

GENESCO INC  
Form 10-Q  
December 10, 2015  
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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 October 31, 2015

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 37217-2895  
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer; an accelerated filer; a non-accelerated filer; or a smaller reporting company. See 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  (Do not check if smaller reporting  
company) 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

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As of November 27, 2015, 22,090,544 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	October 31, 2015	January 31, 2015	November 1, 2014
Current Assets:			
Cash and cash equivalents	\$28,148	\$112,867	\$38,026
Accounts receivable, net of allowances of \$5,036 at October 31, 2015, \$4,191 at January 31, 2015 and \$4,462 at November 1, 2014	82,136	55,263	71,796
Inventories	779,895	598,145	737,577
Deferred income taxes	31,464	28,293	23,651
Prepays and other current assets	65,448	53,090	60,002
Total current assets	987,091	847,658	931,052
Property and equipment:			
Land	8,267	7,653	7,822
Buildings and building equipment	34,687	32,872	33,764
Computer hardware, software and equipment	181,810	164,512	152,770
Furniture and fixtures	203,201	192,078	192,830
Construction in progress	47,712	25,587	34,643
Improvements to leased property	352,731	349,087	348,515
Property and equipment, at cost	828,408	771,789	770,344
Accumulated depreciation	(506,339)	(466,037)	(455,680)
Property and equipment, net	322,069	305,752	314,664
Deferred income taxes	27	31	4,335
Goodwill	298,990	296,865	304,552
Trademarks, net of accumulated amortization of \$5,652 at October 31, 2015, \$5,054 at January 31, 2015 and \$4,867 at November 1, 2014	82,094	82,263	84,947
Other intangibles, net of accumulated amortization of \$25,413 at October 31, 2015, \$23,389 at January 31, 2015 and \$22,802 at November 1, 2014	9,649	11,585	12,590
Other noncurrent assets	43,784	38,933	17,105
Total Assets	\$1,743,704	\$1,583,087	\$1,669,245



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

Liabilities and Equity	October 31, 2015	January 31, 2015	November 1, 2014
<b>Current Liabilities:</b>			
Accounts payable	\$270,951	\$176,307	\$248,782
Accrued employee compensation	25,759	88,030	83,042
Accrued other taxes	22,702	33,965	21,501
Accrued income taxes	3,792	12,921	6,121
Current portion – long-term debt	15,437	13,152	35,347
Other accrued liabilities	85,063	71,036	82,170
Provision for discontinued operations	10,904	10,505	7,759
<b>Total current liabilities</b>	<b>434,608</b>	<b>405,916</b>	<b>484,722</b>
Long-term debt	199,691	16,003	79,688
Pension liability	21,441	22,184	8,597
Deferred rent and other long-term liabilities	153,329	135,953	120,790
Provision for discontinued operations	4,272	4,254	4,790
<b>Total liabilities</b>	<b>813,341</b>	<b>584,310</b>	<b>698,587</b>
Commitments and contingent liabilities			
<b>Equity:</b>			
Non-redeemable preferred stock	1,233	1,274	1,286
<b>Common equity:</b>			
Common stock, \$1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
October 31, 2015 – 22,579,008/22,090,544			
January 31, 2015 – 24,515,362/24,026,898			
November 1, 2014 – 24,566,507/24,078,043	22,579	24,515	24,566
Additional paid-in capital	220,379	208,888	205,485
Retained earnings	739,180	820,563	773,804
Accumulated other comprehensive loss	(37,055)	(40,576)	(18,820)
Treasury shares, at cost (488,464 shares)	(17,857)	(17,857)	(17,857)
<b>Total Genesco equity</b>	<b>928,459</b>	<b>996,807</b>	<b>968,464</b>
Noncontrolling interest – non-redeemable	1,904	1,970	2,194
<b>Total equity</b>	<b>930,363</b>	<b>998,777</b>	<b>970,658</b>
<b>Total Liabilities and Equity</b>	<b>\$1,743,704</b>	<b>\$1,583,087</b>	<b>\$1,669,245</b>

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

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

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net sales	\$773,898	\$722,915	\$2,090,020	\$1,967,214
Cost of sales	400,012	364,426	1,069,710	991,036
Selling and administrative expenses	321,685	310,893	935,540	894,469
Asset impairments and other, net	151	1,036	3,970	1,347
Earnings from operations	52,050	46,560	80,800	80,362
Indemnification asset write-off	—	7,050	—	7,050
Interest expense, net:				
Interest expense	1,314	914	2,919	2,447
Interest income	16	(23)	(16)	(73)
Total interest expense, net	1,330	891	2,903	2,374
Earnings from continuing operations before income taxes	50,720	38,619	77,897	70,938
Income tax expense	17,865	9,869	27,504	23,322
Earnings from continuing operations	32,855	28,750	50,393	47,616
Provision for discontinued operations, net	(348)	(88)	(488)	(287)
Net Earnings	\$32,507	\$28,662	\$49,905	\$47,329
Basic earnings per common share:				
Continuing operations	\$1.44	\$1.22	\$2.16	\$2.03
Discontinued operations	(0.02)	(0.01)	(0.02)	(0.02)
Net earnings	\$1.42	\$1.21	\$2.14	\$2.01
Diluted earnings per common share:				
Continuing operations	\$1.43	\$1.21	\$2.15	\$2.01
Discontinued operations	(0.01)	0.00	(0.02)	(0.01)
Net earnings	\$1.42	\$1.21	\$2.13	\$2.00

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 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014	
Net earnings	\$32,507	\$28,662	\$49,905	\$47,329	
Other comprehensive income (loss):					
Pension liability adjustments, net of tax of \$0.5 million and \$1.5 million for the three and nine months ended October 31, 2015 and \$0.4 million and \$1.1 million for the three and nine months ended November 1, 2014	727	521	2,279	1,628	
Postretirement liability adjustments, net of tax of \$0.1 million and (\$0.2 million) for the three and nine months ended October 31, 2015 and \$0.0 million for the three and nine months ended November 1, 2014	29	15	(376	) 48	
Foreign currency translation adjustments	(1,654	) (6,856	) 1,618	(3,729	)
Total other comprehensive income (loss)	(898	) (6,320	) 3,521	(2,053	)
Comprehensive income	\$31,609	\$22,342	\$53,426	\$45,276	

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



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

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net earnings	\$32,507	\$28,662	\$49,905	\$47,329
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:				
Depreciation and amortization	19,294	19,006	58,169	54,755
Amortization of deferred note expense and debt discount	222	173	604	518
Deferred income taxes	(622	) (8,022	) 3,193	(6,413
Recoveries on accounts receivable	283	317	219	79
Tax indemnification asset write-off	—	7,050	—	7,050
Impairment of long-lived assets	90	397	1,787	1,639
Restricted stock expense	3,550	3,435	10,450	9,943
Provision for discontinued operations	570	144	801	472
Tax benefit of stock options and restricted stock	(30	) (21	) (89	) (3,119
Other	394	329	1,155	791
Effect on cash from changes in working capital and other assets and liabilities, net of acquisitions:				
Accounts receivable	(24,097	) (15,550	) (26,919	) (16,682
Inventories	(45,797	) (66,219	) (181,524	) (163,339
Prepays and other current assets	5,080	12,480	(12,159	) (5,780
Accounts payable	12,838	7,539	91,757	93,868
Other accrued liabilities	10,175	22,215	(79,322	) 41,382
Other assets and liabilities	4,789	(10,902	) 6,051	(53,596
Net cash provided by (used in) operating activities	19,246	1,033	(75,922	) 8,897
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Capital expenditures	(31,525	) (32,580	) (77,796	) (85,317
Acquisitions, net of cash acquired	—	(31,684	) —	(34,917
Proceeds from asset sales	21	79	55	235
Net cash used in investing activities	(31,504	) (64,185	) (77,741	) (119,999
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Payments of long-term debt	(5,137	) (3,057	) (17,741	) (10,755
Proceeds from issuance of long-term debt	—	2,433	27,417	26,253
Borrowings under revolving credit facility	206,037	129,750	288,177	212,950
Payments on revolving credit facility	(98,200	) (88,750	) (111,600	) (150,750
Tax benefit of stock options and restricted stock	30	21	89	3,119
Share repurchases	(99,120	) (946	) (120,815	) (946
Change in overdraft balances	(12,676	) 2,383	2,503	7,969
Additions to deferred note cost	(16	) —	(655	) —
Exercise of stock options	500	322	1,076	2,009
Other	—	—	—	(42
Net cash (used in) provided by financing activities	(8,582	) 42,156	68,451	89,807
Effect of foreign exchange rate fluctuations on cash	(9	) (281	) 493	(126

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Net Decrease in Cash and Cash Equivalents	(20,849	) (21,277	)(84,719	) (21,421	)
Cash and cash equivalents at beginning of period	48,997	59,303	112,867	59,447	
Cash and cash equivalents at end of period	\$28,148	\$38,026	\$28,148	\$38,026	
Supplemental Cash Flow Information:					
Net cash paid (received) for:					
Interest	\$1,140	\$658	\$2,065	\$1,952	
Income taxes	5,895	(1,202	)39,677	23,775	

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

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

	Total 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 February 1, 2014	\$ 1,305	\$24,408	\$190,568	\$734,533	\$ (16,767 )	\$(17,857)	\$ 1,933	\$918,123
Net earnings	—	—	—	97,725	—	—	—	97,725
Other comprehensive loss	—	—	—	—	(23,809 )	—	—	(23,809 )
Exercise of stock options	—	69	1,749	—	—	—	—	1,818
Issue shares – Employee Stock Purchase Plan	—	3	188	—	—	—	—	191
Employee and non-employee restricted stock	—	—	13,392	—	—	—	—	13,392
Restricted stock issuance	—	202	(202 )	—	—	—	—	—
Restricted shares withheld for taxes	—	(88 )	88	(7,125 )	—	—	—	(7,125 )
Tax benefit of stock options and restricted stock exercised	—	—	3,061	—	—	—	—	3,061
Shares repurchased	—	(65 )	—	(4,570 )	—	—	—	(4,635 )
Other	(31 )	(14 )	44	—	—	—	—	(1 )
Noncontrolling interest – gain	—	—	—	—	—	—	37	37
Balance January 31, 2015	1,274	24,515	208,888	820,563	(40,576 )	(17,857 )	1,970	998,777
Net earnings	—	—	—	49,905	—	—	—	49,905
Other comprehensive income	—	—	—	—	3,521	—	—	3,521
Exercise of stock options	—	30	1,046	—	—	—	—	1,076
Issue shares - Employee Stock Purchase Plan	—	3	131	—	—	—	—	134
Employee and non-employee restricted stock	—	—	10,450	—	—	—	—	10,450
Restricted stock issuance	—	239	(239 )	—	—	—	—	—

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Restricted shares withheld for taxes	—	(66 )	66	(4,408 )	—	—	—	(4,408 )
Tax benefit of stock options and restricted stock exercised	—	—	(13 )	—	—	—	—	(13 )
Shares repurchased	—	(2,133 )	—	(126,880 )	—	—	—	(129,013 )
Other	(41 )	(9 )	50	—	—	—	—	—
Noncontrolling interest – loss	—	—	—	—	—	—	(66 )	(66 )
Balance October 31, 2015	\$ 1,233	\$ 22,579	\$ 220,379	\$ 739,180	\$ (37,055 )	\$ (17,857)	\$ 1,904	\$ 930,363

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

Interim Statements

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 January 30, 2016 ("Fiscal 2016") and of the fiscal year ended January 31, 2015 ("Fiscal 2015"). The results of operations for any interim period are not necessarily indicative of results for the full year. The interim financial statements should be read in conjunction with the financial statements and notes thereto included in Genesco Inc.'s Annual Report on Form 10-K.

Nature of Operations

Genesco Inc. and its subsidiaries (collectively, the "Company") business includes the design and sourcing, 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, Underground by Journeys and Johnston & Murphy banners and under the Schuh banner in the United Kingdom, the Republic of Ireland and Germany; through e-commerce websites including [journeys.com](http://journeys.com), [journeyskidz.com](http://journeyskidz.com), [shibyjourneys.com](http://shibyjourneys.com), [schuh.co.uk](http://schuh.co.uk), [johnstonmurphy.com](http://johnstonmurphy.com) and [trask.com](http://trask.com) and catalogs, 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, and the Company's SureGrip® line of slip-resistant, occupational footwear. The Company's business also includes Lids Sports Group, which operates headwear and accessory stores in the U.S. and Canada primarily under the Lids banner; the Lids Locker Room and Lids Clubhouse businesses, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating under various trade names; licensed team merchandise departments in Macy's department stores operated under the name Locker Room by Lids and on [macys.com](http://macys.com), under a license agreement with Macy's; certain e-commerce operations including [lids.com](http://lids.com), [lids.ca](http://lids.ca), [lidslockerroom.com](http://lidslockerroom.com) and [lidsclubhouse.com](http://lidsclubhouse.com); and an athletic team dealer business operating as Lids Team Sports. Including both the footwear businesses and the Lids Sports Group business, at October 31, 2015, the Company operated 2,817 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 31, 2015 and November 1, 2014, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Underground by Journeys retail footwear chains, e-commerce operations and catalog; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised as described in the preceding paragraph; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce and catalog operations and wholesale distribution of products under the Johnston & Murphy and Trask brands; and (v) Licensed Brands, comprised of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip® Footwear, occupational footwear primarily sold directly to consumers; and other brands.

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

Note 1  
Summary of Significant Accounting Policies, Continued

Principles of Consolidation

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

Use of Estimates

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

Significant areas requiring management estimates or judgments include the following key financial areas:

Inventory Valuation

The Company values its inventories at the lower of cost or market.

In its footwear wholesale operations, its Schuh Group segment and its Lids Sports Group wholesale operations, cost is determined using the first-in, first-out method. Market value is determined using a system of analysis which evaluates inventory at the stock number level based on factors such as inventory turn, average selling price, inventory level, and selling prices reflected in future orders. The Company provides reserves when the inventory has not been marked down to market value based on current selling prices or when the inventory is not turning and is not expected to turn at levels satisfactory to the Company.

