

GENESCO INC  
Form 10-Q  
December 07, 2017  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarter Ended October 28, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 1-3083

Genesco Inc.  
(Exact name of registrant as specified in its charter)

Tennessee 62-0211340  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

Genesco Park, 1415 Murfreesboro Road 37217-2895  
Nashville, Tennessee  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (615) 367-7000

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

Emerging growth company

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

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Exchange Act.

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

As of November 24, 2017, 19,913,201 shares of the registrant's common stock were outstanding.

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Table of Contents

INDEX

Part I. Financial Information

Item 1. Financial Statements (unaudited):

Condensed Consolidated Balance Sheets - October 28, 2017, January 28, 2017 and October 29, 2016 3

Condensed Consolidated Statements of Operations - Three and Nine Months ended October 28, 2017 and October 29, 2016 5

Condensed Consolidated Statements of Comprehensive Income - Three and Nine Months ended October 28, 2017 and October 29, 2016 6

Condensed Consolidated Statements of Cash Flows - Three and Nine Months ended October 28, 2017 and October 29, 2016 7

Condensed Consolidated Statements of Equity - Year ended January 28, 2017 and Nine Months ended October 28, 2017 8

Notes to Condensed Consolidated Financial Statements (unaudited) 9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 31

Item 3. Quantitative and Qualitative Disclosures about Market Risk 50

Item 4. Controls and Procedures 50

Part II. Other Information 51

Item 1. Legal Proceedings 51

Item 1A. Risk Factors 51

Item 6. Exhibits 51

Signature 52

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

Genesco Inc.

and Subsidiaries

Condensed Consolidated Balance Sheets

(In Thousands, except share amounts)

| Assets  | October<br>28, 2017 | January 28,<br>2017 | October<br>29, 2016 |
|---|---------------------|---------------------|---------------------|
| Current Assets:   |                     |                     |                     |
| Cash and cash equivalents   | \$50,740            | \$48,301            | \$30,520            |
| Accounts receivable, net of allowances of \$4,349 at Oct. 28, 2017,<br>\$3,073 at Jan. 28, 2017 and \$3,731 at Oct. 29, 2016                | 52,704              | 43,525              | 55,109              |
| Inventories   | 697,949             | 563,677             | 719,975             |
| Prepays and other current assets  | 73,895              | 61,470              | 65,090              |
| Total current assets  | 875,288             | 716,973             | 870,694             |
| Property and equipment:   |                     |                     |                     |
| Land  | 7,879               | 7,773               | 7,667               |
| Buildings and building equipment  | 56,071              | 52,673              | 49,740              |
| Computer hardware, software and equipment   | 196,955             | 179,948             | 180,654             |
| Furniture and fixtures  | 170,795             | 167,881             | 164,187             |
| Construction in progress  | 70,210              | 33,660              | 32,181              |
| Improvements to leased property   | 430,032             | 410,116             | 402,778             |
| Property and equipment, at cost   | 931,942             | 852,051             | 837,207             |
| Accumulated depreciation  | (553,459)           | (521,440)           | (515,427)           |
| Property and equipment, net   | 378,483             | 330,611             | 321,780             |
| Deferred income taxes   | 41,451              | 13,372              | 14,620              |
| Goodwill  | 93,440              | 271,222             | 269,115             |
| Trademarks, net of accumulated amortization of \$5,582 at Oct. 28,<br>2017, \$5,574 at Jan. 28, 2017 and \$5,516 at Oct. 29, 2016           | 85,580              | 84,327              | 83,601              |
| Other intangibles, net of accumulated amortization of \$16,928 at<br>Oct. 28, 2017, \$16,200 at Jan. 28, 2017 and \$16,127 at Oct. 29, 2016 | 1,890               | 2,392               | 2,796               |
| Other noncurrent assets   | 22,351              | 22,102              | 21,765              |
| Total Assets  | \$1,498,483         | \$1,440,999         | \$1,584,371         |

Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Balance Sheets  
(In Thousands, except share amounts)

| Liabilities and Equity                        | October<br>28, 2017 | January 28,<br>2017 | October<br>29, 2016 |
|---|---------------------|---------------------|---------------------|
| <b>Current Liabilities:</b>                   |                     |                     |                     |
| Accounts payable                              | \$244,366           | \$170,751           | \$247,282           |
| Accrued employee compensation                 | 17,799              | 31,128              | 23,434              |
| Accrued other taxes                           | 19,151              | 23,101              | 19,828              |
| Accrued income taxes                          | 24,907              | 7,568               | 2,956               |
| Current portion – long-term debt              | 2,207               | 9,175               | 12,172              |
| Other accrued liabilities                     | 69,242              | 64,333              | 63,742              |
| Provision for discontinued operations         | 1,822               | 3,330               | 2,866               |
| <b>Total current liabilities</b>              | <b>379,494</b>      | <b>309,386</b>      | <b>372,280</b>      |
| Long-term debt                                | 221,372             | 73,730              | 214,076             |
| Pension liability                             | 5,878               | 6,265               | 9,283               |
| Deferred rent and other long-term liabilities | 135,632             | 127,384             | 121,286             |
| Provision for discontinued operations         | 1,707               | 1,713               | 1,713               |
| <b>Total liabilities</b>                      | <b>744,083</b>      | <b>518,478</b>      | <b>718,638</b>      |
| <b>Commitments and contingent liabilities</b> |                     |                     |                     |
| <b>Equity:</b>                                |                     |                     |                     |
| Non-redeemable preferred stock                | 1,052               | 1,060               | 1,065               |
| <b>Common equity:</b>                         |                     |                     |                     |
| Common stock, \$1 par value:                  |                     |                     |                     |
| Authorized: 80,000,000 shares                 |                     |                     |                     |
| Issued/Outstanding:                           |                     |                     |                     |
| October 28, 2017 – 20,401,665/19,913,201      |                     |                     |                     |
| January 28, 2017 – 20,354,272/19,865,808      |                     |                     |                     |
| October 29, 2016 – 20,359,129/19,870,665      | 20,402              | 20,354              | 20,359              |
| Additional paid-in capital                    | 247,504             | 237,677             | 234,184             |
| Retained earnings                             | 545,624             | 731,111             | 684,574             |
| Accumulated other comprehensive loss          | (44,018 )           | (51,292 )           | (58,260 )           |
| Treasury shares, at cost (488,464 shares)     | (17,857 )           | (17,857 )           | (17,857 )           |
| <b>Total Genesco equity</b>                   | <b>752,707</b>      | <b>921,053</b>      | <b>864,065</b>      |
| Noncontrolling interest – non-redeemable      | 1,693               | 1,468               | 1,668               |
| <b>Total equity</b>                           | <b>754,400</b>      | <b>922,521</b>      | <b>865,733</b>      |
| <b>Total Liabilities and Equity</b>           | <b>\$1,498,483</b>  | <b>\$1,440,999</b>  | <b>\$1,584,371</b>  |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Statements of Operations  
(In Thousands, except per share amounts)

|  | Three Months Ended |           | Nine Months Ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | October            | October   | October           | October     |
|  | 28, 2017           | 29, 2016  | 28, 2017          | 29, 2016    |
| Net sales  | \$716,759          | \$710,822 | \$1,976,633       | \$1,985,172 |
| Cost of sales  | 362,761            | 355,187   | 997,215           | 985,103     |
| Selling and administrative expenses                            | 322,740            | 314,698   | 947,199           | 925,603     |
| Goodwill impairment  | 182,211            | —         | 182,211           | —           |
| Asset impairments and other, net                               | 1,446              | 589       | 1,623             | (3,799 )    |
| Earnings (loss) from operations                                | (152,399 )         | 40,348    | (151,615 )        | 78,265      |
| Gain on sale of Lids Team Sports                               | —                  | —         | —                 | (2,485 )    |
| Interest expense, net:   |                    |           |                   |             |
| Interest expense   | 1,454              | 1,489     | 3,883             | 3,968       |
| Interest income  | 3                  | (1 )      | —                 | (37 )       |
| Total interest expense, net                                    | 1,457              | 1,488     | 3,883             | 3,931       |
| Earnings (loss) from continuing operations before income taxes | (153,856 )         | 38,860    | (155,498 )        | 76,819      |
| Income tax expense   | 10,950             | 12,912    | 12,186            | 25,803      |
| Earnings (loss) from continuing operations                     | (164,806 )         | 25,948    | (167,684 )        | 51,016      |
| Provision for discontinued operations, net                     | (15 )              | (53 )     | (200 )            | (133 )      |
| Net Earnings (Loss)  | \$(164,821)        | \$25,895  | \$(167,884 )      | \$50,883    |
| Basic earnings (loss) per common share:                        |                    |           |                   |             |
| Continuing operations  | \$(8.55 )          | \$1.30    | \$(8.73 )         | \$2.51      |
| Discontinued operations  | (0.01 )            | 0.00      | (0.01 )           | 0.00        |
| Net earnings (loss)  | \$(8.56 )          | \$1.30    | \$(8.74 )         | \$2.51      |
| Diluted earnings (loss) per common share:                      |                    |           |                   |             |
| Continuing operations  | \$(8.55 )          | \$1.30    | \$(8.73 )         | \$2.50      |
| Discontinued operations  | (0.01 )            | 0.00      | (0.01 )           | (0.01 )     |
| Net earnings (loss)  | \$(8.56 )          | \$1.30    | \$(8.74 )         | \$2.49      |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income  
(In Thousands)

|  | Three Months Ended  |                        | Nine Months Ended   |                        |
|--|---------------------|------------------------|---------------------|------------------------|
|  | October<br>28, 2017 | October<br>29,<br>2016 | October<br>28, 2017 | October<br>29,<br>2016 |
| Net earnings (loss)  | \$(164,821)         | \$25,895               | \$(167,884)         | \$50,883               |
| Other comprehensive income (loss):   |                     |                        |                     |                        |
| Pension liability adjustments, net of tax of \$0.1 and \$0.0 million for the three months ended October 28, 2017 and October 29, 2016, respectively, and \$0.2 million for each of the nine months ended October 28, 2017 and October 29, 2016 | 125                 | 119                    | 383                 | 375                    |
| Postretirement liability adjustments, net of tax of \$0.0 million for both the three and nine months ended October 28, 2017 and October 29, 2016   | 21                  | 15                     | 64                  | 45                     |
| Foreign currency translation adjustments   | (1,358 )            | (11,289 )              | 6,827               | (16,067 )              |
| Total other comprehensive income (loss)  | (1,212 )            | (11,155 )              | 7,274               | (15,647 )              |
| Comprehensive income (loss)  | \$(166,033)         | \$14,740               | \$(160,610)         | \$35,236               |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(In Thousands)

|  | Three Months Ended  |                        | Nine Months Ended   |                        |
|--|---------------------|------------------------|---------------------|------------------------|
|  | October<br>28, 2017 | October<br>29,<br>2016 | October<br>28, 2017 | October<br>29,<br>2016 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                        |                     |                        |
| Net earnings (loss)  | \$(164,821)         | \$25,895               | \$(167,884)         | \$50,883               |
| Adjustments to reconcile net earnings (loss) to net cash<br>(used in) provided by operating activities:  |                     |                        |                     |                        |
| Depreciation and amortization  | 18,984              | 18,596                 | 57,530              | 56,519                 |
| Amortization of deferred note expense and debt discount  | 180                 | 207                    | 565                 | 633                    |
| Deferred income taxes  | (29,629 )           | 12,284                 | (28,347 )           | 13,893                 |
| Provision on accounts receivable   | 84                  | 14                     | 243                 | 261                    |
| Gain on sale of business   | —                   | —                      | —                   | (2,485 )               |
| Impairment of goodwill   | 182,211             | —                      | 182,211             | —                      |
| Impairment of long-lived assets  | 510                 | 579                    | 687                 | 5,032                  |
| Restricted stock expense   | 3,406               | 3,379                  | 10,141              | 10,032                 |
| Provision for discontinued operations  | 25                  | 86                     | 328                 | 218                    |
| Other  | 1,494               | 381                    | 1,838               | 1,458                  |
| Effect on cash from changes in working capital and other<br>assets and liabilities, net of acquisitions: |                     |                        |                     |                        |
| Accounts receivable  | (13,463 )           | (9,090 )               | (10,657 )           | (8,673 )               |
| Inventories  | (29,775 )           | (62,179 )              | (131,220 )          | (196,353)              |
| Prepays and other current assets   | 9,614               | 3,069                  | (11,627 )           | (6,074 )               |
| Accounts payable   | 4,719               | (15,698 )              | 77,334              | 105,192                |
| Other accrued liabilities  | 25,924              | (10,817 )              | (496 )              | (31,110 )              |
| Other assets and liabilities   | 2,770               | (2,948 )               | 6,808               | (1,608 )               |
| Net cash provided by (used in) operating activities  | 12,233              | (36,242 )              | (12,546 )           | (2,182 )               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                        |                     |                        |
| Capital expenditures   | (36,727 )           | (24,817 )              | (104,063 )          | (65,520 )              |
| Acquisitions, net of cash acquired   | —                   | —                      | —                   | (22 )                  |
| Payments related to asset sales and sale of business   | —                   | 477                    | 238                 | (68 )                  |
| Net cash used in investing activities  | (36,727 )           | (24,340 )              | (103,825 )          | (65,610 )              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                     |                        |                     |                        |
| Payments of long-term debt   | (412 )              | —                      | (8,430 )            | (4,990 )               |
| Borrowings under revolving credit facility   | 114,696             | 191,048                | 439,683             | 261,042                |
| Payments on revolving credit facility  | (80,215 )           | (94,214 )              | (294,497 )          | (133,643)              |
| Share repurchases  | —                   | (39,835 )              | (17,878 )           | (143,923)              |
| Change in overdraft balances   | (2,558 )            | (4,079 )               | (1,931 )            | (9,839 )               |
| Exercise of stock options  | —                   | 445                    | —                   | 1,018                  |
| Other  | (143 )              | (2,842 )               | 1,071               | (3,125 )               |
| Net cash provided by (used in) financing activities  | 31,368              | 50,523                 | 118,018             | (33,460 )              |
| Effect of foreign exchange rate fluctuations on cash   | 346                 | (887 )                 | 792                 | (1,516 )               |
| Net Increase (Decrease) in Cash and Cash Equivalents   | 7,220               | (10,946 )              | 2,439               | (102,768)              |
| Cash and cash equivalents at beginning of period   | 43,520              | 41,466                 | 48,301              | 133,288                |
| Cash and cash equivalents at end of period   | \$50,740            | \$30,520               | \$50,740            | \$30,520               |



Supplemental Cash Flow Information:

Net cash paid for:

|              |         |       |         |         |
|--------------|---------|-------|---------|---------|
| Interest     | \$1,233 | \$591 | \$3,338 | \$2,475 |
| Income taxes | 3,442   | 282   | 27,586  | 34,817  |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

