

GENESCO INC
Form 10-Q
September 13, 2018
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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 August 4, 2018

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 every Interactive Data File required to be submitted 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 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 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 Exchange Act.

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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 August 31, 2018, 20,192,741 shares of the registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Genesco Inc.

and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

Assets	August 4, 2018	February 3, 2018	July 29, 2017
Current Assets:			
Cash and cash equivalents	\$49,786	\$39,937	\$43,520
Accounts receivable, net of allowances of \$4,340 at August 4, 2018, \$4,593 at Feb. 3, 2018 and \$3,469 at July 29, 2017	38,483	43,292	39,411
Inventories	606,748	542,625	670,104
Prepays and other current assets	79,338	67,234	83,578
Total current assets	774,355	693,088	836,613
Property and equipment:			
Land	7,955	8,065	7,881
Buildings and building equipment	82,211	79,587	56,222
Computer hardware, software and equipment	221,714	213,335	192,920
Furniture and fixtures	179,756	179,008	169,929
Construction in progress	24,307	33,625	55,374
Improvements to leased property	438,818	440,719	424,692
Property and equipment, at cost	954,761	954,339	907,018
Accumulated depreciation	(588,835)	(571,710)	(544,714)
Property and equipment, net	365,926	382,629	362,304
Deferred income taxes	23,126	25,077	11,918
Goodwill	92,648	100,308	276,209
Trademarks, net of accumulated amortization of \$5,579 at August 4, 2018, \$5,593 at Feb. 3, 2018 and \$5,590 at July 29, 2017	85,250	87,898	86,150
Other intangibles, net of accumulated amortization of \$17,363 at Aug. 4, 2018, \$17,439 at Feb. 3, 2018 and \$16,785 at July 29, 2017	1,397	1,794	2,129
Other noncurrent assets	25,094	24,559	22,190
Total Assets	\$1,367,796	\$1,315,353	\$1,597,513

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

Liabilities and Equity	August 4, 2018	February 3, 2018	July 29, 2017
Current Liabilities:			
Accounts payable	\$215,528	\$140,962	\$242,729
Accrued employee compensation	27,604	20,616	20,297
Accrued other taxes	18,048	16,114	19,555
Accrued income taxes	68	1,488	64
Current portion – long-term debt	1,625	1,766	2,051
Other accrued liabilities	53,307	72,220	64,225
Provision for discontinued operations	1,939	1,902	2,111
Total current liabilities	318,119	255,068	351,032
Long-term debt	81,712	86,619	188,823
Pension liability	—	—	5,989
Deferred rent and other long-term liabilities	142,106	141,255	133,059
Provision for discontinued operations	1,701	1,707	1,713
Total liabilities	543,638	484,649	680,616
Commitments and contingent liabilities	—	—	—
Equity:			
Non-redeemable preferred stock	1,064	1,052	1,061
Common equity:			
Common stock, \$1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
August 4, 2018 – 20,683,842/20,195,378			
February 3, 2018 – 20,392,253/19,903,789			
July 29, 2017 – 20,407,483/19,919,019	20,684	20,392	20,408
Additional paid-in capital	257,295	250,877	244,083
Retained earnings	603,536	603,902	710,445
Accumulated other comprehensive loss	(42,744)	(29,192)	(42,806)
Treasury shares, at cost (488,464 shares)	(17,857)	(17,857)	(17,857)
Total Genesco equity	821,978	829,174	915,334
Noncontrolling interest – non-redeemable	2,180	1,530	1,563
Total equity	824,158	830,704	916,897
Total Liabilities and Equity	\$1,367,796	\$1,315,353	\$1,597,513

