EXPERTS

The financial statements and schedules included in this Prospectus and elsewhere in the Registration Statement have been audited by Grant Thornton, independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

Effective July 31, 1989, the date of the Reorganization and solely as a result thereof, the Company appointed Grant Thornton as its firm of independent accountants. Grant Thornton has served as the independent accountants of G-III since August 1986, and of Siena since August 1988 and for the year ended October 31, 1986. Prior to this offering, Grant Thornton has audited the financial statements of Siena for its fiscal years ended October 31, 1987 and 1988. The decision to change accountants was unanimously approved by the Company's Board of Directors, at a meeting held after the consummation of the Reorganization.

From its incorporation in July 1987 until the Reorganization, Ante Corp. had retained McMichael & Company, Ltd. ("McMichael") as its independent accountants. During the period of McMichael's retention by Ante Corp., there were no disagreements between McMichael and Ante Corp. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of McMichael, would have caused them to make reference to the disagreement in any of their financial reports to Ante Corp. In addition, no report on the financial statements of Ante Corp. ever rendered by McMichael contained an adverse opinion or a disclaimer of opinion or was qualified or modified as to uncertainty, the scope of the audit performed or the accounting principles used therefor.

The Company has provided McMichael with a copy of this Prospectus and has requested McMichael to furnish the Company with a letter, addressed to the Securities and Exchange Commission (the "Commission"), confirming the accuracy of the foregoing information. That letter is attached as an exhibit to the Registration Statement of which this Prospectus is a part.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Company and the Selling Stockholders by Fulbright Jaworski & Reavis McGrath, 345 Park Avenue, New York, New York 10154. Certain legal matters in connection with the sale of the shares of Common Stock will be passed upon for the Underwriters by Morgan, Lewis & Bockius, 101 Park Avenue, New York, New York 10178.

ADDITIONAL INFORMATION

The Company has filed with the Commission a Registration Statement on Form S-l with respect to the Common Stock offered hereby. This Prospectus, filed as part of the Registration Statement, does not contain all the information contained in the Registration Statement, certain portions of which have been omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement including the exhibits and schedules thereto. Statements contained in this Prospectus as to the contents of any contract or any other document are not necessarily complete, and in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. All of these documents may be inspected without charge at the Public Reference Section of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies can also be obtained from the Commission at prescribed rates.

G-III APPAREL GROUP, LTD.

INDEX TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
G-III APPAREL GROUP, LTD.

We have audited the accompanying consolidated balance sheet of G-III Apparel Group, Ltd. (formerly Ante Corp.) and subsidiaries (G-III Leather Fashions, Inc. and Siena Leather Ltd.) as of July 31, 1989 and combined balance sheet of G-III Leather Fashions Inc. and Siena Leather Ltd. as of July 31, 1988, and the related combined statements of income, consolidated and combined statement of stockholders' equity and combined statements of cash flows for each of the three years in the period ended July 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of G-III Apparel Group, Ltd. and subsidiaries as of July 31, 1989 and the combined financial position of G-III Leather Fashions, Inc. and Siena Leather Ltd. as of July 31, 1988 and the combined results of their operations and cash flows for each of the three years in the period ended July 31, 1989 in conformity with generally accepted accounting principles.