The Lids Sports Group retail segment employs the moving average cost method for valuing inventories and apply freight using an allocation method. The Company provides a valuation allowance for slow-moving inventory based on negative margins and estimated shrink based on historical experience and specific analysis, where appropriate.

In its retail operations, other than the Schuh Group and Lids Sports Group retail segments, the Company employs the retail inventory method, applying average cost-to-retail ratios to the retail value of inventories. Under the retail inventory method, valuing inventory at the lower of cost or market is achieved as markdowns are taken or accrued as a reduction of the retail value of inventories.

Inherent in the retail inventory method are subjective judgments and estimates, including merchandise mark-on, markups, markdowns, and shrinkage. These judgments and estimates, coupled with the fact that the retail inventory method is an averaging process, could produce a range of cost figures. To reduce the risk of inaccuracy and to ensure consistent presentation, the Company employs the retail inventory method in multiple subclasses of inventory with similar gross margins, and analyzes markdown requirements at the stock number level based on factors such as inventory turn, average selling price, and inventory age. In addition, the Company accrues

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

Note 1  
Summary of Significant Accounting Policies, Continued

markdowns as necessary. These additional markdown accruals reflect all of the above factors as well as current agreements to return products to vendors and vendor agreements to provide markdown support. In addition to markdown provisions, the Company maintains provisions for shrinkage and damaged goods based on historical rates.

Inherent in the analysis of both wholesale and retail inventory valuation are subjective judgments about current market conditions, fashion trends, and overall economic conditions. Failure to make appropriate conclusions regarding these factors may result in an overstatement or understatement of inventory value.

Impairment of Long-Lived Assets

The Company periodically assesses the realizability of its long-lived assets, other than goodwill, and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Inherent in the analysis of impairment are subjective judgments about future cash flows. Failure to make appropriate conclusions regarding these judgments may result in an overstatement or understatement of the value of long-lived assets. See also Notes 3 and 5.

The goodwill impairment test involves performing a qualitative assessment, on a reporting unit level, based on current circumstances. If the results of the qualitative assessment indicate that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, a two-step impairment test will not be performed. However, if the results of the qualitative assessment indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a two-step impairment test is performed. Alternatively, the Company may elect to bypass the qualitative assessment and proceed directly to the two-step impairment test, on a reporting unit level basis. The first step is a comparison of the fair value and carrying value of the business unit with which the goodwill is associated. The Company estimates fair value using the best information available, and computes the fair value derived by an income approach utilizing discounted cash flow projections. The income approach uses a projection of a reporting unit's estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. A key assumption in the Company's fair value estimate is the weighted average cost of capital utilized for discounting its cash flow projections in its income approach. The Company believes the rate it used in its latest test was consistent with the risks inherent in its business and with industry discount rates. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in sales, costs, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements.

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

Note 1  
Summary of Significant Accounting Policies, Continued

If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of reporting unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, the Company would allocate the fair value of the reporting unit to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.6 million and \$0.1 million for the third quarter of Fiscal 2016 and 2015, respectively, and \$0.8 million and \$0.5 million for the first nine months of Fiscal 2016 and 2015, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's reserves and accruals, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a best estimate of probable loss connected to the proceeding, or in cases in which no best estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves, that some or all reserves will be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company's financial condition, cash flows, or results of operations. See also Notes 3 and 9.

Revenue Recognition

Retail sales are recorded at the point of sale and are net of estimated returns and exclude sales and value added taxes. Catalog and internet sales are recorded at estimated time of delivery to the customer and are net of estimated returns and exclude 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. Shipping and handling costs charged to customers are included in net sales. Estimated returns are based on historical returns and claims. Historically, actual amounts of markdowns have not differed materially from estimates. Actual returns and claims in any future period may differ from historical experience.



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Note 1  
Summary of Significant Accounting Policies, Continued

Income Taxes

As part of the process of preparing the Condensed Consolidated Financial Statements, the Company is required to estimate its income taxes in each of the tax jurisdictions in which it operates. This process involves estimating current tax obligations together with assessing temporary differences resulting from differing treatment of certain items for tax and accounting purposes, such as depreciation of property and equipment and valuation of inventories. These temporary differences result in deferred tax assets and liabilities, which are included within the Condensed Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income or other sources. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. To the extent the Company believes that recovery of an asset is at risk, valuation allowances are established. To the extent valuation allowances are established or increased in a period, the Company includes an expense within the tax provision in the Condensed Consolidated Statements of Operations. These deferred tax valuation allowances may be released in future years when management considers that it is more likely than not that some portion or all of the deferred tax assets will be realized. In making such a determination, management will need to periodically evaluate whether or not all available evidence, such as future taxable income and reversal of temporary differences, tax planning strategies, and recent results of operations, provides sufficient positive evidence to offset any potential negative evidence that may exist at such time. In the event the deferred tax valuation allowance is released, the Company would record an income tax benefit for the portion or all of the deferred tax valuation allowance released. At October 31, 2015, the Company had a deferred tax valuation allowance of \$3.1 million.

Income tax reserves for uncertain tax positions are determined using the methodology required by the Income Tax Topic of the Accounting Standards Codification ("Codification"). This methodology requires companies to assess each income tax position taken using a two step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company's determinations and estimates prove to be inaccurate, the resulting adjustments could be material to its future financial results.

The Company recorded an effective income tax rate of 35.2% in the third quarter of Fiscal 2016 compared to 25.6% for the same period last year and 35.3% and 32.9% for the first nine months of Fiscal 2016 and 2015, respectively. The tax rate for Fiscal 2016 was higher compared to Fiscal 2015 primarily due to a \$7.0 million reversal of charges previously recorded related to formerly uncertain tax positions that were taken by Schuh at the time of the purchase by the Company, which were favorably resolved during the third quarter of Fiscal 2015. Related to the same uncertain tax position, the Company wrote off a \$7.1 million indemnification asset during the third quarter of Fiscal 2015.

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Note 1  
Summary of Significant Accounting Policies, Continued

Postretirement Benefits Plan Accounting

Full-time employees who had at least 1000 hours of service in calendar year 2004, except employees in the Lids Sports Group and Schuh Group segments, are covered by a defined benefit pension plan. The Company froze the defined benefit pension plan effective January 1, 2005. The Company also provides certain former employees with medical and life insurance benefits. The Company funds at least the minimum amount required by the Employee Retirement Income Security Act.

As required by the Compensation – Retirement Benefits Topic of the Codification, the Company is required to recognize the overfunded or underfunded status of postretirement benefit plans as an asset or liability in its Condensed Consolidated Balance Sheets and to recognize changes in that funded status in accumulated other comprehensive loss, net of tax, in the year in which the changes occur.

The Company recognizes pension expense on an accrual basis over employees' approximate service periods. The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate, as well as the recognition of actuarial gains and losses. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions.

The Company utilizes a calculated value of assets, which is an averaging method that recognizes changes in the fair values of assets over a period of five years. Accounting principles generally accepted in the United States require that the Company recognize a portion of these losses when they exceed a calculated threshold. These losses might be recognized as a component of pension expense in future years and would be amortized over the average future service of employees, which is currently approximately six years.

Cash and Cash Equivalents

The Company had total available cash and cash equivalents of \$28.1 million, \$112.9 million and \$38.0 million as of October 31, 2015, January 31, 2015 and November 1, 2014, respectively, of which approximately \$3.1 million, \$25.2 million and \$13.7 million was held by the Company's foreign subsidiaries as of October 31, 2015, January 31, 2015 and November 1, 2014, 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 permanently 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 31, 2015, January 31, 2015 and November 1, 2014. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less.

At October 31, 2015, 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

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Note 1

Summary of Significant Accounting Policies, Continued

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 31, 2015, January 31, 2015 and November 1, 2014, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$48.1 million, \$45.6 million and \$50.1 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 independent retailers and department stores 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. The Company's Lids Team Sports wholesale business sells primarily to colleges and high school athletic teams and their fan bases. Including both footwear wholesale and Lids Team Sports wholesale business receivables, one customer accounted for 7% and one customer accounted for 6% of the Company's total trade receivables balance, while no other customer accounted for more than 5% of the Company's total trade receivables balance as of October 31, 2015.

The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information, as well as customer-specific factors. The Company also establishes allowances for sales returns, customer deductions and co-op advertising based on specific circumstances, historical trends and projected probable outcomes.

Property and Equipment

Property and equipment are recorded at cost and depreciated or amortized over the estimated useful life of related assets. Depreciation and amortization expense are computed principally by the straight-line method over the following estimated useful lives:

Buildings and building equipment	20-45 years
Computer hardware, software and equipment	3-10 years
Furniture and fixtures	10 years

Depreciation expense related to property and equipment was approximately \$18.5 million and \$18.0 million for the three months ended October 31, 2015 and November 1, 2014, respectively, and \$56.0 million and \$52.3 million for the nine months ended October 31, 2015 and November 1, 2014, respectively.

Leases

Leasehold improvements and properties under capital leases are amortized on the straight-line method over the shorter of their useful lives or their related lease terms and the charge to earnings is included in selling and administrative expenses in the Condensed Consolidated Statements of Operations.

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Note 1  
Summary of Significant Accounting Policies, Continued

Certain leases include rent increases during the initial lease term. For these leases, the Company recognizes the related rental expense on a straight-line basis over the term of the lease (which includes any rent holidays and the pre-opening period of construction, renovation, fixturing and merchandise placement) and records the difference between the amounts charged to operations and amounts paid as deferred rent.

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 \$26.2 million, \$23.5 million and \$25.4 million at October 31, 2015, January 31, 2015 and November 1, 2014, respectively, and deferred rent of \$47.7 million, \$45.0 million and \$44.2 million at October 31, 2015, January 31, 2015 and November 1, 2014, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Acquisition

Acquisitions are accounted for using the Business Combinations Topic of the Codification. The total purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values at acquisition.

Goodwill and Other Intangibles

Under the provisions of the Intangibles – Goodwill and Other Topic of the Codification, goodwill and intangible assets with indefinite lives are not amortized, but are tested at least annually for impairment. The Company will update the tests between annual tests if events or circumstances occur that would more likely than not reduce the fair value of the business unit with which the goodwill is associated below its carrying amount. It is also required that intangible assets with finite lives be amortized over their respective lives to their estimated residual values and reviewed for impairment in accordance with the Property, Plant and Equipment Topic of the Codification.

Intangible assets of the Company with indefinite lives are primarily goodwill and identifiable trademarks acquired in connection with the acquisition of Schuh Group Ltd. in June 2011 and Hat World Corporation in April 2004 and various other small acquisitions. The Condensed Consolidated Balance Sheets include goodwill of \$199.8 million for the Lids Sports Group, \$98.4 million for the Schuh Group and \$0.8 million for Licensed Brands at October 31, 2015, \$200.1 million for the Lids Sports Group, \$96.0 million for the Schuh Group and \$0.8 million for Licensed Brands at January 31, 2015 and \$201.9 million for the Lids Sports Group, \$101.9 million for the Schuh Group and \$0.8 million for Licensed Brands at November 1, 2014. The Company tests for impairment of intangible assets with an indefinite life, relying on a number of factors including operating results, business plans, projected future cash flows and observable market data. The impairment test for identifiable assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying amount. The Company has not had an impairment charge for intangible assets.

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Note 1  
Summary of Significant Accounting Policies, Continued

In connection with acquisitions, the Company records goodwill on its Condensed Consolidated Balance Sheets. This asset is not amortized but is subject to an impairment assessment at least annually, based on projected future cash flows from the acquired business discounted at a rate commensurate with the risk the Company considers to be inherent in its current business model. The Company performs the impairment test annually as of the close of its fiscal year, or more frequently if events or circumstances indicate that the value of the asset might be impaired.

As a result of the various acquisitions comprising the Lids Team Sports team dealer business, the Company carries goodwill related to such acquisitions at a value of \$18.0 million on its Condensed Consolidated Balance Sheets related to such acquisitions. Because the team dealer business to which the goodwill relates had performed below the Company's expectations, the Company performed impairment testing as of August 1, 2015. The Company found that the result of the impairment test, which valued the business at approximately \$10.9 million in excess of its carrying value, indicated no impairment at that time. The Company may determine in connection with the test to be performed as of the end of the current fiscal year or in future impairment tests that some or all of the carrying value of the goodwill may be impaired. Such a finding would require a write-off of the amount of the carrying value that is impaired, which would reduce the Company's profitability in the period of the impairment charge. Holding all other assumptions constant as of the measurement date, the Company noted that an increase in the weighted average cost of capital of 100 basis points would reduce the fair value of the Lids Team Sports business by \$6.4 million. Furthermore, the Company noted that a decrease in projected annual revenue growth by one percent would reduce the fair value of the Lids Team Sports business by \$0.4 million. However, if other assumptions do not remain constant, the fair value of the Lids Team Sports business may decrease by a greater amount.

Identifiable intangible assets of the Company with finite lives are trademarks, customer lists, in-place leases, non-compete agreements and a vendor contract. They are subject to amortization based upon their estimated useful lives. Finite-lived intangible assets are evaluated for impairment using a process similar to that used to evaluate other definite-lived long-lived assets, a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset.

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Note 1  
Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at October 31, 2015 and January 31, 2015 are:

Fair Values In thousands	October 31, 2015		January 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
U.S. Revolver Borrowings	\$148,845	\$148,750	\$—	\$—
UK Term Loans	39,268	39,197	29,155	29,126
UK Revolver Borrowings	27,015	26,845	—	—

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.

Cost of Sales

For the Company's retail operations, the cost of sales includes actual product cost, the cost of transportation to the Company's warehouses from suppliers and the cost of transportation from the Company's warehouses to the stores. Additionally, the cost of its distribution facilities allocated to its retail operations is included in cost of sales.

For the Company's wholesale operations, the cost of sales includes the actual product cost and the cost of transportation to the Company's warehouses from suppliers.

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 amounts of \$2.6 million for each of the third quarters of Fiscal 2016 and 2015 and \$7.2 million for each of the first nine months of Fiscal 2016 and 2015.

