

GUESS INC
Form 10-Q
June 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-11893

GUESS?, INC.

(Exact name of registrant as specified in its charter)

Delaware 95-3679695

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

1444 South Alameda Street
Los Angeles, California 90021
(Address of principal executive offices) (Zip Code)
(213) 765-3100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 31, 2016 the registrant had 84,315,971 shares of Common Stock, \$.01 par value per share, outstanding.

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GUESS?, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	Apr 30, 2016 (unaudited)	Jan 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$427,485	\$445,480
Accounts receivable, net	177,669	222,359
Inventories	358,191	311,704
Other current assets	62,305	56,709
Total current assets	1,025,650	1,036,252
Property and equipment, net	265,818	255,344
Goodwill	34,762	33,412
Other intangible assets, net	7,279	7,269
Deferred tax assets	89,068	83,613
Other assets	130,199	122,858
	\$1,552,776	\$1,538,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$4,443	\$4,024
Accounts payable	179,533	177,505
Accrued expenses	135,446	145,530
Total current liabilities	319,422	327,059
Long-term debt	23,539	2,318
Deferred rent and lease incentives	78,576	76,968
Other long-term liabilities	100,922	95,858
	522,459	502,203
Redeemable noncontrolling interests	8,204	5,252
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, \$.01 par value. Authorized 150,000,000 shares; issued 140,511,873 and 140,028,937 shares, outstanding 84,326,321 and 83,833,937 shares, as of April 30, 2016 and January 30, 2016, respectively	843	838
Paid-in capital	472,090	468,574
Retained earnings	1,224,916	1,269,775
Accumulated other comprehensive loss	(126,536)	(158,054)
Treasury stock, 56,185,552 and 56,195,000 shares as of April 30, 2016 and January 30, 2016, respectively	(562,563)	(562,658)
Guess?, Inc. stockholders' equity	1,008,750	1,018,475
Nonredeemable noncontrolling interests	13,363	12,818
Total stockholders' equity	1,022,113	1,031,293

\$1,552,776 \$1,538,748

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands, except per share data)

(unaudited)

	Three Months Ended	
	Apr 30,	May 2,
	2016	2015
Product sales	\$426,468	\$452,959
Net royalties	22,347	25,865
Net revenue	448,815	478,824
Cost of product sales	306,056	313,339
Gross profit	142,759	165,485
Selling, general and administrative expenses	165,654	161,132
Restructuring charges	6,083	—
Earnings (loss) from operations	(28,978)	4,353
Other income (expense):		
Interest expense	(520)	(435)
Interest income	651	272
Other income (expense), net	(1,098)	2,626
	(967)	2,463
Earnings (loss) before income tax expense (benefit)	(29,945)	6,816
Income tax expense (benefit)	(4,791)	2,829
Net earnings (loss)	(25,154)	3,987
Net earnings attributable to noncontrolling interests	24	646
Net earnings (loss) attributable to Guess?, Inc.	\$(25,178)	\$3,341
Net earnings (loss) per common share attributable to common stockholders (Note 2):		
Basic	\$(0.30)	\$0.04
Diluted	\$(0.30)	\$0.04
Weighted average common shares outstanding attributable to common stockholders (Note 2):		
Basic	83,514	84,965
Diluted	83,514	85,099
Dividends declared per common share	\$0.225	\$0.225

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in thousands)
 (unaudited)

	Three Months Ended	
	Apr 30, 2016	May 2, 2015
Net earnings (loss)	\$ (25,154)	\$ 3,987
Other comprehensive income (loss) ("OCI"):		
Foreign currency translation adjustment		
Gains (losses) arising during the period	43,152	(703)
Derivative financial instruments designated as cash flow hedges		
Losses arising during the period	(12,243)	(1,295)
Less income tax effect	2,363	369
Reclassification to net earnings (loss) for gains realized	(1,416)	(2,236)
Less income tax effect	271	301
Marketable securities		
Gains (losses) arising during the period	1	(7)
Less income tax effect	—	3
Defined benefit plans		
Foreign currency and other adjustments	(164)	—
Less income tax effect	15	—
Actuarial loss amortization	86	513
Prior service credit amortization	(7)	(58)
Less income tax effect	(19)	(149)
Total comprehensive income	6,885	725
Less comprehensive income attributable to noncontrolling interests:		
Net earnings	24	646
Foreign currency translation adjustment	521	(364)
Amounts attributable to noncontrolling interests	545	282
Comprehensive income attributable to Guess?, Inc.	\$ 6,340	\$ 443

