



GENESCO ANNUAL REPORT



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## THE BUSINESS OF GENESCO

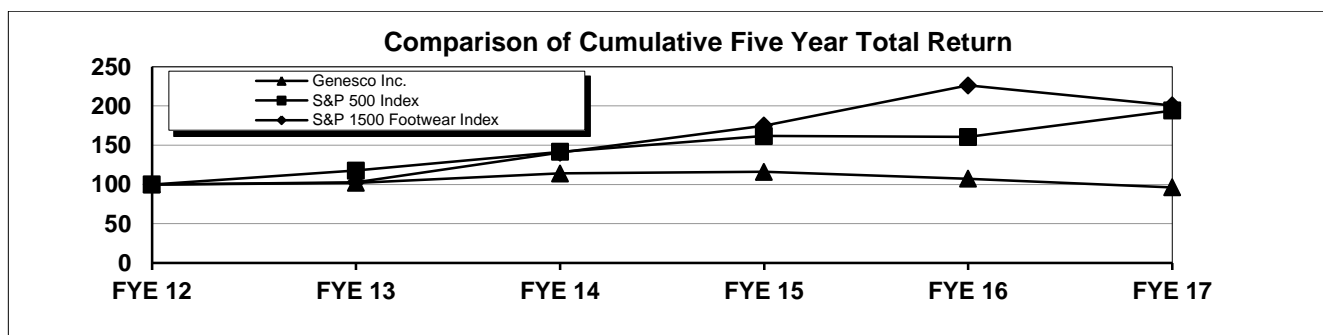
The Company's business includes the sourcing and design, marketing and distribution of footwear and accessories through retail stores, including Journeys®, Journeys Kidz®, Shi by Journeys®, Little Burgundy®, Underground by Journeys® and Johnston & Murphy® in the U.S., Puerto Rico and Canada and through Schuh® 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 H.S. Trask® brand, the licensed Dockers® brand, and other brands that the Company licenses for men's footwear. The Company's wholesale footwear brands are distributed to more than 1,225 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® name and other names in the U.S., Puerto Rico and Canada, (ii) the Lids Locker Room and Lids Clubhouse businesses, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating under various trade names, (iii) licensed team merchandise departments in Macy's department stores operated under the name Locker Room by Lids and on macys.com under a license agreement with Macy's, and (iv) e-commerce operations. Including both the footwear businesses and the Lids Sports business, at January 28, 2017, the Company operated 2,794 retail stores and leased departments in the U.S., Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany.

## TOTAL RETURN TO SHAREHOLDERS

### INCLUDES REINVESTMENT OF DIVIDENDS

The graph below compares the cumulative total shareholder return on the Company's common stock for the last five fiscal years with the cumulative total return of (i) the S&P 500 Index and (ii) the S&P 1500 Footwear Index. The graph assumes the investment of \$100 in the Company's common stock, the S&P 500 Index and the S&P 1500 Footwear Index at the market close on January 31, 2012 and the reinvestment monthly of all dividends.

### COMPARISON OF CUMULATIVE 5 YEAR TOTAL RETURN



### ANNUAL RETURN PERCENTAGE

#### Years Ending

| Company / Index         | Jan 13 | Jan 14 | Jan 15 | Jan 16 | Jan 17 |
|-------------------------|--------|--------|--------|--------|--------|
| Genesco Inc.            | 1.98   | 11.76  | 1.75   | -7.43  | -10.34 |
| S&P 500 Index           | 17.60  | 20.31  | 14.22  | -0.67  | 20.87  |
| S&P 1500 Footwear Index | 2.70   | 36.80  | 24.49  | 29.33  | -11.31 |

### INDEXED RETURNS

#### Years Ending

| Company / Index         | Base Period | Jan 13 | Jan 14 | Jan 15 | Jan 16 | Jan 17 |
|-------------------------|-------------|--------|--------|--------|--------|--------|
| Genesco Inc.            | 100         | 101.98 | 113.98 | 115.97 | 107.35 | 96.25  |
| S&P 500 Index           | 100         | 117.60 | 141.48 | 161.61 | 160.53 | 194.03 |
| S&P 1500 Footwear Index | 100         | 102.70 | 140.49 | 174.90 | 226.21 | 200.63 |

\*The S&P 1500 Footwear Index consists of Crocs, Inc., Deckers Outdoor Corporation, Nike, Inc., Skechers U.S.A., Inc., Steven Madden, Ltd. and Wolverine World Wide, Inc.

