President. The term of the employment agreement ends on February 2, 2019. Pursuant to the employment agreement, he will be paid a base salary of not less than $1,350,000 per year during the term of his employment with the Company. Additionally, he is entitled to participate in the Company s incentive compensation plans.

21. 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. These guarantees are subject to release in limited circumstances (only upon the occurrence of certain customary conditions). 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 combined, or where appropriate, consolidated basis. Additional columns present eliminating adjustments and consolidated totals as of July 30, 2016 and January 30, 2016 and for the three and six months ended July 30, 2016 and August 1, 2015. 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 JULY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$	$ 3,949	$ 23,933	$	$ 27,882
Accounts receivable, net		94,942	25,697		120,639
Intercompany receivable, net	80,417			(80,417)	
Inventories		113,649	20,765		134,414
Investment, at fair value			13,633		13,633
Prepaid expenses and other current assets		7,525	822		8,347
Total current assets	80,417	220,065	84,850	(80,417)	304,915
Property and equipment, net		61,312	2,484		63,796
Other intangible assets, net		155,153	32,332		187,485
Deferred income taxes			392		392
Investment in subsidiaries	275,401			(275,401)	
Other assets		1,962	795		2,757
TOTAL	$ 355,818	$ 438,492	$ 120,853	$ (355,818)	$ 559,345
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts payable	$	$ 46,167	$ 9,573	$	$ 55,740
Accrued expenses and other liabilities		17,972	4,907		22,879
Accrued interest payable	1,487				1,487
Income taxes payable	823	624	708	(1,696)	459
Unearned revenues		3,068	789		3,857
Deferred pension obligation		12,136	70		12,206
Intercompany payable, net		72,291	17,298	(89,589)	
Total current liabilities	2,310	152,258	33,345	(91,285)	96,628
Senior subordinated notes payable, net	49,600				49,600
Senior credit facility		33,865			33,865
Real estate mortgages		20,873			20,873
		18,247	217		18,464

Unearned revenues and other long-term liabilities					
Deferred income taxes		34,311		1,696	36,007
Total long-term liabilities	49,600	107,296	217	1,696	158,809
Total liabilities	51,910	259,554	33,562	(89,589)	255,437
Total equity	303,908	178,938	87,291	(266,229)	303,908
TOTAL	$ 355,818	$ 438,492	$ 120,853	$ (355,818)	$ 559,345

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JANUARY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$	$ 775	$ 31,127	$	$ 31,902
Accounts receivable, net		106,018	26,048		132,066
Intercompany receivable, net	74,091			(74,091)	
Inventories		155,703	27,047		182,750
Investment, at fair value			9,782		9,782
Prepaid income taxes	1,017			801	1,818
Prepaid expenses and other current assets		7,426	1,035		8,461
Total current assets	75,108	269,922	95,039	(73,290)	366,779
Property and equipment, net		61,260	2,648		63,908
Other intangible assets, net		155,587	32,332		187,919
Investment in subsidiaries	267,422			(267,422)	
Deferred income taxes			442		442
Other assets		2,150	777		2,927
TOTAL	$ 342,530	$ 488,919	$ 131,238	$ (340,712)	$ 621,975
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts payable	$	$ 89,961	$ 13,723	$	$ 103,684
Accrued expenses and other liabilities		21,524	4,973		26,497
Accrued interest payable	1,521				1,521
Income taxes payable		623	272	(895)	
Unearned revenues		2,952	1,261		4,213
Deferred pension obligation		12,025	82		12,107
Intercompany payable, net		60,384	21,449	(81,833)	
Total current liabilities	1,521	187,469	41,760	(82,728)	148,022
Senior subordinated notes payable, net	49,528				49,528
Senior credit facility		61,758			61,758
Real estate mortgages		21,318			21,318

Unearned revenues and other long-term liabilities		14,608	245		14,853
Deferred income taxes		33,319		1,696	35,015
Total long-term liabilities	49,528	131,003	245	1,696	182,472
Total liabilities	51,049	318,472	42,005	(81,032)	330,494
Total equity	291,481	170,447	89,233	(259,680)	291,481
TOTAL	$ 342,530	$ 488,919	$ 131,238	$ (340,712)	$ 621,975