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		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	\$653,892	\$616,506	\$1,298,851	\$1,259,874
Cost of sales	332,450	309,999	655,581	634,454
Selling and administrative expenses	319,042	308,435	641,166	624,403
Asset impairments and other, net	1,039	58	2,591	177
Earnings (loss) from operations	1,361	(1,986	)(487	) 840
Other components of net periodic benefit cost	(1	) 24	19	56
Interest expense, net:				
Interest expense	1,113	1,255	2,160	2,429
Interest income	(10	) (6	)(29	) (3
Total interest expense, net	1,103	1,249	2,131	2,426
Earnings (loss) from continuing operations before income taxes	259	(3,259	)(2,637	) (1,642
Income tax expense (benefit)	92	616	(496	) 1,236
Earnings (loss) from continuing operations	167	(3,875	)(2,141	) (2,878
Provision for discontinued operations, net	(182	) (73	)(205	) (185
Net Loss	\$(15	) \$(3,948	) \$(2,346	) \$(3,063
Basic earnings (loss) per common share:				
Continuing operations	\$0.01	\$(0.20	)(0.11	) \$(0.15
Discontinued operations	(0.01	) (0.01	)(0.01	) (0.01
Net earnings (loss)	\$0.00	\$(0.21	)(0.12	) \$(0.16
Diluted earnings (loss) per common share:				
Continuing operations	\$0.01	\$(0.20	)(0.11	) \$(0.15
Discontinued operations	(0.01	) (0.01	)(0.01	) (0.01
Net earnings (loss)	\$0.00	\$(0.21	)(0.12	) \$(0.16

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		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net loss	\$(15)	\$(3,948)	\$(2,346)	\$(3,063)
Other comprehensive income (loss):				
Pension liability adjustments, net of tax of \$0.1 million for the three months ended August 4, 2018 and July 29, 2017 and \$0.1 million and \$0.2 million for the six months ended August 4, 2018 and July 29, 2017, respectively.	145	126	285	258
Postretirement liability adjustments, net of tax of \$0.0 million for both the three and six months ended August 4, 2018 and July 29, 2017	11	20	37	43
Foreign currency translation adjustments	(6,010)	5,995	(13,874)	8,185
Total other comprehensive income (loss)	(5,854)	6,141	(13,552)	8,486
Comprehensive income (loss)	\$(5,869)	\$2,193	\$(15,898)	\$5,423

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		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$(15)	\$(3,948)	\$(2,346)	\$(3,063)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	19,225	18,930	38,918	38,546
Amortization of deferred note expense and debt discount	148	179	301	385
Deferred income taxes	1,596	3,288	50	1,282
Provision on accounts receivable	(120)	8	(103)	159
Impairment of long-lived assets	928	58	2,202	177
Restricted stock expense	3,368	3,387	6,722	6,735
Provision for discontinued operations	246	119	277	303
Other	959	526	1,571	344
Effect on cash from changes in working capital and other assets and liabilities, net of acquisitions:				
Accounts receivable	11,491	15,208	2,096	2,806
Inventories	(55,594)	(87,027)	(70,857)	(101,445)
Prepays and other current assets	(8,138)	(19,023)	(10,846)	(21,241)
Accounts payable	58,739	67,916	72,988	72,615
Other accrued liabilities	8,184	(8,707)	12	(26,420)
Other assets and liabilities	1,219	2,289	2,057	4,038
Net cash provided by (used in) operating activities	42,236	(6,797)	43,042	(24,779)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(11,593)	(37,010)	(31,126)	(67,336)
Other investing activities	—	—	633	—
Proceeds from asset sales	218	27	274	238
Net cash used in investing activities	(11,375)	(36,983)	(30,219)	(67,098)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments of long-term debt	(410)	—	(840)	(8,018)
Borrowings under revolving credit facility	86,779	133,593	205,996	324,987
Payments on revolving credit facility	(106,652)	(85,869)	(205,019)	(214,282)
Share repurchases related to share repurchase program	—	—	—	(16,163)
Restricted shares withheld for taxes	(2,433)	(1,716)	(2,433)	(1,716)
Change in overdraft balances	11,195	(2,371)	3,673	627
Additions to deferred note cost	(29)	—	(359)	—
Other	(44)	(142)	(3,209)	1,215
Net cash provided by (used in) financing activities	(11,594)	43,495	(2,191)	86,650
Effect of foreign exchange rate fluctuations on cash	(361)	434	(783)	446
Net Increase (Decrease) in Cash and Cash Equivalents	18,906	149	9,849	(4,781)
Cash and cash equivalents at beginning of period	30,880	43,371	39,937	48,301
Cash and cash equivalents at end of period	\$49,786	\$43,520	\$49,786	\$43,520
Supplemental Cash Flow Information:				

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Net cash paid for:

Interest	\$1,105	\$1,112	\$1,724	\$2,105
Income taxes	9,431	21,868	9,961	24,144

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 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 28, 2017	\$ 1,060	\$ 20,354	\$ 237,677	\$ 731,111	\$ (51,292)	\$(17,857)	\$ 1,468	\$ 922,521
Net loss	—	—	—	(111,839)	—	—	—	(111,839)
Other comprehensive income	—	—	—	—	22,100	—	—	22,100
Stranded tax effect from tax reform	—	—	—	2,234	—	—	—	2,234
Employee and non-employee restricted stock	—	—	13,505	—	—	—	—	13,505
Restricted stock issuance	—	357	(357)	—	—	—	—	—
Restricted shares withheld for taxes	—	(51)	51	(1,716)	—	—	—	(1,716)
Shares repurchased	—	(275)	—	(15,888)	—	—	—	(16,163)
Other	(8)	7	1	—	—	—	—	—
Noncontrolling interest – earnings	—	—	—	—	—	—	62	62
Balance February 3, 2018	1,052	20,392	250,877	603,902	(29,192)	(17,857)	1,530	830,704
Cumulative adjustment from ASC 606, net of tax	—	—	—	4,413	—	—	—	4,413
Net loss	—	—	—	(2,346)	—	—	—	(2,346)
Other comprehensive loss	—	—	—	—	(13,552)	—	—	(13,552)
Employee and non-employee restricted stock	—	—	6,722	—	—	—	—	6,722
Restricted stock issuance	—	389	(389)	—	—	—	—	—
Restricted shares withheld for taxes	—	(61)	61	(2,433)	—	—	—	(2,433)
Other	12	(36)	24	—	—	—	—	—
Noncontrolling interest – earnings	—	—	—	—	—	—	650	650
Balance August 4, 2018	\$ 1,064	\$ 20,684	\$ 257,295	\$ 603,536	\$ (42,744)	\$(17,857)	\$ 2,180	\$ 824,158

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 2, 2019 ("Fiscal 2019") and of the fiscal year ended February 3, 2018 ("Fiscal 2018"). 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. Generally Accepted Accounting Principles ("GAAP") have been condensed or omitted. The Condensed Consolidated Balance Sheet as of February 3, 2018 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 2018, which are contained in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on April 4, 2018.

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, 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, journeyskidz.com, journeys.ca, schuh.co.uk, littleburgundyshoes.com, johnstonmurphy.com and 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, under a license agreement with Macy's; certain e-commerce operations including lids.com, lids.ca, lidslockerroom.com and lidsclubhouse.com. Including both the footwear businesses and the Lids Sports Group business, at August 4, 2018, the Company operated 2,657 retail stores and leased departments in the U.S., Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany.

During the six months ended August 4, 2018 and July 29, 2017, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz 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[®] and H.S. Trask[®] brands; and (v) Licensed Brands, comprised of Dockers[®] Footwear, sourced and marketed under a license from Levi Strauss & Company; G.H. Bass Footwear operated under a license from G-III Apparel Group,

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

Note 1

Summary of Significant Accounting Policies, Continued
Ltd., which was terminated in January 2018; 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.

Revenue Recognition

On February 4, 2018, the Company adopted Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606") using the modified retrospective approach for all contracts not completed as of the adoption date. Financial results for reporting periods beginning after February 3, 2018 are presented in accordance with ASC 606, while prior periods will continue to be reported in accordance with the Company's pre-adoption accounting policies and therefore have not been adjusted to conform to ASC 606.

The primary impact of adopting Topic 606 relates to the timing of revenue recognition for gift card breakage and the timing of recognizing expense for direct-mail advertising costs. Gift card breakage prior to adoption was recognized at the point gift card redemption was deemed remote. Upon adoption, the Company now recognizes gift card breakage over time in proportion to the pattern of rights exercised by the customer. Prior to adopting ASC 606, the Company capitalized direct-response advertising costs and expensed them over the period of benefit. Under ASC 606, the Company is recognizing these costs as expense when incurred. Additionally, the adoption of ASC 606 resulted in the Company presenting the asset for the carrying amount of product to be returned within prepaids and other current assets on the Condensed Consolidated Balance Sheets. Prior to adopting ASC 606, the value of product expected to be returned was presented as a component of inventories on the Condensed Consolidated Balance Sheets.