7

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Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Statements of Equity  
(In Thousands)

|   | Non-Redeemable Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Shares | Non Controlling Interest Non-Redeemable | Total Equity |
|---|--------------------------------|--------------|----------------------------|-------------------|--------------------------------------|-----------------|---|--------------|
| Balance January 30, 2016                                    | \$ 1,077                       | \$ 22,323    | \$ 224,004                 | \$ 768,222        | \$ (42,613 )                         | \$(17,857)      | \$ 1,627                                | \$ 956,783   |
| Net earnings  | —                              | —            | —                          | 97,431            | —                                    | —               | —                                       | 97,431       |
| Other comprehensive loss                                    | —                              | —            | —                          | —                 | (8,679 )                             | —               | —                                       | (8,679 )     |
| Exercise of stock options                                   | —                              | 27           | 991                        | —                 | —                                    | —               | —                                       | 1,018        |
| Employee and non-employee restricted stock                  | —                              | —            | 13,481                     | —                 | —                                    | —               | —                                       | 13,481       |
| Restricted stock issuance                                   | —                              | 236          | (236 )                     | —                 | —                                    | —               | —                                       | —            |
| Restricted shares withheld for taxes                        | —                              | (56 )        | 56                         | (3,435 )          | —                                    | —               | —                                       | (3,435 )     |
| Tax benefit of stock options and restricted stock exercised | —                              | —            | (657 )                     | —                 | —                                    | —               | —                                       | (657 )       |
| Shares repurchased  | —                              | (2,156 )     | —                          | (131,107 )        | —                                    | —               | —                                       | (133,263 )   |
| Other   | (17 )                          | (20 )        | 38                         | —                 | —                                    | —               | —                                       | 1            |
| Noncontrolling interest – loss                              | —                              | —            | —                          | —                 | —                                    | —               | (159 )                                  | (159 )       |
| Balance January 28, 2017                                    | 1,060                          | 20,354       | 237,677                    | 731,111           | (51,292 )                            | (17,857 )       | 1,468                                   | 922,521      |
| Net earnings (loss)   | —                              | —            | —                          | (167,884 )        | —                                    | —               | —                                       | (167,884 )   |
| Other comprehensive income                                  | —                              | —            | —                          | —                 | 7,274                                | —               | —                                       | 7,274        |
| Employee and non-employee restricted stock                  | —                              | —            | 10,141                     | —                 | —                                    | —               | —                                       | 10,141       |
| Restricted stock issuance                                   | —                              | 357          | (357 )                     | —                 | —                                    | —               | —                                       | —            |
| Restricted shares withheld for taxes                        | —                              | (51 )        | 51                         | (1,715 )          | —                                    | —               | —                                       | (1,715 )     |
| Shares repurchased  | —                              | (275 )       | —                          | (15,888 )         | —                                    | —               | —                                       | (16,163 )    |
| Other   | (8 )                           | 17           | (8 )                       | —                 | —                                    | —               | —                                       | 1            |
| Noncontrolling interest – earnings                          | —                              | —            | —                          | —                 | —                                    | —               | 225                                     | 225          |
| Balance October 28, 2017                                    | \$ 1,052                       | \$ 20,402    | \$ 247,504                 | \$ 545,624        | \$ (44,018 )                         | \$(17,857)      | \$ 1,693                                | \$ 754,400   |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.



Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies

Basis of Presentation

The Condensed Consolidated Financial Statements and Notes contained in this report are unaudited but reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 3, 2018 ("Fiscal 2018") and of the fiscal year ended January 28, 2017 ("Fiscal 2017"). The results of operations for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The Condensed Consolidated Balance Sheet as of January 28, 2017 has been derived from the audited financial statements at that date. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto for Fiscal 2017, which are contained in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on March 29, 2017.

Nature of Operations

Genesco Inc. and its subsidiaries (collectively, the "Company") business includes the sourcing and design, marketing and distribution of footwear and accessories through retail stores in the U.S., Puerto Rico and Canada primarily under the Journeys, Journeys Kidz, Shi by Journeys, Little Burgundy and Johnston & Murphy banners and under the Schuh banner in the United Kingdom, the Republic of Ireland and Germany; through catalogs and e-commerce websites including the following: [journeys.com](http://journeys.com), [journeyskidz.com](http://journeyskidz.com), [journeys.ca](http://journeys.ca), [shibyjournneys.com](http://shibyjournneys.com), [schuh.co.uk](http://schuh.co.uk), [littleburgundyshoes.com](http://littleburgundyshoes.com), [johnstonmurphy.com](http://johnstonmurphy.com) and [trask.com](http://trask.com), and at wholesale, primarily under the Company's Johnston & Murphy brand, the Trask brand, the licensed Dockers brand and other brands that the Company licenses for footwear. The Company's business also includes Lids Sports Group, which operates headwear and accessory stores in the U.S., Puerto Rico and Canada primarily under the Lids banner; the Lids Locker Room and Lids Clubhouse businesses, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating under various trade names; licensed team merchandise departments in Macy's department stores operated under the name Locker Room by Lids and on [macys.com](http://macys.com), under a license agreement with Macy's; certain e-commerce operations including [lids.com](http://lids.com), [lids.ca](http://lids.ca), [lidslockerroom.com](http://lidslockerroom.com) and [lidsclubhouse.com](http://lidsclubhouse.com). Including both the footwear businesses and the Lids Sports Group business, at October 28, 2017, the Company operated 2,727 retail stores and leased departments in the U.S., Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany. During the nine months ended October 28, 2017 and October 29, 2016, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Little Burgundy retail footwear chains, e-commerce and catalog operations; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised as described in the preceding paragraph; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce and catalog operations and wholesale distribution of products under the Johnston & Murphy<sup>®</sup> and H. S. Trask<sup>®</sup> brands; and (v) Licensed Brands, comprised of Dockers<sup>®</sup> Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip<sup>®</sup>Footwear, which was sold in

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1

Summary of Significant Accounting Policies, Continued

the fourth quarter of Fiscal 2017; G.H. Bass Footwear operated under a license from G-III Apparel Group, Ltd.; and other brands.

Principles of Consolidation

All subsidiaries are consolidated in the Condensed Consolidated Financial Statements. All significant intercompany transactions and accounts have been eliminated.

Financial Statement Reclassifications

Certain reclassifications have been made to conform prior years' data to the current year presentation with respect to fixed assets. In order to categorize the fixed assets of Schuh Group comparable to the Company's other business segments, \$44.0 million and \$42.0 million was reclassified from furniture and fixtures to leasehold improvements as of January 28, 2017 and October 29, 2016, respectively.

Cash and Cash Equivalents

The Company had total available cash and cash equivalents of \$50.7 million, \$48.3 million and \$30.5 million as of October 28, 2017, January 28, 2017 and October 29, 2016, respectively, of which approximately \$4.4 million, \$22.9 million and \$5.4 million was held by the Company's foreign subsidiaries as of October 28, 2017, January 28, 2017 and October 29, 2016, respectively. The Company's strategic plan does not require the repatriation of foreign cash in order to fund its operations in the U.S., and it is the Company's current intention to indefinitely reinvest its foreign cash and cash equivalents outside of the U.S. If the Company were to repatriate foreign cash to the U.S., it would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation. There were no cash equivalents included in cash and cash equivalents at October 28, 2017, January 28, 2017 and October 29, 2016. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less.

At October 28, 2017, substantially all of the Company's domestic cash was invested in deposit accounts at FDIC-insured banks. The majority of payments due from banks for domestic customer credit card transactions process within 24 - 48 hours and are accordingly classified as cash and cash equivalents in the Condensed Consolidated Balance Sheets.

At October 28, 2017, January 28, 2017 and October 29, 2016, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$34.7 million, \$36.7 million and \$35.2 million, respectively. These amounts are included in accounts payable in the Condensed Consolidated Balance Sheets.

Concentration of Credit Risk and Allowances on Accounts Receivable

The Company's footwear wholesale businesses sell primarily to department stores and independent retailers across the United States. Receivables arising from these sales are not collateralized. Customer credit risk is affected by conditions or occurrences within the economy and the retail industry as well as by customer specific factors. In the footwear wholesale businesses, one customer accounted for 17%, one customer accounted for 8% and two customers each accounted for 7% of the Company's total trade receivables balance, while no other customer accounted for more than 7% of the Company's total trade receivables balance as of October 28, 2017.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies, Continued

Leases

The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of \$28.6 million, \$25.4 million and \$24.4 million at October 28, 2017, January 28, 2017 and October 29, 2016, respectively, and deferred rent of \$57.0 million, \$51.9 million and \$50.5 million, each at October 28, 2017, January 28, 2017 and October 29, 2016, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

The Condensed Consolidated Balance Sheets include asset retirement obligations related to leases of \$10.9 million, \$10.3 million and \$10.0 million as of October 28, 2017, January 28, 2017 and October 29, 2016, respectively.

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at October 28, 2017 and January 28, 2017 are as follows:

Fair Values

| In thousands                    | October 28, 2017 |            | January 28, 2017 |            |
|---------------------------------|------------------|------------|------------------|------------|
|                                 | Carrying Amount  | Fair Value | Carrying Amount  | Fair Value |
| U.S. Credit Facility Borrowings | \$ 195,340       | \$ 195,902 | \$ 49,879        | \$ 50,396  |
| UK Term Loans                   | 11,406           | 11,632     | 19,230           | 19,541     |
| UK Revolver Borrowings          | 16,833           | 17,055     | 13,796           | 13,956     |

Debt fair values were estimated using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments and would be classified in Level 2 as defined in Note 5.

Carrying amounts reported on the Condensed Consolidated Balance Sheets for cash, cash equivalents, receivables and accounts payable approximate fair value due to the short-term maturity of these instruments.

Selling and Administrative Expenses

Selling and administrative expenses include all operating costs of the Company excluding (i) those related to the transportation of products from the supplier to the warehouse, (ii) for its retail operations, those related to the transportation of products from the warehouse to the store and (iii) costs of its distribution facilities which are allocated to its retail operations. Wholesale costs of distribution are included in selling and administrative expenses on the Condensed Consolidated Statements of Operations in the amount of \$1.4 million and \$1.6 million for the third quarters of Fiscal 2018 and Fiscal 2017, respectively, and \$4.2 million and \$4.6 million for the first nine months of Fiscal 2018 and 2017, respectively.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies, Continued

Gift Cards

Gift card breakage is recognized in revenues each period for which financial statements are updated. Gift card breakage recognized as revenue was \$0.5 million and \$0.3 million for the third quarter of Fiscal 2018 and Fiscal 2017, respectively, and \$0.9 million and \$0.6 million for the first nine months of Fiscal 2018 and 2017, respectively. The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of \$14.9 million, \$17.7 million and \$14.5 million at October 28, 2017, January 28, 2017 and October 29, 2016, respectively.

Buying, Merchandising and Occupancy Costs

The Company records buying, merchandising and occupancy costs in selling and administrative expense on the Condensed Consolidated Statements of Operations. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Retail store occupancy costs recorded in selling and administrative expense were \$115.7 million and \$113.3 million for the third quarters of Fiscal 2018 and Fiscal 2017, respectively, and \$343.1 million and \$336.7 million for the first nine months of Fiscal 2018 and 2017, respectively.

Advertising Costs

Advertising costs are predominantly expensed as incurred. Advertising costs were \$20.3 million and \$18.2 million for the third quarters of Fiscal 2018 and Fiscal 2017, respectively, and \$56.8 million and \$50.6 million for the first nine months of Fiscal 2018 and 2017, respectively. Direct response advertising costs for catalogs are capitalized in accordance with the Other Assets and Deferred Costs Topic for Capitalized Advertising Costs of the Codification. Such costs are amortized over the estimated future period as revenues are realized from such advertising, not to exceed six months. The Condensed Consolidated Balance Sheets include prepaid assets for direct response advertising costs of \$5.1 million, \$1.2 million and \$3.7 million at October 28, 2017, January 28, 2017 and October 29, 2016, respectively.

Cooperative Advertising

Cooperative advertising costs recognized in selling and administrative expenses on the Condensed Consolidated Statements of Operations were \$1.0 million for each of the third quarters of Fiscal 2018 and Fiscal 2017, and \$2.8 million and \$2.7 million for the first nine months of Fiscal 2018 and 2017, respectively. During the first nine months of Fiscal 2018 and Fiscal 2017, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

Vendor Allowances

Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were \$3.1 million and \$3.0 million for the third quarters of Fiscal 2018 and Fiscal 2017, respectively, and \$7.5 million and \$5.7 million for the first nine months of Fiscal 2018 and 2017, respectively. During the first nine months of Fiscal 2018 and Fiscal 2017, the Company's cooperative advertising reimbursements received were not in excess of the costs incurred.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies, Continued

Foreign Currency Translation

The functional currency of the Company's foreign operations is the applicable local currency. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date. Income and expense accounts are translated at monthly average exchange rates. The unearned gains and losses resulting from such translation are included as a separate component of accumulated other comprehensive loss within shareholders' equity. Gains and losses from certain foreign currency transactions are reported as an item of income and resulted in a net gain of \$(0.1) million and a net loss of \$0.4 million for the third quarter and first nine months of Fiscal 2018, respectively, and a net gain of \$(0.4) million and \$(1.9) million for the third quarter and first nine months of Fiscal 2017, respectively.

Other Comprehensive Income

The Comprehensive Income Topic of the Codification requires, among other things, the Company's pension liability adjustment, postretirement liability adjustment and foreign currency translation adjustments to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at October 28, 2017 consisted of \$9.0 million of cumulative pension liability adjustments, net of tax, a cumulative post-retirement liability adjustment of \$1.5 million, net of tax, and a cumulative foreign currency translation adjustment of \$33.5 million.

The following table summarizes the components of accumulated other comprehensive loss for the nine months ended October 28, 2017:

|   | Foreign<br>Currency<br>Translation | Unrecognized<br>Pension/Postretirement<br>Benefit Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|------------------------------------|---|---|
| (In thousands)  |                                    |   |   |
| Balance January 28, 2017  | \$ (40,329 )                       | \$ (10,963 )  | \$ (51,292 )  |
| Other comprehensive income (loss) before reclassifications:                         |                                    |   |   |
| Foreign currency translation adjustment   | 6,352                              | —   | 6,352   |
| Gain on intra-entity foreign currency transactions<br>(long-term investment nature) | 475                                | —   | 475   |
| Amounts reclassified from AOCI:   |                                    |   |   |
| Amortization of net actuarial loss (1)  | —                                  | 732   | 732   |
| Income tax expense  | —                                  | 285   | 285   |
| Current period other comprehensive income, net of tax                               | 6,827                              | 447   | 7,274   |
| Balance October 28, 2017  | \$ (33,502 )                       | \$ (10,516 )  | \$ (44,018 )  |

(1) Amount is included in net periodic benefit cost, which is recorded in selling and administrative expense on the Condensed Consolidated Statements of Operations.





Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies, Continued

Income Taxes

The Company recorded an effective income tax rate of (7.1)% and 33.2% in the third quarter of Fiscal 2018 and 2017, respectively, and (7.8)% and 33.6% for the first nine months of Fiscal 2018 and 2017, respectively. The tax rate for the third quarter and first nine months of Fiscal 2018 was impacted by the non-deductibility of \$107.6 million of the \$182.2 million of goodwill impairment charge in the third quarter of Fiscal 2018. In addition, the tax rate for the nine months of Fiscal

2018 was impacted by \$2.2 million of tax expense due to the impact of ASU 2016-09 related to the vesting of stock grants. The tax rate for the first nine months of Fiscal 2018 was favorably impacted by a \$0.5 million return to provision adjustment. The tax rate for the third quarter and first nine months of Fiscal 2017 was favorably impacted reflecting the release of tax reserves and other items.

New Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies the measurement of goodwill by eliminating the second step from the goodwill impairment test, which requires the comparison of the implied fair value of goodwill with the current carrying amount of goodwill. Instead, under the amendments in this guidance, an entity shall perform a goodwill impairment test

by comparing the fair value of each reporting unit with its carrying amount and an impairment charge is to be recorded for the amount, if any, in which the carrying value exceeds the reporting unit's fair value. This guidance should be applied prospectively and is effective for public business

entities that are United States Securities and Exchange Commission filers for fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company adopted ASU 2017-04 in the first quarter of Fiscal 2018, and the Company measured goodwill impairment in the third quarter of Fiscal 2018 under the provisions of ASC 350, "Intangibles - Goodwill and Other" ("ASC 350").