## **CORPORATE INFORMATION**

### **Annual Meeting of Shareholders**

The annual meeting of shareholders will be held Thursday, June 22, 2017, at 10:00 a.m. CDT, at the corporate headquarters in Genesco Park, Nashville, Tennessee.

### **Corporate Headquarters**

Genesco Park  
1415 Murfreesboro Road –P.O. Box 731  
Nashville, Tennessee 37202-0731

### **Independent Auditors**

Ernst & Young  
150 Fourth Avenue North, Suite 1400  
Nashville, Tennessee 37219

### **Transfer Agent and Registrar**

Communications concerning stock transfer, consolidating accounts, change of address and lost or stolen stock certificates should be directed to the transfer agent. When corresponding with the transfer agent, shareholders should state the exact name(s) in which the stock is registered and certificate number, as well as old and new information about the account.

Shareholder correspondence should be mailed to:

Computershare  
P. O. Box 30170  
College Station, Texas 77842-3170

Overnight correspondence should be sent to:

Computershare  
211 Quality Circle, Suite 210  
College Station, Texas 77845

Questions & Inquiries via Computershare's website:

[www.computershare.com/investor](http://www.computershare.com/investor)  
Computershare Phone: (877) 224-0366  
Hearing Impaired/TDD: 1-800-952-9245

### **Investor Relations**

Security analysts, portfolio managers or other investment community representatives should contact:  
Mimi E. Vaughn, Senior Vice President – Finance, Chief Financial Officer  
Genesco Park, Suite 490 –P.O. Box 731  
Nashville, Tennessee 37202-0731  
(615) 367-7386

### **Other Information**

A copy of any exhibits to the Annual Report on Form 10-K will be furnished to shareholders upon written request, addressed to Director, Corporate Relations, Genesco Inc., Genesco Park, Suite 490, P.O. Box 731, Nashville, Tennessee 37202-0731, accompanied by a check in the amount of \$15.00 payable to Genesco Inc. Certifications by the Chief Executive Officer and the Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits of the Company's 2017 Annual Report on Form 10-K.

### **Common Stock Listing**

New York Stock Exchange: GCO

### **Shareholder Information**

Shareholder information may be accessed at [www.genesco.com](http://www.genesco.com)

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

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**FORM 10-K**

(Mark One)

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

**For the Fiscal Year Ended January 28, 2017**

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

**for the transition period from                      to**

**Commission File No. 1-3083**

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**Genesco Inc.**

(Exact name of registrant as specified in its charter)

**Tennessee**  
(State or other jurisdiction of  
incorporation or organization)

**62-0211340**  
(I.R.S. Employer  
Identification No.)

**Genesco Park, 1415 Murfreesboro Road**  
**Nashville, Tennessee**  
(Address of principal executive offices)

**37217-2895**  
(Zip Code)

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

**Securities Registered Pursuant to Section 12(b) of the Act:**

| <b>Title of each class</b>     | <b>Name of Exchange<br/>on which Registered</b> |
|--------------------------------|---|
| Common Stock, \$1.00 par value | New York  |

**Securities Registered Pursuant to Section 12(g) of the Act:**

**Employees' Subordinated Convertible Preferred Stock**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act.) Yes  No

The aggregate market value of common stock held by nonaffiliates of the registrant as of July 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,432,000,000. The market value calculation was determined using a per share price of \$69.42, the price at which the common stock was last sold on the New York Stock Exchange on such date. For purposes of this calculation, shares held by nonaffiliates excludes only those shares beneficially owned by officers, directors, and shareholders owning 10% or more of the outstanding common stock (and, in each case, their immediate family members and affiliates).