EVA Incentive Plan

Under the Company's EVA Incentive Plan, bonus awards in excess of a specified cap in any one year are retained and paid over three subsequent years, subject to reduction or elimination by deteriorating financial performance and historically were subject to forfeiture if the participant voluntarily resigns from employment with the Company. As a result, the bonus awards were subject

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Note 1  
Summary of Significant Accounting Policies, Continued

to service conditions that resulted in recognition of expense over the period of service by the respective employee. During the first quarter of Fiscal 2015, the Company amended the plan to remove the future service requirement for the payment of the retained bonuses. As a result, the bonus expense that would have been deferred under the previous plan terms is now recognized in the first year of service. The Company recorded a \$5.7 million charge to earnings in the first quarter of Fiscal 2015 in connection with the amendment related to bonus amounts previously deferred to future years.

Gift Cards

The Company has a gift card program that began in calendar year 1999 for its Lids Sports operations and calendar year 2000 for its footwear operations, excluding Schuh Group. The gift cards issued to date do not expire. As such, the Company recognizes income when: (i) the gift card is redeemed by the customer; or (ii) the likelihood of the gift card being redeemed by the customer for the purchase of goods in the future is remote and there are no related escheat laws (referred to as “breakage”). The gift card breakage rate is based upon historical redemption patterns and income is recognized for unredeemed gift cards in proportion to those historical redemption patterns.

Gift card breakage is recognized in revenues each period for which financial statements are updated. Gift card breakage recognized as revenue was \$0.1 million for each of the third quarters of Fiscal 2016 and 2015 and \$0.4 million for each of the first nine months of Fiscal 2016 and 2015. The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of \$13.8 million, \$15.8 million and \$12.7 million at October 31, 2015, January 31, 2015 and November 1, 2014, 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 \$109.0 million and \$103.2 million for the third quarters of Fiscal 2016 and 2015, respectively, and \$322.5 million and \$306.9 million for the first nine months of Fiscal 2016 and 2015, respectively.

Shipping and Handling Costs

Shipping and handling costs related to inventory purchased from suppliers are included in the cost of inventory and are charged to cost of sales in the period that the inventory is sold. All other shipping and handling costs are charged to cost of sales in the period incurred except for wholesale and unallocated retail costs of distribution, which are included in selling and administrative expenses on the Condensed Consolidated Statements of Operations.

Preopening Costs

Costs associated with the opening of new stores are expensed as incurred, and are included in selling and administrative expenses on the accompanying Condensed Consolidated Statements of Operations.

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Note 1  
Summary of Significant Accounting Policies, Continued

Store Closings and Exit Costs

From time to time, the Company makes strategic decisions to close stores or exit locations or activities. Under the provisions of the new Property, Plant, and Equipment Topic of the Codification, which the Company adopted in the first quarter of Fiscal 2015, the definition of a discontinued operation was amended. A discontinued operation may include a component of an entity or a group of components of an entity that represent a strategic shift that has or will have a major effect on an entity's operation or financial results. If stores or operating activities to be closed or exited constitute

a component or group of components that represent a strategic shift in the Company's operations, these closures will be considered discontinued operations. The results of operations of discontinued operations are presented retroactively, net of tax, as a separate component on the Condensed

Consolidated Statements of Operations. In each of the years presented, no store closings have met the discontinued operations criteria.

Assets related to planned store closures or other exit activities are reflected as assets held for sale and recorded at the lower of carrying value or fair value less costs to sell when the required criteria, as defined by the Property, Plant and Equipment Topic of the Codification, are satisfied. Depreciation ceases on the date that the held for sale criteria are met.

Assets related to planned store closures or other exit activities that do not meet the criteria to be classified as held for sale are evaluated for impairment in accordance with the Company's normal impairment policy, but with consideration given to revised estimates of future cash flows. In any event, the remaining depreciable useful lives are evaluated and adjusted as necessary.

Exit costs related to anticipated lease termination costs, severance benefits and other expected charges are accrued for and recognized in accordance with the Exit or Disposal Cost Obligations Topic of the Codification.

Advertising Costs

Advertising costs are predominantly expensed as incurred. Advertising costs were \$17.6 million and \$15.3 million for the third quarters of Fiscal 2016 and 2015, respectively, and \$49.7 million and \$44.9 million for the first nine months of Fiscal 2016 and 2015, 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 \$3.8 million, \$2.3 million and \$4.2 million at October 31, 2015, January 31, 2015 and November 1, 2014, respectively.





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Note 1  
Summary of Significant Accounting Policies, Continued

Consideration to Resellers

In its wholesale businesses, the Company does not have any written buy-down programs with retailers, but the Company has provided certain retailers with markdown allowances for obsolete and slow moving products that are in the retailer's inventory. The Company estimates these allowances and provides for them as reductions to revenues at the time revenues are recorded. Markdowns are negotiated with retailers and changes are made to the estimates as agreements are reached. Actual amounts for markdowns have not differed materially from estimates.

Cooperative Advertising

Cooperative advertising funds are made available to most of the Company's wholesale footwear customers. In order for retailers to receive reimbursement under such programs, the retailer must meet specified advertising guidelines and provide appropriate documentation of expenses to be reimbursed. The Company's cooperative advertising agreements require that wholesale customers present documentation or other evidence of specific advertisements or display materials used for the Company's products by submitting the actual print advertisements presented in catalogs, newspaper inserts or other advertising circulars, or by permitting physical inspection of displays. Additionally, the Company's cooperative advertising agreements require that the amount of reimbursement requested for such advertising or materials be supported by invoices or other evidence of the actual costs incurred by the retailer. The Company accounts for these cooperative advertising costs as selling and administrative expenses, in accordance with the Revenue Recognition Topic for Customer Payments and Incentives of the Codification.

Cooperative advertising costs recognized in selling and administrative expenses on the Condensed Consolidated Statements of Operations were \$1.1 million and \$1.0 million for the third quarters of Fiscal 2016 and 2015, respectively, and \$2.8 million and \$2.7 million for the first nine months of Fiscal 2016 and 2015, respectively. During the first nine months of Fiscal 2016 and 2015, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

Vendor Allowances

From time to time, the Company negotiates allowances from its vendors for markdowns taken or expected to be taken. These markdowns are typically negotiated on specific merchandise and for specific amounts. These specific allowances are recognized as a reduction in cost of sales in the period in which the markdowns are taken. Markdown allowances not attached to specific inventory on hand or already sold are applied to concurrent or future purchases from each respective vendor.

The Company receives support from some of its vendors in the form of reimbursements for cooperative advertising and catalog costs for the launch and promotion of certain products. The reimbursements are agreed upon with vendors and represent specific, incremental, identifiable costs incurred by the Company in selling the vendor's specific products. Such costs and the related reimbursements are accumulated and monitored on an individual vendor basis, pursuant to the respective cooperative advertising agreements with vendors. Such cooperative advertising reimbursements are recorded as a reduction of selling and administrative expenses in the same period in which the associated expense is incurred. If the amount of cash consideration received



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Note 1  
Summary of Significant Accounting Policies, Continued

exceeds the costs being reimbursed, such excess amount would be recorded as a reduction of cost of sales.

Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were \$2.0 million and \$1.5 million for the third quarters of Fiscal 2016 and 2015, respectively, and \$3.6 million and \$2.8 million for the first nine months of Fiscal 2016 and 2015, respectively. During the first nine months of Fiscal 2016 and 2015, the Company's cooperative advertising reimbursements received were not in excess of the costs incurred.

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted to common stock (see Note 8).

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 \$0.6 million and \$2.1 million for the third quarter and first nine months of Fiscal 2016, respectively, and a net loss of \$1.0 million and \$0.8 million for the third quarter and first nine months of Fiscal 2015, respectively.

Share-Based Compensation

The Company has share-based compensation covering certain members of management and non-employee directors. The Company recognizes compensation expense for share-based payments based on the fair value of the awards as required by the Compensation - Stock Compensation Topic of the Codification. The Company has not granted any stock options since the first quarter of Fiscal 2008. The fair value of employee restricted stock is determined based on the closing price of the Company's stock on the date of grant. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

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 31, 2015 consisted of \$20.5 million of cumulative pension liability adjustments, net of tax, a cumulative post-retirement liability adjustment of \$1.9 million, net of tax, and a cumulative foreign currency translation adjustment of \$14.6 million.



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Note 1  
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The following table summarizes the components of accumulated other comprehensive income for the nine months ended October 31, 2015:

	Foreign Currency Translation	Unrecognized Pension/Postretirement Benefit Costs	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)			
Balance January 31, 2015	\$(16,247	)\$ (24,329	) \$(40,576 )
Other comprehensive income (loss) before reclassifications:			
Foreign currency translation adjustment	2,360	—	2,360
Loss on intra-entity foreign currency transactions (long-term investment nature)	(743	)—	(743 )
Net actuarial loss	—	(762	) (762 )
Amounts reclassified from AOCI:			
Amortization of net actuarial loss (1)	—	3,894	3,894
Income tax expense	—	1,228	1,228
Current period other comprehensive income, net of tax	1,617	1,904	3,521
Balance October 31, 2015	\$(14,630	)\$ (22,425	) \$(37,055 )

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

#### Business Segments

The Segment Reporting Topic of the Codification requires that companies disclose “operating segments” based on the way management disaggregates the Company’s operations for making internal operating decisions (see Note 10).

#### New Accounting Principles

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes". ASU No. 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 change to noncurrent classification could have a significant impact on working capital. ASU No. 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and may be applied either prospectively or retrospectively. Early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2015-17 will have on its Consolidated Financial Statements and related disclosures, including which transition method will be adopted.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU No. 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.



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Note 1  
Summary of Significant Accounting Policies, Continued

The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. ASU 2014-09 is 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. 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). Early adoption is not permitted. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on its Consolidated Financial Statements and related disclosures, including which transition method will be adopted.

Note 2  
Intangible Assets

Other intangibles by major classes were as follows:

(In Thousands)	Leases		Customer Lists		Other*		Total	
	Oct. 31, 2015	Jan. 31, 2015	Oct. 31, 2015	Jan. 31, 2015	Oct. 31, 2015	Jan. 31, 2015	Oct. 31, 2015	Jan. 31, 2015
Gross other intangibles	\$13,663	\$13,616	\$18,284	\$18,244	\$3,115	\$3,114	\$35,062	\$34,974
Accumulated amortization	(12,739)	(12,301)	(10,772)	(9,424)	(1,902)	(1,664)	(25,413)	(23,389)
Net Other Intangibles	\$924	\$1,315	\$7,512	\$8,820	\$1,213	\$1,450	\$9,649	\$11,585

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

The amortization of intangibles, including trademarks, was \$0.7 million and \$0.9 million for the third quarters of Fiscal 2016 and 2015, respectively, and \$2.2 million and \$2.4 million for the first nine months of Fiscal 2016 and 2015, respectively. The amortization of intangibles, including trademarks, is expected to be \$2.9 million, \$2.4 million, \$1.7 million, \$1.5 million and \$0.8 million for Fiscal 2016, 2017, 2018, 2019 and 2020, respectively.



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Note 3  
Asset Impairments and Other Charges and Discontinued Operations

Asset Impairments and Other Charges

In accordance with Company policy, assets (other than goodwill and intangibles) 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 \$0.2 million in the third quarter of Fiscal 2016, including a \$0.1 million charge for retail store asset impairments and a \$0.1 million charge for network intrusion expenses. The Company recorded pretax charges of \$4.0 million in the first nine months of Fiscal 2016, including charges of \$2.1 million for network intrusion expenses, a \$1.8 million charge for retail store asset impairments and a \$0.1 million charge for other legal matters.

The Company recorded pretax charges of \$1.0 million in the third quarter of Fiscal 2015, including a \$0.6 million charge for network intrusion expenses and a \$0.4 million charge for retail store asset impairments. The Company recorded pretax charges of \$1.3 million in the first nine months of Fiscal 2015, including charges of \$2.4 million for network intrusion expenses, \$1.6 million for retail store asset impairments and \$0.7 million for other legal matters, partially offset by a \$(3.4) million gain on a lease termination of a Lids store.

Discontinued Operations

Accrued Provision for Discontinued Operations

In thousands	Facility Shutdown Costs
Balance February 1, 2014	\$11,375
Additional provision Fiscal 2015	2,711
Charges and adjustments, net	673
Balance January 31, 2015	14,759
Additional provision Fiscal 2016	801
Charges and adjustments, net	(384 )
Balance October 31, 2015*	15,176
Current provision for discontinued operations	10,904
Total Noncurrent Provision for Discontinued Operations	\$4,272

\*Includes a \$14.5 million environmental provision, including \$10.9 million in current provision for discontinued operations.

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Note 4  
Inventories

In thousands	October 31, 2015	January 31, 2015
Raw materials	\$34,239	\$32,941
Wholesale finished goods	60,990	65,785
Retail merchandise	684,666	499,419
Total Inventories	\$779,895	\$598,145

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.

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Note 5  
Fair Value, Continued

The following table presents the Company's assets (which excludes the Company's pension plan assets) and liabilities measured at fair value on a nonrecurring basis as of October 31, 2015 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 May 2, 2015	\$67	\$—	\$—	\$67	\$766
Measured as of August 1, 2015	632	—	—	632	931
Measured as of October 31, 2015	200	—	—	200	\$90
Sub-total asset impairment YTD					\$1,787

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded \$0.1 million and \$1.8 million of impairment charges as a result of the fair value measurement of its long-lived assets held and used on a nonrecurring basis during the three and nine months ended October 31, 2015, 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.

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Note 6  
Long-Term Debt

In thousands	October 31, 2015	January 31, 2015
U.S. revolver borrowings	\$148,845	\$—
UK term loans	39,268	29,155
UK revolver borrowings	27,015	—
Total long-term debt	215,128	29,155
Current portion	15,437	13,152
Total Noncurrent Portion of Long-Term Debt	\$199,691	\$16,003

Long-term debt maturing during each of the next five years ending in January each year is \$7.8 million, \$15.4 million, \$3.5 million, \$150.8 million and \$37.6 million, respectively.

The Company had \$148.8 million of revolver borrowings outstanding under the Credit Facility at October 31, 2015, which includes \$15.4 million (£10.0 million) related to Genesco (UK) Limited and \$8.4 million (C\$11.0 million) related to GCO Canada, and had \$39.3 million in term loans outstanding and \$27.0 million in revolver loans outstanding under the U.K. Credit Facilities (described below) at October 31, 2015. The Company had outstanding letters of credit of \$13.5 million under the Credit Facility at October 31, 2015. These letters of credit support product purchases and lease and insurance indemnifications.