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The update addresses several aspects of the accounting for share-based compensation transactions including: (a) income tax consequences when awards vest or are settled, (b) classification of awards as either equity or liabilities, (c) a policy election to account for forfeitures as they occur rather than on an estimated basis and (d) classification of excess tax impacts on the statement of cash flows. The inclusion of excess tax benefits and deficiencies as a component of the Company's income tax expense will increase volatility within its provision for income taxes as the amount of excess tax benefits or deficiencies from share-based compensation awards is dependent on the Company's stock price at the date the awards are exercised or settled which is primarily in the second quarter of each fiscal year. The Company adopted ASU 2016-09 in the first quarter of Fiscal 2018. Earnings per share decreased \$0.11 per share for the nine months ended October 28, 2017 due to the impact of ASU 2016-09. The Company reclassified \$3.4 million from operating activities to financing activities on the Condensed Consolidated Statements of Cash Flows for nine months ended October 29, 2016 representing the value of the shares withheld for taxes on the vesting of restricted stock.



Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies, Continued

If the Company had adopted the standard in Fiscal 2017, reported earnings per share would have decreased \$0.03 per share for Fiscal 2017.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The Company adopted ASU 2015-17 in the first quarter of Fiscal 2018 under the retrospective approach and, as such, the Company reclassified \$21.2 million and \$23.9 million of deferred taxes from current to noncurrent on its Consolidated Balance Sheets as of January 28, 2017 and October 29, 2016, respectively.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." ASU 2015-11 requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. The Company adopted ASU 2015-11 in the first quarter of Fiscal 2018 and it did not have a material impact on its Consolidated Financial Statements and related disclosures.

New Accounting Pronouncements Not Yet Adopted

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715)". The standard requires the sponsors of benefit plans to present service cost in the same line item or items as other current employee compensation costs, and present the remaining components of net benefit cost in one or more separate line items outside of income from operations, while also limiting the components of net benefit cost eligible to be capitalized to service cost. The standard will require the Company to present the non-service pension costs as a component of expense below operating income. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases". The standard's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, which would be the beginning of our Fiscal 2020 or February 2019. Early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its Consolidated Financial Statements and related disclosures and is expecting a material impact because the Company is party to a significant number of lease contracts.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and merges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies, Continued

of revenues and cash flows from contracts with customers. ASU 2014-09 was originally effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, however, in August 2015, the FASB deferred this ASU for one year, which would be the beginning of our Fiscal 2019, or February 2018. The amendment is to be applied either retrospectively to each prior reporting period presented or with the cumulative effect recognized at the date of initial adoption as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets on the balance sheet). Based on an evaluation of the standard as a whole, the Company has identified timing of catalog costs and timing of gift card breakage as the areas that will most likely be affected by the new revenue recognition guidance. The Company is continuing to assess all the impacts of the new standard and the design of internal control over financial reporting; however, based upon the materiality of the transactions that are impacted by the standard, adoption is not expected to have a material impact on its Condensed Consolidated Financial Statements and related disclosures. The Company expects to adopt this guidance in the first quarter of Fiscal 2019 using the modified retrospective approach.

Note 2  
Goodwill, Other Intangible Assets and Sale of Business

Goodwill

The changes in the carrying amount of goodwill by segment were as follows:

| (In Thousands)                            | Lids<br>Sports<br>Group | Schuh<br>Group | Journeys<br>Group | Total<br>Goodwill |
|---|-------------------------|----------------|-------------------|-------------------|
| Balance, January 28, 2017                 | \$181,628               | \$79,769       | \$9,825           | \$271,222         |
| Impairment charge                         | (182,211)               | —              | —                 | (182,211)         |
| Effect of foreign currency exchange rates | 583                     | 3,666          | 180               | \$4,429           |
| Balance, October 28, 2017                 | \$—                     | \$83,435       | 10,005            | \$93,440          |

As required under ASC 350, the Company annually assesses its goodwill and indefinite lived trade names for impairment and on an interim basis if indicators of impairment are present. The Company's annual assessment date of goodwill and indefinite lived trade names is the first day of the fourth quarter.

During the third quarter of Fiscal 2018, the Company identified qualitative indicators of impairment, including a significant decline in the Company's stock price and market capitalization for a sustained period since the last consideration of indicators of impairment in the second quarter of Fiscal 2018, underperformance relative to projected operating results, particularly in the Lids Sports Group reporting unit, and an increased competitive environment in the licensed sports business.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 2

Goodwill, Other Intangible Assets and Sale of Business, Continued

In accordance with ASC 350, when indicators of impairment are present on an interim basis, the Company must assess whether it is “more likely than not” (i.e., a greater than 50% chance) that an impairment has occurred. In our Fiscal 2017 annual evaluation of goodwill, the Company determined that the fair value of the Lids Sports Group and Schuh Group reporting units exceeded the carrying value of the reporting units’ assets by approximately 15% and 28%, respectively. Due to the identified indicators of impairment during the the third quarter of Fiscal 2018, the Company determined that it was "more likely than not" that an impairment had occurred and performed a full valuation of its reporting units as required under ASC 350 and reconciled the aggregate fair values of the individual reporting units to the Company’s market capitalization.

Based upon the results of these analyses, the Company concluded the goodwill attributed to Lids Sports Group was fully impaired. As a result, the Company recorded a non-cash impairment charge of \$182.2 million in the third quarter of Fiscal 2018.

In addition, as a result of the factors noted above, the Company evaluated the fair value of its trademarks during the third quarter of Fiscal 2018. The fair value of trademarks was determined based on the royalty savings approach. This analysis did not result in any trademark impairment.

Other Intangibles

Other intangibles by major classes were as follows:

| (In Thousands)           | Leases           |                  | Customer Lists      |                     | Other*              |                     | Total            |                  |
|--------------------------|------------------|------------------|---------------------|---------------------|---------------------|---------------------|------------------|------------------|
|                          | Oct. 28,<br>2017 | Jan. 28,<br>2017 | Oct.<br>28,<br>2017 | Jan.<br>28,<br>2017 | Oct.<br>28,<br>2017 | Jan.<br>28,<br>2017 | Oct. 28,<br>2017 | Jan. 28,<br>2017 |
| Gross other intangibles  | \$14,750         | \$14,625         | \$2,020             | \$1,958             | \$2,048             | \$2,009             | \$18,818         | \$18,592         |
| Accumulated amortization | (13,406)         | (12,938)         | (2,020)             | (1,956)             | (1,502)             | (1,306)             | (16,928)         | (16,200)         |
| Net Other Intangibles    | \$1,344          | \$1,687          | \$—                 | \$2                 | \$546               | \$703               | \$1,890          | \$2,392          |

\*Includes non-compete agreements, vendor contract and backlog.

The amortization of intangibles, including trademarks, was \$0.1 million and \$0.3 million for the third quarters of Fiscal 2018 and 2017, respectively, and \$0.2 million and \$0.8 million for the first nine months of Fiscal 2018 and 2017, respectively. The amortization of intangibles, including trademarks, is expected to be \$0.2 million, \$0.1 million, \$0.0 million, \$0.0 million and \$0.0 million for Fiscal 2018, 2019, 2020, 2021 and 2022, respectively.

Sale of Business

The Company recognized a pretax gain of \$2.5 million during the second quarter of Fiscal 2017 on the sale of Lids Team Sports related to final working capital adjustments.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 3  
Asset Impairments and Other Charges and Discontinued Operations

Asset Impairments and Other Charges

In accordance with Company policy, assets are determined to be impaired when the revised estimated future cash flows are insufficient to recover the carrying costs. Impairment charges represent the excess of the carrying value over the fair value of those assets.

Asset impairment charges are reflected as a reduction of the net carrying value of property and equipment in the accompanying Condensed Consolidated Balance Sheets, and in asset impairments and other, net in the accompanying Condensed Consolidated Statements of Operations.

The Company recorded pretax charges of \$1.4 million in the third quarter of Fiscal 2018, including \$0.9 million for losses related to Hurricane Maria and \$0.5 million for retail store asset impairments. The Company recorded pretax charges of \$1.6 million in the first nine months of Fiscal 2018, including \$0.9 million for losses related to Hurricane Maria and \$0.7 million for retail store asset impairments.

The Company recorded pretax charges of \$0.6 million in the third quarter of Fiscal 2017 for retail store asset impairments. The Company recorded a pretax gain of \$(3.8) million in the first nine months of Fiscal 2017, including an \$(8.9) million gain for network intrusion expenses related to a litigation settlement (see Note 8), partially offset by a \$5.0 million charge for retail store asset impairments and \$0.1 million for other legal matters.

Discontinued Operations

Accrued Provision for Discontinued Operations

| In thousands   | Facility<br>Shutdown<br>Costs |
|--|-------------------------------|
| Balance January 30, 2016                               | \$ 15,619                     |
| Additional provision Fiscal 2017                       | 701                           |
| Charges and adjustments, net                           | (11,277 )                     |
| Balance January 28, 2017                               | 5,043                         |
| Additional provision Fiscal 2018                       | 328                           |
| Charges and adjustments, net                           | (1,842 )                      |
| Balance October 28, 2017*                              | 3,529                         |
| Current provision for discontinued operations          | 1,822                         |
| Total Noncurrent Provision for Discontinued Operations | \$ 1,707                      |

\*Includes a \$2.9 million environmental provision, including \$1.8 million in current provision for discontinued operations.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 4  
Inventories

| In thousands             | October<br>28, 2017 | January<br>28, 2017 |
|--------------------------|---------------------|---------------------|
| Raw materials            | \$—                 | \$389               |
| Wholesale finished goods | 40,095              | 61,575              |
| Retail merchandise       | 657,854             | 501,713             |
| Total Inventories        | \$697,949           | \$563,677           |

Note 5  
Fair Value

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles and expands disclosures about fair value measurements. This Topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table presents the Company's assets and liabilities measured at fair value on a nonrecurring basis as of October 28, 2017 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

|                                 | Long-Lived<br>Assets<br>Held and<br>Used | Level<br>1 | Level<br>2 | Level<br>3 | Total<br>Losses |
|---------------------------------|--|------------|------------|------------|-----------------|
| Measured as of April 29, 2017   | \$ 14                                    | \$ —       | —          | —          | \$ 14           |
| Measured as of July 29, 2017    | —  | —          | —          | —          | 58              |
| Measured as of October 28, 2017 | 251                                      | —          | —          | 251        | \$ 510          |
| Sub-total asset impairment YTD  |  |            |            |            | \$ 687          |





Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 5  
Fair Value, Continued

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded \$0.5 million and \$0.7 million of impairment charges as a result of the fair value measurement of its long-lived assets held and used during the three and nine months ended October 28, 2017, respectively. These charges are reflected in asset impairments and other, net on the Condensed Consolidated Statements of Operations.

The Company used a discounted cash flow model to estimate the fair value of these long-lived assets. Discount rate and growth rate assumptions are derived from current economic conditions, expectations of management and projected trends of current operating results. As a result, the Company has determined that the majority of the inputs used to value its long-lived assets held and used are unobservable inputs that fall within Level 3 of the fair value hierarchy.

Note 6  
Defined Benefit Pension Plans and Other Benefit Plans

Components of Net Periodic Benefit Cost

|                                  | Pension Benefits   |                    | Other Benefits     |                    |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                  | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended |
|                                  | October 28, 2017   | October 29, 2016   | October 28, 2017   | October 29, 2016   |
| In thousands                     |                    |                    |                    |                    |
| Service cost                     | \$137              | \$137              | \$232              | \$166              |
| Interest cost                    | 818                | 1,028              | 89                 | 67                 |
| Expected return on plan assets   | (1,125)            | (1,410)            | —                  | —                  |
| Amortization:                    |                    |                    |                    |                    |
| Losses                           | 206                | 195                | 33                 | 23                 |
| Net amortization                 | 206                | 195                | 33                 | 23                 |
| Net Periodic Benefit Cost (Gain) | \$36               | \$(50)             | \$354              | \$256              |

Components of Net Periodic Benefit Cost

|               | Pension Benefits  |                   | Other Benefits    |                   |
|---------------|-------------------|-------------------|-------------------|-------------------|
|               | Nine Months Ended | Nine Months Ended | Nine Months Ended | Nine Months Ended |
|               | October 28, 2017  | October 29, 2016  | October 28, 2017  | October 29, 2016  |
| In thousands  |                   |                   |                   |                   |
| Service cost  | \$412             | \$412             | \$672             | \$496             |
| Interest cost | 2,460             | 3,090             | 264               | 199               |

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|                                  |         |           |          |        |
|----------------------------------|---------|-----------|----------|--------|
| Expected return on plan assets   | (3,380) | (4,232)   | —        | —      |
| Amortization:                    |         |           |          |        |
| Losses                           | 628     | 616       | 105      | 73     |
| Net amortization                 | 628     | 616       | 105      | 73     |
| Net Periodic Benefit Cost (Gain) | \$ 120  | \$ (114 ) | \$ 1,041 | \$ 768 |

There is no cash contribution required for the pension plan in calendar 2017.

20

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Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 7  
Earnings Per Share

| (In thousands, except<br>per share amounts)                                   | For the Three Months Ended<br>October 28, 2017 |                         |                        | For the Three Months Ended<br>October 29, 2016 |                         |                        |
|---|--|-------------------------|------------------------|--|-------------------------|------------------------|
|   | Income<br>(Numerator)                          | Shares<br>(Denominator) | Per<br>Share<br>Amount | Income<br>(Numerator)                          | Shares<br>(Denominator) | Per<br>Share<br>Amount |
| Earnings (loss) from continuing operations                                    | \$ (164,806)                                   |                         |                        | \$ 25,948                                      |                         |                        |
| Basic EPS from continuing operations  |  |                         |                        |  |                         |                        |
| Income (loss) available to<br>common shareholders                             | (164,806)                                      | 19,265                  | \$ (8.55)              | 25,948   | 19,912                  | \$ 1.30                |
| Effect of Dilutive Securities from<br>continuing operations                   |  |                         |                        |  |                         |                        |
| Dilutive share-based awards <sup>(1)</sup>                                    |  | —                       |                        | 12   |                         |                        |
| Employees' preferred stock <sup>(2)</sup>                                     |  | —                       |                        | 38   |                         |                        |
| Diluted EPS from continuing operations  |  |                         |                        |  |                         |                        |
| Income (loss) available to<br>common shareholders plus<br>assumed conversions | \$ (164,806)                                   | 19,265                  | \$ (8.55)              | \$ 25,948                                      | 19,962                  | \$ 1.30                |

(1) Due to the loss from continuing operations, restricted share-based awards are excluded from the diluted earnings per share calculation for the third quarter ended October 28, 2017.

(2) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Due to the loss from continuing operations, these shares are not assumed to be converted for the third quarter ended October 28, 2017. Because no dividends are paid on this stock, these shares are assumed to be converted in the diluted earnings per share calculation for the third quarter ended October 29, 2016.



Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 7  
Earnings Per Share, Continued

| (In thousands, except<br>per share amounts)                                   | For the Nine Months Ended<br>October 28, 2017 |                         |                        | For the Nine Months Ended<br>October 29, 2016 |                         |                        |
|---|---|-------------------------|------------------------|---|-------------------------|------------------------|
|   | Income<br>(Numerator)                         | Shares<br>(Denominator) | Per<br>Share<br>Amount | Income<br>(Numerator)                         | Shares<br>(Denominator) | Per<br>Share<br>Amount |
| Earnings (loss) from continuing operations                                    | \$ (167,684)                                  |                         |                        | \$ 51,016                                     |                         |                        |
| Basic EPS from continuing operations  |   |                         |                        |   |                         |                        |
| Income (loss) available to<br>common shareholders                             | (167,684 )                                    | 19,202                  | \$ (8.73 )             | 51,016  | 20,307                  | \$ 2.51                |
| Effect of Dilutive Securities from<br>continuing operations                   |   |                         |                        |   |                         |                        |
| Dilutive share-based awards <sup>(1)</sup>                                    |   | —                       |                        | 54  |                         |                        |
| Employees' preferred stock <sup>(2)</sup>                                     |   | —                       |                        | 38  |                         |                        |
| Diluted EPS from continuing operations  |   |                         |                        |   |                         |                        |
| Income (loss) available to<br>common shareholders plus<br>assumed conversions | \$ (167,684 )                                 | 19,202                  | \$ (8.73 )             | \$ 51,016                                     | 20,399                  | \$ 2.50                |

(1) Due to the loss from continuing operations, restricted share-based awards are excluded from the diluted earnings per share calculation for the nine months ended October 28, 2017.

(2) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Due to the loss from continuing operations, these shares are not assumed to be converted for the nine months ended October 28, 2017. Because no dividends are paid on this stock, these shares are assumed to be converted in the diluted earnings per share calculation for the nine months ended October 29, 2016.

The weighted shares outstanding reflects the effect of the Company's Board-approved share repurchase program. The Company did not repurchase any shares of common stock during the three months ended October 28, 2017 and repurchased 275,300 shares of common stock during the nine months ended October 28, 2017 for \$16.2 million. The Company has \$24.0 million remaining under its current \$100.0 million share repurchase authorization. The Company repurchased 746,864 shares of common stock during the three months ended October 29, 2016 for \$39.8 million and repurchased 2,155,869 shares of common stock during the nine months ended October 29, 2016 for \$133.3 million.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 8  
Legal Proceedings

Environmental Matters

New York State Environmental Matters

In August 1997, the New York State Department of Environmental Conservation (“NYSDEC”) and the Company entered into a consent order whereby the Company assumed responsibility for conducting a remedial investigation and feasibility study (“RIFS”) and implementing an interim remedial measure (“IRM”) with regard to the site of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969. The United States Environmental Protection Agency (“EPA”), which assumed primary regulatory responsibility for the site from NYSDEC, issued a Record of Decision in September 2007. The Record of Decision specified a remedy of a combination of groundwater extraction and treatment and in-situ chemical oxidation.

In September 2015, the EPA adopted an amendment to the Record of Decision eliminating the separate ground-water extraction and treatment systems and the use of in-situ oxidation from the remedy adopted in the Record of Decision. The amendment provides for the continued operation and maintenance of the existing wellhead treatment systems on wells operated by the Village of Garden City, New York (the “Village”). It also requires the Company to perform certain ongoing monitoring, operation and maintenance activities and to reimburse EPA's future oversight cost, involving future costs to the Company estimated at \$1.7 million to \$2.0 million, and to reimburse EPA for approximately \$1.25 million of interim oversight costs. On August 15, 2016, the Court entered a Consent Judgment implementing the remedy provided for by the amendment.

The Village additionally asserted that the Company is liable for the costs associated with enhanced treatment required by the impact of the groundwater plume from the site on two public water supply wells, including historical total costs ranging from approximately \$1.8 million to in excess of \$2.5 million, and future operation and maintenance costs which the Village estimated at \$126,400 annually while the enhanced treatment continues. On December 14, 2007, the Village filed a complaint (the “Village Lawsuit”) against the Company and the owner of the property under the Resource Conservation and Recovery Act (“RCRA”), the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) as well as a number of state law theories in the U.S. District Court for the Eastern District of New York, seeking an injunction requiring the defendants to remediate contamination from the site and to establish their liability for future costs that may be incurred in connection with it.

In June 2016, the Company and the Village reached an agreement providing for the Village to continue to operate and maintain the well head treatment systems in accordance with the Record of Decision and to release its claims against the Company asserted in the Village Lawsuit in exchange for a lump-sum payment of \$10.0 million by the Company. On August 25, 2016, the Village Lawsuit was dismissed with prejudice. The cost of the settlement with the Village and the estimated costs associated with the Company's compliance with the Consent Judgment were covered by the Company's existing provision for the site. The settlement with the Village did not have, and the Company expects that the Consent Judgment will not have, a material effect on its financial condition or results of operations.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 8  
Legal Proceedings, Continued

In April 2015, the Company received from EPA a Notice of Potential Liability and Demand for Costs pursuant to CERCLA regarding the site in Gloversville, New York of a former leather tannery operated by the Company and by other, unrelated parties. The Notice demanded payment of approximately \$2.2 million of response costs claimed by EPA to have been incurred to conduct assessments and removal activities at the site. In February 2017, the Company and EPA entered into a settlement agreement resolving EPA's claim for past response costs in exchange for a payment by the Company of \$1.5 million which was paid in May 2017. The Company's environmental insurance carrier reimbursed the Company for 75% of the settlement amount, subject to a \$500,000 self-insured retention. The Company does not expect that the matter will have a material effect on its financial condition or results of operations.

Whitehall Environmental Matters

The Company has performed sampling and analysis of soil, sediments, surface water, groundwater and waste management areas at the Company's former Volunteer Leather Company facility in Whitehall, Michigan.

In October 2010, the Company and the Michigan Department of Natural Resources and Environment entered into a Consent Decree providing for implementation of a remedial Work Plan for the facility site designed to bring the site into compliance with applicable regulatory standards. The Work Plan's implementation is substantially complete and the Company expects, based on its present understanding of the condition of the site, that its future obligations with respect to the site will be limited to periodic monitoring and that future costs related to the site should not have a material effect on its financial condition or results of operations.

Accrual for Environmental Contingencies

Related to all outstanding environmental contingencies, the Company had accrued \$2.9 million as of October 28, 2017, \$4.4 million as of January 28, 2017 and \$3.9 million as of October 29, 2016. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. The Company paid \$10.0 million of the accrued total at July 30, 2016 in August 2016. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets because it relates to former facilities operated by the Company. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.1 million reflected in each of the third quarters of Fiscal 2018 and 2017, and \$0.4 million and \$0.2 million reflected in the first nine months of Fiscal 2018 and 2017, respectively. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations and represent changes in estimates.



Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 8  
Legal Proceedings, Continued

Other Matters

On February 22, 2017, a former employee of a subsidiary of the Company filed a putative class and collective action, *Shumate v. Genesco, Inc., et al.*, in the U.S District Court for the Southern District of Ohio, alleging violations of the federal Fair Labor Standards Act ("FLSA") and Ohio wages and hours law including failure to pay minimum wages and overtime to the subsidiary's store managers and seeking back pay, damages, penalties, and declaratory and injunctive relief. On April 21, 2017, a former employee of the same subsidiary filed a putative class and collective action, *Ward v. Hat World, Inc.*, in the Superior Court for the State of Washington, alleging violations of the FLSA and Washington wages and hours laws, including, among others, failure to pay overtime to certain loss prevention investigators, and seeking back pay, damages, attorneys' fees and other relief. The Company has removed the action to U.S. District Court. On May 19, 2017, two former employees of the same subsidiary filed a putative class and collective action, *Chen and Salas v. Genesco Inc., et al.*, in the U.S. District Court for the Northern District of Illinois alleging violations of the FLSA and Illinois and New York wages and hours laws, including, among others, failure to pay overtime to store managers, and also seeking back pay, damages, statutory penalties, and declaratory and injunctive relief. The Company disputes the material allegations in these complaints and intends to defend the matters.

On April 30, 2015, an employee of the same subsidiary filed an action, *Stewart v. Hat World, Inc., et al.*, under the California Labor Code Private Attorneys General Act on behalf of herself, the State of California, and other non-exempt, hourly-paid employees of the subsidiary in California, seeking unspecified damages and penalties for various alleged violations of the California Labor Code, including failure to pay for all hours worked, minimum wage and overtime violations, failure to provide required meal and rest periods, failure to timely pay wages, failure to provide complete and accurate wage statements, and failure to provide full reimbursement of business-related costs and expenses incurred in the course of employment. The Company disputes the material allegations in the complaint and intends to defend the matter.

In addition to the matters specifically described in this Note, the Company is a party to other legal and regulatory proceedings and claims arising in the ordinary course of its business. While management does not believe that the Company's liability with respect to any of these other matters is likely to have a material effect on its financial statements, legal proceedings are subject to inherent uncertainties and unfavorable rulings could have a material adverse impact on the Company's financial statements.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 9  
Business Segment Information

During the nine months ended October 28, 2017 and October 29, 2016, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Little Burgundy retail footwear chains, e-commerce and catalog operations; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised primarily of the Lids retail headwear stores, the Lids Locker Room and Lids Clubhouse fan shops (operated under various trade names), licensed team merchandise departments in Macy's department stores operated under the name of Locker Room by Lids under a license agreement with Macy's and certain e-commerce operations; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce operations, catalog and wholesale distribution of products under the Johnston & Murphy<sup>®</sup> and H. S. Trask<sup>®</sup> brands; and (v) Licensed Brands, comprised of Dockers<sup>®</sup> Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip<sup>®</sup> Footwear, which was sold in the fourth quarter of Fiscal 2017; G.H. Bass Footwear operated under a license from G-III Apparel Group, Ltd.; and other brands.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1, under Item 8 in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017).

The Company's reportable segments are based on management's organization of the segments in order to make operating decisions and assess performance along types of products sold. Journeys Group, Schuh Group and Lids Sports Group sell primarily branded products from other companies while Johnston & Murphy Group and Licensed Brands sell primarily the Company's owned and licensed brands.

Corporate assets include cash, domestic prepaid rent expense, prepaid income taxes, deferred income taxes, deferred note expense on revolver debt and corporate fixed assets. The Company charges allocated retail costs of distribution to each segment. The Company does not allocate certain costs to each segment in order to make decisions and assess performance. These costs include corporate overhead, bank fees, interest expense, interest income, asset impairment charges and other, including major litigation and major lease terminations and goodwill impairment charges.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 9  
Business Segment Information, Continued

Three Months Ended  
October 28, 2017

| In thousands   | Journeys<br>Group | Schuh<br>Group | Lids<br>Sports<br>Group | Johnston<br>&<br>Murphy<br>Group | Licensed<br>Brands | Corporate<br>& Other | Consolidated |
|--|-------------------|----------------|-------------------------|----------------------------------|--------------------|----------------------|--------------|
| Sales  | \$333,506         | \$101,489      | \$181,347               | \$74,132                         | \$26,208           | \$77                 | \$716,759    |
| Intercompany Sales   | —                 | —              | —                       | —                                | —                  | —                    | —            |
| Net sales to external customers                                | \$333,506         | \$101,489      | \$181,347               | \$74,132                         | \$26,208           | \$77                 | \$716,759    |
| Segment operating income (loss)                                | \$24,283          | \$7,054        | \$1,991                 | \$5,287                          | \$1,153            | \$(8,510)            | \$31,258     |
| Goodwill impairment*   | —                 | —              | —                       | —                                | —                  | (182,211)            | (182,211)    |
| Asset Impairments and other**                                  | —                 | —              | —                       | —                                | —                  | (1,446)              | (1,446)      |
| Earnings (loss) from operations                                | 24,283            | 7,054          | 1,991                   | 5,287                            | 1,153              | (192,167)            | (152,399)    |
| Interest expense   | —                 | —              | —                       | —                                | —                  | (1,454)              | (1,454)      |
| Interest income  | —                 | —              | —                       | —                                | —                  | (3)                  | (3)          |
| Earnings (loss) from continuing operations before income taxes | \$24,283          | \$7,054        | \$1,991                 | \$5,287                          | \$1,153            | \$(193,624)          | \$(153,856)  |
| Total assets***  | \$524,563         | \$248,336      | \$396,877               | \$128,651                        | \$34,817           | \$165,239            | \$1,498,483  |
| Depreciation and amortization****                              | 6,385             | 3,443          | 6,609                   | 1,565                            | 166                | 816                  | 18,984       |
| Capital expenditures   | 21,772            | 2,124          | 8,438                   | 1,929                            | 227                | 2,237                | 36,727       |

\*Goodwill impairment charge of \$182.2 million relates to Lids Sports Group.

\*\*Asset Impairments and other charge includes a \$0.9 million charge for losses related to Hurricane Maria and a \$0.5 million charge for asset impairments, which includes \$0.2 million each for Journeys Group and Lids Sports Group and \$0.1 million for Schuh Group.

\*\*\*Total assets for the Schuh Group and Journeys Group include \$83.4 million and \$10.0 million of goodwill, respectively. Goodwill for the Schuh Group and Journeys Group increased by \$3.7 million, and \$0.2 million, respectively, from January 28, 2017, due to foreign currency translation adjustments. Of the Company's \$378.5 million of property and equipment, \$54.3 million and \$21.4 million relate to property and equipment in the United Kingdom and Canada, respectively.

\*\*\*\*Includes \$18.9 million in depreciation expense for the three months ended October 28, 2017.



Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 9  
Business Segment Information, Continued

Three Months Ended  
October 29, 2016

| In thousands   | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|--|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales  | \$314,159      | 90,087      | \$200,279         | \$72,115                | \$34,334        | \$124             | \$711,098    |
| Intercompany Sales   | —              | —           | —                 | —                       | (276 )          | —                 | (276 )       |
| Net sales to external customers                                | \$314,159      | \$90,087    | \$200,279         | \$72,115                | \$34,058        | \$124             | \$710,822    |
| Segment operating income (loss)                                | \$25,656       | \$6,615     | \$8,173           | \$4,922                 | \$2,689         | \$(7,118 )        | \$40,937     |
| Asset Impairments and other*                                   | —              | —           | —                 | —                       | —               | (589 )            | (589 )       |
| Earnings (loss) from operations                                | 25,656         | 6,615       | 8,173             | 4,922                   | 2,689           | (7,707 )          | 40,348       |
| Interest expense   | —              | —           | —                 | —                       | —               | (1,489 )          | (1,489 )     |
| Interest income  | —              | —           | —                 | —                       | —               | 1                 | 1            |
| Earnings (loss) from continuing operations before income taxes | \$25,656       | \$6,615     | \$8,173           | \$4,922                 | \$2,689         | \$(9,195 )        | \$38,860     |
| Total assets**   | \$453,352      | 222,796     | \$603,747         | \$131,966               | \$51,474        | \$121,036         | \$1,584,371  |
| Depreciation and amortization***                               | 5,971          | 3,191       | 6,728             | 1,513                   | 255             | 938               | 18,596       |
| Capital expenditures   | 11,262         | 2,174       | 9,126             | 1,625                   | 262             | 368               | 24,817       |

\*Asset Impairments and other includes a \$0.6 million charge for assets impairments, which relates primarily to the Lids Sports Group.

\*\*Total assets for the Lids Sports Group, Schuh Group, Journeys Group and Licensed Brands include \$181.4 million, \$77.3 million, \$9.6 million and \$0.8 million of goodwill, respectively. Goodwill for Lids Sports Group and Journeys Group increased by \$0.5 million and \$0.2 million, respectively, from January 30, 2016 and Schuh Group goodwill decreased by \$13.0 million from January 30, 2016 due to foreign currency translation adjustments. Of the Company's \$321.8 million of property and equipment, \$54.2 million and \$20.2 million relate to property and equipment in the United Kingdom and Canada, respectively.