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED JULY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 169,237	$ 24,104	$	$ 193,341
Royalty income		5,061	3,251		8,312
Total revenues		174,298	27,355		201,653
Cost of sales		111,729	16,093		127,822
Gross profit		62,569	11,262		73,831
Operating expenses:					
Selling, general and administrative expenses		62,361	10,293		72,654
Depreciation and amortization		3,276	440		3,716
Total operating expenses		65,637	10,733		76,370
Operating (loss) income		(3,068)	529		(2,539)
Interest expense (income)		1,901	(12)		1,889
Net (loss) income before income taxes		(4,969)	541		(4,428)
Income tax (benefit) provision		(1,441)	578		(863)
Equity in earnings of subsidiaries, net	(3,565)			3,565	
Net loss	(3,565)	(3,528)	(37)	3,565	(3,565)
Other comprehensive (loss) income	(2,928)	155	(3,083)	2,928	(2,928)
Comprehensive loss	$ (6,493)	$ (3,373)	$ (3,120)	$ 6,493	$ (6,493)

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED AUGUST 1, 2015

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 179,921	$ 24,717	$	$ 204,638
Royalty income		5,286	3,375		8,661
Total revenues		185,207	28,092		213,299
Cost of sales		121,408	15,949		137,357
Gross profit		63,799	12,143		75,942
Operating expenses:					
Selling, general and administrative expenses		57,275	10,979		68,254
Depreciation and amortization		3,138	308		3,446
Total operating expenses		60,413	11,287		71,700
Operating income		3,386	856		4,242
Costs on early extinguishment of debt		5,121			5,121
Interest expense		1,939	4		1,943
Net (loss) income before income taxes		(3,674)	852		(2,822)
Income tax (benefit) provision		(2,517)	976		(1,541)
Equity in earnings of subsidiaries, net	(1,281)			1,281	
Net loss	(1,281)	(1,157)	(124)	1,281	(1,281)
Other comprehensive income	288	135	153	(288)	288
Comprehensive (loss) income	$ (993)	$ (1,022)	$ 29	$ 993	$ (993)

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED JULY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 394,142	$ 50,074	$	$ 444,216
Royalty income		12,275	6,456		18,731
Total revenues		406,417	56,530		462,947
Cost of sales		260,705	33,327		294,032
Gross profit		145,712	23,203		168,915
Operating expenses:					
Selling, general and administrative expenses		123,794	18,794		142,588
Depreciation and amortization		6,467	716		7,183
Total operating expenses		130,261	19,510		149,771
Operating income		15,451	3,693		19,144
Interest expense		3,935	(21)		3,914
Net income before income taxes		11,516	3,714		15,230
Income tax provision		3,025	1,520		4,545
Equity in earnings of subsidiaries, net	10,685			(10,685)	
Net income	10,685	8,491	2,194	(10,685)	10,685
Other comprehensive (loss) income	(1,103)	310	(1,413)	1,103	(1,103)
Comprehensive income	$ 9,582	$ 8,801	$ 781	$ (9,582)	$ 9,582

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED AUGUST 1, 2015

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Revenues:					
Net sales	$	$ 412,200	$ 50,695	$	$ 462,895
Royalty income		10,198	6,620		16,818
Total revenues		422,398	57,315		479,713
Cost of sales		281,659	32,012		313,671
Gross profit		140,739	25,303		166,042
Operating expenses:					
Selling, general and administrative expenses		117,120	20,742		137,862
Depreciation and amortization		6,162	606		6,768
Total operating expenses		123,282	21,348		144,630
Loss on sale of long-lived assets		(697)			(697)
Operating income		16,760	3,955		20,715
Costs on early extinguishment of debt		5,121			5,121
Interest expense		5,506	64		5,570
Net income before income taxes		6,133	3,891		10,024
Income tax provision		564	1,330		1,894
Equity in earnings of subsidiaries, net	8,130			(8,130)	
Net income	8,130	5,569	2,561	(8,130)	8,130
Other comprehensive income	1,354	270	1,084	(1,354)	1,354
Comprehensive income	$ 9,484	$ 5,839	$ 3,645	$ (9,484)	$ 9,484