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended	
	Apr 30,	May 2,
	2016	2015
Cash flows from operating activities:		
Net earnings (loss)	\$(25,154)	\$3,987
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	16,215	17,789
Amortization of intangible assets	465	541
Share-based compensation expense	4,232	3,612
Unrealized forward contract losses	4,708	490
Net (gain) loss on disposition of property and equipment and long-term assets	178	(940)
Other items, net	(935)	(1,510)
Changes in operating assets and liabilities:		
Accounts receivable	44,957	24,038
Inventories	(33,973)	(7,027)
Prepaid expenses and other assets	(10,543)	(973)
Accounts payable and accrued expenses	(29,112)	(22,815)
Deferred rent and lease incentives	161	(2,605)
Other long-term liabilities	(2,043)	(5,452)
Net cash provided by (used in) operating activities	(30,844)	9,135
Cash flows from investing activities:		
Purchases of property and equipment	(17,841)	(11,604)
Proceeds from sale of long-term assets	7,500	—
Acquisition of businesses, net of cash acquired	(55)	(599)
Net cash settlement of forward contracts	310	1,668
Net cash used in investing activities	(10,086)	(10,535)
Cash flows from financing activities:		
Payment of debt issuance costs	(111)	—
Proceeds from borrowings	21,500	581
Repayment of capital lease obligations and borrowings	(472)	(593)
Dividends paid	(19,256)	(19,261)
Noncontrolling interest capital contributions	1,876	—
Noncontrolling interest capital distributions	—	(3,830)
Issuance of common stock, net of tax withholdings on vesting of stock awards	262	145
Excess tax benefits from share-based compensation	133	34
Net cash provided by (used in) financing activities	3,932	(22,924)
Effect of exchange rates on cash and cash equivalents	19,003	(31)
Net change in cash and cash equivalents	(17,995)	(24,355)
Cash and cash equivalents at the beginning of the year	445,480	483,483
Cash and cash equivalents at the end of the period	\$427,485	\$459,128
Supplemental cash flow data:		
Interest paid	\$310	\$232
Income taxes paid	\$5,335	\$1,258

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2016

(unaudited)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Guess?, Inc. and its subsidiaries (the “Company”) contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated balance sheets as of April 30, 2016 and January 30, 2016 and the condensed consolidated statements of income (loss), comprehensive income and cash flows for the three months ended April 30, 2016 and May 2, 2015. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three months ended April 30, 2016 are not necessarily indicative of the results of operations to be expected for the full fiscal year. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended January 30, 2016.

The three months ended April 30, 2016 had the same number of days as the three months ended May 2, 2015. All references herein to “fiscal 2017,” “fiscal 2016” and “fiscal 2015” represent the results of the 52-week fiscal year ending January 28, 2017 and the 52-week fiscal years ended January 30, 2016 and January 31, 2015, respectively.

New Accounting Guidance

Changes in Accounting Policies

In February 2015, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance which modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The Company adopted this guidance effective January 31, 2016. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements or related disclosures.

In April 2015, the FASB issued authoritative guidance to simplify the presentation of debt issuance costs by requiring such costs to be presented as a deduction from the corresponding debt liability. The Company adopted this guidance effective January 31, 2016. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements or related disclosures.

In April 2015, the FASB issued authoritative guidance which provides clarification on accounting for cloud computing arrangements which include a software license. The Company adopted this guidance effective January 31, 2016. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements or related disclosures.

In September 2015, the FASB issued authoritative guidance that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The Company adopted this guidance effective January 31, 2016. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements or related disclosures.

Recently Issued Accounting Guidance

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The

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standard also requires expanded disclosures surrounding revenue recognition. During the first quarter of fiscal 2017, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. The standard (including clarification guidance issued) is effective for fiscal periods beginning after December 15, 2017, which will be the Company's first quarter of fiscal 2019, and allows for either full retrospective or modified retrospective adoption. Early adoption is permitted for fiscal periods beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures, including the choice of application method upon adoption.