The cumulative effect of the changes made to the Company's Condensed Consolidated Balance Sheets as of February 4, 2018 for the adoption of ASC 606 were as follows (in thousands):

	Balance at February 3, 2018	Adjustments due to ASC 606	Balance at February 4, 2018
Assets			
Current assets:			
Prepaids and other current assets	\$ 67,234	\$ 2,537	\$ 69,771
Inventories	542,625	(4,788)	537,837
Deferred income taxes	25,077	(1,568)	23,509
Liabilities and Equity			
Current liabilities:			
Other accrued liabilities	72,220	(8,232)	63,988
Equity			
Retained Earnings	603,902	4,413	608,315

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

Note 1
Summary of Significant Accounting Policies, Continued

In accordance with the requirements of ASC 606, the disclosure of the impact of adoption on the Company's Condensed Consolidated Statements of Operations for the three and six months ended August 4, 2018 and Condensed Consolidated Balance Sheets as of August 4, 2018 was as follows (in thousands, except per share data):

	August 4, 2018		
	As Reported	Balances without the adoption of ASC 606	Effect of Change Higher/(Lower)
Inventories	\$606,748	\$610,454	\$ (3,706))
Prepays and other current assets	79,338	79,467	(129))
Total current assets	774,355	778,190	(3,835))
Deferred income taxes	23,126	24,313	(1,187))
Total Assets	1,367,796	1,372,818	(5,022))
Other accrued liabilities	53,307	61,564	(8,257))
Total current liabilities	318,119	326,376	(8,257))
Total liabilities	543,638	551,895	(8,257))
Retained earnings	603,536	600,279	3,257)
Accumulated other comprehensive loss	(42,744)	(42,722)	(22))
Total equity	824,158	820,923	3,235)
Total Liabilities and Equity	1,367,796	1,372,818	(5,022))
	Three Months Ended August 4, 2018		
	As Reported	Balances without the adoption of ASC 606	Effect of Change Higher/(Lower)
Net sales	\$653,892	\$653,811	\$ 81)
Selling and administrative expenses	319,042	316,564	2,478)
Earnings from operations	1,361	3,758	(2,397))
Earnings from continuing operations before income taxes	259	2,656	(2,397))
Income tax expense	92	648	(556))
Earnings from continuing operations	167	2,008	(1,841))
Net earnings (loss)	(15)	1,826	(1,841))

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Diluted earnings per share from continuing operations \$0.01 \$0.09 \$ (0.08)

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

Note 1
Summary of Significant Accounting Policies, Continued

	Six Months Ended August 4, 2018		
	As Reported	Balances without the adoption of ASC 606	Effect of Change Higher/(Lower)
Net sales	\$1,298,851	\$1,298,802	\$ 49
Selling and administrative expenses	641,166	639,580	1,586
Earnings (loss) from operations	(487)	)1,050	(1,537)
Loss from continuing operations before income taxes	(2,637)	)(1,100	)(1,537)
Income tax benefit	(496)	)(115	)(381)
Loss from continuing operations	(2,141)	)(985	)(1,156)
Net loss	(2,346)	)(1,190	)(1,156)
Diluted loss per share from continuing operations	\$(0.11	)\$ (0.06	)\$ (0.05)

In accordance with ASC 606, revenue shall be recognized upon satisfaction of all contractual performance obligations and transfer of control to the customer. Revenue is measured as the amount of consideration the Company expects to be entitled to in exchange for corresponding goods. The majority of the Company's sales are single performance obligation arrangements for retail sale transactions for which the transaction price is equivalent to the stated price of the product, net of any stated discounts applicable at a point in time. Each sales transaction results in an implicit contract with the customer to deliver a product at the point of sale. Revenue from retail sales is recognized at the point of sale, is net of estimated returns, and excludes sales and value added taxes. Revenue from catalog and internet sales is recognized at estimated time of delivery to the customer, is net of estimated returns, and excludes sales and value added taxes. Wholesale revenue is recorded net of estimated returns and allowances for markdowns, damages and miscellaneous claims when the related goods have been shipped and legal title has passed to the customer. Actual amounts of markdowns have not differed materially from estimates. Shipping and handling costs charged to customers are included in net sales. The Company elected the practical expedient within ASC 606 related to taxes that are assessed by a governmental authority, which allows for the exclusion of sales and value added tax from transaction price.