\*\*\*Includes \$18.3 million in depreciation expense for the three months ended October 29, 2016.



Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 9  
Business Segment Information, Continued

Nine Months Ended  
October 28, 2017

| In thousands   | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|--|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales  | \$876,578      | \$275,570   | \$538,478         | \$211,785               | \$73,915        | \$307             | \$1,976,633  |
| Intercompany Sales   | —              | —           | —                 | —                       | —               | —                 | —            |
| Net sales to external customers                                | \$876,578      | \$275,570   | \$538,478         | \$211,785               | \$73,915        | \$307             | \$1,976,633  |
| Segment operating income (loss)                                | \$29,561       | \$10,905    | \$3,245           | \$10,654                | \$2,377         | \$(24,523)        | \$32,219     |
| Goodwill impairment*   | —              | —           | —                 | —                       | —               | (182,211)         | (182,211)    |
| Asset Impairments and other**                                  | —              | —           | —                 | —                       | —               | (1,623)           | (1,623)      |
| Earnings (loss) from operations                                | 29,561         | 10,905      | 3,245             | 10,654                  | 2,377           | (208,357)         | (151,615)    |
| Interest expense   | —              | —           | —                 | —                       | —               | (3,883)           | (3,883)      |
| Interest income  | —              | —           | —                 | —                       | —               | —                 | —            |
| Earnings (loss) from continuing operations before income taxes | \$29,561       | \$10,905    | \$3,245           | \$10,654                | \$2,377         | \$(212,240)       | \$(155,498)  |
| Total assets***  | \$524,563      | \$248,336   | \$396,877         | \$128,651               | \$34,817        | \$165,239         | \$1,498,483  |
| Depreciation and amortization****                              | 19,208         | 10,190      | 20,278            | 4,709                   | 503             | 2,642             | 57,530       |
| Capital expenditures   | 65,623         | 7,555       | 23,410            | 4,440                   | 388             | 2,647             | 104,063      |

\*Goodwill impairment charge of \$182.2 million relates to Lids Sports Group.

\*\*Asset Impairments and other charge includes a \$0.9 million charge for losses related to Hurricane Maria and a \$0.7 million charge for asset impairments, which includes \$0.3 million each for Journeys Group and Lids Sports Group and \$0.1 million for Schuh Group.

\*\*\*Total assets for the Schuh Group and Journeys Group include \$83.4 million and \$10.0 million of goodwill, respectively. Goodwill for the Schuh Group and Journeys Group increased by \$3.7 million and \$0.2 million, respectively, from January 28, 2017, due to foreign currency translation adjustments. Of the Company's \$378.5 million of property and equipment, \$54.3 million and \$21.4 million relate to property and equipment in the United Kingdom and Canada, respectively.

\*\*\*\*Includes \$57.3 million in depreciation expense for the nine months ended October 28, 2017.





Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 9  
Business Segment Information, Continued

Nine Months Ended

October 29, 2016

| In thousands   | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|--|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales  | 860,514        | 262,717     | 568,567           | 207,241                 | 86,651          | 509               | \$1,986,199  |
| Intercompany Sales   | —              | —           | —                 | —                       | (1,027 )        | —                 | (1,027 )     |
| Net sales to external customers                                | \$860,514      | \$262,717   | \$568,567         | \$207,241               | \$85,624        | \$509             | \$1,985,172  |
| Segment operating income (loss)                                | 49,757         | 9,647       | 21,342            | 12,019                  | 4,776           | (23,075 )         | \$74,466     |
| Asset Impairments and other*                                   | —              | —           | —                 | —                       | —               | 3,799             | 3,799        |
| Earnings (loss) from operations                                | 49,757         | 9,647       | 21,342            | 12,019                  | 4,776           | (19,276 )         | 78,265       |
| Gain on sale of Lids Team Sports                               | —              | —           | —                 | —                       | —               | 2,485             | 2,485        |
| Interest expense   | —              | —           | —                 | —                       | —               | (3,968 )          | (3,968 )     |
| Interest income  | —              | —           | —                 | —                       | —               | 37                | 37           |
| Earnings (loss) from continuing operations before income taxes | \$49,757       | \$9,647     | \$21,342          | \$12,019                | \$4,776         | \$(20,722)        | \$76,819     |
| Total assets**   | 453,352        | 222,796     | 603,747           | 131,966                 | 51,474          | 121,036           | \$1,584,371  |
| Depreciation and amortization***                               | 17,983         | 10,685      | 19,663            | 4,460                   | 762             | 2,966             | 56,519       |
| Capital expenditures   | 34,191         | 8,581       | 14,735            | 6,803                   | 610             | 600               | 65,520       |

\*Asset Impairments and other includes an \$(8.9) million gain for network intrusion expenses related to a litigation settlement, a \$5.0 million charge for asset impairments, of which \$4.9 million is in the Lids Sports Group and \$0.1 million is in the Journeys Group, and a \$0.1 million charge for other legal matters.

\*\*Total assets for the Lids Sports Group, Schuh Group, Journeys Group and Licensed Brands include \$181.4 million, \$77.3 million, \$9.6 million and \$0.8 million of goodwill, respectively. Goodwill for Lids Sports Group and Journeys Group increased by \$0.5 million and \$0.2 million, respectively, from January 30, 2016 and Schuh Group goodwill decreased by \$13.0 million from January 30, 2016 due to foreign currency translation adjustments. Of the Company's \$321.8 million of property and equipment, \$54.2 million and \$20.2 million relate to property and equipment in the United Kingdom and Canada, respectively.

\*\*\*Includes \$55.7 million in depreciation expense for the nine months ended October 29, 2016.

Table of Contents

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

Forward Looking Statements

This discussion and the Notes to the Condensed Consolidated Financial Statements include certain forward-looking statements, including those regarding the performance outlook for the Company and its individual businesses and all other statements not addressing solely historical facts or present conditions. Words such as "may," "will," "should," "likely," "anticipate," "expect," "intend," "plan," "project," "believe," "estimate" and similar expressions can be used to identify these forward-looking statements. Actual results, including those regarding the Company's performance outlook for Fiscal 2018 and beyond, could differ materially from those reflected by the forward-looking statements in this discussion, in the Notes to the Condensed Consolidated Financial Statements, and in other disclosures.

A number of factors may adversely affect the outlook reflected in forward looking statements and the Company's future results, liquidity, capital resources and prospects. These factors (some of which are beyond the Company's control) include:

- The level and timing of promotional activity necessary to maintain inventories at appropriate levels.
- The timing and amount of non-cash asset impairments related to retail store fixed assets and intangible assets of acquired businesses.
- The effectiveness of the Company's omnichannel initiatives.
- Costs associated with changes in minimum wage and overtime requirements.
- The effects of proposed tax reform legislation on the Company's effective tax rate, including the potential for a significant, one-time non-cash charge to adjust the Company's deferred tax asset.
- The level of chargebacks from credit card issuers for fraudulent purchases or other reasons.
- Weakness in the consumer economy and retail industry.
- Effects on local consumer demand or on the national economy related to hurricanes or natural disasters.
- Competition in the Company's markets, including online and including competition from some of the Company's vendors in both the licensed sports and footwear markets.
- Fashion trends that affect the sales or product margins of the Company's retail product offerings as well as the lack of new fashion trends that might drive business, and the Company's ability to respond to fashion shifts quickly and effectively.
- Weakness in shopping mall traffic and challenges to the viability of malls where the Company operates stores, including weakness related to planned closings of anchor, department and other stores and other factors, and the extent and pace of growth of online shopping.
- Risks related to the potential for terrorist events, especially in malls and shopping districts.
- Imposition of tariffs on imported products.
- Changes in buying patterns by significant wholesale customers.
- Bankruptcies or deterioration in the financial condition of significant wholesale customers, limiting their ability to buy or pay for merchandise offered by the Company or the inability of wholesale customers or consumers to obtain credit.
- The Company's ability to obtain from suppliers products that are in-demand on a timely basis and disruptions in product supply or distribution.
  - Unfavorable trends in fuel costs, foreign exchange rates, foreign labor and material costs and other factors affecting the cost of products and results of operations.
- The effects of the British decision to exit the European Union, including potential effects on consumer demand, currency exchange rates, and the supply chain.

## Table of Contents

The Company's ability to continue to complete and integrate acquisitions, expand its business and diversify its product base.

Changes in the timing of holidays or in the onset of seasonal weather affecting period-to-period sales comparisons. The public's interest in various sports teams and leagues, the performance of athletic teams, the participants in major sporting events such as the Super Bowl and World Series, developments with respect to certain individual athletes, changes in partnerships between professional and collegiate sports organizations and the vendors that provide their uniforms and merchandise at retail, and other sports-related events or changes, including the timing of major sporting events, that may affect the Company's Lids Sports Group retail businesses, including period-to-period comparisons. The Company's ability to build, open, staff and support additional retail stores and to renew leases in existing stores and control or lower occupancy costs, and to conduct required remodeling or refurbishment on schedule and at expected expense levels.

Ability to attract and retain employees in a full employment environment.

Deterioration in the performance of individual businesses or of the Company's market value relative to its book value, resulting in impairments of fixed assets or intangible assets or other adverse financial consequences, including tax consequences related thereto, especially in view of the Company's recent market valuation.

Unexpected changes to the market for the Company's shares, including but not limited to changes related to general disfavor of the retail sector by investors.

Variations from expected pension-related charges caused by conditions in the financial markets.

Disruptions in the Company's information technology systems either by security breaches and incidents or by potential problems associated with the implementation of new or upgraded systems.

The cost and outcome of litigation, investigations and environmental matters involving the Company, including but not limited to the matters discussed in Note 8 to the Condensed Consolidated Financial Statements.

Other factors set forth under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 and other documents the Company files with the SEC.

## Overview

### Description of Business

The Company's business includes the sourcing and design, marketing and distribution of footwear and accessories through retail stores, including Journeys<sup>®</sup>, Journeys Kidz<sup>®</sup>, Shi by Journeys<sup>®</sup>, Little Burgundy<sup>®</sup> and Johnston & Murphy<sup>®</sup> in the U.S., Puerto Rico and Canada and through Schuh<sup>®</sup> stores in the United Kingdom, the Republic of Ireland and Germany, and through e-commerce websites and catalogs, and at wholesale, primarily under the Company's Johnston & Murphy<sup>®</sup> brand, the H.S. Trask<sup>®</sup> brand, the licensed Dockers<sup>®</sup> brand, and other brands that the Company licenses for men's footwear. The Company's wholesale footwear brands are distributed to more than 1,275 retail accounts in the United States, including a number of leading department, discount, and specialty stores. The Company's business also includes Lids Sports Group, which operates (i) headwear and accessory stores under the Lids<sup>®</sup> name and other names in the U.S., Puerto Rico and Canada, (ii) the Lids Locker Room and Lids Clubhouse businesses, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating under various trade names, (iii) licensed team merchandise departments in Macy's department stores operated under the name Locker Room by Lids and on macys.com under a license agreement with Macy's, and (iv) e-commerce operations. Including both the footwear businesses and the Lids Sports business, at October 28, 2017, the Company operated 2,727 retail stores and leased departments in the U.S., Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany.

Table of Contents

During the nine months ended October 28, 2017 and October 29, 2016, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Little Burgundy retail footwear chains, e-commerce operations and catalog; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised as described in the preceding paragraph; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce operations and catalog and wholesale distribution of products under the Johnston & Murphy® and H.S.Trask® brands; and (v) Licensed Brands, comprised of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip® Footwear, which was sold in the fourth quarter of Fiscal 2017; G.H. Bass Footwear operated under a license from G-III Apparel Group, Ltd.; and other brands.

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 2,075 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages five to 12. These stores average approximately 1,500 square feet. Shi by Journeys retail footwear stores sell footwear and accessories to fashion-conscious women in their early 20's to mid 30's. These stores average approximately 2,150 square feet. The Journeys Group stores are primarily in malls and factory outlet centers throughout the United States, Puerto Rico and Canada. The Company's Canadian subsidiary acquired the Little Burgundy retail footwear chain in Canada during the fourth quarter of Fiscal 2016. Little Burgundy is being operated under the Journeys Group. Little Burgundy retail footwear stores sell footwear and accessories to fashion-oriented men and women in the 18 to 34 age group ranging from students to young professionals. These stores average approximately 1,900 square feet. With the 36 Little Burgundy stores, Journeys Group now operates 82 stores in Canada. Journeys also sells footwear and accessories through direct-to-consumer catalog and e-commerce operations.

The Schuh retail footwear stores sell a broad range of branded casual and athletic footwear along with a meaningful private label offering primarily for 15 to 30 year old men and women. The stores, which average approximately 4,925 square feet, include both street-level and mall locations in the United Kingdom, the Republic of Ireland and Germany. The Schuh Group also sells footwear through e-commerce operations.

The Lids Sports Group includes stores and kiosks, primarily under the Lids banner, that sell licensed and branded headwear to men and women primarily in the early-teens to mid-20's age group. The Lids store locations average approximately 875 square feet and are primarily in malls, airports, street-level stores and factory outlet centers throughout the United States, Puerto Rico and Canada. The Lids Sports Group also operates Lids Locker Room and Lids Clubhouse stores under a number of trade names, selling licensed sports headwear, apparel and accessories to sports fans of all ages in locations averaging approximately 2,875 square feet in malls and other locations primarily in the United States and Canada. The Lids Sports Group operates 142 stores in Canada. The Lids Sports Group also operates Locker Room by Lids leased departments in Macy's department stores selling headwear, apparel, accessories and novelties from an assortment of college and professional teams specific to particular Macy's department stores' geographic locations. As of October 28, 2017, the Company operated 123 Locker Room by Lids leased departments averaging approximately 650 square feet. The Lids Sports Group also sells headwear and accessories through e-commerce operations.

Johnston & Murphy retail shops sell a broad range of men's footwear, apparel and accessories. Women's footwear and accessories are sold in select Johnston & Murphy retail locations. Johnston & Murphy shops average approximately 1,550 square feet and are located primarily in better malls and in airports throughout the United States. As of October 28, 2017, Johnston & Murphy operated seven stores in Canada. The Company also has license and distribution agreements for wholesale and retail sales of Johnston & Murphy

## Table of Contents

products in various non - U.S. jurisdictions. The Company also sells Johnston & Murphy footwear and accessories in factory stores, averaging approximately 2,400 square feet, located in factory outlet malls, and through a direct-to-consumer catalog and e-commerce operations. In addition, Johnston & Murphy shoes are distributed through the Company's wholesale operations to better department and independent specialty stores. Additionally, the Company sells the H.S. Trask brand, with men's and women's footwear and leather accessories distributed to better independent retailers and department stores.

The Licensed Brands segment markets casual and dress casual footwear under the licensed Dockers® brand to men aged 30 to 55 through many of the same national retail chains that carry Dockers slacks and sportswear and in department and specialty stores across the U.S. The Company entered into an exclusive license with Levi Strauss & Co. to market men's footwear in the United States under the Dockers brand name in 1991. Levi Strauss & Co. and the Company have subsequently added additional territories, including Canada and Mexico and certain other Latin American countries. The Dockers license agreement has been renewed for a term expiring on November 30, 2018. The Company sold SureGrip® Footwear, a slip-resistant occupational footwear business operated within the Licensed Brands segment since Fiscal 2011, in the fourth quarter of Fiscal 2017. The Company also sells footwear under other licenses and in March 2015 entered into a license agreement to source and distribute certain men's and women's footwear under the G.H. Bass trademark and related marks.