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED JULY 30, 2016

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES:	$ 4,543	$ 28,295	$ 4,802	$ (2,706)	$ 34,934
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		(5,854)	(755)		(6,609)
Purchase of investments			(9,039)		(9,039)
Proceeds from investments maturities			5,205		5,205
Intercompany transactions	(4,477)			4,477	
Net cash used in investing activities	(4,477)	(5,854)	(4,589)	4,477	(10,443)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings from senior credit facility		179,380			179,380
Payments on senior credit facility		(207,273)			(207,273)
Payments on real estate mortgages		(423)			(423)
Payments on capital leases		(129)			(129)
Dividends paid to stockholder			(2,706)	2,706	
Proceeds from exercise of stock options	5				5
Intercompany transactions		9,178	(4,630)	(4,548)	
Net cash provided by (used in) financing activities	5	(19,267)	(7,336)	(1,842)	(28,440)
Effect of exchange rate changes on cash and cash equivalents	(71)		(71)	71	(71)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,174	(7,194)		(4,020)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		775	31,127		31,902
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	$ 3,949	$ 23,933	$	$ 27,882

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PERRY ELLIS INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED AUGUST 1, 2015

(amounts in thousands)

	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:	$ (1,789)	$ 19,293	$ 2,972	$	$ 20,476
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment		(6,734)	(611)		(7,345)
Purchase of investments			(2,641)		(2,641)
Proceeds from investment maturities			11,860		11,860
Proceeds on sale of intangible assets		2,500			2,500
Intercompany transactions	100,076			(100,076)	
Net cash provided by (used in) investing activities	100,076	(4,234)	8,608	(100,076)	4,374
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments on senior subordinated notes	(100,000)				(100,000)
Borrowings from senior credit facility		255,065			255,065
Payments on senior credit facility		(196,854)			(196,854)
Payments on real estate mortgages		(410)			(410)
Payments on capital leases		(77)			(77)
Deferred financing fees		(569)			(569)
Proceeds from exercise of stock options	1,339				1,339
Tax benefit from exercise of equity instruments	(201)				(201)
Intercompany transactions		(97,968)	(2,683)	100,651	
Net cash used in financing activities	(98,862)	(40,813)	(2,683)	100,651	(41,707)
Effect of exchange rate changes on cash and cash equivalents	575		575	(575)	575
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(25,754)	9,472		(16,282)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		30,055	13,492		43,547

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	$ 4,301	$ 22,964	$	$ 27,265

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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 30, 2016, filed with the Securities and Exchange Commission on April 14, 2016.

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, cou envision, estimate, expect, guidance, indicate, intend, may, might, plan, possibly, potential, p pro-forma, project, seek, should, target, or will or the negative thereof or other variations thereon and similar phrases or comparable terminology. Such forward-looking statements include, but are not limited to, statements regarding Perry Ellis strategic operating review, growth initiatives and internal operating improvements intended to drive revenues and enhance profitability, the implementation of Perry Ellis profitability improvement plan and Perry Ellis plans to exit underperforming, low growth brands and businesses. 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. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. 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 as set forth below and 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, including, but not limited to those caused by port disruptions,

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,

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,

our plans, strategies, objectives, expectations and intentions, which are subject to change at any time at our discretion,

potential cyber risk and technology failures that could disrupt operations or result in a data breach,

the level of consumer spending for apparel and other merchandise,

our ability to compete,

exposure to foreign currency risk and interest rate risk,

the impact to our business resulting from the United Kingdom s referendum vote to exit the European Union and the uncertainty surrounding the terms and conditions of such a withdrawal, as well as the related impact to global stock markets and currency exchange rates;

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

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 30, 2016 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, the recoverability of deferred tax assets 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 six months ended July 30, 2016 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 30, 2016.

