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)

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

o 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 (State or other jurisdiction of incorporation or organization)	62-0211340 (I.R.S. Employer Identification No.)
Genesco Park, 1415 Murfreesboro Road Nashville, Tennessee (Address of principal executive offices)	37217-2895 (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 x No o
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 x No o
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	x		Accelerated filer	o
Non-accelerated filer	o	(Do not check if smaller reporting company)	Smaller reporting company	o
Emerging growth company	o			

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x
As of November 24, 2017, 19,913,201 shares of the registrant's common stock were outstanding.

Table of Contents

INDEX

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 28, 2017	January 28, 2017	October 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, $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
Prepaids 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, 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 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 28, 2017	January 28, 2017	October 29, 2016
Current Liabilities:			
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
Total current liabilities	379,494	309,386	372,280
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
Total liabilities	744,083	518,478	718,638
Commitments and contingent liabilities			
Equity:			
Non-redeemable preferred stock	1,052	1,060	1,065
Common equity:			
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)
Total Genesco equity	752,707	921,053	864,065
Noncontrolling interest – non-redeemable	1,693	1,468	1,668
Total equity	754,400	922,521	865,733
Total Liabilities and Equity	$1,498,483	$1,440,999	$1,584,371

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 28, 2017	October 29, 2016	October 28, 2017	October 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 28, 2017	October 29, 2016	October 28, 2017	October 29, 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.

6

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

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net earnings (loss)	$(164,821)	$25,895	$(167,884)	$50,883
Adjustments to reconcile net earnings (loss) to net cash (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 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)
Prepaids 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)
CASH FLOWS FROM INVESTING ACTIVITIES:				
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)
CASH FLOWS FROM FINANCING ACTIVITIES:				
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.

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.

8

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, journeyskidz.com, journeys.ca, shibyjourneys.com, 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 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® 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

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 reclassed 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:

(In thousands)	Foreign Currency Translation	Unrecognized Pension/Postretirement Benefit Costs	Total Accumulated Other Comprehensive Income (Loss)
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 (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 Sports Group	Schuh Group	Journeys Group	Total 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:

	Leases		Customer Lists		Other*		Total	
(In Thousands)	Oct. 28, 2017	Jan. 28, 2017	Oct. 28, 2017	Jan. 28, 2017	Oct. 28, 2017	Jan. 28, 2017	Oct. 28, 2017	Jan. 28, 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 Shutdown 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 28, 2017	January 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 Assets Held and Used	Level 1	Level 2	Level 3	Total Losses
Measured as of April 29, 2017	$ 14	$ —	$ —	$ 14	$ 119
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	
In thousands	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
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	
In thousands	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Service cost	$412	$412	$672	$ 496
Interest cost	2,460	3,090	264	199

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.

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

Note 7
Earnings Per Share

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