U.K. Credit Facility

In May 2015, Schuh Group Limited entered into a Form of Amended and Restated Facilities Agreement and Working Capital Facility Letter which replaced the former A, B and C term loans with a new Facility A of £17.5 million and a Facility B of £11.6 million (which was the former Facility C loan) as well as provided an additional revolving credit facility, Facility C, of £22.5 million and a working capital facility of £2.5 million. The Facility A loan bears interest at LIBOR plus 1.8% per annum with quarterly payments through April 2017. The Facility B loan bears interest at LIBOR plus 2.5% per annum with quarterly payments through September 2019. The Facility C bears interest at LIBOR plus 2.2% per annum and expires in September 2019.

The UK Credit Facilities contain certain covenants at the Schuh level including a minimum interest coverage covenant of 4.50x and thereafter, a maximum leverage covenant initially set at 2.25x declining over time at various rates to 1.75x beginning in April 2017 and a minimum cash flow coverage of 1.00x. The Company was in compliance with all the covenants at October 31, 2015. The UK Credit Facilities are secured by a pledge of all the assets of Schuh and its subsidiaries.

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## Note 7

## Defined Benefit Pension Plans and Other Benefit Plans

## Components of Net Periodic Benefit Cost

In thousands	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Service cost	\$113	\$112	\$209	\$130
Interest cost	1,062	1,163	61	55
Expected return on plan assets	(1,446	) (1,517	) —	—
Amortization:				
Losses	1,197	860	48	25
Net amortization	1,197	860	48	25
Net Periodic Benefit Cost	\$926	\$618	\$318	\$210

## Components of Net Periodic Benefit Cost

In thousands	Pension Benefits		Other Benefits	
	Nine Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Service cost	\$338	\$337	\$628	\$396
Interest cost	3,202	3,501	184	171
Expected return on plan assets	(4,341	) (4,552	) —	—
Amortization:				
Losses	3,751	2,686	144	78
Net amortization	3,751	2,686	144	78
Net Periodic Benefit Cost	\$2,950	\$1,972	\$956	\$645

There is no cash contribution required for the pension plan in 2015.

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Note 8  
Earnings Per Share

(In thousands, except per share amounts)	For the Three Months Ended October 31, 2015			For the Three Months Ended November 1, 2014		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from continuing operations	\$32,855			\$28,750		
Basic EPS from continuing operations Income available to common shareholders	32,855	22,834	\$1.44	28,750	23,602	\$1.22
Effect of Dilutive Securities from continuing operations Dilutive share-based awards		39			113	
Employees' preferred stock <sup>(1)</sup>		44			45	
Diluted EPS from continuing operations Income available to common shareholders plus assumed conversions	\$32,855	22,917	\$1.43	\$28,750	23,760	\$1.21

The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's (1) common stock. Because no dividends are paid on this stock, these shares are assumed to be converted in the diluted earnings per share calculations for the third quarters ended October 31, 2015 and November 1, 2014.

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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 8  
Earnings Per Share, Continued

(In thousands, except per share amounts)	For the Nine Months Ended October 31, 2015			For the Nine Months Ended November 1, 2014		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from continuing operations	\$50,393			\$47,616		
Basic EPS from continuing operations						
Income available to common shareholders	50,393	23,308	\$2.16	47,616	23,489	\$2.03
Effect of Dilutive Securities from continuing operations						
Dilutive share-based awards		84			156	
Employees' preferred stock <sup>(1)</sup>		44			46	
Diluted EPS from continuing operations						
Income available to common shareholders plus assumed conversions	\$50,393	23,436	\$2.15	\$47,616	23,691	\$2.01

The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's (1) common stock. Because no dividends are paid on this stock, these shares are assumed to be converted in the diluted earnings per share calculations for the first nine months ended October 31, 2015 and November 1, 2014.

The Company repurchased 1,708,000 and 2,132,384 shares of common stock during the three and nine months ended October 31, 2015 for \$101.5 million and \$129.0 million, respectively, of which \$8.2 million was not paid in the third quarter but included in other accrued liabilities in the Condensed Consolidated Balance Sheets. The Company has \$21.5 million remaining under its current \$100.0 million share repurchase authorization approved by the Company's board of directors in September 2015. The Company repurchased 13,159 shares during the three and nine months ended November 1, 2014 for \$0.9 million.





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Note 9

Legal Proceedings

Environmental Matters

New York State Environmental Matters

In August 1997, the New York State Department of Environmental Conservation (“NYSDEC”) and the Company entered into a consent order whereby the Company assumed responsibility for conducting a remedial investigation and feasibility study (“RIFS”) and implementing an interim remedial measure (“IRM”) with regard to the site of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969. The Company undertook the IRM and RIFS voluntarily, without admitting liability or accepting responsibility for any future remediation of the site. The Company has completed the IRM and the RIFS. In the course of preparing the RIFS, the Company identified remedial alternatives with estimated undiscounted costs ranging from \$0.0 million to \$24.0 million, excluding amounts previously expended or provided for by the Company. The United States Environmental Protection Agency (“EPA”), which has assumed primary regulatory responsibility for the site from NYSDEC, issued a Record of Decision (the “2007 ROD”) in September 2007. The 2007 ROD requires a remedy of a combination of groundwater extraction and treatment and in-situ chemical oxidation at an estimated present cost of approximately \$10.7 million.

In July 2009, the Company agreed to a Consent Order with the EPA requiring the Company to perform certain remediation actions, operations, maintenance and monitoring at the site. In September 2009, a Consent Judgment embodying the Consent Order was filed in the U.S. District Court for the Eastern District of New York.

In April 2015, the EPA issued a proposal to amend the 2007 ROD by eliminating the separate ground-water extraction and treatment systems and the use of in-situ oxidation from the remedy adopted in the 2007 ROD. The proposal, which is subject to public comment and final approval by the EPA, would continue the operation and maintenance of the existing wellhead treatment systems on wells operated by the Village of Garden City, New York (the “Village”).

The Village has additionally asserted that the Company is liable for the costs associated with enhanced treatment required by the impact of the groundwater plume from the site on two public water supply wells, including historical costs ranging from approximately \$1.8 million to in excess of \$2.5 million, and future operation and maintenance costs which the Village estimates at \$126,400 annually while the enhanced treatment continues. On December 14, 2007, the Village filed a complaint against the Company and the owner of the property under the Resource Conservation and Recovery Act (“RCRA”), the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) as well as a number of state law theories in the U.S. District Court for the Eastern District of New York, seeking an injunction requiring the defendants to remediate contamination from the site and to establish their liability for future costs that may be incurred in connection with it, which the complaint alleges could exceed \$41 million, undiscounted, over a 70-year period.

The Company has not verified the estimates of either historic or future costs asserted by the Village, but believes that an estimate of future costs based on a 70-year remediation period is unreasonable given the expected remedial period reflected in the EPA's Record of Decision. On May 23, 2008, the Company filed a motion to dismiss the Village's complaint on grounds including applicable statutes of limitation and preemption of certain claims by the NYSDEC's and the EPA's diligent prosecution of remediation. On January 27, 2009, the Court granted the motion to dismiss all counts of the plaintiff's complaint except for

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Note 9  
Legal Proceedings, Continued

the CERCLA claim and a state law claim for indemnity for costs incurred after November 27, 2000. On September 23, 2009, on a motion for reconsideration by the Village, the Court reinstated the claims for injunctive relief under RCRA and for equitable relief under certain of the state law theories. The Company intends to continue to defend the action if an acceptable settlement agreement cannot be reached.

In April 2015, the Company received from EPA a Notice of Potential Liability and Demand for Costs pursuant to CERCLA regarding the site in Gloversville, New York of a former leather tannery operated by the Company and by other, unrelated parties. The Notice demanded payment of approximately \$2.2 million of response costs claimed by EPA to have been incurred to conduct assessments and removal activities at the site. The Company has requested additional information on the basis for EPA's assertion that the Company is a potentially responsible party with regard to the site and is assessing the claims asserted in the notice. The Company's environmental insurance carrier is providing coverage of the matter subject to a \$500,000 self-insured retention and the other terms and conditions of the insurance policy, subject to a standard reservation of rights.

Whitehall Environmental Matters

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

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

Accrual for Environmental Contingencies

Related to all outstanding environmental contingencies, the Company had accrued \$14.5 million, \$14.1 million and \$11.9 million as of October 31, 2015, January 31, 2015 and November 1, 2014, respectively. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets because they relate to former facilities operated by the Company. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.6 million and \$0.1 million for the third quarters of Fiscal 2016 and 2015, respectively, and approximately \$0.8 million and \$0.5 million reflected in the first nine months of Fiscal 2016 and 2015, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations and represent changes in estimates.



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Note 9  
Legal Proceedings, Continued

Other Matters

On December 10, 2010, the Company announced that it had suffered a criminal intrusion into the portion of its computer network that processes payments for transactions in certain of its retail stores. Visa, Inc., MasterCard Worldwide and American Express Travel Related Services Company, Inc. asserted claims totaling approximately \$15.6 million in connection with the intrusion and the claims of two of the claimants have been collected by withholding payment card receivables of the Company. In the fourth quarter of Fiscal 2013, the Company recorded a \$15.4 million charge to earnings in connection with the disputed liability. On March 7, 2013, the Company filed an action in the U.S. District Court for the Middle District of Tennessee against Visa U.S.A. Inc., Visa Inc. and Visa International Service Association seeking to recover \$13.3 million in non-compliance fines and issuer reimbursement assessments collected from the Company in connection with the intrusion. The Company does not currently expect any future claims in connection with the intrusion to have a material effect on its financial condition, cash flows, or results of operations.

On May 17, 2013, a former employee filed a putative class and representative action, *Garcia v. Genesco, Inc.*, in the Superior Court of California for the County of Ventura, alleging various claims under the California Labor Code, including failure to provide meal and rest periods, failure to timely pay wages, failure to provide accurate itemized wage statements, and unfair competition and violation of the Private Attorneys' General Act of 2004, and seeking unspecified damages and penalties. On August 30, 2013, the Company removed the action to the United States District Court for the Central District of California. The Company reached an agreement to settle the matter. The court granted final approval of the settlement on May 8, 2015 and dismissed the case.

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

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

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Note 10  
Business Segment Information

During the nine months ended October 31, 2015 and November 1, 2014, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Underground by Journeys retail footwear chains, e-commerce operations and catalog; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised primarily of the Lids retail headwear stores, the Lids Locker Room and Lids Clubhouse fan shops (operated under various trade names), licensed team merchandise departments in Macy's department stores operated under the name of Locker Room by Lids under a license agreement with Macy's, the Lids Team Sports business and certain e-commerce operations; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce operations, catalog and wholesale distribution of products under the Johnston & Murphy and Trask brands; and (v) Licensed Brands, comprised of Dockers Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip Footwear, occupational footwear primarily sold directly to consumers; and other brands.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1).

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

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

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Note 10  
Business Segment Information, Continued

Three Months Ended October 31, 2015	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
In thousands							
Sales	\$321,996	\$101,644	\$247,178	\$70,416	\$32,800	\$276	\$774,310
Intercompany Sales	—	—	(211 )	—	(201 )	—	(412 )
Net sales to external customers	\$321,996	\$101,644	\$246,967	\$70,416	\$32,599	\$276	\$773,898
Segment operating income (loss)	\$38,944	\$8,649	\$4,704	\$4,637	\$3,345	\$(8,078 )	\$52,201
Asset Impairments and other*	—	—	—	—	—	(151 )	(151 )
Earnings (loss) from operations	38,944	8,649	4,704	4,637	3,345	(8,229 )	52,050
Interest expense	—	—	—	—	—	(1,314 )	(1,314 )
Interest income	—	—	—	—	—	(16 )	(16 )
Earnings (loss) from continuing operations before income taxes	\$38,944	\$8,649	\$4,704	\$4,637	\$3,345	\$(9,559 )	\$50,720
Total assets**	\$407,708	\$283,121	\$723,374	\$122,572	\$47,719	\$159,210	\$1,743,704
Depreciation and amortization	5,627	3,603	7,196	1,478	240	1,150	19,294
Capital expenditures	12,164	5,505	10,868	2,247	377	364	31,525

\*Asset Impairments and other includes a \$0.1 million charge for asset impairments, which relates to the Lids Sports Group, and a \$0.1 million charge for network intrusion expenses.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$199.8 million, \$98.4 million and \$0.8 million of goodwill, respectively. The Schuh Group goodwill decreased by \$2.4 million from January 31, 2015 due to foreign currency translation adjustments. Of the Company's \$322.1 million of property and equipment, \$65.9 million and \$13.7 million relate to property and equipment in the United Kingdom and Canada, respectively.



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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 10  
Business Segment Information, Continued

Three Months Ended November 1, 2014	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
In thousands							
Sales	\$303,781	101,959	\$220,223	\$65,965	\$31,183	\$191	\$723,302
Intercompany Sales	—	—	(185 )	—	(202 )	—	(387 )
Net sales to external customers	\$303,781	\$101,959	\$220,038	\$65,965	\$30,981	\$191	\$722,915
Segment operating income (loss)	\$35,047	\$3,949	\$8,606	\$4,505	\$3,082	\$(7,593 )	\$47,596
Asset Impairments and other*	—	—	—	—	—	(1,036 )	(1,036 )
Earnings (loss) from operations	35,047	3,949	8,606	4,505	3,082	(8,629 )	46,560
Indemnification asset write-off	—	—	—	—	—	(7,050 )	(7,050 )
Interest expense	—	—	—	—	—	(914 )	(914 )
Interest income	—	—	—	—	—	23	23
Earnings (loss) from continuing operations before income taxes	\$35,047	\$3,949	\$8,606	\$4,505	\$3,082	\$(16,570 )	\$38,619
Total assets**	\$345,011	283,052	\$746,747	\$113,178	\$46,127	\$135,130	\$1,669,245
Depreciation and amortization	5,311	3,551	7,704	1,284	215	941	19,006
Capital expenditures	7,076	6,475	15,458	2,173	146	1,252	32,580

\*Asset Impairments and other includes a \$0.4 million charge for assets impairments, which relates to the Lids Sports Group, and a \$0.6 million charge for network intrusion expenses.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$201.9 million, \$101.9 million and \$0.8 million of goodwill, respectively. The Schuh Group goodwill decreased by \$3.0 million from February 1, 2014 due to foreign currency translation adjustments. Goodwill for the Lids Sports Group includes \$19.5 million added since February 1, 2014 from several small acquisitions. Of the Company's \$314.7 million of property and equipment, \$68.7 million and \$16.3 million relate to property and equipment in the United Kingdom and Canada, respectively.