In July 2015, the FASB issued authoritative guidance to simplify the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. This guidance is effective for fiscal years beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, and requires prospective adoption, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In January 2016, the FASB issued authoritative guidance which requires equity investments not accounted for under the equity method of accounting or consolidation accounting to be measured at fair value, with subsequent changes in fair value recognized in net income. This guidance also addresses other recognition, measurement, presentation and disclosure requirements for financial instruments. This guidance is effective for fiscal years beginning after December 15, 2017, which will be the Company's first quarter of fiscal 2019, and requires a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued a comprehensive new lease standard which will supersede previous lease guidance. The standard requires a lessee to recognize assets and liabilities related to long-term leases that were classified as operating leases under previous guidance in its balance sheet. An asset would be recognized related to the right to use the underlying asset and a liability would be recognized related to the obligation to make lease payments over the term of the lease. The standard also requires expanded disclosures surrounding leases. The standard is effective for fiscal periods beginning after December 15, 2018, which will be the Company's first quarter of fiscal 2020, and requires modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures, but expects there will be a significant increase in its long-term assets and liabilities resulting from the adoption.

In March 2016, the FASB issued authoritative guidance to simplify the accounting for certain aspects of share-based compensation. This guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. This guidance also addresses other recognition, measurement and presentation requirements for share-based compensation. This guidance is effective for fiscal years beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

(2) Earnings (Loss) Per Share

Basic earnings (loss) per share represents net earnings (loss) attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding does not include restricted stock units with forfeitable dividend rights that have been classified as issued and outstanding but are considered contingently returnable as a result of certain service conditions. These restricted stock units are considered common equivalent shares outstanding and are excluded from the basic earnings (loss) per share calculation until the respective service conditions have been met. Diluted earnings (loss) per share represents net earnings (loss) attributable to common stockholders divided by the weighted average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating

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securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method since the nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, earnings attributable to nonvested restricted stockholders are excluded from net earnings (loss) attributable to common stockholders for purposes of calculating basic and diluted earnings (loss) per common share. However, net losses are not allocated to nonvested restricted stockholders since they are not contractually obligated to share in the losses of the Company.

In addition, the Company has granted certain nonvested stock units that are subject to certain performance-based or market-based vesting conditions as well as continued service requirements through the respective vesting periods. These nonvested stock units are included in the computation of diluted net earnings (loss) per common share attributable to common stockholders only to the extent that the underlying performance-based or market-based vesting conditions are satisfied as of the end of the reporting period, or would be considered satisfied if the end of the reporting period were the end of the related contingency period, and the results would be dilutive under the treasury stock method.

The computation of basic and diluted net earnings (loss) per common share attributable to common stockholders is as follows (in thousands, except per share data):

	Three Months Ended	
	Apr 30, 2016	May 2, 2015
Net earnings (loss) attributable to Guess?, Inc.	\$ (25,178)	\$ 3,341
Less net earnings attributable to nonvested restricted stockholders	150	84
Net earnings (loss) attributable to common stockholders	\$ (25,328)	\$ 3,257
Weighted average common shares used in basic computations	83,514	84,965
Effect of dilutive securities:		
Stock options and restricted stock units	—	134
Weighted average common shares used in diluted computations	83,514	85,099
Net earnings (loss) per common share attributable to common stockholders:		
Basic	\$ (0.30)	\$ 0.04
Diluted	\$ (0.30)	\$ 0.04

For the three months ended April 30, 2016 and May 2, 2015, equity awards granted for 3,022,961 and 2,124,253, respectively, of the Company's common shares were outstanding but were excluded from the computation of diluted weighted average common shares and common equivalent shares outstanding because the assumed proceeds, as calculated under the treasury stock method, resulted in these awards being antidilutive. For three months ended April 30, 2016 and May 2, 2015, the Company also excluded 602,816 and 175,866 nonvested stock units, respectively, which were subject to the achievement of performance-based or market-based vesting conditions from the computation of diluted weighted average common shares and common equivalent shares outstanding because these conditions were not achieved as of the end of each of the respective periods.