As of March 10, 2017, 19,611,875 shares of the registrant's common stock were outstanding.

#### **Documents Incorporated by Reference**

Portions of the proxy statement for the June 22, 2017 annual meeting of shareholders are incorporated into Part III by reference.

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## PART I

### ITEM 1, BUSINESS

#### General

Genesco Inc. ("Genesco" or the "Company"), incorporated in 1934 in the State of Tennessee, is a leading retailer and wholesaler of branded footwear, apparel and accessories with net sales for Fiscal 2017 of \$2.87 billion. During Fiscal 2017, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys, Little Burgundy, acquired in the fourth quarter of Fiscal 2016, 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 of (a) headwear and accessory stores under the Lids® name and other names in the U.S., Puerto Rico and Canada, (b) 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, (c) licensed team merchandise departments in Macy's department stores operated under the name Locker Room by Lids and on macys.com under a license agreement with Macy's, and (d) e-commerce operations (an athletic team dealer business operating as Lids Team Sports was sold in the fourth quarter of Fiscal 2016); (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce operations and catalog and wholesale distribution of products under the Johnston & Murphy® and H.S.Trask® brands; and (v) Licensed Brands, comprised of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company, SureGrip® Footwear which was sold in the fourth quarter of Fiscal 2017, G.H. Bass Footwear operated under a license from G-III Apparel Group, Ltd., and other brands.

At January 28, 2017, the Company operated 2,794 retail footwear, headwear and sports apparel and accessory stores and leased departments located primarily throughout the United States and in Puerto Rico, but also including 147 headwear and sports apparel and accessory stores and 87 footwear stores in Canada and 128 footwear stores in the United Kingdom, the Republic of Ireland and Germany. The Company currently plans to open a total of approximately 101 new retail stores and to close approximately 133 retail stores in Fiscal 2018. At January 28, 2017, Journeys Group operated 1,249 stores, Schuh Group operated 128 stores, Lids Sports Group operated 1,240 stores and leased departments and Johnston & Murphy Group operated 177 retail shops and factory stores.

The following table sets forth certain additional information concerning the Company's retail footwear, headwear and sports apparel and accessory stores and leased departments during the five most recent fiscal years:

|                                      | <u>Fiscal<br/>2013</u> | <u>Fiscal<br/>2014</u> | <u>Fiscal<br/>2015</u> | <u>Fiscal<br/>2016</u> | <u>Fiscal<br/>2017</u> |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Retail Stores and Leased Departments |                        |                        |                        |                        |                        |
| Beginning of year                    | 2,387                  | 2,459                  | 2,568                  | 2,824                  | 2,852                  |
| Opened during year                   | 104                    | 183                    | 273                    | 81                     | 81                     |
| Acquired during year                 | 33                     | 15                     | 56                     | 37                     | —                      |
| Closed during year                   | (65)                   | (89)                   | (73)                   | (90)                   | (139)                  |
| End of year                          | <u>2,459</u>           | <u>2,568</u>           | <u>2,824</u>           | <u>2,852</u>           | <u>2,794</u>           |

The Company also sources, designs, markets and distributes footwear under its own Johnston & Murphy brand, the Trask brand, the licensed Dockers® brand and other brands that the Company licenses for men's footwear to over 1,225 retail accounts in the United States, including a number of leading department, discount, and specialty stores.

Shorthand references to fiscal years (e.g., "Fiscal 2017") refer to the fiscal year ended on the Saturday nearest January 31<sup>st</sup> in the named year (e.g., January 28, 2017). The terms "Company," "Genesco," "we," "our" or "us" as used herein and unless otherwise stated or indicated by context refer to Genesco Inc. and its subsidiaries. All information contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is referred to in this Item 1 of this report, is incorporated by such reference in Item 1. This report contains forward-

looking statements. Actual results may vary materially and adversely from the expectations reflected in these statements. For a discussion of some of the factors that may lead to different results, see Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### **Available Information**

The Company files reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer and the SEC maintains an internet site at <http://www.sec.gov> that contains the reports, proxy and information statements, and other information filed electronically. The Company's website address is <http://www.genesco.com>. The Company's website address is provided as an inactive textual reference only. The Company makes available free of charge through the website annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Copies of the charters of each of the Company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, as well as the Company's Corporate Governance Guidelines and Code of Ethics along with position descriptions for the Company's board of directors (the "Board of Directors" or the "Board") and Board committees are also available free of charge through the website. The information provided on the Company's website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically incorporated elsewhere in this report.