GRANT THORNTON

New York, New York
September 27, 1989

G-III Apparel Group, Ltd. and Subsidiaries

CONSOLIDATED AND COMBINED BALANCE SHEETS

	July 31, 1988	July 31, 1989	October 31, 1989 (unaudited)
ASSETS			
Current Assets			
Cash and cash equivalents (Note A-9)	$ 400,100	$ 3,456,146	$ 1,136,969
Accounts receivable, less allowance for doubtful accounts and sales discounts of $299,800, $689,773 and $960,295 at July 31, 1988 and 1989, and October 31, 1989, respectively (Note D)	7,636,805	19,373,197	27,203,993
Inventories (Notes A-4, B and D)	6,291,022	10,245,861	8,013,691
Due from affiliates (Note M)	1,537,295	1,584,946	1,457,928
Prepaid expenses and other current assets (Note K)	174,879	763,962	619,084
Total current assets	16,040,101	35,424,112	38,431,665
Property, plant and equipment-at cost, net (Notes A-5, C and F)	1,697,326	2,179,922	2,113,447
Deferred income taxes (Note A-7)	—	398,375	498,375
Other assets	108,517	87,063	137,551
	$17,845,944	$38,089,472	$41,181,038
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Bankers' acceptances and notes payable (Note D)	$ 8,174,515	$20,384,582	$18,615,491
Current maturities of obligations under capital leases (Note F)	96,132	162,075	162,075
Accounts payable and accrued expenses	3,793,982	4,925,767	5,208,321
Income taxes payable (Note G)	263,269	744,883	2,775,909
Due to stockholders (Notes A-7 and H)	—	3.007.893	1,842,893
Total current liabilities	12,327,898	29,225,200	28,604,689
Note payable-long-term (Note E)	—	2,000,000	2,000,000
Obligations under capital leases (Note F)	1,169,637	1,122,175	1,054,443
Subordinated loans payable (Note I)	425,283	425,283	425.283
Commitments and contingencies (Notes F, J and M)			
Stockholders' equity (Notes A-l and K)			
Preferred stock, 1,000,000 shares authorized; no shares, issued and outstanding in 1989			
Common stock, $.01 par value; authorized, 20,000,000 shares; issued and outstanding, 4,644,444 shares in 1989	—	46,444	46,444
Common stock in 1988	60,000	—	
Additional paid-in capital	8,000	3,374,368	3,374,368
Retained earnings	3,855,126	1,896,002	5,675,811
	3,923,126	5,316,814	9.096.623
	$17,845,944	$38,089,472	$41,181,038

The accompanying notes are an integral part of these statements.

G-III Apparel Group, Ltd. and Subsidiaries

CONSOLIDATED AND COMBINED STATEMENT OF STOCKHOLDERS' EQUITY

Periods Ended July 31, 1987, 1988 and 1989; and October 31, 1989 (Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance at July 31, 1986	$ 60,000		$ 722,303
Net earnings for the year			726,780
Contribution by stockholders		$ 8,000	
Balance at July 31, 1987	60,000	8,000	1,449,083
Net earnings for the year			2,719,297
Distributions to stockholders			(313,254)
Balance at July 31, 1988	60,000	8,000	3,855,126
Net earnings for the year			9,525,637
Distributions to stockholders and contribution to additional paid-in capital		889,682	(11,370,899)
Stock subscription (Note K)	135,000		
Adjustment for combination of companies with different fiscal year-ends (Note A-l)			(102,546)
Stockholders' equity of G-III Apparel Group, Ltd. at July 31, 1989 (Notes A-1 and K)	6,966	2,476,164	(11,316)
Transfer of G-III and Siena common stock to G-III Apparel Group, Ltd.	(195,000)	195,000	
Issuance of 3,947,778 shares of $.01 common stock (Note A-l)	39,478	(39,478)	
Costs incurred in connection with Reorganization (Note A-l)		(155,000)	
Balance at July 31, 1989	46,444	3,374,368	1,896,002
Net earnings for the three-month period			3,779,809
Balance at October 31, 1989	$ 46,444	$3,374,368	$ 5,675,811

The accompanying notes are an integral part of this statement.