## Strategy

The Company's long-term strategy has been to seek organic growth by: 1) improving comparable sales, both in stores and digital commerce, 2) increasing the Company's store base in its newer concepts and opportunistically in more mature concepts, 3) expanding retail square footage in proven locations with upside opportunity, 4) increasing operating margin and 5) enhancing the value of its brands. As a result of the degree of penetration of many of our concepts in their current geographic markets and the increasing trend of consumer purchases through e-commerce channels, the Company anticipates opening fewer new stores in the future, concentrating on locations that the Company believes will be most productive, as well as closing certain stores, perhaps reducing the overall square footage and store count from current levels, and has enhanced its investments in technology and infrastructure to support omnichannel retailing.

To supplement its organic growth potential, the Company has made acquisitions, including the acquisition of the Schuh Group in June 2011, Little Burgundy in December 2015 and several smaller acquisitions of businesses in the Lids Sports Group's markets, and expects to consider acquisition opportunities, either to augment its existing businesses or to enter new businesses that it considers compatible with its existing businesses, core expertise and strategic profile. Acquisitions involve a number of risks, including, among others, inaccurate valuation of the acquired business, the assumption of undisclosed liabilities, the failure to integrate the acquired business appropriately, and distraction of management from existing businesses. The Company seeks to mitigate these risks by applying appropriate financial metrics in its valuation analysis and developing and executing plans for due diligence and integration that are appropriate to each acquisition. The Company also seeks appropriate opportunities to extend existing brands and retail concepts. The Company typically tests such extensions on a relatively small scale to determine their viability and to refine their strategies and operations before making significant, long-term commitments.

More generally, the Company attempts to develop strategies to mitigate the risks it views as material, including those discussed under the caption "Forward Looking Statements," above, and those discussed in Part I, Item 1A, Risk Factors in the Company's Annual Report on Form 10-K. Among the most important of these factors are those related to consumer demand. Conditions in the external economy can affect demand, resulting in changes in sales and, as prices are adjusted to drive sales and manage inventories, in gross margins. Because fashion trends influencing many of the Company's target customers can change



## Table of Contents

rapidly, the Company's ability to react quickly to those changes is critical. Even when the Company succeeds in aligning its merchandise offerings with consumer preferences, those preferences may affect results by, for example, driving sales of products with lower average selling prices or products which are more widely available in the marketplace and thus more subject to competitive pressures than the Company's typical offering. Moreover, economic factors, such as persistent unemployment and any future economic contraction and changes in tax policies, may reduce the consumer's disposable income or his or her willingness to purchase discretionary items, and thus may reduce demand for the Company's merchandise, regardless of the Company's skill in detecting and responding to fashion trends. Similarly, consumers may choose to spend their disposable income in merchandise categories other than those the Company sells. The Company believes its experience and discipline in merchandising and the buying power associated with its relative size and importance in the industry segments in which it competes are important to its ability to mitigate risks associated with changing customer preferences and other changes in consumer demand.

### Summary of Results of Operations

The Company's net sales increased 1% during the third quarter of Fiscal 2018 compared to the same quarter of Fiscal 2017. The increase reflected a 13% increase in Schuh Group, a 6% increase in Journeys Group and a 3% increase in Johnston & Murphy Group, partially offset by a 9% decrease in Lids Sports Group and a 23% decrease in Licensed Brands. Gross margin as a percentage of net sales decreased to 49.4% during the third quarter of Fiscal 2018, compared to 50.0% for the same period last year, reflecting decreased gross margin in all of the Company's business segments, except Johnston & Murphy Group. Selling and administrative expenses increased to 45.0% of net sales during the third quarter of Fiscal 2018 from 44.3% for the same quarter of Fiscal 2017, reflecting increases in expenses as a percentage of net sales in all of the Company's business segments and Corporate, except Johnston & Murphy Group, which was flat for the quarter. During the third quarter of Fiscal 2018, the Company performed an interim review of goodwill impairment due to a significant decline in the Company's stock price and market capitalization for a sustained period. As a result, the Company recorded an impairment charge of \$182.2 million for its Lids Sports Group in the third quarter. Earnings (loss) from operations decreased as a percentage of net sales to (21.3%) during the third quarter of Fiscal 2018 compared to 5.7% in the same quarter of Fiscal 2017, reflecting the goodwill impairment charge of \$182.2 million and decreased earnings from operations as a percentage of net sales in all of the Company's business segments, except Johnston & Murphy Group.

### Significant Developments

#### Goodwill Impairment

During the third quarter of Fiscal 2018, the Company identified qualitative indicators of impairment, including a significant decline in the Company's stock price and market capitalization for a sustained period since the last consideration of indicators of impairment in the second quarter of Fiscal 2018, underperformance relative to projected operating results, particularly in the Lids Sports Group reporting unit, and an increased competitive environment in the licensed sports business.

In accordance with ASC 350, when indicators of impairment are present on an interim basis, the Company must assess whether it is "more likely than not" (i.e., a greater than 50% chance) that an impairment has occurred. In our Fiscal 2017 annual evaluation of goodwill, the Company determined that the fair value of the Lids Sports Group and Schuh Group reporting units exceeded the carrying value of the reporting units' assets by approximately 15% and 28%, respectively. Due to the identified indicators of impairment during the the third quarter of Fiscal 2018, the Company determined that it was "more likely than not" that an impairment had occurred and performed a full valuation of its reporting units as required under ASC 350

## Table of Contents

and reconciled the aggregate fair values of the individual reporting units to the Company's market capitalization.

Based upon the results of these analyses, the Company concluded the goodwill attributed to Lids Sports Group was fully impaired. As a result, the Company recorded a non-cash impairment charge of \$182.2 million in the third quarter of Fiscal 2018.

### Asset Impairment and Other Charges

The Company recorded pretax charges of \$1.4 million in the third quarter of Fiscal 2018, including \$0.9 million for losses related to Hurricane Maria and \$0.5 million for retail store asset impairments. The Company recorded pretax charges of \$1.6 million in the first nine months of Fiscal 2018, including \$0.9 million for losses related to Hurricane Maria and \$0.7 million for retail store asset impairments.

The Company recorded pretax charges of \$0.6 million in the third quarter of Fiscal 2017 for retail store asset impairments. The Company recorded a pretax gain of \$(3.8) million in the first nine months of Fiscal 2017, including an \$(8.9) million gain for network intrusion expenses related to a litigation settlement (see Note 8), partially offset by a \$5.0 million charge for retail store asset impairments and \$0.1 million for other legal matters.

### Sale of Business

The Company recognized a pretax gain of \$2.5 million during the third quarter of Fiscal 2017 on the sale of Lids Team Sports related to final working capital adjustments.

### Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company has identified the critical accounting policies used in determining estimates and assumptions in the amounts reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the fiscal year ended January 28, 2017. Management believes that there have been no material changes in those critical accounting policies.

### Comparable Sales

For purposes of this report, "comparable sales" are sales from stores open longer than one year, beginning in the fifty-third week of a store's operation (which we refer to in this report as "same store sales"), and sales from websites operated longer than one year and direct mail catalog sales (which we refer to in this report as "comparable direct sales"). Temporarily closed stores are excluded from the comparable sales calculation for every full week of the store closing. Expanded stores are excluded from the comparable sales calculation until the fifty-third week of operation in the expanded format. Current year foreign exchange rates are applied to both current year and prior year comparable sales to achieve a consistent basis for comparison.



Table of Contents

## Results of Operations - Third Quarter Fiscal 2018 Compared to Fiscal 2017

The Company's net sales in the third quarter ended October 28, 2017 increased 1% to \$716.8 million from \$710.8 million in the third quarter ended October 29, 2016, reflecting increased net sales in Schuh Group, Journeys Group and Johnston & Murphy Group, partially offset by decreased net sales in Lids Sports Group and Licensed Brands. Comparable sales increased 1% for the third quarter of Fiscal 2018, which included a decrease of 2% in same store sales and an increase of 24% in comparable direct sales. Gross margin decreased 0.5% to \$354.0 million in the third quarter of Fiscal 2018 from \$355.6 million in the same period last year and decreased as a percentage of net sales from 50.0% to 49.4%, reflecting decreased gross margin in all of the Company's business segments, except Johnston & Murphy Group. Selling and administrative expenses in the third quarter of Fiscal 2018 increased 2.6% and increased as a percentage of net sales from 44.3% to 45.0%, reflecting increases in expenses as a percentage of net sales in all of the Company's business segments and Corporate, except Johnston & Murphy Group, which was flat for the quarter. The increase in selling and administrative expense as a percentage of net sales reflects in part the largely fixed nature of store-level expenses in periods when same store sales decline. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Earnings (loss) from continuing operations before income taxes ("pretax earnings (loss)") for the third quarter ended October 28, 2017 was a loss of (\$153.9) million compared to earnings of \$38.9 million for the third quarter ended October 29, 2016. The pretax loss for the third quarter ended October 28, 2017 included a goodwill impairment charge of \$182.2 million and an asset impairment and other charge of \$1.4 million for losses related to Hurricane Maria and retail store asset impairments. Pretax earnings for the third quarter ended October 29, 2016 included an asset impairment and other charge of \$0.6 million for retail store asset impairments.

The net loss for the third quarter ended October 28, 2017 was (\$164.8) million (\$8.56 diluted loss per share) compared to net earnings of \$25.9 million (\$1.30 diluted earnings per share) for the third quarter ended October 29, 2016. The Company recorded an effective income tax rate of (7.1)% and 33.2% in the third quarter of Fiscal 2018 and 2017, respectively. The tax rate for the third quarter of Fiscal 2018 was impacted by the non-deductibility of \$107.6 million of the \$182.2 million of goodwill impairment charge in the third quarter of Fiscal 2018. The tax rate for the third quarter of Fiscal 2017 was favorably impacted reflecting the release of tax reserves and other items.

## Journeys Group

|                          | Three Months Ended     |                  |       | % Change |
|--------------------------|------------------------|------------------|-------|----------|
|                          | October 28, 2017       | October 29, 2016 | %     |          |
|                          | (dollars in thousands) |                  |       |          |
| Net sales                | \$333,506              | \$314,159        | 6.2   | %        |
| Earnings from operations | \$24,283               | \$25,656         | (5.4) | )%       |
| Operating margin         | 7.3                    | % 8.2            |       | %        |

Net sales from Journeys Group increased 6.2% to \$333.5 million for the third quarter ended October 28, 2017, compared to \$314.2 million for the same period last year. The increase reflects a 4% increase in

Table of Contents

comparable sales and a 1% increase in the average number of Journeys Group stores operated (i.e. the sum of the number of stores open on the first day of the fiscal quarter and the last day of each fiscal month during the quarter divided by four). The comparable sales increase reflected a 1% increase in the average price per pair of shoes and a 1% increase in footwear unit sales. Journeys Group operated 1,237 stores at the end of the third quarter of Fiscal 2018, including 246 Journeys Kidz stores, 28 Shi by Journeys stores, 46 Journeys stores in Canada and 36 Little Burgundy stores in Canada, compared to 1,237 stores at the end of the third quarter last year, including 218 Journeys Kidz stores, 40 Shi by Journeys stores, 42 Journeys stores in Canada and 36 Little Burgundy stores in Canada.

Journeys Group earnings from operations decreased 5.4% to \$24.3 million for the third quarter ended October 28, 2017 compared to \$25.7 million for the third quarter ended October 29, 2016. Little Burgundy, the branded retail business the Company acquired in November 2015 in Canada, experienced losses in the third quarter of Fiscal 2018 related to the one-time conversion onto the Journeys systems which decreased margins and increased expenses in Little Burgundy. The decrease in earnings from operations for Journeys Group, including the impact of Little Burgundy discussed above, was due to (i) decreased gross margin as a percentage of net sales, reflecting lower initial margins due to changes in product mix and higher shipping and warehouse expenses, and (ii) increased expenses as a percentage of net sales, reflecting increased selling salaries and advertising expenses, partially offset by decreased rent and credit card expenses.

## Schuh Group

|                          | Three Months Ended     |                  |      | % Change |
|--------------------------|------------------------|------------------|------|----------|
|                          | October 28, 2017       | October 29, 2016 | %    |          |
|                          | (dollars in thousands) |                  |      |          |
| Net sales                | \$101,489              | \$90,087         | 12.7 | %        |
| Earnings from operations | \$7,054                | \$6,615          | 6.6  | %        |
| Operating margin         | 7.0                    | % 7.3            | %    |          |

Net sales from Schuh Group increased 12.7% to \$101.5 million for the third quarter ended October 28, 2017, compared to \$90.1 million for the third quarter ended October 29, 2016. The increase reflects primarily a 4% increase in comparable sales, a 5% increase in the average number of Schuh stores operated and an increase of \$2.2 million in sales due to changes in foreign exchange rates. Schuh Group operated 132 stores at the end of the third quarter of Fiscal 2018, compared to 126 stores at the end of the third quarter of Fiscal 2017.

Schuh Group earnings from operations increased 6.6% to \$7.1 million for the third quarter ended October 28, 2017 compared to \$6.6 million for the third quarter ended October 29, 2016. The increase in earnings this year reflects increased net sales and an increase in earnings of \$0.2 million due to changes in foreign exchange rates. Gross margin as a percentage of net sales decreased slightly for the third quarter due primarily to lower initial margins due to changes in sales mix and increased promotional activity, mostly offset by improved margins from certain product categories. Expenses as a percentage of net sales increased slightly due to foreign exchange gains in the prior year and increased bonus expense, partially offset by decreased selling salaries and depreciation expense.

Table of Contents

## Lids Sports Group

|                          | Three Months Ended     |                     |             |
|--------------------------|------------------------|---------------------|-------------|
|                          | October<br>28, 2017    | October<br>29, 2016 | %<br>Change |
|                          | (dollars in thousands) |                     |             |
| Net sales                | \$181,347              | \$200,279           | (9.5)%      |
| Earnings from operations | \$1,991                | \$8,173             | (75.6)%     |
| Operating margin         | 1.1                    | % 4.1               | %           |

Net sales from Lids Sports Group decreased 9.5% to \$181.3 million for the third quarter ended October 28, 2017, compared to \$200.3 million for the same period last year. The decrease reflects primarily a decrease of 6% in the average number of Lids Sports Group stores operated, excluding leased departments, and a comparable sales decrease of 6% in the third quarter of Fiscal 2018. Comparable sales reflects a 5% decrease in comparable store hat units sold, while the average price per hat increased 1% for the third quarter of Fiscal 2018. Lids Sports Group operated 1,177 stores at the end of the third quarter of Fiscal 2018, including 113 Lids stores in Canada, 190 Lids Locker Room and Clubhouse stores, which includes 29 Locker Room stores in Canada, and 123 Locker Room by Lids leased departments in Macy's, compared to 1,267 stores at the end of the third quarter last year, including 112 Lids stores in Canada, 218 Lids Locker Room and Clubhouse stores, which includes 36 Locker Room stores in Canada, and 151 Locker Room by Lids leased departments in Macy's.

Lids Sports Group earnings from operations decreased 75.6% to \$2.0 million for the third quarter ended October 28, 2017 compared to \$8.2 million for the third quarter ended October 29, 2016. The decrease was due to (i) decreased net sales, (ii) decreased gross margin as a percentage of net sales, reflecting increased promotional activity, and (iii) increased expenses as a percentage of net sales reflecting the inability to leverage expenses due to the negative comparable sales for the quarter, partially offset by decreased bonus expenses.