For the three months ended April 30, 2016, there were 249,003 potentially dilutive shares that were not included in the computation of diluted weighted average common shares and common equivalent shares outstanding because their effect would have been antidilutive given the Company's net loss.

Share Repurchase Program

On June 26, 2012, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock. Repurchases under the program may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program, which may be discontinued at any time, without prior notice. As of April 30, 2016, the Company had remaining authority under the program to purchase \$451.8 million of its common stock. There were no share

repurchases during the three months ended April 30, 2016 and May 2, 2015.

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(3) Stockholders' Equity and Redeemable Noncontrolling Interests

A reconciliation of common stock outstanding, treasury stock and the total carrying amount of total stockholders' equity, Guess?, Inc. stockholders' equity and stockholders' equity attributable to nonredeemable and redeemable noncontrolling interests for the fiscal year ended January 30, 2016 and three months ended April 30, 2016 is as follows (in thousands, except share data):

	Shares		Stockholders' Equity			Redeemable Noncontrolling Interests
	Common Stock	Treasury Stock	Guess?, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total	
Balance at January 31, 2015	85,323,154	54,235,846	\$ 1,073,856	\$ 15,590	\$ 1,089,446	\$ 4,437
Net earnings	—	—	81,851	2,964	84,815	—
Foreign currency translation adjustment	—	—	(36,083	) (1,661	) (37,744	) (476
Gain on derivative financial instruments designated as cash flow hedges, net of income tax of (\$559)	—	—	95	—	95	—
Loss on marketable securities, net of income tax of \$7	—	—	(12	) —	(12) —
Actuarial valuation gain (loss) and related amortization, plan amendment, curtailment, prior service credit amortization and foreign currency and other adjustments on defined benefit plans, net of income tax of (\$2,972)	—	—	5,011	—	5,011	—
Issuance of common stock under stock compensation plans, net of tax effect	469,937	—	(4,023	) —	(4,023) —
Issuance of stock under Employee Stock Purchase Plan	40,846	(40,846	) 660	—	660	—
Share-based compensation	—	—	18,880	—	18,880	—
Dividends	—	—	(77,287	) —	(77,287) —
Share repurchases	(2,000,000	) 2,000,000	(44,053	) —	(44,053) —
Noncontrolling interest capital contribution	—	—	—	—	—	871
Noncontrolling interest capital distribution	—	—	—	(4,075	) (4,075) —
Redeemable noncontrolling interest redemption value adjustment	—	—	(420	) —	(420	) 420
Balance at January 30, 2016	83,833,937	56,195,000	\$ 1,018,475	\$ 12,818	\$ 1,031,293	\$ 5,252
Net earnings (loss)	—	—	(25,178	) 24	(25,154) —
Foreign currency translation adjustment	—	—	42,631	521	43,152	406
Loss on derivative financial instruments designated as cash flow hedges, net of income tax of \$2,634	—	—	(11,025	) —	(11,025) —
Gain on marketable securities, net of minimal tax effect	—	—	1	—	1	—
	—	—	(89	) —	(89) —

Actuarial valuation and prior service credit amortization and foreign currency and other adjustments on defined benefit plans, net of income tax of (\$4)							
Issuance of common stock under stock compensation plans, net of tax effect	482,936	—	(640)	) —	(640)) —	
Issuance of stock under Employee Stock Purchase Plan	9,448	(9,448)	) 150	—	150	—	
Share-based compensation	—	—	4,232	—	4,232	—	
Dividends	—	—	(19,137)	) —	(19,137)) —	
Noncontrolling interest capital contribution	—	—	—	—	—	1,876	
Redeemable noncontrolling interest redemption value adjustment	—	—	(670)) —	(670)) 670	
Balance at April 30, 2016	84,326,321	56,185,552	\$1,008,750	\$ 13,363	\$1,022,113	\$ 8,204	

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Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), net of related income taxes, for the three months ended April 30, 2016 and May 2, 2015 are as follows (in thousands):