G-III Apparel Group, Ltd. and Subsidiaries

COMBINED STATEMENTS OF CASH FLOWS

	Year Ended July 31,			Three Months Ended October 31,	
	1987	1988	1989	1988	1989
				(unaudited)	
Cash flows from operating activities					
Net income	$ 726,780	$2,719,297	$ 9,525,637	$2,920,940	$3,779,809
Adjustments to reconcile net income to net cash used in operating activities					
Depreciation and amortization	57,936	95,079	153,860	33,600	69,524
Deferred income taxes (benefit)	—	5,900	(56,400)	(17,400)	(100,000)
Provision for doubtful accounts and sales discounts	—	92,500	389,973	2,569	270,522
Adjustment for combination of companies with different fiscal year-ends	—	—	(102,546)	—	—
Changes in operating assets and liabilities					
Increase in accounts receivable	(565,785)	(3,356,036)	(12,126,365)	(7,484,113)	(8,101,228)
Increase in inventory	(1,205,370)	(3,336,397)	(3,954,839)	3,116,606	2,232,170
Increase in due from affiliates	(863,796)	(610,848)	(47,651)	101,827	127,018
Decrease (increase) in prepaid expenses	25,505	(112,865)	(454,083)	94,054	144,878
(Increase) decrease in other assets	(23,820)	(57,431)	21,454	321	(50,488)
Increase in deferred income taxes	—	—	(398,375)	—	—
Increase (decrease) in accounts payable and accrued expenses	(153,505)	2,098,752	1,131,785	1,030,823	282,554
Increase (decrease) in income taxes payable	628,752	(471,223)	538,014	24,196	2,031,026
Decrease in pension plan payable	—	(4,810)	(125,000)	—	—
	(2,104,893)	(5,777,569)	(14,905,173)	(3,097,517)	(3,094,024)
Net cash provided by (used in) operating activities	(1,378,113)	(3,058,272)	(5,379,536)	(176,577)	685,785
Cash flows from investing activities					
Capital expenditures	(34,246)	(269,425)	(576,701)	(13,868)	(3,139)
Capital dispositions	—	13,956	75,215	—	—
Net cash used in investing activities	(34,246)	(255,469)	(501,486)	(13,868)	(3,139)

G-III Apparel Group, Ltd. and Subsidiaries

COMBINED STATEMENTS OF CASH FLOWS (continued)

	Year Ended July 31,			Three Months Ended October 31,	
	1987	1988	1989	1988	1989
				(unaudited)	
Cash flows from financing activities					
Borrowings under bankers' acceptances and notes	$7,394,876	$15,369,211	$33,407,583	$3,655,543	$24,103,364
Repayments of bankers' acceptances and notes	(5,930,489)	(11,524,502)	(21,197,516)	(3,280,898)	(25,872,455)
Subordinated loans	121,633	—	—	—	—
Issuance of notes payable—long-term	—	—	2,000,000	—	—
Principal payment of capital lease obligations	(84,870)	(96,132)	(116,489)	—	(67,732)
Payment of long-term debt	(7,678)	—	—	—	—
Net proceeds from reorganization and exchange	—	—	2,471,714	—	—
Distribution of income to stockholders	—	(313,254)	(8,947,629)	(265,000)	—
Increase (decrease) in due to stockholders	—	—	1,474,305	—	(1,165,000)
Issuance of common stock warrants	—	—	100	—	—
Contribution by stockholders	8,000	—	—	—	—
Costs incurred in connection with reorganization and exchange	—	—	(155,000)	—	—
Net cash provided by (used in) financing activities	1,501,472	3,435,323	8,937,068	109,645	(3,001,823)
Net increase (decrease) in cash	89,113	121,582	3,056,046	(80,800)	(2,319,177)
Cash at beginning of period	189,405	278,518	400,100	400,100	3,456,146
Cash at end of period	$ 278,518	$ 400,100	$ 3,456,146	$ 319,300	$ 1,136,969
Supplemental disclosures of cash flow information:					
Cash paid during the year for					
Interest	$ 328,769	$ 587,072	$ 1,444,069	$ 337,525	$ 772,499
Income taxes	177,207	851,308	329,613	337,588	965,974

Supplemental schedule of noncash investing and financing transactions:

G-III Leather Fashions, Inc. rented land and building under a capital lease during the year ending July 31, 1987 in the amount of $1,442,000. A capital lease obligation for this amount was also recorded.