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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 by segment, the most directly comparable GAAP financial measure:

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
	(in thousands)			
Revenues by segment:				
Men s Sportswear and Swim	$ 145,148	$ 150,488	$ 343,073	$ 348,941
Women s Sportswear	24,136	29,882	56,625	68,705
Direct-to-Consumer	24,057	24,268	44,518	45,249
Licensing	8,312	8,661	18,731	16,818
Total revenues	$ 201,653	$ 213,299	$ 462,947	$ 479,713

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 2, 2014
	(in thousands)			
Reconciliation of operating income to EBITDA				
Operating (loss) income by segment:				
Men s Sportswear and Swim	$ (2,425)	$ 822	$ 14,517	$ 12,152
Women s Sportswear	(3,106)	(1,051)	(3,457)	331
Direct-to-Consumer	(2,933)	(2,147)	(6,305)	(4,013)
Licensing	5,925	6,618	14,389	12,245
Total operating (loss) income	$ (2,539)	$ 4,242	$ 19,144	$ 20,715
Add:				
Depreciation and amortization				
Men s Sportswear and Swim	$ 2,006	$ 1,863	$ 3,903	$ 3,738
Women s Sportswear	764	566	1,378	1,066
Direct-to-Consumer	889	971	1,785	1,875
Licensing	57	46	117	89
Total depreciation and amortization	$ 3,716	$ 3,446	$ 7,183	$ 6,768
EBITDA by segment:				
Men s Sportswear and Swim	$ (419)	$ 2,685	$ 18,420	$ 15,890
Women s Sportswear	(2,342)	(485)	(2,079)	1,397
Direct-to-Consumer	(2,044)	(1,176)	(4,520)	(2,138)

Licensing	5,982	6,664	14,506	12,334
Total EBITDA	$ 1,177	$ 7,688	$ 26,327	$ 27,483
EBITDA margin by segment				
Men s Sportswear and Swim	(0.3%)	1.8%	5.4%	4.6%
Women s Sportswear	(9.7%)	(1.6%)	(3.7%)	2.0%
Direct-to-Consumer	(8.5%)	(4.8%)	(10.2%)	(4.7%)
Licensing	72.0%	76.9%	77.4%	73.3%
Total EBITDA margin	0.6%	3.6%	5.7%	5.7%

EBITDA consists of earnings before interest, depreciation and amortization, costs on early extinguishment of debt and income taxes. 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.

The following is a discussion of the results of operations for the three and six month periods ended July 30, 2016 of the fiscal year ending January 28, 2017 (fiscal 2017) compared with the three and six month periods ended August 1, 2015 of the fiscal year ended January 30, 2016 (fiscal 2016).

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Results of Operations three and six months ended July 30, 2016 compared to the three and six months ended August 1, 2015.

Net sales. Men s Sportswear and Swim net sales for the three months ended July 30, 2016 were $145.1 million, a decrease of $5.4 million, or 3.6%, from $150.5 million for the three months ended August 1, 2015. The net sales decrease was attributed to business exits coupled with a $2.7 million impact from foreign currency conversions which was partially offset by a 3.5% increase in the core Perry Ellis, Original Penguin and golf apparel businesses.

Men s Sportswear and Swim net sales for the six months ended July 30, 2016 were $343.1 million, a decrease of $5.8 million, or 1.7%, from $348.9 million for the six months ended August 1, 2015. The net sales decrease was attributed primarily to exited brands coupled with the negative impact in our special markets programs and foreign currency conversions, partially offset by increases in our core Perry Ellis and Original Penguin collections, and golf lifestyle apparel business.

Women s Sportswear net sales for the three months ended July 30, 2016 were $24.1 million, a decrease of $5.8 million, or 19.4%, from $29.9 million for the three months ended August 1, 2015. The net sales decrease was attributed primarily to the sale of C&C California in the prior year as well as the planned decrease in special markets programs.

Women s Sportswear net sales for the six months ended July 30, 2016 were $56.6 million, a decrease of $12.1 million, or 17.6%, from $68.7 million for the six months ended August 1, 2015. The net sales decrease was primarily due to the sale of C&C California in the prior year and our planned decrease in special markets programs consistent with reductions cited above.

Direct-to-Consumer net sales for the three months ended July 30, 2016 were $24.1 million, a decrease of $0.2 million, or 0.8%, from $24.3 million for the three months ended August 1, 2015. The slight decrease was driven by three store closings during the first half of fiscal 2017, partially offset by a comparable sales increase of 1.2%. We have experienced a significant negative impact on traffic and comparable same store sales for our retail store locations that cater to higher level of tourist activity. These doors represent close to 45% of our total store count.