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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 10  
Business Segment Information, Continued

Nine Months Ended

October 31, 2015

In thousands	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
Sales	\$847,805	\$283,410	\$676,193	\$197,600	\$85,696	\$573	\$2,091,277
Intercompany Sales	—	—	(679 )	—	(578 )	—	(1,257 )
Net sales to external customers	\$847,805	\$283,410	\$675,514	\$197,600	\$85,118	\$573	\$2,090,020
Segment operating income (loss)	\$72,594	\$10,880	\$6,900	\$9,460	\$7,526	\$(22,590 )	\$84,770
Asset Impairments and other*	—	—	—	—	—	(3,970 )	(3,970 )
Earnings (loss) from operations	72,594	10,880	6,900	9,460	7,526	(26,560 )	80,800
Interest expense	—	—	—	—	—	(2,919 )	(2,919 )
Interest income	—	—	—	—	—	16	16
Earnings (loss) from continuing operations before income taxes	\$72,594	\$10,880	\$6,900	\$9,460	\$7,526	\$(29,463 )	\$77,897
Total assets**	\$407,708	\$283,121	\$723,374	\$122,572	\$47,719	\$159,210	\$1,743,704
Depreciation and amortization	16,415	10,891	22,427	4,234	667	3,535	58,169
Capital expenditures	25,939	11,541	31,356	6,735	706	1,519	77,796

\*Asset Impairments and other includes a \$2.1 million charge for network intrusion expense, a \$1.8 million charge for asset impairments, of which \$1.3 million is in the Lids Sports Group and \$0.4 million is in the Schuh Group, and a \$0.1 million charge for other legal matters.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$199.8 million, \$98.4 million and \$0.8 million of goodwill, respectively. The Schuh Group goodwill decreased by \$2.4 million from January 31, 2015 due to foreign currency translation adjustments. Of the Company's \$322.1 million of property and equipment, \$65.9 million and \$13.7 million relate to property and equipment in the United Kingdom and Canada, respectively.



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Note 10  
Business Segment Information, Continued

Nine Months Ended November 1, 2014	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
In thousands							
Sales	\$802,742	283,005	\$609,087	\$184,357	\$88,338	\$754	\$1,968,283
Intercompany Sales	—	—	(466 )	—	(603 )	—	(1,069 )
Net sales to external customers	\$802,742	\$283,005	\$608,621	\$184,357	\$87,735	\$754	\$1,967,214
Segment operating income (loss)	\$61,544	\$(1,389 )	\$25,217	\$8,577	\$8,476	\$(20,716 )	\$81,709
Asset Impairments and other*	—	—	—	—	—	(1,347 )	(1,347 )
Earnings (loss) from operations	61,544	(1,389 )	25,217	8,577	8,476	(22,063 )	80,362
Indemnification asset write-off	—	—	—	—	—	(7,050 )	(7,050 )
Interest expense	—	—	—	—	—	(2,447 )	(2,447 )
Interest income	—	—	—	—	—	73	73
Earnings (loss) from continuing operations before income taxes	\$61,544	\$(1,389 )	\$25,217	\$8,577	\$8,476	\$(31,487 )	\$70,938
Total assets**	\$345,011	283,052	\$746,747	\$113,178	\$46,127	\$135,130	\$1,669,245
Depreciation and amortization	15,160	10,756	21,834	3,572	518	2,915	54,755
Capital expenditures	21,682	18,688	33,897	7,045	636	3,369	85,317

\*Asset Impairments and other includes a \$2.4 million charge for network intrusion expenses, a \$1.6 million charge for asset impairments, which relates to Lids Sports Group, and a \$0.7 million charge for other legal matters, partially offset by a gain of \$(3.4) million for a lease termination of a Lids store.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$201.9 million, \$101.9 million and \$0.8 million of goodwill, respectively. The Schuh Group goodwill decreased by \$3.0 million from February 1, 2014 due to foreign currency translation adjustments. Goodwill for the Lids Sports Group includes \$19.5 million added since February 1, 2014 from several small acquisitions. Of the Company's \$314.7 million of property and equipment, \$68.7 million and \$16.3 million relate to property and equipment in the United Kingdom and Canada, respectively.

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

Note 11  
Subsequent Events

In December 2015, the Company's Canadian subsidiary acquired the 37-store Little Burgundy retail footwear chain in Canada from The ALDO Group Inc. Little Burgundy serves a fashion-oriented 18-34 year old customer looking for on-trend branded footwear and accessories. The Company intends to run Little Burgundy as a separate retail chain complementary to its existing Journeys stores in Canada. The Little Burgundy business will be part of the Journeys Group segment.

In connection with the acquisition of Little Burgundy, on December 4, 2015, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement. The amendment increases the revolving credit subfacility for the benefit of GCO Canada Inc. from \$25.0 million to \$70.0 million. In connection with this increased facility, the Canadian revolving credit facility may be increased to no more than \$85.0 million.

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

Forward Looking Statements

This discussion and the Notes to the Condensed Consolidated Financial Statements include certain forward-looking statements, including those regarding the performance outlook for the Company and its individual businesses and all other statements not addressing solely historical facts or present conditions. Words such as "may," "will," "should," "likely," "anticipate," "expect," "intend," "plan," "project," "believe," "estimate" and similar expressions can be used to identify these forward-looking statements. Actual results could differ materially from those reflected by the forward-looking statements in this discussion, in the Notes to the Condensed Consolidated Financial Statements, and in other disclosures, including those regarding the Company's performance outlook for Fiscal 2016 and beyond.

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

- The timing, effectiveness and cost of the Company's initiatives to improve performance in the Lids Sports Group including the Company's ability to right size inventory levels.
- The timing and amount of non-cash asset impairments related to retail store fixed assets or to intangible assets of acquired businesses.
- The effectiveness of the Company's omnichannel initiatives.
- Weakness in the consumer economy and retail industry.
- Competition in the Company's markets.
- Fashion trends that affect the sales or product margins of the Company's retail product offerings.
- Changes in buying patterns by significant wholesale customers.
- Inability of customers to obtain credit.
  - Bankruptcies or deterioration in the financial condition of significant wholesale customers, limiting their ability to buy or pay for merchandise offered by the Company.
- Disruptions in product supply or distribution.
  - Unfavorable trends in fuel costs, foreign exchange rates, foreign labor and material costs and other factors affecting the cost of products and results of operations.
- The Company's ability to continue to complete and integrate acquisitions, expand its business and diversify its product base.
- Changes in the timing of holidays or in the onset of seasonal weather affecting period-to-period sales comparisons.
  - The performance of athletic teams, the participants in major sporting events such as the Super Bowl and World Series, developments with respect to certain individual athletes, and other sports-related events or changes, including the timing of major sporting events, that may affect period-to-period comparisons in the Company's Lids Sports Group retail businesses.
- The Company's ability to build, open, staff and support additional retail stores and to renew leases in existing stores and control occupancy costs, and to conduct required remodeling or refurbishment on schedule and at expected expense levels.
- Deterioration in the performance of individual businesses or of the Company's market value relative to its book value, resulting in impairments of fixed assets or intangible assets or other adverse financial consequences.
- Unexpected changes to the market for the Company's shares.
- Variations from expected pension-related charges caused by conditions in the financial markets.
- Disruptions in the Company's information technology systems either by security breaches and incidents or by potential problems associated with the implementation of new or upgraded systems.

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The cost and outcome of litigation, investigations and environmental matters involving the Company, including but not limited to the matters discussed in Note 9 to the Condensed Consolidated Financial Statements. Other factors set forth under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015 and other documents the Company files with the Securities and Exchange Commission (the "SEC").

### Overview

#### Description of Business

The Company's business includes the design and sourcing, marketing and distribution of footwear and accessories through retail stores, including Journeys<sup>®</sup>, Journeys Kidz<sup>®</sup>, Shi by Journeys<sup>®</sup>, Underground by Journeys<sup>®</sup> and Johnston & Murphy<sup>®</sup> in the U.S., Puerto Rico and Canada, and through Schuh<sup>®</sup> stores in the United Kingdom, the Republic of Ireland and Germany, and through e-commerce websites and catalogs, and at wholesale, primarily under the Company's Johnston & Murphy brand, the Trask brand, the licensed Dockers<sup>®</sup> brand and other brands that the Company licenses for men's footwear. The Company's wholesale footwear brands are distributed to more than 1,350 retail accounts in the United States, including a number of leading department, discount, and specialty stores. The Company's business also includes Lids Sports, which operates (i) headwear and accessory stores under the Lids<sup>®</sup> name and other names in the U.S., Puerto Rico and Canada, (ii) the Lids Locker Room and Lids Clubhouse businesses, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating under various trade names, (iii) licensed team merchandise departments in Macy's department stores operated under the name of Locker Room by Lids and on macys.com under a license agreement with Macy's, (iv) e-commerce operations and (v) an athletic team dealer business operating as Lids Team Sports. Including both the footwear businesses and the Lids Sports business, at October 31, 2015, the Company operated 2,817 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 31, 2015 and November 1, 2014, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Underground by Journeys retail footwear chains, e-commerce operations and catalog; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised as described in the preceding paragraph; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce operations and catalog and wholesale distribution of products under the Johnston & Murphy and Trask brands; and (v) Licensed Brands, comprised of Dockers Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip Footwear, occupational footwear primarily sold directly to consumers; and other brands.

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 2,025 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages five to 12. These stores average approximately 1,450 square feet. Shi by Journeys retail footwear stores sell footwear and accessories to fashion-conscious women in their early 20's to mid 30's. These stores average approximately 2,150 square feet. The Underground by Journeys retail footwear stores sell footwear and accessories primarily for men and women in the 20 to 35 age group. These stores average approximately 1,850 square feet. The Journeys Group stores are primarily in malls and factory outlet centers throughout the United States, Puerto Rico and Canada. The Journeys Group operates 35 stores in Canada. Journeys also sells footwear and accessories through direct-to-consumer catalog and e-commerce operations.

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The Schuh retail footwear stores sell a broad range of branded casual and athletic footwear along with a meaningful private label offering primarily for 15 to 30 year old men and women. The stores, which average approximately 4,950 square feet, include both street-level and mall locations primarily in the United Kingdom and the Republic of Ireland. During the third quarter of Fiscal 2013, the Schuh Group opened its first Schuh Kids store. As of October 31, 2015, the Company has opened nine Schuh Kids stores that sell footwear primarily for younger children, ages five to 12, and average 2,850 square feet. During the first quarter of Fiscal 2016, the Schuh Group opened its first Schuh store in Germany. The Schuh Group also sells footwear through e-commerce operations.

The Lids Sports Group includes stores and kiosks, primarily under the Lids banner, that sell licensed and branded headwear to men and women primarily in the early-teens to mid-20's age group. The Lids store locations average approximately 875 square feet and are primarily in malls, airports, street-level stores and factory outlet centers throughout the United States, Puerto Rico and Canada. The Lids Sports Group also operates Lids Locker Room and Lids Clubhouse stores under a number of trade names, selling licensed sports headwear, apparel and accessories to sports fans of all ages in locations averaging approximately 2,800 square feet in malls and other locations primarily in the United States and Canada. The Lids Sports Group operates 152 stores in Canada. The Lids Sports Group also operates Locker Room by Lids leased departments in Macy's department stores selling headwear, apparel, accessories and novelties from an assortment of college and professional teams specific to particular Macy's department stores' geographic locations. As of October 31, 2015, the Company operates 187 Locker Room by Lids leased departments averaging approximately 650 square feet. The Lids Sports Group also sells headwear and accessories through e-commerce operations. In addition, the Lids Sports Group operates Lids Team Sports, an athletic team dealer business.

Johnston & Murphy retail shops sell a broad range of men's footwear, apparel and accessories. Women's footwear and accessories are sold in select Johnston & Murphy retail locations. Johnston & Murphy shops average approximately 1,525 square feet and are located primarily in better malls and in airports throughout the United States. Johnston & Murphy opened its first store in Canada during the fourth quarter of Fiscal 2012. As of October 31, 2015, Johnston & Murphy also operated seven stores in Canada. The Company also has license and distribution agreements for wholesale and retail sales of Johnston & Murphy products in various non - U.S. jurisdictions. The Company also sells Johnston & Murphy footwear and accessories in factory stores, averaging approximately 2,400 square feet, located in factory outlet malls, and through a direct-to-consumer catalog and e-commerce operations. In addition, Johnston & Murphy shoes are distributed through the Company's wholesale operations to better department and independent specialty stores. Additionally, the Company sells the Trask brand, with men's and women's footwear and leather accessories distributed to better independent retailers and department stores.

The Licensed Brands segment markets casual and dress casual footwear under the licensed Dockers® brand to men aged 30 to 55 through many of the same national retail chains that carry Dockers slacks and sportswear and in department and specialty stores across the country. The Company entered into an exclusive license with Levi Strauss & Co. to market men's footwear in the United States under the Dockers brand name in 1991. Levi Strauss & Co. and the Company have subsequently added additional territories, including Canada and Mexico and certain other Latin American countries. The Dockers license agreement has been renewed for a term expiring on November 30, 2018. The Company acquired Keuka Footwear in the third quarter of Fiscal 2011 and subsequently launched its SureGrip® Footwear line of slip-resistant, occupational footwear from that base. The Company sources and distributes the SureGrip line to employees in the hospitality, healthcare, and other industries. The Company also sells footwear under other licenses and in March 2015 entered into a License Agreement to source and distribute certain men's and women's footwear under the G.H. Bass trademark and related marks.



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### Strategy

The Company's long-term strategy has been to seek organic growth by: 1) increasing the Company's store base, 2) increasing retail square footage, 3) improving comparable sales, both in stores and digital commerce, 4) increasing operating margin and 5) enhancing the value of its brands.