G-III Leather Fashions, Inc. recorded a distribution payable to stockholders and a corresponding decrease in retained earnings in the amount of $1,533,588 at July 31, 1989.

The accompanying notes are an integral part of these statements.

G-III Apparel Group, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

July 31, 1988 and 1989

(Unaudited with respect to the three-month periods ended October 31, 1988 and 1989)

Note A-Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated and combined financial statements follows:

1. ***History and Business Activity***

G-III Apparel Group, Ltd. was incorporated in the State of Minnesota on July 17, 1987 under the name "Ante Corp." for the purpose of providing a vehicle to be used to raise capital and seek business opportunities. Effective November 1, 1989, the Company was reincorporated under the laws of the State of Delaware and changed its name to G-III Apparel Group, Ltd.

G-III Leather Fashions, Inc. (G-III) and Siena Leather Ltd. (Siena) refer to subsidiaries of G-III Apparel Group, Ltd. that are included in the accompanying consolidated and combined financial statements. G-III and Siena were incorporated in January 1974 and November 1981, respectively, under the laws of New York State. The Company designs, manufactures and markets an extensive range of leather apparel.

As used in these financial statements, the term "Company" means G-III Apparel Group, Ltd. and its subsidiaries, G-III and Siena, for periods subsequent to the Reorganization (described below) and the operations of G-III and Siena for all prior periods.

The balance sheets of G-III and Siena have been consolidated with G-III Apparel Group, Ltd., as of July 31, 1989, due to the Reorganization transaction referred to below. Prior to July 31, 1989, G-III and Siena were affiliated through common ownership and G-III had a fiscal year ending July 31 and Siena had a fiscal year ending October 31. Effective July 31, 1989, G-III Apparel Group, Ltd. and Siena have adopted a July 31 fiscal year-end. The accompanying financial statements reflect the combined balance sheets at July 31, 1988 and the combination of their statements of income for the years ended July 31, 1987, 1988 and 1989. G-III Apparel Group, Ltd.'s operations are not reflected in the accompanying financial statements, since they are not material.

The combination of G-III and Siena as of July 31, 1989 and for the year then ended creates an overlap of income for the three months ended October 31, 1988. An adjustment to the combined statement of stockholders' equity of $102,546 has been made to eliminate this overlap.

On August 15, 1989, the Company completed an Agreement and Plan of Reorganization ("Reorganization Agreement") by and among G-III Apparel Group, Ltd., G-III, Siena and the stockholders of G-III and Siena. In accordance with the Reorganization Agreement, which was effective July 31, 1989, G-III Apparel Group, Ltd. issued 3,947,778 shares of its common stock, $.01 par value per share, to the stockholders for all of the outstanding shares of G-III and Siena (the "Reorganization"). As a result of the Reorganization, G-III Apparel Group, Ltd. became the parent of G-III and Siena. Upon the consummation of this transaction, such stockholders owned approximately 85% of the issued and outstanding common stock of the Company.

For accounting purposes, the transaction was accounted for as a purchase, whereby G-III and Siena acquired the net assets of G-III Apparel Group, Ltd. as of July 31, 1989.

Contemporaneously with the Reorganization and pursuant to the terms of the Reorganization Agreement, a former officer of G-III Apparel Group, Ltd. (a present director and stockholder of the Company) and two other individuals converted a total of 100,000 shares of G-III Apparel Group, Ltd.'s Series A redeemable convertible preferred stock, no par value, constituting all of the issued and outstanding shares of preferred stock, for 166,667 shares of the Company's $.01 par value common stock at the conversion price of $6 per share or an aggregate amount of $1,000,000.

Pursuant to the Reorganization Agreement, G-III Apparel Group, Ltd. effected a one-for-two (1:2) stock split on August 1.5, 1989. In addition, a one-for-three (1:3) stock split was approved by the

Board of Directors effective November 1, 1989. All references to common stock in these financial statements give effect to these stock splits.

2. Principles of Consolidation and Combination

All material intercompany balances and transactions have been eliminated.