Direct-to-Consumer net sales for the six months ended July 30, 2016 were $44.5 million, a decrease of $0.7 million, or 1.5%, from $45.2 million for the six months ended August 1, 2015. The decrease was driven by relatively flat comparable same store sales, coupled with three net fewer stores as compared to the prior period.

Royalty income. Royalty income for the three months ended July 30, 2016 was $8.3 million, a decrease of $0.4 million, or 4.6%, from $8.7 million for the three months ended August 1, 2015. The decrease in royalty income was attributed to the transition of two of our licensed partners, one to in-house ownership and one to a new partnership.

Royalty income for the six months ended July 30, 2016 was $18.7 million, an increase of $1.9 million, or 11.3%, from $16.8 million for the six months ended August 1, 2015. Royalty income increases were attributed to increases in our Perry Ellis and Original Penguin brands as well as the new licenses signed during this and last year, and from our continuing initiatives to upgrade our licensing partners, partially offset by the transition discussed above.

Gross profit. Gross profit was $73.8 million for the three months ended July 30, 2016, a decrease of $2.1 million, or 2.8%, from $75.9 million for the three months ended August 1, 2015. This decrease is attributed to the sales decrease from our brand exits and special markets program described above.

Gross profit was $168.9 million for the six months ended July 30, 2016, an increase of $2.9 million, or 1.7%, from $166.0 million for the six months ended August 1, 2015. This increase is attributed to the sales mix composition, our increase in royalty income 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 36.6% for the three months ended July 30, 2016, as compared to 35.6% for the three months ended August 1, 2015, an expansion of 100 basis points. The expansion was driven by stronger product margins in our men s collection, golf apparel, Nike and direct-to-consumer businesses.

For the six months ended July 30, 2016, gross profit margins were 36.5% as a percentage of total revenue as compared to 34.6% for the six months ended August 1, 2015, an expansion of 190 basis points. The increase is attributed to stronger product margins and reduced markdowns in our men s collection, golf apparel and Nike businesses as well as an increase in royalty income and consolidation in our foreign buying offices and freight services.

Selling, general and administrative expenses. Selling, general and administrative expenses for the three months ended July 30, 2016 were $72.7 million, an increase of $4.4 million, or 6.4%, from $68.3 million for the three months ended August 1, 2015. The increase was attributed primarily to severance costs related to our restructuring activities, as well as the required acceleration of compensation costs relating to the new contract for our executive chairman. These compensation costs will be distributed in future periods as they are earned. See footnote 20 to the unaudited condensed consolidated financial statements for further information regarding the acceleration of compensation.

Selling, general and administrative expenses for the six months ended July 30, 2016 were $142.6 million, an increase of $4.7 million, or 3.4%, from $137.9 million for the six months ended August 1, 2015. The increase is attributed to slightly higher incentive compensation accruals, severance costs and the acceleration of compensation costs as discussed above, partially offset by reduced costs resulting from our continued focus on the core infrastructure.

EBITDA. Men s Sportswear and Swim EBITDA margin for the three months ended July 30, 2016 decreased 210 basis points to (0.3%) from 1.8% for the three months ended August 1, 2015. Direct costs associated with the segment remained relatively flat from the previous quarter. Because of this, the decrease in net sales described above had an unfavorable impact on the EBITDA margin. Men s Sportswear and Swim EBITDA margin for the six months ended July 30, 2016 increased 80 basis points to 5.4%, from 4.6% for the six months ended August 1, 2015. The EBITDA margin was favorably impacted by the increase in gross profit and margins in our men s collection, golf apparel and Nike businesses. Because of this increase, we were able to realize a favorable leverage in selling, general and administrative expenses, more specifically on payroll and advertising expenses.

Women s Sportswear EBITDA margin for the three months ended July 30, 2016 decreased 810 basis points to (9.7%) from (1.6%) for the three months ended August 1, 2015. Women s Sportswear EBITDA margin for the six months ended July 30, 2016 decreased 570 basis points to (3.7%) from 2.0% for the six months ended August 1, 2015. The EBITDA margin was unfavorably impacted by the exit of C&C California and planned decreases in special markets programs, as a result we were not able to realize favorable leverage in selling, general and administrative expenses.