To supplement its organic growth potential, the Company has made acquisitions, including the acquisition of the Schuh Group in June 2011 and several smaller acquisitions of businesses in the Lids Sports Group's markets, and expects to consider acquisition opportunities, either to augment its existing businesses or to enter new businesses that it considers compatible with its existing businesses, core expertise and strategic profile. Acquisitions involve a number of risks, including, among others, inaccurate valuation of the acquired business, the assumption of undisclosed liabilities, the failure to integrate the acquired business appropriately, and distraction of management from existing businesses. The Company seeks to mitigate these risks by applying appropriate financial metrics in its valuation analysis and developing and executing plans for due diligence and integration that are appropriate to each acquisition. The Company also seeks appropriate opportunities to extend existing brands and retail concepts. For example, the Schuh Group opened its first Schuh Kids store during the third quarter of Fiscal 2013 and opened its first Schuh store in Germany in the first quarter of this year. The Company typically tests such extensions on a relatively small scale to determine their viability and to refine their strategies and operations before making significant, long-term commitments.

More generally, the Company attempts to develop strategies to mitigate the risks it views as material, including those discussed under the caption "Forward Looking Statements," above, and those discussed in Part II, Item 1A, Risk Factors. Among the most important of these factors are those related to consumer demand. Conditions in the external economy can affect demand, resulting in changes in sales and, as prices are adjusted to drive sales and manage inventories, in gross margins. Because fashion trends influencing many of the Company's target customers can change rapidly, the Company believes that its ability to react quickly to those changes has been important to its success. Even when the Company succeeds in aligning its merchandise offerings with consumer preferences, those preferences may affect results by, for example, driving sales of products with lower average selling prices or products which are more widely available in the marketplace and thus more subject to competitive pressures than the Company's typical offering. Moreover, economic factors, such as persistent unemployment and any future economic contraction and changes in tax policies, may reduce the consumer's disposable income or his or her willingness to purchase discretionary items, and thus may reduce demand for the Company's merchandise, regardless of the Company's skill in detecting and responding to fashion trends. The Company believes its experience and discipline in merchandising and the buying power associated with its relative size and importance in the industry segments in which it competes are important to its ability to mitigate risks associated with changing customer preferences and other changes in consumer demand.

### Summary of Results of Operations

The Company's net sales increased 7.1% during the third quarter of Fiscal 2016 compared to the same quarter of Fiscal 2015. The increase reflected a 6% increase in Journeys Group sales, a 12% increase in Lids Sports Group sales, a 7% increase in Johnston & Murphy Group sales and a 5% increase in Licensed Brands sales, while Schuh Group sales were flat. Gross margin as a percentage of net sales decreased to 48.3% during the third quarter of Fiscal 2016, compared to 49.6% for the same period last year, reflecting decreased gross margin as a percentage of net sales in Lids Sports Group, Johnston & Murphy Group and Licensed Brands, partially offset by increased gross margin as a percentage of net sales in Journeys Group while Schuh Group gross margin was flat. Selling and administrative expenses decreased to 41.6% of net sales during the third quarter of Fiscal 2016 from 43.0% for the same quarter of Fiscal 2015, reflecting decreases in expenses as a percentage of net sales in Schuh Group, Lids Sports Group, Johnston & Murphy



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Group and Licensed Brands, partially offset by increases as a percentage of net sales in Journeys Group, while Corporate remained flat. Earnings from operations increased as a percentage of net sales during the second quarter of Fiscal 2016 compared to the same quarter of Fiscal 2015, reflecting increased earnings from operations as a percentage of net sales in Journeys Group, Schuh Group and Licensed Brands, partially offset by decreased earnings from operations as a percentage of net sales in Lids Sports Group and Johnston & Murphy.

## Significant Developments

### Indemnification Asset Write-off

During the third quarter and first nine months of Fiscal 2015, the Company recorded a pretax charge of \$7.1 million for the write-off of an indemnification asset related to formerly uncertain tax positions that were taken by Schuh at the time of the purchase by the Company, which were favorably resolved during the third quarter last year.

### Change in EVA Incentive Plan

Under the Company's EVA Incentive Plan, bonus awards in excess of a specified cap in any one year are retained and paid over three subsequent years, subject to reduction or elimination by deteriorating financial performance and historically were subject to forfeiture if the participant voluntarily resigns from employment with the Company. As a result, the bonus awards were subject to service conditions that resulted in recognition of expense over the period of service by the respective employee. During the first quarter of Fiscal 2015, the Company amended the plan to remove the future service requirement for the payment of the retained bonuses. As a result, the bonus expense that would have been deferred under the previous plan terms is now recognized in the first year of service. The Company recorded a \$5.7 million charge to earnings in the first quarter of Fiscal 2015 in connection with the amendment related to bonus amounts previously deferred to future years.

### Acquisitions

During the third quarter and first nine months of Fiscal 2015, the Company completed acquisitions of primarily small retail chains and one small wholesale business for a total purchase price of \$31.7 million and \$34.9 million, respectively. The stores and wholesale business acquired are being operated within the Lids Sports Group. The Company did not make any acquisitions during the third quarter and first nine months of Fiscal 2016.

### Asset Impairment and Other Charges

The Company recorded pretax charges of \$0.2 million in the third quarter of Fiscal 2016, including a \$0.1 million charge for retail store asset impairments and a \$0.1 million charge for network intrusion expenses. The Company recorded pretax charges of \$4.0 million in the first nine months of Fiscal 2016, including charges of \$2.1 million for network intrusion expenses, a \$1.8 million charge for retail store asset impairments and a \$0.1 million charge for other legal matters.

The Company recorded pretax charges of \$1.0 million in the third quarter of Fiscal 2015, including a \$0.6 million charge for network intrusion expenses and a \$0.4 million charge for retail store asset impairments. The Company recorded pretax charges of \$1.3 million in the first nine months of Fiscal 2015, including charges of \$2.4 million for network intrusion expenses, \$1.6 million for retail store asset impairments and \$0.7 million for other legal matters, partially offset by a \$(3.4) million gain on a lease termination of Lids store.

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## Comparable Sales

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

## Results of Operations - Third Quarter Fiscal 2016 Compared to Fiscal 2015

The Company's net sales in the third quarter ended October 31, 2015 increased 7.1% to \$773.9 million from \$722.9 million in the third quarter ended November 1, 2014, reflecting increased net sales in all of the Company's business segments except Schuh Group, and a 7% increase in comparable sales. Gross margin increased 4.3% to \$373.9 million in the third quarter this year from \$358.5 million in the same period last year, but decreased as a percentage of net sales from 49.6% to 48.3%, reflecting decreased gross margin as a percentage of net sales in Lids Sports Group, Johnston & Murphy Group and Licensed Brands, offset somewhat by increased gross margin as a percentage of net sales in Journeys Group, while Schuh Group gross margin was flat. Selling and administrative expenses in the third quarter this year increased 3.5% from the third quarter last year but decreased as a percentage of net sales from 43.0% to 41.6%, reflecting decreased expenses as a percentage of net sales in all business segments except Journeys Group, while Corporate expenses were flat. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Earnings from continuing operations before income taxes ("pretax earnings") for the third quarter ended October 31, 2015 were \$50.7 million compared to \$38.6 million for the third quarter ended November 1, 2014. Pretax earnings for the third quarter ended October 31, 2015 included an asset impairment and other charge of \$0.2 million, primarily related to retail store asset impairments and network intrusion expenses. Pretax earnings for the third quarter ended November 1, 2014 included an asset impairment and other charge of \$1.0 million, primarily related to network intrusion expenses and retail store asset impairments. Pretax earnings for the third quarter last year included an indemnification asset write-off of \$7.1 million related to formerly uncertain tax positions that were taken by Schuh at the time of the purchase by the Company, which were favorably resolved during the third quarter last year. Last year's pretax earnings also included \$1.0 million in expenses related to the deferred purchase price obligation in connection with the Schuh acquisition. Because the deferred purchase price for Schuh was contingent on the payees' continuing employment with Schuh (subject to certain exceptions), U.S. Generally Accepted Accounting Principles required it to be expensed as compensation across the period of service until payment was due.

Net earnings for the third quarter ended October 31, 2015 were \$32.5 million (\$1.42 diluted earnings per share) compared to \$28.7 million (\$1.21 diluted earnings per share) for the third quarter ended November 1, 2014. The Company recorded an effective income tax rate of 35.2% in the third quarter this year compared to 25.6% in the same period last year. The tax rate for the third quarter of Fiscal 2016 was higher compared to last year primarily due to a \$7.0 million reversal of charges previously recorded related to formerly

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uncertain tax positions that were taken by Schuh at the time of the purchase by the Company, which were favorably resolved during the third quarter of Fiscal 2015. Related to the same uncertain tax position, the Company wrote off a \$7.1 million indemnification asset during the third quarter of Fiscal 2015.

## Journeys Group

	Three Months Ended			% Change
	October 31, 2015	November 1, 2014	%	
	(dollars in thousands)			
Net sales	\$ 321,996	\$ 303,781	6.0	%
Earnings from operations	\$ 38,944	\$ 35,047	11.1	%
Operating margin	12.1	% 11.5	%	

Net sales from Journeys Group increased 6.0% to \$322.0 million for the third quarter ended October 31, 2015, compared to \$303.8 million for the same period last year. The increase reflects primarily a 6% increase in comparable sales, which includes a 6% increase in same store sales and a 17% increase in comparable direct sales, while average Journeys stores operated (i.e. the sum of the number of stores open on the first day of the fiscal quarter and the last day of each fiscal month during the quarter divided by four) remained flat. The comparable sales increase reflected a 3% increase in the average price per pair of shoes and footwear unit sales increased 2%. Journeys Group operated 1,179 stores at the end of the third quarter of Fiscal 2016, including 195 Journeys Kidz stores, 46 Shi by Journeys stores, 100 Underground by Journeys stores and 35 Journeys stores in Canada, compared to 1,183 stores at the end of the third quarter last year, including 184 Journeys Kidz stores, 49 Shi by Journeys stores, 113 Underground by Journeys stores and 34 Journeys stores in Canada.

Journeys Group earnings from operations for the third quarter ended October 31, 2015 increased 11.1% to \$38.9 million compared to \$35.0 million for the third quarter ended November 1, 2014. The increase was primarily due to increased net sales and increased gross margin as a percentage of net sales, reflecting changes in sales mix and decreased markdowns.

## Schuh Group

	Three Months Ended			% Change
	October 31, 2015	November 1, 2014	%	
	(dollars in thousands)			
Net sales	\$ 101,644	\$ 101,959	(0.3	)%
Earnings from operations	\$ 8,649	\$ 3,949	119.0	%
Operating margin	8.5	% 3.9	%	

Net sales from Schuh Group decreased 0.3% to \$101.6 million for the third quarter ended October 31, 2015, compared to \$102.0 million for the third quarter ended November 1, 2014. The decrease reflects primarily a decrease of \$7.0 million in sales due to changes in foreign exchange rates, partially offset by a 13% increase in average Schuh stores operated and a 2% increase in comparable sales, reflecting a 1% increase in same store sales and a 7% increase in comparable direct sales. Schuh Group operated 117

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stores, including nine Schuh Kids stores, at the end of the third quarter of Fiscal 2016, compared to 106 stores, including six Schuh Kids stores, at the end of the third quarter of Fiscal 2015.

Schuh Group earnings from operations were \$8.6 million for the third quarter ended October 31, 2015 compared to \$3.9 million for the third quarter ended November 1, 2014. Earnings included \$1.0 million in the third quarter of Fiscal 2015 in compensation expense related to a deferred purchase price obligation in connection with the acquisition and \$4.2 million related to accruals for a contingent bonus payment for Schuh employees provided for in the Schuh acquisition. The improvement in earnings from operations was due primarily to decreased expenses as a percentage of net sales, reflecting the absence of the deferred purchase price obligation expense and contingent bonus accrual in the third quarter this year.

## Lids Sports Group

	Three Months Ended			
	October 31, 2015	November 1, 2014	% Change	
	(dollars in thousands)			
Net sales	\$ 246,967	\$ 220,038	12.2	%
Earnings from operations	\$ 4,704	\$ 8,606	(45.3	)%
Operating margin	1.9	% 3.9	%	

Net sales from Lids Sports Group increased 12.2% to \$247.0 million for the third quarter ended October 31, 2015, compared to \$220.0 million for the same period last year, reflecting primarily a comparable sales increase of 12%, which includes a 9% increase in same store sales, a 52% increase in comparable direct sales and a 1% increase in average Lids Sports Group stores operated, excluding leased departments. The increase in comparable direct sales was driven by Lids' implementing Locate, a system which gives users on-line access to inventory in stores, along with increased promotional activity as part of a program to clear excess inventory. The sales increase also reflects a 7% increase in Lids Team Sports sales. The comparable sales increase reflects a 22% increase in comparable store hat units sold, while the average price per hat decreased 10% for the third quarter this year. Lids Sports Group operated 1,347 stores at the end of the third quarter of Fiscal 2016, including 113 Lids stores in Canada, 233 Lids Locker Room and Clubhouse stores, which includes 39 Locker Room stores in Canada, and 187 Locker Room by Lids leased departments in Macy's, compared to 1,377 stores at the end of the third quarter last year, including 117 Lids stores in Canada, 246 Lids Locker Room and Clubhouse stores, which includes 37 Locker Room stores in Canada, and 190 Locker Room by Lids leased departments in Macy's.

Lids Sports Group earnings from operations decreased 45.3% to \$4.7 million for the third quarter ended October 31, 2015 compared to \$8.6 million for the third quarter ended November 1, 2014. The decrease was due to decreased gross margin as a percentage of net sales, reflecting increased promotional activity to reduce inventory and increased shipping and warehouse expense.