3. Revenue Recognition

Sales are recognized when merchandise is shipped.

4. Inventories

Inventories are stated at the lower of cost (determined by the first-in, first-out method) or market.

5. Depreciation and Amortization

Depreciation and amortization are provided on accelerated methods in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

6. Pension Plans

G-III maintained three pension plans covering substantially all its employees. The plans were funded annually. Two of the plans were terminated effective August 1, 1987 (Note N).

7. Income Taxes

G-III elected to be taxed under the Subchapter S provisions of the Internal Revenue Code and New York State tax law, effective August 1, 1987. Accordingly, income taxes on the earnings of G-III for the years ended July 31, 1988 and 1989 are taxable to its stockholders and no provision has been made for Federal and New York State taxes in the accompanying historical financial statements (Note G). The accompanying historical financial statements include a provision for Federal, state and local taxes for Siena, for all periods presented and for G-III for its fiscal year ended July 31, 1987. On August 15, 1989, effective for the year beginning August 1, 1989, G-III revoked its election to be treated as a Subchapter S corporation for Federal and New York State tax purposes.

Deferred income taxes have been provided primarily as a result of timing differences due to different methods of reporting inventory and accounts receivable allowances for income tax and financial reporting purposes.

Adoption of Statement of Financial Accounting Standards No. 96 (SFAS #96), "Accounting for Income Taxes," is required for fiscal years beginning after December 15, 1989. (This date has recently been extended to fiscal years beginning after December 15, 1991.) SFAS #96 requires the Company to adopt an asset and liability approach for financial accounting and reporting for deferred income taxes. The impact of SFAS #96 on the Company, which has not yet been adopted, is not expected to be material.

8. Pro Forma Adjustments

Pro forma income taxes represent income taxes based on statutory rates that would have resulted had the Company filed consolidated corporate income tax returns, including the results of its "S" corporation (G-III) previously not subject to Federal and New York State income taxes. Pro forma net income prior to 1988 would not have differed from the historical presentation.

9. Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

10. ***Pro Forma Net Income Per Common Share***

Pro forma net income per common share is based on the number of common shares of the Company outstanding at July 31, 1989. The effect of common stock equivalents is not significant for any periods presented.

11. ***Net Income Per Common Share***

Net income per common share for the three months ended October 31, 1989 is calculated based on the weighted average number of outstanding common shares. The effect of common stock equivalents is not significant for this period.

12. ***Reclassifications***

Certain amounts in prior years have been reclassified to conform with classifications used in the current period.

13. Interim Financial Statements

The unaudited interim financial statements for the three month periods ended October 31, 1988 and 1989 reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results of operations and financial position for the interim periods presented. Operating results for the three months ended October 31, 1989 are not necessarily indicative of the results that may be expected for the year ended July 31, 1990.

Note B-Inventories

Inventories consist of:

	July 31,		October 31,
	1988	1989	1989 (unaudited)
Finished products	$4,247,144	$ 4,862,019	$3,050,506
Work-in-process	729,032	1,110,837	880,474
Raw materials. and supplies	1,314,846	4,273,005	4,082,711
	$6,291,022	$10,245,861	$8,013,691

Note C-Property, Plant and Equipment

Property, plant and equipment consist of:

	July 31, 1988	July 31, 1989	October 31, 1989 (unaudited)
Machinery and equipment	$ 360,915	$ 305,682	$ 308,821
Leasehold improvements	266,199	674,425	674,425
Furniture and fixtures		69,659	69,659
Property under capital lease (Note F)			
Land	330,000	330,000	330,000
Building	1,112,000	1,112,000	1,112,000
Computer equipment		134,970	134,970
	2,069,114	2,626,736	2,629,875
Less accumulated depreciation and amortization (including $16,180, $71,886 and $79,886 on capital leases at July 31, 1988 and 1989 and October 31, 1989, respectively)	371,788	446,814	516,428
	$1,697,326	$2,179,922	$2.113.447

Depreciation and amortization expense for the years ended July 31, 1987, 1988 and 1989 and the three-month periods ended October 31, 1988 and 1989 was $57,936, $95,079, $153,860, $33,600 and $69,524, respectively.