Direct-to-Consumer EBITDA margin for the three months ended July 30, 2016 decreased 370 basis points to (8.5%) from (4.8%) for the three months ended August 1, 2015. Direct-to-Consumer EBITDA margin for the six months ended July 30, 2016 decreased 550 basis points to (10.2%), from (4.7%) for the six months ended August 1, 2015. The decrease was attributable to the closing of a net of three stores, as described above. Additionally, selling, general and administrative expenses were unfavorably impacted by increases in rent as we renewed some of our leases at higher rates.

Licensing EBITDA margin for the three months ended July 30, 2016 decreased 490 basis points to 72.0%, from 76.9% for the three months ended August 1, 2015. Direct costs associated with the licensing segment remained relatively flat from the previous quarter. Because of this, the decrease in royalty income described above had an unfavorable impact on the EBITDA margin. Licensing EBITDA margin for the six months ended July 30, 2016 increased 410 basis points to 77.4%, from 73.3% for the six months ended August 1, 2015. The EBITDA margin was favorably impacted by the increase in royalty income described above. Also, as described below, during the three months ended May 2, 2015, we had a loss on the sale of the C&C California brand tradename, which was the primary reason for the lower EBITDA margin in the first quarter of fiscal 2016.

Depreciation and amortization. Depreciation and amortization for the three months ended July 30, 2016, was $3.7 million, an increase of $0.3 million, or 8.8% from $3.4 million for the three months ended August 1, 2015.

Depreciation and amortization for the six months ended July 30, 2016, was $7.2 million, an increase of $0.4 million, or 5.9%, from $6.8 million for the six months ended August 1, 2015. The increase is attributed to depreciation related to our capital expenditures, primarily in the direct-to-consumer segment, and leasehold improvements made during fiscal 2016.

Loss on sale of long-lived assets. During the first quarter of fiscal 2016, we entered into an agreement to sell the intellectual property of our C&C California brand to a third party. As a result of this transaction, we recorded a loss of ($0.7) million in the licensing segment.

Cost on early extinguishment of debt. On April 6, 2015, we called for partial redemption $100 million of our $150 million outstanding $7\,^{7}/_{8}$ % Senior Subordinated Notes. The redemption terms provided for the payment of a redemption premium of 103.938% of the principal amount redeemed. On May 6, 2015, we completed the redemption of $100 million of our senior subordinated notes. We incurred debt extinguishment costs of approximately $5.1 million in connection with the redemption premium and the write-off of note issuance costs.

Interest expense. Interest expense for the three months ended July 30, 2016 and the three months ended August 1, 2015 was $1.9 million. Interest remained flat. Interest expense for the six months ended July 30, 2016 was $3.9 million, a decrease of $1.7 million, or 30.4%, from $5.6 million for the six months ended August 1, 2015. The decrease was primarily attributable to a decrease in interest resulting from the partial redemption of $100 million of our senior subordinated notes during the second quarter of fiscal 2016. This decrease was partially offset by a higher average amount borrowed on our credit facility as compared to the prior year period. The increase in the credit facility was due to its use for the redemption of the notes as discussed above.

Income taxes. The income tax benefit for the three months ended July 30, 2016, was $0.9 million, a decrease of $0.6 million, as compared to $1.5 million for the three months ended August 1, 2015. For the three months ended July 30, 2016, our effective tax rate was 19.5% as compared to 54.7% for the three months ended August 1, 2015. The income tax provision for the six months ended July 30, 2016, was $4.5 million, an increase of $2.6 million, as compared to $1.9 million for the six months ended August 1, 2015. For the six months ended July 30, 2016, our effective tax rate was 29.8% as compared to 18.9% for the six months ended August 1, 2015. The overall change in the effective tax rate is attributed to the current year impact of the valuation allowance on domestic taxes and a change in the ratio of income between domestic and foreign operations, of which the domestic operations are taxed at higher statutory tax rates.

Net (loss) income. Net loss for the three months ended July 30, 2016 was $3.6 million, an increase of $2.3 million, or 176.9%, as compared to a loss of $1.3 million for the three months ended August 1, 2015. Net income for the six months ended July 30, 2016 was $10.7 million, an increase of $2.6 million, or 32.1%, as compared to $8.1 million for the six months ended August 1, 2015. 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, pension funding requirements, acquisitions, and capital expenditures. We believe that our working capital requirements will increase for next year as we continue to expand internationally. As of July 30, 2016, our total working capital was $208.3 million as compared to $218.8 million at January 30, 2016 and $215.3 million as of August 1, 2015. We believe that our cash flows from operations and availability under our senior credit facility and remaining letter of credit facilities are sufficient to meet our working capital needs and capital expenditure needs over the next year.