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## Johnston &amp; Murphy Group

	Three Months Ended			
	October 31, 2015	November 1, 2014	% Change	
	(dollars in thousands)			
Net sales	\$70,416	\$65,965	6.7	%
Earnings from operations	\$4,637	\$4,505	2.9	%
Operating margin	6.6	% 6.8	%	

Johnston & Murphy Group net sales increased 6.7% to \$70.4 million for the third quarter ended October 31, 2015 from \$66.0 million for the third quarter ended November 1, 2014, reflecting primarily a 5% increase in comparable sales, which includes a 3% increase in same store sales, a 17% increase in comparable direct sales, a 1% increase in average stores operated for Johnston & Murphy retail operations and an 11% increase in Johnston & Murphy Group wholesale sales. Unit sales for the Johnston & Murphy wholesale business increased 6% in the third quarter of Fiscal 2016 and the average price per pair of shoes increased 2% for the same period. Retail operations accounted for 65.7% of Johnston & Murphy Group's sales in the third quarter this year, down from 66.9% in the third quarter last year. Comparable sales reflected a 2% increase in the average price per pair of shoes for Johnston & Murphy retail operations and footwear unit comparable sales increased 2%. The store count for Johnston & Murphy retail operations at the end of the third quarter of Fiscal 2016 included 174 Johnston & Murphy shops and factory stores, including seven stores in Canada, compared to 171 Johnston & Murphy shops and factory stores, including seven stores in Canada, for the third quarter of Fiscal 2015.

Johnston & Murphy Group earnings from operations for the third quarter ended October 31, 2015 increased 2.9% to \$4.6 million compared to \$4.5 million for the same period last year, primarily due to increased net sales and decreased expenses as a percentage of net sales, reflecting decreased advertising and leverage from growth in the wholesale business.

## Licensed Brands

	Three Months Ended			
	October 31, 2015	November 1, 2014	% Change	
	(dollars in thousands)			
Net sales	\$32,599	\$30,981	5.2	%
Earnings from operations	\$3,345	\$3,082	8.5	%
Operating margin	10.3	% 9.9	%	

Licensed Brands' net sales increased 5.2% to \$32.6 million for the third quarter ended October 31, 2015, from \$31.0 million for the same period last year, reflecting increased sales of Dockers Footwear, Chaps Footwear and SureGrip Footwear. Unit sales for Dockers Footwear increased 3% for the third quarter this year while the average price per pair of Dockers shoes was flat compared to the same period last year.

Licensed Brands' earnings from operations increased 8.5%, from \$3.1 million for the third quarter last year to \$3.3 million for the third quarter this year, primarily due to increased net sales and decreased expenses



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as a percentage of net sales, reflecting decreased license expense, partially offset by start-up costs related to the launch of the Bass Footwear line.

### Corporate, Interest Expenses and Other Charges

Corporate and other expense for the third quarter ended October 31, 2015 decreased to \$8.2 million compared to \$8.6 million for the third quarter ended November 1, 2014. Corporate expense in the third quarter this year included a \$0.2 million charge in asset impairment and other charges, primarily for retail store asset impairments and network intrusion expenses. Corporate and other expense in the third quarter of Fiscal 2015 included a \$1.0 million charge in asset impairment and other charges, primarily for network intrusion expenses and retail store asset impairments. The increase in corporate expenses excluding asset impairment and other charges is due to a reversal of bonus expense in the third quarter last year.

Net interest expense increased 49.3% from \$0.9 million in the third quarter last year to \$1.3 million for the third quarter this year due to increased revolver borrowings in the third quarter this year as a result of the share repurchase program and borrowings made in the second quarter this year to fund the Schuh contingent bonus and deferred purchase price payments.

### Results of Operations - Nine Months Fiscal 2016 Compared to Fiscal 2015

The Company's net sales in the first nine months ended October 31, 2015 increased 6.2% to \$2.09 billion from \$1.97 billion in the first nine months ended November 1, 2014, reflecting increased net sales in all of the Company's business segments except Licensed Brands, and a 6% increase in comparable sales. Gross margin increased 4.5% to \$1.02 billion in the first nine months this year from \$976.2 million in the same period last year, but decreased as a percentage of net sales from 49.6% to 48.8%, reflecting decreased gross margin as a percentage of net sales in Schuh Group, Lids Sports Group and Johnston & Murphy Group, offset somewhat by increased gross margin as a percentage of net sales in Journeys Group and Licensed Brands. Selling and administrative expenses in the first nine months this year increased 4.6% from the first nine months last year but decreased as a percentage of net sales from 45.5% to 44.8%, reflecting decreased expenses as a percentage of net sales in all of the Company's business segments except Licensed Brands, while Corporate expenses remained flat. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Pretax earnings for the first nine months ended October 31, 2015 were \$77.9 million compared to \$70.9 million for the first nine months ended November 1, 2014. Pretax earnings for the first nine months ended October 31, 2015 included an asset impairment and other charge of \$4.0 million, primarily related to network intrusion expenses, retail store asset impairments and other legal matters. Pretax earnings also includes \$1.5 million in expense related to the deferred purchase price obligation related to the Schuh acquisition. Because the deferred purchase price for Schuh was contingent on the payees' continuing employment with Schuh (subject to certain exceptions), U.S. Generally Accepted Accounting Principles required it to be expensed as compensation across the period of service until payment is due. Pretax earnings for the first nine months ended November 1, 2014 included an asset impairment and other charge of \$1.3 million, primarily related to network intrusion expenses, retail store asset impairments and other legal matters, partially offset by a gain on a lease termination. Pretax earnings for last year included an indemnification asset write-off of \$7.1 million related to formerly uncertain tax positions that were taken by Schuh at the time of the purchase by the Company, which were favorably resolved during the third quarter last year.



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Last year's pretax earnings also included \$6.3 million in expenses related to the deferred purchase price obligation in connection with the Schuh acquisition.

Net earnings for the first nine months ended October 31, 2015 were \$49.9 million (\$2.13 diluted earnings per share) compared to \$47.3 million (\$2.00 diluted earnings per share) for the first nine months ended November 1, 2014. Net earnings included a \$0.5 million charge, net of tax (\$0.02 diluted loss per share) and \$0.3 million charge, net of tax (\$0.01 diluted loss per share) for the first nine months of Fiscal 2016 and 2015, respectively, primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company. The Company recorded an effective income tax rate of 35.3% in the first nine months this year compared to 32.9% in the same period last year. The tax rate for the first nine months of Fiscal 2016 was higher compared to last year's first nine months due to a \$7.0 million reversal of charges in last year's third quarter that were previously recorded related to formerly uncertain tax positions that were taken by Schuh at the time of the purchase by the Company, which were favorably resolved during the third quarter last year.

## Journeys Group

	Nine Months Ended			
	October 31, 2015	November 1, 2014	% Change	
	(dollars in thousands)			
Net sales	\$ 847,805	\$ 802,742	5.6	%
Earnings from operations	\$ 72,594	\$ 61,544	18.0	%
Operating margin	8.6	% 7.7	%	

Net sales from Journeys Group increased 5.6% to \$847.8 million for the first nine months ended October 31, 2015 compared to \$802.7 million for the same period last year. The increase reflects primarily a 5% increase in comparable sales, which includes a 5% increase in same store sales and a 16% increase in comparable direct sales, while average Journeys stores operated (i.e. the sum of the number of stores open on the first day of the nine months and the last day of each fiscal month during the nine months divided by ten) remained flat. The comparable sales increase reflected a 4% increase in the average price per pair of shoes and footwear unit sales increased 1%.

Journeys Group earnings from operations for the first nine months ended October 31, 2015 increased 18.0% to \$72.6 million compared to \$61.5 million for the first nine months ended November 1, 2014. The increase was primarily due to increased net sales, increased gross margin as a percentage of net sales, reflecting changes in sales mix and decreased markdowns, and to decreased expenses as a percentage of net sales, reflecting \$4.9 million in bonus expense in last year's first nine months as a result of the EVA plan amendment.

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## Schuh Group

	Nine Months Ended			% Change
	October 31, 2015	November 1, 2014		
	(dollars in thousands)			
Net sales	\$ 283,410	\$ 283,005	0.1	%
Earning (loss) from operations	\$ 10,880	\$ (1,389	)	NM
Operating margin	3.8	% (0.5	)	%

Net sales from Schuh Group increased 0.1% to \$283.4 million for the first nine months ended October 31, 2015, compared to \$283.0 million for the first nine months ended November 1, 2014. The increase reflects primarily a 12% increase in average Schuh stores operated and a 5% increase in comparable sales, reflecting a 3% increase in same store sales and a 14% increase in comparable direct sales, offset by a decrease of \$26.8 million in sales due to changes in foreign exchange rates.

Schuh Group earnings from operations were \$10.9 million for the first nine months ended October 31, 2015 compared to a loss of \$(1.4) million for the first nine months ended November 1, 2014. Earnings included \$1.5 million in the first nine months of Fiscal 2016 and \$6.3 million in the first nine months of Fiscal 2015 in compensation expense related to a deferred purchase price obligation in connection with the acquisition. The loss for the first nine months last year also included \$8.8 million related to accruals for a contingent bonus payment for Schuh employees provided for in the Schuh acquisition. The improvement in earnings from operations was due primarily to decreased expenses as a percentage of net sales, reflecting the decrease in the deferred purchase price obligation expense and the absence of contingent bonus accrual this year.

## Lids Sports Group

	Nine Months Ended			% Change
	October 31, 2015	November 1, 2014		
	(dollars in thousands)			
Net sales	\$ 675,514	\$ 608,621	11.0	%
Earnings from operations	\$ 6,900	\$ 25,217	(72.6	)%
Operating margin	1.0	% 4.1		%

Net sales from Lids Sports Group increased 11.0% to \$675.5 million for the first nine months ended October 31, 2015, compared to \$608.6 million for the same period last year, reflecting primarily a 3% increase in average Lids Sports Group stores operated, excluding leased departments, and a comparable sales increase of 7%, which includes a 4% increase in same store sales and a 50% increase in comparable direct sales. The increase in comparable direct sales was driven by Lids' implementing Locate, a system which gives users on-line access to inventory in stores, along with increased promotional activity as part of a program to clear excess inventory. The sales increase also reflects a 9% increase in Lids Team Sports sales. The comparable sales increase reflects a 13% increase in comparable store hat units sold, while the average price per hat decreased 6% for the first nine months this year.

Lids Sports Group earnings from operations decreased 72.6% to \$6.9 million for the first nine months ended October 31, 2015 compared to \$25.2 million for the first nine months ended November 1, 2014. The

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decrease was due to decreased gross margin as a percentage of net sales, reflecting increased promotional activity to reduce inventory, increased shipping and warehouse expense, and changes in sales mix.

## Johnston &amp; Murphy Group

	Nine Months Ended			% Change
	October 31, 2015	November 1, 2014		
	(dollars in thousands)			
Net sales	\$ 197,600	\$ 184,357	7.2	%
Earnings from operations	\$ 9,460	\$ 8,577	10.3	%
Operating margin	4.8	% 4.7		%

Johnston & Murphy Group net sales increased 7.2% to \$197.6 million for the first nine months ended October 31, 2015 from \$184.4 million for the first nine months ended November 1, 2014, reflecting primarily a 6% increase in comparable sales, which includes a 5% increase in same store sales, a 13% increase in comparable direct sales, a 2% increase in average stores operated for Johnston & Murphy retail operations and an 8% increase in Johnston & Murphy Group wholesale sales. Unit sales for the Johnston & Murphy wholesale business increased 5% in the first nine months of Fiscal 2016 and the average price per pair of shoes increased 1% for the same period. Retail operations accounted for 69.1% of Johnston & Murphy Group's sales in the first nine months this year, down from 69.3% in the first nine months last year. Comparable sales reflected a 4% increase in the average price per pair of shoes for Johnston & Murphy retail operations and a 1% increase in footwear unit comparable sales.

Johnston & Murphy Group earnings from operations for the first nine months ended October 31, 2015 increased 10.3% to \$9.5 million compared to \$8.6 million for the same period last year, primarily due to increased net sales and decreased expenses as a percentage of net sales, reflecting decreased advertising expenses.

## Licensed Brands

	Nine Months Ended			% Change
	October 31, 2015	November 1, 2014		
	(dollars in thousands)			
Net sales	\$ 85,118	\$ 87,735	(3.0	)%
Earnings from operations	\$ 7,526	\$ 8,476	(11.2	)%
Operating margin	8.8	% 9.7		%

Licensed Brands' net sales decreased 3.0% to \$85.1 million for the first nine months ended October 31, 2015, from \$87.7 million for the same period last year, reflecting decreased sales of Dockers Footwear, partially offset by increased sales of Chaps Footwear and SureGrip Footwear. The sales decrease in Dockers Footwear reflects credit-related limitations on sales to a particular customer which are expected to continue at least through the current fiscal year. Unit sales for Dockers Footwear decreased 7% for the first nine months this year while the average price per pair of Dockers shoes increased 1% compared to the same period last year.

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Licensed Brands' earnings from operations decreased 11.2%, from \$8.5 million for the first nine months last year to \$7.5 million for the first nine months this year, primarily due to decreased net sales and increased expenses as a percentage of net sales, reflecting start-up costs for the launch of the Bass footwear line and increased compensation and bad debt expenses.

**Corporate, Interest Expenses and Other Charges**

Corporate and other expense for the first nine months ended October 31, 2015 increased to \$26.6 million compared to \$22.1 million for the first nine months ended November 1, 2014. Corporate expense in the first nine months this year included a \$4.0 million charge in asset impairment and other charges, primarily for network intrusion expenses, retail store asset impairments and other legal matters. Corporate and other expense in the first nine months of Fiscal 2015 included a \$1.3 million charge in asset impairment and other charges, primarily for network intrusion expenses, retail store asset impairments and other legal matters, partially offset by a gain on a lease termination of a Lids store. The increase in corporate expenses excluding asset impairment and other charges is due to increased compensation, foreign exchange loss and increased professional fees.

Net interest expense increased 22.3% from \$2.4 million in the first nine months last year to \$2.9 million for the first nine months this year due to increased revolver borrowings in the third quarter this year as a result of the share repurchase program and borrowings made in the second quarter this year to fund the Schuh contingent bonus and deferred purchase price payments.