Note D-Bankers' Acceptances and Notes Payable

At July 31, 1989, G-III has a $27,500,000 ($10,000,000 at July 31, 1988) collateralized line of credit with a bank, of which $17,500,000 ($8,500,000 at July 31, 1988) is available for direct debt and bankers' acceptances. In September 1989, the Company's collateralized line of credit was increased to $34,000,000 and remained at this level at October 31, 1989. Of this amount, $22,500,000 is available for direct debt and bankers' acceptances.

Bankers' acceptances and notes payable of the Company consist of:

	July 31, 1988	July 31, 1989	October 31, 1989 (unaudited)
Notes payable(1)	$4,400,000		
Loan payable(2)		$ 150,000	
Bankers' acceptances(3)	3,654,515	16,341,520	$18,615,491
Demand note payable(4)	120,000		
Short-term notes payable(5)		3,893,062	
	$8,174,515	$20,384,582	$18,615,491

(1) The notes, which were collateralized by a security interest in accounts receivable and imported inventory, were repaid during the year ended July 31, 1989. Interest was payable monthly at ¾% above prime per annum on $2,400,000 of the total and 2½% above prime per annum on the balance.

('footnotes continued on next page)

(footnotes continued from previous page)

(2) Loan payable is direct debt of Siena against G-III's collateralized line of credit. Interest on this debt is payable at the bank's prime rate, plus ¾% per annum. The note is due January 31, 1990 and is collateralized by accounts receivable and imported inventory (Note J). This debt was repaid in October, 1989.

(3) Bankers' acceptances have maturities ranging from 90 to 120 days as of July 31, 1989 and 90 to 180 days as of July 31, 1988. The acceptances, as of July 31 and October 31, 1989, bear interest at the prevailing acceptance rate, plus 2¼%, respectively (Note J).

The acceptances, as of July 31, 1988, had interest rates ranging from 8.2% to 12.7% per annum.

Bankers' acceptances are collateralized by accounts receivable and imported inventories.

(4) The note represented unsecured non-interest-bearing borrowings from a relative of the Company's two principal stockholders. The loan was repaid during the year ended July 31, 1989.

(5) Short-term notes payable consist of loans from a bank on July 31, 1989, which were repaid in August 1989. Interest on the notes was payable at ¾% above prime per annum.

The Company's two principal shareholders have executed personal guarantees and are contingently liable for portions of the Company's debt.

Note E-Note Payable

The note represents a borrowing from a bank on July 31, 1989. The note is due in August 1990 and bears interest at the bank's prime rate plus ¾% per annum. The note is collateralized by certificates of deposit of the Company's two principal stockholders, who have also executed guarantees with respect to this debt.

In December, 1989, the due date of the note was extended to November 1, 1990.

Note F-Capital Lease Obligations

In September 1986, the New York City Industrial Development Agency ("Agency") issued $1,442,000 of floating rate Industrial Development Revenue Bonds to a commercial bank for the purpose of acquiring and.renovating real property located at 345 West 37th Street in New York. Since July 31, 1987, the bonds bear interest at 92% of the bank's prime rate plus 1.48% per annum. Simultaneously, the Agency leased the property to 345 West 37th Corp. (345 West), a company under common management and control with G-III, for 15 years. 345 West, in turn, subleased the property to G-III for the same term. The underlying bonds are collateralized by a first mortgage on the land and building and an assignment of the lease agreement. Concurrent with the execution of the lease and sublease agreements, 345 West, G-III and Siena entered into lease guaranty agreements whereby they jointly and severally guaranteed the payments and obligations under the lease and the payment of principal and interest on the bonds. In addition, the two principal stockholders of the Company entered into an Individual Guaranty Agreement and executed subordination agreements with respect to their loans to G-III and 345 West (Notes I and J).