	Three Months Ended Apr 30, 2016				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at January 30, 2016	\$ (157,652)	\$ 7,252	\$ (15)	\$ (7,639)	\$ (158,054)
Gains (losses) arising during the period	42,631	(9,880)	1	(149)	32,603
Reclassification to net loss for (gains) losses realized	—	(1,145)	—	60	(1,085)
Net other comprehensive income (loss)	42,631	(11,025)	1	(89)	31,518
Balance at April 30, 2016	\$ (115,021)	\$ (3,773)	\$ (14)	\$ (7,728)	\$ (126,536)
	Three Months Ended May 2, 2015				
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at January 31, 2015	\$ (121,569)	\$ 7,157	\$ (3)	\$ (12,650)	\$ (127,065)
Losses arising during the period	(339)	(926)	(4)	—	(1,269)
Reclassification to net earnings for (gains) losses realized	—	(1,935)	—	306	(1,629)
Net other comprehensive income (loss)	(339)	(2,861)	(4)	306	(2,898)
Balance at May 2, 2015	\$ (121,908)	\$ 4,296	\$ (7)	\$ (12,344)	\$ (129,963)

Details on reclassifications out of accumulated other comprehensive income (loss) to net earnings (loss) during the three months ended April 30, 2016 and May 2, 2015 are as follows (in thousands):

	Three Months Ended		Location of (Gain) Loss Reclassified from Accumulated OCI into Earnings (Loss)
	Apr 30, 2016	May 2, 2015	
Derivative financial instruments designated as cash flow hedges:			
Foreign exchange currency contracts	\$(1,435)	\$(1,750)	Cost of product sales
Foreign exchange currency contracts	(32)	(486)	Other income/expense
Interest rate swap	51	—	Interest expense
Less income tax effect	271	301	Income tax expense (benefit)
	(1,145)	(1,935)	
Defined benefit plans:			
Actuarial loss amortization	86	513	(1)
Prior service credit amortization	(7)	(58)	(1)
Less income tax effect	(19)	(149)	Income tax expense (benefit)
	60	306	
Total reclassifications during the period	\$(1,085)	\$(1,629)	

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic defined benefit pension cost. Refer to Note 13 for further information.

Redeemable Noncontrolling Interests

The Company is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest from the acquisition of its majority-owned subsidiary, Guess Sud SAS (“Guess Sud”). The put arrangement for Guess Sud, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holders by providing written notice to the Company

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any time after January 30, 2012. The put arrangement is recorded on the balance sheet at its expected redemption value based on a method which approximates fair value and is classified as a redeemable noncontrolling interest outside of permanent equity. The redemption value of the Guess Sud redeemable put arrangement was \$4.6 million and \$3.7 million as of April 30, 2016 and January 30, 2016, respectively. In May 2016, the Company acquired the remaining 40% interest from the noncontrolling interest holder.

The Company is also party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest for its majority-owned subsidiary, Guess Brasil Comércio e Distribuição S.A. (“Guess Brazil”), which was established through a majority-owned joint venture during fiscal 2014. The put arrangement for Guess Brazil, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company beginning in the sixth year of the agreement, or sooner in certain limited circumstances, and every third anniversary from the end of the sixth year thereafter subject to certain time restrictions. The redemption value of the Guess Brazil put arrangement is based on a multiple of Guess Brazil’s earnings before interest, taxes, depreciation and amortization subject to certain adjustments and is classified as a redeemable noncontrolling interest outside of permanent equity in the Company’s condensed consolidated balance sheet. During the three months ended April 30, 2016, the Company and the noncontrolling interest holder increased their capital contributions by \$1.0 million, of which \$0.6 million was paid by the Company and the remaining amount was paid by the noncontrolling interest holder to retain the same pro-rata interest in Guess Brazil. The carrying value of the redeemable noncontrolling interest related to Guess Brazil was \$1.2 million and \$0.7 million as of April 30, 2016 and January 30, 2016, respectively.