We consider the undistributed earnings of our foreign subsidiaries as of July 30, 2016, to be indefinitely reinvested and, accordingly, no United States income taxes have been provided thereon. As of July 30, 2016, the amount of cash associated with indefinitely reinvested foreign earnings was approximately $23.9 million. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

Net cash provided by operating activities was $34.9 million for the six months ended July 30, 2016, as compared to cash provided by operating activities of $20.5 million for the six months ended August 1, 2015.

The cash provided by operating activities for the six months ended July 30, 2016, is primarily attributable to a decrease in accounts receivable of $10.1 million, decreased inventory of $47.6 million due to improved inventory management, an increase in unearned revenues and other liabilities of $3.5 million, as well as a decrease in prepaid income taxes of $1.9 million. This was partially offset by a decrease in accounts payable and accrued expenses of $52.6 million.

The cash provided by operating activities for the six months ended August 1, 2015, is primarily attributable to a decrease in accounts receivable of $13.2 million due to the timing of shipments as compared to the prior year, as well as decreased inventory of $30.1 million due to improved inventory management. This was partially offset by a decrease in accounts payable and accrued expenses of $41.2 million as well as decreased accrued interest payable of $2.5 million. For the six months ended August 1, 2015, our inventory turnover ratio increased to 3.7 as compared to 3.3 for the comparable period in fiscal 2015. Inventory levels declined as noted above resulting from tighter inventory management.

Net cash used in investing activities was $10.4 million for the six months ended July 30, 2016 as compared to cash provided by investing activities of $4.4 million for the six months ended August 1, 2015. The net cash used in investing activities during the first six months of fiscal 2017 primarily reflects the purchase of investments of $9.0 million and the purchase of property and equipment of $6.6 million primarily for leasehold improvements and store fixtures; offset by the proceeds from the maturities of investments in the amount of $5.2 million.

Net cash provided by investing activities was $4.4 million for the six months ended August 1, 2015, as compared to cash used in investing activities of $16.1 million for the six months ended August 2, 2014. The net cash provided by investing activities during the first six months of fiscal 2016 primarily reflects the proceeds from the maturities of investments in the amount of $11.9 million and proceeds on the sale of the C&C California brand in the amount of $2.5 million; offset by the purchase of investments of $2.6 million and the purchase of property and equipment of $7.3 million primarily for leasehold improvements and store fixtures.

Net cash used in financing activities was $28.4 million for the six months ended July 30, 2016 as compared to cash used in financing activities of $41.7 million for the six months ended August 1, 2015. The net cash used during the first six months of fiscal 2017 primarily reflects net payments on our senior credit facility of $27.9 million, payments of $0.4 million on our mortgage loans and payments on capital leases of $0.1 million.

Net cash used in financing activities was $41.7 million for the six months ended August 1, 2015, as compared to cash used in financing activities of $8.7 million for the six months ended August 2, 2014. The net cash used during the first six months of fiscal 2016 primarily reflects payments for the partial redemption on our senior subordinated notes of $100 million, payments of $0.4 million on our mortgage loans, payments of deferred financing fees on the senior credit facility of $0.6 million and payments on capital leases of $0.07 million; partially offset by net borrowings on our senior credit facility of $58.2 million, proceeds from the exercises of stock options of $1.3 million and a tax benefit from exercise of equity instruments of $0.2 million. We financed the redemption of the subordinated notes through our senior credit facility.

Our Board of Directors has authorized us to purchase, from time to time and as market and business conditions warrant, up to $70 million of our common stock for cash in the open market or in privately negotiated transactions through October 31, 2016. Although our Board of Directors allocated a maximum of $70 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.

There have been no open market purchases through the second quarter of fiscal 2017. Total purchases under the plan to date amount to approximately $58.6 million.

During the second quarter of fiscal 2016, we retired 770,753 shares of treasury stock recorded at a cost of approximately $15.7 million. Accordingly, during the second quarter of fiscal 2016 we reduced common stock and additional paid in capital by $7,000 and $15.7 million, respectively.