## Johnston &amp; Murphy Group

|                          | Three Months Ended     |                        |             |
|--------------------------|------------------------|------------------------|-------------|
|                          | October<br>28,<br>2017 | October<br>29,<br>2016 | %<br>Change |
|                          | (dollars in thousands) |                        |             |
| Net sales                | \$74,132               | \$72,115               | 2.8%        |
| Earnings from operations | \$5,287                | \$4,922                | 7.4%        |
| Operating margin         | 7.1                    | % 6.8                  | %           |

Johnston & Murphy Group net sales increased 2.8% to \$74.1 million for the third quarter ended October 28, 2017 from \$72.1 million for the third quarter ended October 29, 2016, reflecting primarily a 3% increase in Johnston & Murphy Group wholesale sales and a 2% increase in the average number of stores operated for Johnston & Murphy retail operations, partially offset by a 1% decrease in comparable sales. Unit sales for the Johnston & Murphy wholesale business increased 4% in the third quarter of Fiscal 2018, while the average price per pair of shoes decreased 2% for the same period. Retail operations accounted for 65.3% of Johnston & Murphy Group's sales in the third quarter of both Fiscal 2018 and 2017. Comparable sales reflected a 6% decrease in footwear unit comparable sales, while the average price per pair of shoes for Johnston & Murphy retail operations increased 1%. The store count for Johnston & Murphy retail operations



Table of Contents

at the end of the third quarter of Fiscal 2018 was 181 stores, including seven stores in Canada, compared to 176 stores, including seven stores in Canada, at the end of the third quarter of Fiscal 2017.

Johnston & Murphy Group earnings from operations for the third quarter ended October 28, 2017 increased 7.4% to \$5.3 million compared to \$4.9 million for the same period last year. The increase was primarily due to increased net sales and increased gross margin as percentage of net sales, reflecting improved initial margins due to higher selling prices. Expenses as a percentage of net sales were flat for the third quarter as the decrease in selling salaries and advertising expenses offset the increase in rent expense.

## Licensed Brands

|                          | Three Months Ended     |                        |             |
|--------------------------|------------------------|------------------------|-------------|
|                          | October<br>28,<br>2017 | October<br>29,<br>2016 | %<br>Change |
|                          | (dollars in thousands) |                        |             |
| Net sales                | \$26,208               | \$34,058               | (23.0 )%    |
| Earnings from operations | \$1,153                | \$2,689                | (57.1 )%    |
| Operating margin         | 4.4                    | % 7.9                  | %           |

Licensed Brands' net sales decreased 23.0% to \$26.2 million for the third quarter ended October 28, 2017, from \$34.1 million for the same period last year, reflecting the loss of sales for SureGrip footwear, which was sold in December of 2016, decreased sales of one small license, reflecting the difficult retail environment for dress casual and casual shoes as wholesale customers are favoring athletic products and the expiration of another small license. Unit sales for Dockers footwear increased 13% for the third quarter of Fiscal 2018, while the average price per pair of Dockers shoes decreased 13% compared to the same period last year.

Licensed Brands earnings from operations decreased 57.1% to \$1.2 million for the third quarter of Fiscal 2018, compared to \$2.7 million for the third quarter of Fiscal 2017, primarily due to (i) decreased net sales, (ii) decreased gross margin as a percentage of net sales, reflecting the sale of SureGrip footwear, which carried the group's highest gross margin, and reduced margins obtained on the sell-off of the remaining inventory on an expiring license plus increased margin assistance compared to last year due to the difficult retail environment for dress casual and casual shoes and (iii) increased expenses as a percentage of net sales, reflecting increased royalty and advertising expenses, partially offset by decreased bad debt expense.

## Corporate, Interest Expenses and Other Charges

Corporate and other expense for the third quarter ended October 28, 2017, excluding the \$182.2 million goodwill impairment charge, was \$10.0 million compared to \$7.7 million for the third quarter ended October 29, 2016.

Corporate expense in the third quarter of Fiscal 2018 included \$1.4 million in asset impairment and other charges for losses related to Hurricane Maria and retail store asset impairments. Corporate expense in the third quarter of Fiscal 2017 included \$0.6 million in asset impairment and other charges for retail store asset impairments. Corporate expenses increased 20%, excluding asset impairment and other charges, reflecting reversed bonus accruals in the prior year and increased professional fees and other corporate expenses.

Net interest expense decreased 2.1% from \$1.5 million in the third quarter of Fiscal 2017 to \$1.5 million for the third quarter of Fiscal 2018.



Table of Contents

## Results of Operations - Nine Months Fiscal 2018 Compared to Fiscal 2017

The Company's net sales in the nine months ended October 28, 2017 decreased 0.4% to \$1.98 billion from \$1.99 billion in the nine months ended October 29, 2016, reflecting decreased net sales in Lids Sports Group and Licensed Brands, partially offset by increased net sales in Journeys Group, Schuh Group and Johnston & Murphy Group. Excluding last year's sales from SureGrip, which the Company sold in December 2016, and the devaluation of the pound versus the dollar, total sales would have increased 1% for the first nine months of Fiscal 2018. Comparable sales were flat for the first nine months of Fiscal 2018, which included a decrease of 3% in same store sales and an increase of 27% in comparable direct sales. Gross margin decreased 2.1% to \$979.4 million in the first nine months of Fiscal 2018 from \$1.00 billion in the same period last year and decreased as a percentage of net sales from 50.4% to 49.5%, reflecting decreased gross margin as a percentage of net sales in Journeys Group, Lids Sports Group and Licensed Brands, partially offset by increased gross margin as a percentage of net sales in Schuh Group and Johnston & Murphy Group. Selling and administrative expenses in the first nine months of Fiscal 2018 increased 2.3% and increased as a percentage of net sales from 46.6% to 47.9%, reflecting increased expenses as a percentage of net sales in Journeys Group, Lids Sports Group, Johnston & Murphy Group and Corporate, partially offset by decreased expenses as a percentage of net sales in Licensed Brands, while Schuh Group expenses were flat. The increase in selling and administrative expense as a percentage of net sales reflects in part the largely fixed nature of store-level expenses in periods when same store sales decline. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Pretax earnings (loss) for the nine months ended October 28, 2017 was a loss of (\$155.5) million compared to earnings of \$76.8 million for the nine months ended October 29, 2016. The pretax loss for the nine months ended October 28, 2017 included a goodwill impairment charge of \$182.2 million and an asset impairment and other charge of \$1.6 million for losses related to Hurricane Maria and retail store asset impairments. Pretax earnings for the nine months ended October 29, 2016 included an asset impairment and other gain of \$3.8 million, primarily related to a gain on network intrusion expenses as a result of a litigation settlement, partially offset by retail store asset impairments and other legal matters. In addition, pretax earnings included a \$2.5 million gain on the sale of Lids Team Sports related to final working capital adjustments.

The net loss for the nine months ended October 28, 2017 was (\$167.9) million (\$8.74 diluted loss per share) compared to net earnings of \$50.9 million (\$2.49 diluted earnings per share) for the nine months ended October 29, 2016. The Company recorded an effective income tax rate of (7.8)% in the first nine months of Fiscal 2018 compared to 33.6% in the same period last year. The tax rate for the first nine months of Fiscal 2018 was impacted by the non-deductibility of \$107.6 million of the \$182.2 million of goodwill impairment charge in the third quarter of Fiscal 2018. In addition, the tax rate for the nine months of Fiscal 2018 was impacted by \$2.2 million of tax expense due to the impact of ASU 2016-09 related to the vesting of stock grants. This year's tax rate was favorably impacted by a \$0.5 million return to provision adjustment. Last year's tax rate was favorably impacted reflecting the release of tax reserves and other items.

Table of Contents

## Journeys Group

|                          | Nine Months Ended      |                     |       | %<br>Change |
|--------------------------|------------------------|---------------------|-------|-------------|
|                          | October<br>28, 2017    | October<br>29, 2016 |       |             |
|                          | (dollars in thousands) |                     |       |             |
| Net sales                | \$876,578              | \$860,514           | 1.9   | %           |
| Earnings from operations | \$29,561               | \$49,757            | (40.6 | )%          |
| Operating margin         | 3.4                    | % 5.8               |       | %           |

Net sales from Journeys Group increased 1.9% to \$876.6 million for the nine months ended October 28, 2017, compared to \$860.5 million for the same period last year. The increase reflects a 2% increase in the average number of Journeys Group stores operated (i.e. the sum of the number of stores open on the first day of the nine months and the last day of each fiscal month during the nine months divided by ten). Comparable sales were flat for the nine months ended October 28, 2017. Comparable sales were impacted by a 5% decrease in footwear unit sales, while the average price per pair of shoes increased 3% during the same period.

Journeys Group earnings from operations decreased 40.6% to \$29.6 million for the nine months ended October 28, 2017 compared to \$49.8 million for the nine months ended October 29, 2016. The decrease was primarily due to (i) decreased gross margin as a percentage of net sales, reflecting lower initial margins due to changes in product mix and higher shipping and warehouse expenses, as consumers shift shopping away from stores to e-commerce and (ii) increased expenses as a percentage of net sales, as Journeys Group could not leverage store related expenses, primarily rent, selling salaries and advertising expenses.

## Schuh Group

|                          | Nine Months Ended      |                     |      | %<br>Change |
|--------------------------|------------------------|---------------------|------|-------------|
|                          | October<br>28, 2017    | October<br>29, 2016 |      |             |
|                          | (dollars in thousands) |                     |      |             |
| Net sales                | \$275,570              | \$262,717           | 4.9  | %           |
| Earnings from operations | \$10,905               | \$9,647             | 13.0 | %           |
| Operating margin         | 4.0                    | % 3.7               |      | %           |

Net sales from Schuh Group increased 4.9% to \$275.6 million for the nine months ended October 28, 2017, compared to \$262.7 million for the nine months ended October 29, 2016. The increase reflects primarily a 5% increase in comparable sales and a 5% increase in the average number of Schuh stores operated, partially offset by a decrease of \$14.7 million in sales due to changes in foreign exchange rates.

Schuh Group earnings from operations increased 13.0% to \$10.9 million for the nine months ended October 28, 2017 compared to \$9.6 million for the nine months ended October 29, 2016. The increase in earnings this year reflects increased gross margin as a percentage of net sales, primarily due to improved margins from certain product categories partially offset by increased shipping and warehouse expense. Expenses as a percentage of net sales were flat, but reflected increases in expense due to foreign exchange gains in the prior year mostly offset by decreased depreciation expense.





Table of Contents

## Lids Sports Group

|                          | Nine Months Ended      |                     |             |
|--------------------------|------------------------|---------------------|-------------|
|                          | October<br>28, 2017    | October<br>29, 2016 | %<br>Change |
|                          | (dollars in thousands) |                     |             |
| Net sales                | \$538,478              | \$568,567           | (5.3 )%     |
| Earnings from operations | \$3,245                | \$21,342            | (84.8 )%    |
| Operating margin         | 0.6                    | % 3.8               | %           |

Net sales from Lids Sports Group decreased 5.3% to \$538.5 million for the nine months ended October 28, 2017, compared to \$568.6 million for the same period last year. The decrease reflects primarily a decrease of 6% in the average number of Lids Sports Group stores operated, excluding leased departments, and a comparable sales decrease of 3% in the first nine months of Fiscal 2018. Comparable sales reflects a 1% decrease in the average price per hat and comparable store hat units sold decreased 1% for the first nine months of Fiscal 2018.

Lids Sports Group earnings from operations decreased 84.8% to \$3.2 million for the nine months ended October 28, 2017 compared to \$21.3 million for the nine months ended October 29, 2016. The decrease was due to (i) decreased net sales, (ii) decreased gross margin as a percentage of net sales, reflecting increased promotional activity and increased shipping and warehouse expense, and (iii) increased expenses as a percentage of net sales, reflecting increased e-commerce related expense, increased professional fees due to the installation of a software-as-a-service system, and increased advertising, compensation, benefit and depreciation expenses, partially offset by decreased bonus expense.

## Johnston &amp; Murphy Group

|                          | Nine Months Ended      |                     |             |
|--------------------------|------------------------|---------------------|-------------|
|                          | October<br>28, 2017    | October<br>29, 2016 | %<br>Change |
|                          | (dollars in thousands) |                     |             |
| Net sales                | \$211,785              | \$207,241           | 2.2 %       |
| Earnings from operations | \$10,654               | \$12,019            | (11.4 )%    |
| Operating margin         | 5.0                    | % 5.8               | %           |

Johnston & Murphy Group net sales increased 2.2% to \$211.8 million for the nine months ended October 28, 2017 from \$207.2 million for the nine months ended October 29, 2016, reflecting primarily a 2% increase in the average number of stores operated for Johnston & Murphy retail operations and a 3% increase in Johnston & Murphy Group wholesale sales, partially offset by a 2% decrease in comparable sales. Unit sales for the Johnston & Murphy wholesale business increased 5% in the first nine months of Fiscal 2018, while the average price per pair of shoes decreased 3% for the same period. Retail operations accounted for 68.4% of Johnston & Murphy Group's sales in the first nine months of Fiscal 2018, down slightly from 68.5% in the first nine months last year. Comparable sales reflected a 4% decrease in footwear unit comparable sales and the average price per pair of shoes for Johnston & Murphy retail operations decreased 1%.

Table of Contents

Johnston & Murphy Group earnings from operations for the nine months ended October 28, 2017 decreased 11.4% to \$10.7 million compared to \$12.0 million for the same period last year. The decrease was primarily attributable to increased expenses as a percentage of net sales, due primarily to increased store related expenses, primarily rent expense, reflecting the impact of negative leverage from the negative comparable sales, and increased compensation expense and professional fees, partially offset by decreased bonus expense.

## Licensed Brands

|                          | Nine Months Ended      |                        |             |
|--------------------------|------------------------|------------------------|-------------|
|                          | October<br>28,<br>2017 | October<br>29,<br>2016 | %<br>Change |
|                          | (dollars in thousands) |                        |             |
| Net sales                | \$73,915               | \$85,624               | (13.7 )%    |
| Earnings from operations | \$2,377                | \$4,776                | (50.2 )%    |
| Operating margin         | 3.2                    | % 5.6                  | %           |

Licensed Brands' net sales decreased 13.7% to \$73.9 million for the nine months ended October 28, 2017, from \$85.6 million for the same period last year, reflecting the loss of sales for SureGrip footwear, which was sold in December of 2016. Unit sales for Dockers footwear increased 15% for the first nine months of Fiscal 2018, while the average price per pair of Dockers shoes decreased 8% compared to the same period last year.

Licensed Brands' earnings from operations decreased 50.2% to \$2.4 million for the first nine months of Fiscal 2018, compared to \$4.8 million for the first nine months of Fiscal 2017, primarily due to decreased net sales and decreased gross margin as a percentage of net sales, reflecting the sale of SureGrip footwear, which carried the group's highest gross margin, and changes in product mix and increased margin assistance in the remaining businesses.

## Corporate, Interest Expenses and Other Charges

Corporate and other expense for the nine months ended October 28, 2017, excluding the \$182.2 million goodwill impairment charge, was \$26.1 million compared to \$19.3 million for the nine months ended October 29, 2016. Corporate expense in the first nine months of Fiscal 2018 included \$1.6 million in asset impairment and other charges, which related to losses related to Hurricane Maria and retail store asset impairments. Corporate expense in the first nine months of Fiscal 2017 included a \$3.8 million gain in asset impairment and other charges, primarily for a gain on network intrusion expenses resulting from a litigation settlement, partially offset by retail store asset impairments and other legal matters. Corporate expenses increased 6%, excluding asset impairment and other charges, reflecting increased professional fees and foreign exchange losses, partially offset by decreased bonus expense.