A provision for estimated returns is provided through a reduction of sales and cost of goods sold in the period that the related sales are recorded. Estimated returns are based on historical returns and claims. Actual returns and claims in any future period may differ from historical experience. Revenue from gift cards is deferred and recognized upon the redemption of the cards. These cards have no expiration date. Income from unredeemed cards is recognized on the Condensed Consolidated Statements of Operations within net sales in proportion to the pattern of rights exercised by the customer in future periods. The Company performs an evaluation of historical redemption patterns from the date of original issuance to estimate future period redemption activity.

The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of \$7.5 million, \$18.1 million and \$15.6 million at August 4, 2018, February 3, 2018 and July 29, 2017,

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

Note 1
Summary of Significant Accounting Policies, Continued

respectively. Gift card breakage recognized as revenue was \$0.3 million and \$0.1 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and \$0.6 million and \$0.4 million for the first six months of Fiscal 2019 and 2018, respectively. During the six months ended August 4, 2018, the Company recognized \$3.9 million of gift card redemptions and gift card breakage revenue that were included in the gift card liability as of February 3, 2018.

Cash and Cash Equivalents

The Company had total available cash and cash equivalents of \$49.8 million, \$39.9 million and \$43.5 million as of August 4, 2018, February 3, 2018 and July 29, 2017, respectively, of which approximately \$11.3 million, \$21.2 million and \$14.8 million was held by the Company's foreign subsidiaries as of August 4, 2018, February 3, 2018 and July 29, 2017, 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 August 4, 2018, February 3, 2018 and July 29, 2017. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. At August 4, 2018, 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 August 4, 2018, February 3, 2018 and July 29, 2017, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$17.8 million, \$14.2 million and \$37.3 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 20% and one customer accounted for 8% 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 August 4, 2018.

Leases

The Company occasionally receives reimbursements from landlords to be used towards construction of a 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 \$28.4 million, \$29.0 million and \$27.0 million at August 4, 2018, February 3, 2018 and July 29, 2017, respectively, and deferred rent of

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\$60.2 million, \$59.3 million and \$55.4 million, at August 4, 2018, February 3, 2018 and July 29, 2017, 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 \$12.4 million, \$11.5 million and \$10.9 million as of August 4, 2018, February 3, 2018 and July 29, 2017, respectively.

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at August 4, 2018 and February 3, 2018 are as follows:

Fair Values

In thousands	August 4, 2018		February 3, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
U.S. Credit Facility Borrowings	\$60,717	\$60,847	\$69,372	\$69,421
UK Term Loans	9,712	9,802	11,419	11,602
UK Revolver Borrowings	12,908	12,986	7,594	7,671

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 from the warehouse to the customer 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 \$1.3 million and \$1.2 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and \$2.8 million for each of the first six months of Fiscal 2019 and Fiscal 2018.

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

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recorded in selling and administrative expense were \$113.5 million and \$114.1 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and \$227.6 million and \$227.4 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively.

Advertising Costs

Advertising costs are predominantly expensed as incurred. Advertising costs were \$18.9 million and \$16.9 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and \$37.9 million and \$36.5 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively. Prior to adopting ASC 606, the Company capitalized direct response advertising costs for catalogs and such costs were expensed over the period of benefit in accordance with the Other Assets and Deferred Costs Topic for Capitalized Advertising Costs of the Codification. For prior periods, the Condensed Consolidated Balance Sheets include prepaid assets for direct response advertising costs of \$2.3 million and \$3.7 million at February 3, 2018 and July 29, 2017, respectively.

Cooperative Advertising

Cooperative advertising costs recognized in selling and administrative expenses on the Condensed Consolidated Statements of Operations were \$0.2 million and \$0.6 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and \$1.0 million and \$1.8 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively. During the first six months of Fiscal 2019 and Fiscal 2018, 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 \$2.2 million and \$1.7 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and \$4.3 million and \$4.4 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively. During the first six months of Fiscal 2019 and Fiscal 2018, the Company's cooperative advertising reimbursements received were not in excess of the costs incurred.

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 loss of \$0.4 million and \$0.2 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and a net loss of \$0.7 million and \$0.5 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively.

Other Comprehensive Income

ASC 220 requires, among other things, the Company's pension liability adjustment, postretirement liability adjustment and foreign currency translation adjustment to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at August 4, 2018

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consisted of \$5.9 million of cumulative pension liability adjustments, net of tax, a cumulative post-retirement liability adjustment of \$2.2 million, net of tax, and a cumulative foreign currency translation adjustment of \$34.7 million.