**Liquidity and Capital Resources**

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

	October 31, 2015	January 31, 2015	November 1, 2014
	(dollars in millions)		
Cash and cash equivalents	\$28.1	\$112.9	\$38.0
Working capital	\$552.5	\$441.7	\$446.3
Long-term debt (including current portion)	\$215.1	\$29.2	\$115.0

**Working Capital**

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

Cash used in operating activities was \$75.9 million in the first nine months of Fiscal 2016 compared to cash provided by operating activities of \$8.9 million in the first nine months of Fiscal 2015. The \$84.8 million decrease in cash flow from operating activities from last year reflects a decrease in cash flow from changes in other accrued liabilities and other assets and liabilities combined and inventory of \$61.1 million and \$18.2 million, respectively. The \$61.1 million decrease in cash flow from other accrued liabilities and other assets and liabilities combined reflects the Schuh contingent bonus, deferred purchase price and other acquisition related payments and an increase in income tax payments this year versus last year. The \$18.2 million decrease in cash flow from inventory reflects seasonal increases in retail inventory for anticipated holiday sales, principally in the Journeys Group due to changes in buying patterns versus last year.

The \$181.5 million increase in inventories at October 31, 2015 from January 31, 2015 levels reflected increased retail inventory in all business units, partially offset by seasonal decreases in Licensed Brands inventory.

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Accounts receivable at October 31, 2015 increased by \$26.9 million compared to January 31, 2015, due primarily to seasonal sales increases and increased sales in all of the Company's wholesale businesses.

Sources of Liquidity

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

On January 31, 2014, the Company entered into a Third Amended and Restated Credit Agreement, (the "Credit Facility") with the lenders party thereto and Bank of America, N.A., as agent, providing for a revolving credit facility in the aggregate principal amount of \$400.0 million, including a \$70.0 million sublimit for the issuance of letters of credit and a domestic swingline subfacility of up to \$40.0 million, a revolving credit subfacility for the benefit of GCO Canada Inc. in an aggregate amount not to exceed \$25.0 million, (\$70.0 million as subsequently amended by the First Amendment to the Credit Facility dated December 4, 2015 ), which includes a \$5.0 million sublimit for the issuance of letters of credit, and revolving credit subfacility for the benefit of Genesco (UK) Limited in an aggregate amount not to exceed \$50.0 million, which includes a \$10.0 million sublimit for the issuance of letters of credit and a swingline subfacility of up to \$10.0 million. The facility has a five-year term. Any swingline loans and any letters of credit and borrowings under the Canadian and U.K. facilities will reduce the availability under the Credit Facility on a dollar-for-dollar basis.

The Company has the option, from time to time, to increase the availability under the Credit Facility by an aggregate amount of up to \$150.0 million subject to, among other things, the receipt of commitments for the increased amount. In connection with this increased facility, the Canadian revolving credit facility may be increased up to no more than \$40.0 million, (\$85.0 million as subsequently amended by the First Amendment to the Credit Facility dated December 4, 2015).

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

The aggregate amount of the loans made and letters of credit issued under the Credit Facility shall at no time exceed the lesser of the facility amount (\$400.0 million or, if increased as described above, up to \$550.0 million or \$600.0 million, respectively) or the "Borrowing Base", which generally is based on 90% of eligible inventory plus 85% of eligible wholesale receivables (50% of eligible wholesale receivables of the Lids Team Sports business) plus 90% of eligible credit card and debit card receivables less applicable reserves (the "Loan Cap"). The relevant assets of Genesco (UK) Limited will be included in the Borrowing Base if the additional \$50.0 million sublimit increase is exercised, provided that amounts borrowed by Genesco (UK) Limited based solely on its own borrowing base will be limited to \$50.0 million and the total outstanding to Genesco (UK) Limited will not exceed 30% of the Loan Cap. The Credit Facility also provides that a first-in, last-out tranche could be added to the revolving credit facility at the option of the Company subject to, among other things, the receipt of commitments for such tranche.

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In May 2015, Schuh Group Limited entered into a Form of Amended and Restated Facilities Agreement and Working Capital Facility Letter which replaced the former A, B and C term loans with a new Facility A of £17.5 million and a Facility B of £11.6 million (which was the former Facility C loan) as well as provide an additional revolving credit facility, Facility C, of £22.5 million and a working capital facility of £2.5 million. The Facility A loan bears interest at LIBOR plus 1.8% per annum with quarterly payments through April 2017. The Facility B loan bears interest at LIBOR plus 2.5% per annum with quarterly payments through September 2019. The Facility C bears interest at LIBOR plus 2.2% per annum and expires in September 2019.

There were \$39.3 million in UK term loans and \$27.0 million in UK revolver loans outstanding at October 31, 2015. The UK Credit Facilities contain certain covenants at the Schuh level including a minimum interest coverage covenant of 4.50x and thereafter, a maximum leverage covenant initially set at 2.25x declining over time at various rates to 1.75x beginning in April 2017 and a minimum cash flow coverage of 1.00x. The Company was in compliance with all the covenants at October 31, 2015. The UK Credit Facilities are secured by a pledge of all the assets of Schuh and its subsidiaries. The Company's UK Credit Facilities prohibit the payment of any dividends by Schuh or its subsidiaries to the Company.

The Company's revolving credit borrowings averaged \$25.4 million during the nine months ended October 31, 2015 and revolving borrowings averaged \$11.1 million during the nine months ended November 1, 2014, as cash on hand, cash generated from operations and revolver borrowings primarily funded seasonal working capital requirements, capital expenditures and stock repurchases for the first nine months of each year.

There were \$13.5 million of letters of credit outstanding and \$148.8 million of revolver borrowings outstanding, including \$15.4 million (£10.0 million) related to Genesco (UK) Limited and \$8.4 million (C\$11.0 million) related to GCO Canada, under the Credit Facility at October 31, 2015. The Company is not required to comply with any financial covenants under the Credit Facility unless Excess Availability (as defined in the Credit Agreement) is less than the greater of \$25.0 million or 10.0% of the Loan Cap (as defined in the Credit Agreement). If and during such time as Excess Availability is less than the greater of \$25.0 million or 10.0% of the Loan Cap, the Credit Facility requires the Company to meet a minimum fixed charge coverage ratio of (a) an amount equal to consolidated EBITDA less capital expenditures and taxes paid in cash, in each case for such period, to (b) fixed charges for such period, of not less than 1.0:1.0. Excess Availability was \$237.6 million at October 31, 2015. (As subsequently amended by the First Amendment to the Credit Facility dated December 4, 2015, Excess Availability would have been \$201.8 million). Because Excess Availability exceeded \$25.0 million or 10.0% of the Loan Cap, the Company was not required to comply with this financial covenant at October 31, 2015.

The Credit Facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain other material indebtedness in excess of specified amounts and to agreements which would have a material adverse effect if breached, certain events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts and change in control.

The Company's Credit Facility prohibits the payment of dividends and other restricted payments unless as of the date of the making of any Restricted Payment (as defined in the Credit Facility) or consummation of any Acquisition (as defined in the Credit Facility), (a) no Default (as defined in the Credit Facility) or Event of Default (as defined in the Credit Facility) exists or would arise after giving effect to such Restricted Payment or Acquisition, and (b) either (i) the Borrowers (as defined in the Credit Facility) have pro forma



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projected Excess Availability for the following six month period equal to or greater than 25% of the Loan Cap, after giving pro forma effect to such Restricted Payment or Acquisition, or (ii) (A) the Borrowers have pro forma projected Excess Availability for the following six month period of less than 25% of the Loan Cap but equal to or greater than 15% of the Loan Cap, after giving pro forma effect to the Restricted Payment or Acquisition, and (B) the Fixed Charge Coverage Ratio (as defined in the Credit Facility), on a pro-forma basis for the twelve months preceding such Restricted Payment or Acquisition, will be equal to or greater than 1.0:1.0 and (c) after giving effect to such Restricted Payment or Acquisition, the Borrowers are Solvent (as defined in the Credit Facility). The Company's management does not expect availability under the Credit Facility to fall below the requirements listed above during Fiscal 2016.

The Company's contractual obligations at October 31, 2015 increased approximately 2% from January 31, 2015 due primarily to increased long-term debt and lease obligations, partially offset by a decrease in purchase obligations and a decrease in the Schuh acquisition related obligation due to payments made in the second quarter this year.

### Capital Expenditures

Total capital expenditures in Fiscal 2016 are expected to be approximately \$110 million. These include retail capital expenditures of approximately \$103 million to open approximately 16 Journeys stores, including four in Canada, 16 Journeys Kidz stores, 17 Schuh stores, including four Schuh Kids stores, eight Johnston & Murphy shops and factory stores and 27 Lids Sports Group stores, including 17 Lids stores, with two stores in Canada, four Lids Locker Room and Clubhouse stores and six Locker Room by Lids in Macy's stores, and to complete approximately 164 major store renovations. Also included in the \$103 million retail capital expenditures, is approximately \$27 million for a new office building for the Company's Lids Sport Group, distribution center improvements and computer hardware and software. The planned amount of capital expenditures in Fiscal 2016 for wholesale operations and other purposes is approximately \$7 million, including approximately \$3 million for new systems.

### Future Capital Needs

The Company expects that cash on hand, cash provided by operations and borrowings under its Credit Facilities will be sufficient to support seasonal working capital and capital expenditure requirements during Fiscal 2016. In addition to the seasonal working capital requirements, the Company paid approximately \$73 million related to the Schuh contingent bonus, deferred purchase price and other acquisition related payments during the first nine months of Fiscal 2016. The Company funded these payments from a combination of cash on hand, cash generated from operations, U.K. bank borrowings and borrowings under the Credit Facility. The approximately \$10.9 million of costs associated with discontinued operations that are expected to be paid during the next twelve months are expected to be funded from cash on hand, cash generated from operations and borrowings under the Credit Facility during the next twelve months.

The Company had total available cash and cash equivalents of \$28.1 million, \$112.9 million and \$38.0 million as of October 31, 2015, January 31, 2015 and November 1, 2014, respectively, of which approximately \$3.1 million, \$25.2 million and \$13.7 million was held by the Company's foreign subsidiaries as of October 31, 2015, January 31, 2015 and November 1, 2014, 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 permanently 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.

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### Common Stock Repurchases

The Company repurchased 1,708,000 and 2,132,384 shares of common stock during the three and nine months ended October 31, 2015 for \$101.5 million and \$129.0 million, respectively, of which \$8.2 million was not paid in the third quarter but included in other accrued liabilities in the Condensed Consolidated Balance Sheets. The Company has \$21.5 million remaining under its current \$100.0 million share repurchase authorization approved by the Company's board of directors in September 2015. The Company repurchased 13,159 shares during the three and nine months ended November 1, 2014 for \$0.9 million.

### Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 9 to the Condensed Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.6 million and \$0.1 million for the third quarter of Fiscal 2016 and 2015, respectively, and \$0.8 million and \$0.5 million for the first nine months of Fiscal 2016 and 2015, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a reasonable estimate of the probable loss connected to the proceeding, or in cases in which no reasonable estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves, that some or all reserves may not be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company's financial condition or results of operations.

### Financial Market Risk

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

**Outstanding Debt of the Company** - The Company has \$39.3 million of outstanding U.K. term loans at a weighted average interest rate of 2.68% as of October 31, 2015. A 100 basis point increase in interest rates would increase annual interest expense by \$0.4 million on the \$39.3 million term loans. The Company has \$27.0 million of outstanding U.K. revolver borrowings at a weighted average interest rate of 2.76% as of October 31, 2015. A 100 basis point increase in interest rates would increase annual interest expense by \$0.3 million on the \$27.0 million revolver borrowings. The Company has \$148.8 million of outstanding U.S. revolver borrowings at a weighted average interest rate of 1.76% as of October 31, 2015. A 100 basis point increase in interest rates would increase annual interest expense by \$1.5 million on the \$148.8 million revolver borrowings.

**Cash and Cash Equivalents** - The Company's cash and cash equivalent balances are invested in financial instruments with original maturities of three months or less. The Company did not have significant exposure to changing interest rates on invested cash at October 31, 2015. As a result, the Company considers the interest rate market risk implicit in these investments at October 31, 2015 to be low.

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**Accounts Receivable** - The Company's accounts receivable balance at October 31, 2015 is concentrated in two of its footwear wholesale businesses, which sell primarily to department stores and independent retailers across the United States and its Lids Team Sports wholesale business, which sells primarily to colleges and high school athletic teams and their fan bases. Including both footwear wholesale and Lids Team Sports wholesale business receivables, one customer accounted for 7%, one customer accounted for 6%, while no other customer accounted for more than 5% of the Company's total trade receivables balance as of October 31, 2015. The Company monitors the credit quality of its customers and establishes an allowance for doubtful accounts based upon factors surrounding credit risk of specific customers, historical trends and other information, as well as customer specific factors; however, credit risk is affected by conditions or occurrences within the economy and the retail industry, as well as company-specific information.

**Foreign Currency Exchange Risk** - The Company is exposed to translation risk because certain of its foreign operations utilize the local currency as their functional currency and those financial results must be translated into United States dollars. As currency exchange rates fluctuate, translation of the Company's financial statements of foreign businesses into United States dollars affects the comparability of financial results between years.

**Summary** - Based on the Company's overall market interest rate exposure at October 31, 2015, the Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's consolidated financial position, results of operations or cash flows for Fiscal 2016 would not be material.

### **New Accounting Principles**

Descriptions of the recently issued accounting principles, if any, and the accounting principles adopted by the Company during the nine months ended October 31, 2015 are included in Note 1 to the Condensed Consolidated Financial statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

### **Item 4. Controls and Procedures**

**Evaluation of disclosure controls and procedures.**

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

Based on their evaluation as of October 31, 2015, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

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## Changes in Internal Control Over Financial Reporting.

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

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

The Company incorporates by reference the information regarding legal proceedings in Note 9 of the Company's Condensed Consolidated Financial Statements.

## Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Repurchases (shown in 000's except share and per share amounts):

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
August 2015 8-2-15 to 8-29-15	—	\$—	—	\$—
September 2015 8-30-15 to 9-26-15 <sup>(1)</sup>	608,000	\$59.14	608,000	\$87,065
October 2015 9-27-15 to 10-31-15 <sup>(1)</sup>	1,100,000	\$59.61	1,100,000	\$21,489

Share repurchases were made pursuant to the share repurchase program described under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company expects to implement (1) the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with the regulations of the SEC and other applicable legal requirements.



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Item 6. Exhibits

Exhibits

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

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Genesco Inc.

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

Date: December 10, 2015