During fiscal 2016, the Company entered into a new majority-owned joint venture to establish Guess? CIS, LLC (“Guess CIS”) which is based in Russia. The Company made an initial contribution of \$2.0 million to obtain a 70% interest in Guess CIS and is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest. During the three months ended April 30, 2016, the Company and the noncontrolling interest holder increased their capital contributions by \$5.0 million, of which \$3.5 million was paid by the Company and the remaining amount was paid by the noncontrolling interest holder to retain the same pro-rata interest in Guess CIS. The put arrangement may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company during the period beginning after the fifth anniversary of the agreement through December 31, 2025, or sooner in certain limited circumstances. The redemption value of the Guess CIS put arrangement is based on a multiple of Guess CIS’s earnings before interest, taxes, depreciation and amortization subject to certain adjustments and is classified as a redeemable noncontrolling interest outside of permanent equity in the Company’s condensed consolidated balance sheet. The carrying value of the redeemable noncontrolling interest related to Guess CIS was \$2.4 million and \$0.9 million as of April 30, 2016 and January 30, 2016, respectively.

(4) Accounts Receivable

Accounts receivable is summarized as follows (in thousands):

	Apr 30, 2016	Jan 30, 2016
Trade	\$188,769	\$222,972
Royalty	13,273	16,443
Other	8,770	16,493
	210,812	255,908
Less allowances	33,143	33,549
	\$177,669	\$222,359

Accounts receivable consists of trade receivables relating primarily to the Company’s wholesale business in Europe, and to a lesser extent, to its wholesale businesses in the Americas and Asia, royalty receivables relating to its licensing operations and certain other receivables. Other receivables generally relate to amounts due to the Company that result from activities that are not related to the direct sale of the Company’s products or collection of royalties. The accounts receivable allowance includes allowances for doubtful accounts, wholesale sales returns and wholesale markdowns. Retail sales returns allowances are included in accrued expenses.

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(5) Inventories

Inventories consist of the following (in thousands):

	Apr 30, 2016	Jan 30, 2016
Raw materials	\$2,251	\$2,043
Work in progress	116	92
Finished goods	355,824	309,569
	\$358,191	\$311,704

The above balances include an allowance to write down inventories to the lower of cost or market of \$18.9 million and \$15.9 million as of April 30, 2016 and January 30, 2016, respectively.

(6) Restructuring Charges

During the first quarter of fiscal 2017, the Company initiated a global cost reduction and restructuring plan to better align its global cost and organizational structure with its current strategic initiatives. This plan includes the consolidation and streamlining of the Company's business processes and a reduction in its global workforce and other expenses. These actions resulted in restructuring charges of \$6.1 million related primarily to cash-based severance costs during the three months ended April 30, 2016. As of April 30, 2016, the Company had a balance of approximately \$5.1 million in accrued expenses for amounts expected to be paid during the remainder of fiscal 2017. The Company currently estimates that it may incur an additional \$1 million to \$2 million in future cash-based severance charges during the remainder of fiscal 2017. The Company's assessment of the costs associated with the restructuring-related activities is still ongoing and actual amounts could differ significantly from these estimates as plans evolve, details are finalized and negotiations are completed.

The following table summarizes restructuring activities related primarily to severance during the three months ended April 30, 2016 (in thousands):

	Total
Balance at January 30, 2016	\$—
Charges to operations	6,083
Cash payments	(930)
Foreign currency and other adjustments	(7)
Balance at April 30, 2016	\$5,146

During the three months ended April 30, 2016, the Company also incurred an estimated exit tax charge of approximately \$1.9 million related to its reorganization in Europe as a result of the global cost reduction and restructuring plan.

(7) Income Taxes

Income tax expense (benefit) for the interim periods was computed using the effective tax rate estimated to be applicable for the full fiscal year. The Company's effective income tax rate decreased to 16.0% for the three months ended April 30, 2016 from 41.5% for the three months ended May 2, 2015. The change in the effective income tax rate was due primarily to a shift in the distribution of earnings among the Company's tax jurisdictions within the quarters of the current fiscal year and more losses incurred in certain foreign jurisdictions where the Company has valuation allowances during the three months ended April 30, 2016 compared to the same prior-year period.

From time-to-time, the Company is subject to routine income tax audits on various tax matters around the world in the ordinary course of business. As of April 30, 2016, several income tax audits were underway for various periods in multiple jurisdictions. The Company accrues an amount for its estimate of additional income tax liability which the Company, more likely than not, could incur as a result of the ultimate resolution of income tax audits ("uncertain tax positions"). The Company reviews and updates the