The accompanying financial statements reflect the above lease between G-III and 345 West as a capitalized lease.

Under the loan agreement, G-III has agreed to abide by various covenants concerning corporate activities and has agreed to maintain stipulated levels of net worth, ratio of funded debt to tangible net worth, working capital, current ratio and debt service coverage.

As of July 31, 1988 or at times during the year then ended, G-III was not in compliance with certain covenants. G-III has received a waiver of these covenants at July 31, 1988, through July 30, 1989.

As of July 31, 1989 or at times during the year then ended, G-III was not. in compliance with certain covenants. The Company is currently in the process of applying for waivers of these covenants. 345 West has obtained a first mortgage loan commitment from a stockholder of the Company which may be used to refinance this debt on a long-term basis, if it becomes necessary, along with the New York Job Development Agency debt referred to in Note J. Accordingly, this debt has not been reclassified as a current liability.

The following schedule sets forth the future minimum lease payments under capital leases at October 31, 1989. Interest is based upon the rate of interest in effect at the inception of the lease:

Nine months ended July 31, 1990	$ 149,120
Year ending July 31:	
1991	217,025
1992	159,132
1993	153,132
1994	147,132
1995 and thereafter	858,977
Net minimum lease payments	1,684,518
Less amount representing interest	468,000
Present value of minimum lease payments	$1,216,518
Current portion	$ 162,075
Noncurrent portion	1,054,443
	$1,216,518

Note G-Income Taxes

The provision for income taxes is composed of the following:

	Year Ended July 31,			Three Months Ended October 31,	
	1987	1988	1989	1988	1989
				(unaudited)	
Current					
Federal	$586,774	$ 52,627	$137,875	$ 31,061	$2,017,100
State	86,718	10,243	24,977	6,104	433,400
City	132,467	298,215	714,625	250,300	521,500
	805,959	361,085	877,477	287,465	2,972,000
Deferred					
Federal		(9,300)	(17,200)	(5,300)	(70,100)
State		(1,400)	(2,600)	(800)	(14,400)
City		16,600	(36,600)	(11,300)	(15,500)
		5,900	(56,400)	(17,400)	(100,000)
	$805,959	$366,985	$821,077	$270,065	$2,872,000

G-III Apparel Group, Ltd. and Subsidiaries

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS-(Continued)

July 31, 1988 and 1989

(Unaudited with respect to the three-month periods ended October 31, 1988 and 1989)

The following is a reconciliation of the statutory Federal income tax rate to the effective rate reported in the financial statements:

	Year Ended July 31,						Three Months Ended October 31,			
	1987		1988		1989		1988		1989	
	Amount	Percent of Income	Amount	Percent of Income	Amount	Percent of Income	Amount	Percent of Income	Amount	Percent of Income
							(unaudited)			
Provision for Federal income taxes at the statutory rate	$689,733	45.0%	$1,049,336	34.0%	$3,517,883	34.0%	$1,084,494	34.0%	$2,261,615	34.0%
Increases (decreases)										
Permanent differences on S corporation (G-III) income			(997,949)	(32.3)	(3,348,143)	(32.4)	(1,013,738)	(31.8)		
G-III city income taxes			299,000	9.7	642,000	6.2	233,318	7.3		
Siena state and city income taxes, net of Federal income tax benefit			16,271	.5	38,545	.4	7,251	0.2		
G-III and Siena state and city taxes, net of Federal income tax benefit	118,360	7.7							610,500	9.2
Other	(2,134)	(.1)	327	—	(29,208)	(.3)	(41,260)	(1.3)	(115)	
Actual provision for income taxes	$805,959	52.6%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]%	$2 872 000	43.2%

Note H-Due to Stockholders

At July 31, 1989, G-III declared an S Corporation distribution to its then stockholders of all S Corporation earnings through July 31, 1989 in excess of the amount required to meet the net equity requirement pursuant to the Reorganization Agreement (Note A-l). At July 31, 1989, Due to Stockholders in the accompanying financial statements reflects distributions payable of approximately $2,678,000. In October 1989, approximately $835,000 was distributed, leaving a balance of approximately $1,843,000.