Acquisitions

None.

7 $^7/_8$% $150 Million Senior Subordinated Notes Payable

In March 2011, we issued $150 million 7 $^7/_8$ % senior subordinated notes, due April 1, 2019. The proceeds of this offering were used to retire the $150 million 8 $^7/_8$ % 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%.

On April 6, 2015, we elected to call for the partial redemption of $100 million of our $150 million 7 $^7/_8$ % senior subordinated notes due 2019 and a notice of redemption was sent to all registered holders of the senior subordinated notes. The redemption terms provided for the payment of a redemption premium of 103.938% of the principal amount redeemed. On May 6, 2015, we completed the redemption of the $100 million of our senior subordinated notes. We incurred debt extinguishment costs of approximately $5.1 million in connection with the redemption, including the redemption premium as well as the write-off of note issuance costs. At July 30, 2016, the balance of the 7 $^7/_8$ % senior subordinated notes totaled $49.6 million, net of debt issuance costs in the amount of $0.4 million. At January 30, 2016, the balance of the 7 $^7/_8$ % senior subordinated notes totaled $49.5 million, net of debt issuance costs in the amount of $0.5 million.

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.

Senior Credit Facility

On April 22, 2015, 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 $200 million. The Credit Facility has been extended through April 30, 2020. In connection with this amendment and restatement, we paid fees in the amount of $0.6 million. These fees will be amortized over the term of the credit facility as interest expense. At July 30, 2016, we had outstanding borrowings of $33.9 million, under the Credit Facility. At January 30, 2016, we had outstanding borrowings of $61.8 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. A cross-default could result in all of our debt obligations becoming immediately due and payable, which we may not be able to satisfy. Additionally, our Credit Facility includes a subjective acceleration clause if a material adverse change in our business occurs. We believe that the likelihood of the lender exercising this right is remote.

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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) a maximum of 70.0% of eligible finished goods inventory with an inventory limit not to exceed $125 million, or 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 the prime rate and at the rate quoted by the agent for Eurodollar loans. The margin adjusts quarterly, in a range of 0.50% to 1.00% for prime rate loans and 1.50% to 2.00% for Eurodollar loans, based on the 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.

Letter of Credit Facilities

As of July 30, 2016, we maintained one U.S. dollar letter of credit facility totaling $30.0 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 first quarter of fiscal 2016, a $15 million line of credit expired and was not renewed. During fiscal 2016, we decreased the letter of credit sublimit in our Senior Credit Facility to $30.0 million. At July 30, 2016 and January 30, 2016, there was $18.8 and $18.9 million, respectively, available under the existing letter of credit facilities.

Real Estate Mortgage Loans

In July 2010, we paid off our 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. In July 2013, we amended the mortgage loan agreement to modify the interest rate. The interest rate was reduced to 3.9% per annum and the terms were restated to reflect new monthly payments of principal and interest of $69,000, based on a 25-year amortization with the outstanding principal due at maturity. At July 30, 2016, the balance of the real estate mortgage loan totaled $10.9 million, net of discount, of which $399,000 is due within one year.

In June 2006, we entered into a mortgage loan for $15 million secured by our Tampa facility. The loan is due on January 23, 2019. In January 2014, we amended the mortgage loan to modify the interest rate. The interest rate was reduced to 3.25% per annum and the terms were restated to reflect new monthly payments of principal and interest of approximately $68,000, based on a 20-year amortization with the outstanding principal due at maturity. At July 30, 2016, the balance of the real estate mortgage loan totaled $10.9 million, net of discount, of which approximately $468,000 is due within one year.

The real estate mortgage loans contain certain covenants. We are not aware of any non-compliance with any of the 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 constitute a cross-default under our senior credit facility, the letter of credit facilities and the indenture relating to our senior subordinated notes resulting in all of 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 six months ended July 30, 2016.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

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. We currently do not have any derivative financial instruments for identifiable market risk.

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.

Other

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 Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 30, 2016 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 July 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

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	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith.

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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.
September 2, 2016	By: /S/ ANITA BRITT Anita Britt, Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

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Exhibit Index

Exhibit Number	Exhibit Description
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