Net interest expense was flat at \$3.9 million in the first nine months of Fiscal 2018 compared to the same period last year.

Table of Contents

## Liquidity and Capital Resources

The following table sets forth certain financial data at the dates indicated.

|  | October<br>28,<br>2017 | January<br>28,<br>2017 | October<br>29,<br>2016 |
|--|------------------------|------------------------|------------------------|
|  | (dollars in millions)  |                        |                        |
| Cash and cash equivalents                  | \$50.7                 | \$48.3                 | \$30.5                 |
| Working capital                            | \$495.8                | \$407.6                | \$498.4                |
| Long-term debt (including current portion) | \$223.6                | \$82.9                 | \$226.2                |

## Working Capital

The Company's business is seasonal, with the Company's investment in inventory and accounts receivable normally reaching peaks in the spring and fall of each year. Historically, cash flows from operations have been generated principally in the fourth quarter of each fiscal year.

Cash used in operating activities was \$12.5 million in the first nine months of Fiscal 2018 compared to \$2.2 million in the first nine months of Fiscal 2017. The \$10.3 million decrease in cash flow from operating activities from last year primarily reflects a decrease in cash flow from decreased net earnings, partially offset by an increase in cash flow from changes in inventory of \$65.1 million. The \$65.1 million increase in cash flow from inventory reflects a reduction in the growth in inventory in Lids Sports Group, Johnston & Murphy Group, Journeys Group and Licensed Brands, on a year over year basis, partially offset by increased inventory in Schuh Group.

The \$131.2 million increase in inventories at October 28, 2017 from January 28, 2017 levels reflected seasonal increases in most business units, partially offset by seasonal decreases in Licensed Brands and Johnston & Murphy wholesale inventory.

Accounts receivable at October 28, 2017 increased by \$10.7 million compared to January 28, 2017, due primarily to seasonal sales increases in the Company's wholesale businesses.

## Sources of Liquidity

The Company has three principal sources of liquidity: cash from operations, cash and cash equivalents on hand and the credit facilities discussed below. The Company believes that cash and cash equivalents on hand, cash flow from operations and availability under its credit facilities will be sufficient to cover its working capital, capital expenditures and stock repurchases for the foreseeable future.

On December 4, 2015, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement dated as of January 31, 2014 (the "Credit Facility") by and among the Company, certain subsidiaries of the Company party thereto, as other Borrowers, with the lenders party thereto and Bank of America, N.A., as agent, providing for a revolving credit facility in the aggregate principal amount of \$400.0 million, including a \$70.0 million sublimit for the issuance of letters of credit and a domestic swingline subfacility of up to \$40.0 million, a revolving credit subfacility for the benefit of GCO Canada, Inc. in an aggregate amount not to exceed \$70.0 million, which includes a \$5.0 million sublimit for the issuance of letters of credit, and revolving credit subfacility for the benefit of Genesco (UK) Limited in an aggregate amount not to exceed \$50.0 million, which includes a \$10.0 million sublimit for the issuance of letters of credit and a swingline subfacility of up to \$10.0 million. The facility has a five-year term from January 31, 2014. Any swingline loans and any letters of credit and borrowings under the Canadian and UK subfacilities will reduce the availability under the Credit Facility on a dollar-for-dollar basis.

## Table of Contents

The Company has the option, from time to time, to increase the availability under the Credit Facility by an aggregate amount of up to \$150.0 million subject to, among other things, the receipt of commitments for the increased amount. In connection with this increased facility, the Canadian revolving credit facility may be increased up to no more than \$85.0 million.

Genesco (UK) Limited has a one-time option to increase the availability of its subfacility under the Credit Facility by an additional amount of up to \$50.0 million.

The aggregate amount of the loans made and letters of credit issued under the Credit Facility shall at no time exceed the lesser of the facility amount (\$400.0 million or, if increased as described above, up to \$550.0 million or \$600.0 million, respectively) or the "Borrowing Base", which generally is based on 90% of eligible inventory plus 85% of eligible wholesale receivables plus 90% of eligible credit card and debit card receivables less applicable reserves (the "Loan Cap"). The relevant assets of Genesco (UK) Limited will be included in the Borrowing Base if the additional \$50.0 million sublimit increase is exercised, provided that amounts borrowed by Genesco (UK) Limited based solely on its own borrowing base will be limited to \$50.0 million and the total outstanding to Genesco (UK) Limited will not exceed 30% of the Loan Cap.

The Credit Facility also provides that a first-in, last-out tranche could be added to the revolving credit facility at the option of the Company subject to, among other things, the receipt of commitments for such tranche.

In May 2015, Schuh Group Limited entered into a Form of Amended and Restated Facilities Agreement and Working Capital Facility Letter ("UK Credit Facilities") which replaced the former A, B and C term loans with a new Facility A of £17.5 million and a Facility B of £11.6 million (which was the former Facility C loan) as well as provided an additional revolving credit facility, Facility C, of £22.5 million and a working capital facility of £2.5 million. In April 2017, Schuh Group Limited entered into an Amendment and Restatement Agreement to split the Facility C of £22.5 million into two revolving credit facilities. The Facility C is now £16.5 million and a new Facility D revolving facility is available in euros that total €7.2 million. The Facility A loan bears interest at LIBOR plus 1.8% per annum with quarterly payments through April 2017. The Facility A was paid off in April 2017. The Facility B loan bears interest at LIBOR plus 2.5% per annum with quarterly payments through September 2019. Facility C and D loans bear interest at LIBOR plus 2.2% per annum and expire in September 2019.

There were \$11.4 million in UK term loans and \$16.8 million in UK revolver loans outstanding at October 28, 2017. The UK Credit Facilities contain certain covenants at the Schuh level including a minimum interest coverage covenant of 4.50x and thereafter, a maximum leverage covenant initially set at 2.25x declining over time at various rates to 1.75x beginning in April 2017 and a minimum cash flow coverage of 1.00x. The Company was in compliance with all the covenants at October 28, 2017. The UK Credit Facilities are secured by a pledge of all the assets of Schuh and its subsidiaries.

The Company's revolving credit borrowings outstanding averaged \$129.0 million during the nine months ended October 28, 2017 and revolver borrowings outstanding averaged \$88.3 million during the nine months ended October 29, 2016, as cash on hand, cash generated from operations and revolver borrowings primarily funded seasonal working capital requirements, capital expenditures and stock repurchases for the first nine months of each year. The borrowings outstanding during the first nine months of Fiscal 2018 reflect increased funds borrowed to fund the decreased cash flow from operations and increased capital expenditures.

There were \$11.3 million of letters of credit outstanding and \$195.3 million of revolver borrowings outstanding, including \$21.1 million (£16.1 million) related to Genesco (UK) Limited and \$39.2 million (C\$50.5 million) related to GCO Canada, under the Credit Facility at October 28, 2017. The Company is

## Table of Contents

not required to comply with any financial covenants under the Credit Facility unless Excess Availability (as defined in the Credit Agreement) is less than the greater of \$25.0 million or 10.0% of the Loan Cap. If and during such time as Excess Availability is less than the greater of \$25.0 million or 10.0% of the Loan Cap, the Credit Facility requires the Company to meet a minimum fixed charge coverage ratio of (a) an amount equal to consolidated EBITDA less capital expenditures and taxes paid in cash, in each case for such period, to (b) fixed charges for such period, of not less than 1.0:1.0. Excess Availability was \$193.4 million at October 28, 2017. Because Excess Availability exceeded \$25.0 million or 10.0% of the Loan Cap, the Company was not required to comply with this financial covenant at October 28, 2017.

The Credit Facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain other material indebtedness in excess of specified amounts and to agreements which would have a material adverse effect if breached, certain events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts and change in control. The Company's Credit Facility prohibits the payment of dividends and other restricted payments unless as of the date of the making of any Restricted Payment (as defined in the Credit Facility) or consummation of any Acquisition (as defined in the Credit Facility), (a) no Default (as defined in the Credit Facility) or Event of Default (as defined in the Credit Facility) exists or would arise after giving effect to such Restricted Payment or Acquisition, and (b) either (i) the Borrowers (as defined in the Credit Facility) have pro forma projected Excess Availability for the following six month period equal to or greater than 25% of the Loan Cap, after giving pro forma effect to such Restricted Payment or Acquisition, or (ii) (A) the Borrowers have pro forma projected Excess Availability for the following six month period of less than 25% of the Loan Cap but equal to or greater than 15% of the Loan Cap, after giving pro forma effect to the Restricted Payment or Acquisition, and (B) the Fixed Charge Coverage Ratio (as defined in the Credit Facility), on a pro-forma basis for the twelve months preceding such Restricted Payment or Acquisition, will be equal to or greater than 1.0:1.0 and (c) after giving effect to such Restricted Payment or Acquisition, the Company and the other Borrowers under the Credit Facility are Solvent (as defined in the Credit Facility). Notwithstanding the foregoing, the Company may make cash dividends on preferred stock up to \$500,000 in any fiscal year absent a continuing Event of Default. The Company's management does not expect availability under the Credit Facility to fall below the requirements listed above during Fiscal 2018.

The Company's contractual obligations at October 28, 2017 increased approximately 5% from January 28, 2017 due primarily to increased long-term debt and lease obligations, partially offset by a decrease in purchase obligations.

### Capital Expenditures

Total capital expenditures in Fiscal 2018 are expected to be approximately \$130 million to \$135 million. These include retail capital expenditures of approximately \$123 million to \$128 million to open approximately 15 Journeys stores, including two in Canada, 26 Journeys Kidz stores, four Little Burgundy stores in Canada, seven Schuh stores, seven Johnston & Murphy shops and factory stores and 17 Lids Sports Group stores, including 14 Lids stores, with four stores in Canada, one Lids Locker Room store and two Locker Room by Lids leased departments, and to complete approximately 243 major store renovations. In addition, retail capital expenditures include \$33 million for the expansion of the Journeys Group's warehouse. The planned amount of capital expenditures in Fiscal 2018 for wholesale operations and other purposes is approximately \$7 million, including approximately \$3 million for new systems.

### Future Capital Needs

The Company expects that cash on hand, cash provided by operations and borrowings under its Credit Facilities will be sufficient to support seasonal working capital, capital expenditure requirements and stock

## Table of Contents

repurchases during Fiscal 2018. The approximately \$1.8 million of costs associated with discontinued operations that are expected to be paid during the next twelve months are expected to be funded from cash on hand, cash generated from operations and borrowings under the Credit Facility.

The Company had total available cash and cash equivalents of \$50.7 million, \$48.3 million and \$30.5 million as of October 28, 2017, January 28, 2017 and October 29, 2016, respectively, of which approximately \$4.4 million, \$22.9 million and \$5.4 million was held by the Company's foreign subsidiaries as of October 28, 2017, January 28, 2017 and October 29, 2016, respectively. The Company's strategic plan does not require the repatriation of foreign cash in order to fund its operations in the U.S., and it is the Company's current intention to indefinitely reinvest its foreign cash and cash equivalents outside of the U.S. If the Company were to repatriate foreign cash to the U.S., it would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation.

### Common Stock Repurchases

The Company did not repurchase any shares of common stock during the three months ended October 28, 2017 and repurchased 275,300 shares of common stock during the nine months ended October 28, 2017 for \$16.2 million. The Company has \$24.0 million remaining under its current \$100.0 million share repurchase authorization. The Company repurchased 746,864 shares of common stock for \$39.8 million and 2,155,869 shares of common stock for \$133.3 million during the three and nine months ended October 29, 2016, respectively.

### Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 8 to the Condensed Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.1 million for each of the third quarters of Fiscal 2018 and 2017, and \$0.4 million and \$0.2 million for the first nine months of Fiscal 2018 and 2017, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its accrued liability in relation to each proceeding is a reasonable estimate of the probable loss connected to the proceeding, or in cases in which no reasonable estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional provisions, that some or all accruals may not be adequate or that the amounts of any such additional provisions or any such inadequacy will not have a material adverse effect upon the Company's financial condition or results of operations.

### Financial Market Risk

The following discusses the Company's exposure to financial market risk related to changes in interest rates.

**Outstanding Debt of the Company** - The Company has \$11.4 million of outstanding U.K. term loans at a weighted average interest rate of 2.79% as of October 28, 2017. A 100 basis point increase in interest rates would increase annual interest expense by \$0.1 million on the \$11.4 million term loans. The Company has \$16.8 million of outstanding U.K. revolver borrowings at a weighted average interest rate of 2.39% as of

Table of Contents

October 28, 2017. A 100 basis point increase in interest rates would increase annual interest expense by \$0.2 million on the \$16.8 million revolver borrowings. The Company has \$195.3 million of outstanding revolver borrowings at a weighted average interest rate of 2.48% as of October 28, 2017. A 100 basis point increase in interest rates would increase annual interest expense by \$2.0 million on the \$195.3 million revolver borrowings.

Cash and Cash Equivalents - The Company's cash and cash equivalent balances are invested in financial instruments with original maturities of three months or less. The Company did not have significant exposure to changing interest rates on invested cash at October 28, 2017. As a result, the Company considers the interest rate market risk implicit in these investments at October 28, 2017 to be low.

Accounts Receivable - The Company's accounts receivable balance at October 28, 2017 is concentrated in two of its footwear wholesale businesses, which sell primarily to department stores and independent retailers across the United States. In its footwear wholesale businesses, one customer accounted for 17%, one customer accounted for 8% and two customers each accounted for 7%, while no other customer accounted for more than 7% of the Company's total trade receivables balance as of October 28, 2017. The Company monitors the credit quality of its customers and establishes an allowance for doubtful accounts based upon factors surrounding credit risk of specific customers, historical trends and other information, as well as customer specific factors; however, credit risk is affected by conditions or occurrences within the economy and the retail industry, as well as company-specific information.

Foreign Currency Exchange Risk - The Company is exposed to translation risk because certain of its foreign operations utilize the local currency as their functional currency and those financial results must be translated into United States dollars. As currency exchange rates fluctuate, translation of the Company's financial statements of foreign businesses into United States dollars affects the comparability of financial results between years. Schuh Group's net sales for the first nine months of Fiscal 2018 were negatively impacted by \$14.7 million due to the decline in foreign exchange rates and Schuh Group's earnings from operations were negatively impacted by less than \$0.1 million.

Summary - Based on the Company's overall market interest rate exposure at October 28, 2017, the Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's consolidated financial position, results of operations or cash flows for Fiscal 2018 would not be material.

New Accounting Pronouncements

Descriptions of the recently issued accounting pronouncements, if any, and the accounting pronouncements adopted by the Company during the nine months ended October 28, 2017 are included in Note 1 to the Condensed Consolidated Financial statements.



Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company incorporates by reference the information regarding market risk appearing under the heading “Financial Market Risk” in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

The Company has established disclosure controls and procedures designed to ensure that information required to be disclosed by the Company, including its consolidated subsidiaries, in the reports it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is made known to the officers who certify the Company’s financial reports and to other members of senior management. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired objectives.

Based on their evaluation as of October 28, 2017, the principal executive officer and principal financial officer of the Company have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company’s management, including the Company’s principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company’s internal control over financial reporting that occurred during the Company’s third quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company incorporates by reference the information regarding legal proceedings in Note 8 of the Company's Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

Item 6. Exhibits

Exhibit  
Index

- (31.1) Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2) Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document

Table of Contents

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.

Genesco Inc.

By: /s/ Mimi E. Vaughn  
Mimi E. Vaughn  
Senior Vice President - Finance and  
Chief Financial Officer

Date: December 7, 2017