At July 31, 1989, the financial statements reflect a liability to the Company's two principal stockholders of approximately $330,000 representing income tax benefits to be received by the Company relating to taxable income, in excess of book income, recognized personally by the stockholders when G-III was an S Corporation. In October 1989, this amount was paid to the Company's two principal stockholders.

Note I-Subordinated Loans Payable

The two principal stockholders of the Company have subordinated approximately $425,000 of their loans as of July 31, 1988 and 1989 and October 31, 1989, to credit agreements that exist between the Company and its lenders (Notes D, E, F and J). The subordinated loans bear interest at the Applicable Federal Rate (AFR), published by the Internal Revenue Service. Interest expense for each of the three years ended July 31, 1987, 1988 and 1989 amounted to approximately $40,000. Interest expense for each of the three-month periods ended October 31, 1988 and 1989 amounted to approximately $10,000.

Note J-Commitments and Contingencies

The Company currently leases warehousing, executive and sales facilities, and transportation equipment. Future minimum rental payments for operating leases having noncancellable lease periods in excess of one year as of July 31, 1989 are:

1990	$166,211
1991	132,769
1992	101,400
1993	106,400
1994	111,540
1995 and thereafter	55,770
	$674,090

In September, 1989, the Company entered into another lease for warehousing space. This is a five-year lease to begin on January 1, 1990, with a minimum rental payment of $114,000 per year.

Rent expense on the above operating leases for the years ended July 31, 1987, 1988 and 1989 and the three-month periods ended October 31, 1988 and 1989 was approximately $231,700, $300,000, $240,000, $60,000 and $45,000, respectively.

In April 1988, 345 West received a loan from the New York- Job Development Authority ("Authority") to assist 345 West in its renovation of the 345 West property. The loan is for a period of 15 years and is repayable in monthly installments of $10,689 plus interest at a variable rate (9.5% at July 31, 1989). The loan is financed by long-term bonds issued by the Authority. The loan is collateralized by a second mortgage on the 345 West property. The two principal stockholders of the Company have subordinated their debt to this loan (Note I). In addition, both the Company and its two principal stockholders have signed corporate and personal guarantees. The outstanding principal of this debt was approximately $1,108,000, $1,102,000, $1,100,000 as of July 31, 1988 and 1989 and October 31, 1989, respectively.

Under the above loan agreement, 345 West and G-III have agreed to abide by various covenants concerning corporate activities. As of July 31, 1989 or at times during year then ended, 345 West and G-III have not been in compliance with certain covenants (Note F).

At July 31, 1988 and 1989 and October 31, 1989, the Company was contingently liable under letters of credit in the amount of approximately $1,464,000, $7,434,000 and $16,162,000, respectively.

At July 31, 1989, G-III and Siena have executed cross guarantees with respect to portions of their debt.

On August 15, 1989, the Company entered into one-year employment agreements with its President and its Chairman, both of whom are principal stockholders of the Company. Under these agreements, the President and the Chairman are to receive base salaries of $650,000 and $550,000, respectively. In addition, the agreement with the President entitles him to receive, as additional compensation, an annual bonus of 5% of the Company's pretax profit, as defined in the agreements, in excess of $1,000,000. The agreements also call for the Company to pay the cost of premiums on ordinary life insurance policies with face amounts of $1,000,000 and $500,000 for the President and Chairman, respectively. The beneficiary of each policy will be the executive's spouse.

Since September 1, 1989, the Company has engaged one of its directors, who is also a stockholder, as a consultant on a month-to-month basis at a rate of $15,000 per month. The Company and its two principal stockholders have agreed to indemnify the consultant against 92.3% of any losses suffered by the consultant resulting from any breach, caused by the Cdmpany, of a noncompete agreement entered into by the consultant.