The following table summarizes the components of accumulated other comprehensive loss ("AOIC") for the six months ended August 4, 2018:

	Foreign Currency Translation	Unrecognized Pension/Postretirement Benefit Costs	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)			
Balance February 3, 2018	\$ (20,808)	\$ (8,384)	\$ (29,192)
Other comprehensive income (loss) before reclassifications:			
Foreign currency translation adjustment	(12,604)	—	(12,604)
Loss on intra-entity foreign currency transactions (long-term investment nature)	(1,270)	—	(1,270)
Amounts reclassified from AOIC:			
Amortization of net actuarial loss (1)	—	434	434
Income tax expense	—	112	112
Current period other comprehensive income (loss), net of tax	(13,874)	322	(13,552)
Balance August 4, 2018	\$ (34,682)	\$ (8,062)	\$ (42,744)

(1) Amount is included in other components of net periodic benefit cost on the Condensed Consolidated Statements of Operations.

Income Taxes

The Company recorded an effective income tax rate of 35.5% and (18.9)% in the second quarter of Fiscal 2019 and Fiscal 2018, respectively, and 18.8% and (75.3)% for the first six months of Fiscal 2019 and Fiscal 2018, respectively. The higher tax rate for the second quarter and first six months of Fiscal 2019 reflects the inability to recognize a tax benefit for certain overseas losses, partially offset by the lower U.S. federal income tax rate following the passage of the Tax Cut and Jobs Act (the "Act") in December 2017 and tax credits related to wages paid to employees impacted by the hurricanes in Fiscal 2018. The tax rates were also impacted by \$0.5 million of tax expense for the second quarter and first six months of Fiscal 2019 and \$2.2 million of tax expense for the second quarter and first six months of Fiscal 2018 due to the impact of ASU 2016-09 related to the vesting of restricted stock grants. Last year's tax rate for the second quarter and first six months was favorably impacted by \$0.5 million return to provision adjustment.

New Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant

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to SEC Staff Accounting Bulletin No. 118." The new guidance provides SEC Staff views on income tax accounting implications of the Act signed into law in December 2017. The guidance clarifies the measurement period timeframe, changes in subsequent reporting periods and reporting requirements as a result of the Act. The Company adopted this guidance in the first quarter of Fiscal 2019. The Company recorded a provisional impact of the Act in Fiscal 2018 and will recognize any changes to this provisional amount as the Company refines its estimates of its cumulative temporary differences and interpretations of guidance related to the application of the Act. The adoption of this guidance has not had, nor is expected to have, a material impact on the Company's Consolidated Financial Statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASC 220"), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Act. This guidance is effective for all entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The amendments in ASC 220 should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The Company adopted ASC 220 in the fourth quarter of Fiscal 2018 and reclassified \$2.2 million to retained earnings for the impact of stranded tax effects resulting from the Act.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715)" ("ASC 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 amendments to this standard allow a practical expedient that permits an employer to use the amounts disclosed in its employee benefits footnote for the prior comparative period as the estimation basis for applying the retrospective presentation. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

The Company adopted ASC 715 in the first quarter of Fiscal 2019 and utilized the practical expedient to estimate the impact on the prior comparative period information presented in the Condensed Consolidated Statements of Operations. As required by the amendments in this update, the presentation of the service cost component and other components of net periodic benefit cost in the Condensed Consolidated Statements of Operations were applied retrospectively on and after the effective date. Upon adoption of this standard update, the Company reclassified the other components of net periodic benefit cost from selling and administrative expenses to other components of net periodic benefit cost on the Condensed Consolidated Statements of Operations. The retrospective adoption of this standard update resulted in an increase to earnings from operations of less than \$0.1 million for the three months and six months ended July 29, 2017 which was fully offset by the same amount on the other components of net periodic benefit cost line on the Condensed

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Consolidated Statements of Operations. As such, there was no impact to consolidated net earnings for the three months and six months ended July 29, 2017.

The Company adopted ASC 606 in the first quarter of Fiscal 2019 using the modified retrospective method by recognizing the cumulative effect of \$4.4 million as an adjustment to the opening balance of retained earnings at February 4, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. While the adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements and related disclosures, it did impact the timing of revenue recognition for gift card breakage and the timing of recognizing expense for direct-mail advertising costs as presented in the Condensed Consolidated Statements of Operations for Fiscal 2019.