### **Segments**

#### *Journeys Group*

The Journeys Group segment, including Journeys, Journeys Kidz, Shi by Journeys, Little Burgundy and Underground by Journeys retail stores, e-commerce operations and catalog, accounted for approximately 44% of the Company's net sales in Fiscal 2017. The Company believes that the Journeys Group's distinctive store formats, its mix of well-known brands and new product introductions, and its experienced management team provide significant competitive advantages for the Journeys Group. For Fiscal 2017, same store sales decreased 5%, comparable direct sales increased 12% and comparable sales, including both store and direct sales, decreased 4% from Fiscal 2016. Earnings from operations attributable to Journeys Group were \$85.9 million in Fiscal 2017, with an operating margin of 6.9%.

At January 28, 2017, Journeys Group operated 1,249 stores, including 230 Journeys Kidz stores, 39 Shi by Journeys stores, 36 Little Burgundy stores and 95 Underground by Journeys stores averaging approximately 1,950 square feet, located primarily in malls and factory outlet centers throughout the United States and in Puerto Rico and Canada, selling footwear and accessories for young men, women and children. The Underground by Journeys stores have been added to the Journeys stores starting in Fiscal 2018 since the stores are similarly merchandised.

Journeys retail footwear stores target customers in the 13 to 22 year age group through the use of youth-oriented decor and multi-channel media. Journeys stores carry predominately branded merchandise across a wide range of prices. The Journeys Kidz retail footwear stores sell footwear and accessories primarily for younger children ages five to 12. Shi by Journeys retail footwear stores sell footwear and accessories to a target customer group consisting of fashion-conscious women in their early 20's to mid 30's. Little Burgundy retail footwear stores sell footwear and accessories to fashion-oriented men and women in the 18 to 34 age group ranging from students to young professionals. In Fiscal 2017, the Journeys Group added 27 net new stores, and plans to open approximately 10 net new stores in Fiscal 2018.

#### *Lids Sports Group*

The Lids Sports Group segment, as described above, accounted for approximately 29% of the Company's net sales in Fiscal 2017. For Fiscal 2017, same store sales increased 4%, comparable direct sales increased 2% and comparable sales, including both store and direct sales, increased 3% from Fiscal 2016. Earnings from operations attributable to Lids Sports Group was \$41.6 million in Fiscal 2017, with an operating margin of 4.9%.



At January 28, 2017, Lids Sports Group operated 1,240 stores and leased departments, including 882 Lids stores, 207 Lids Locker Room and Clubhouse stores and 151 Locker Room by Lids leased departments, averaging approximately 1,175 square feet, throughout the United States and in Puerto Rico and Canada. Lids Sports Group added 15 new stores and leased departments but closed 107 stores and leased departments in Fiscal 2017, and plans to close a net of 53 stores and leased departments in Fiscal 2018.

The core headwear stores and kiosks, located in malls, airports, street and factory outlet centers throughout the United States and in Puerto Rico and Canada, target customers in the early-teens to mid-20's age group. In general, the stores offer headwear from an assortment of college, MLB, NBA, NFL and NHL teams, as well as other specialty fashion categories. The Lids Locker Room and Lids Clubhouse stores, operating under a number of trade names, located in malls and other locations primarily in the United States and Canada, target sports fans of all ages. These stores offer headwear, apparel, accessories and novelties representing an assortment of college and professional teams. The Locker Room by Lids leased departments in Macy's department stores offer headwear, apparel, accessories and novelties representing an assortment of college and professional teams generally focused on the particular Macy's department store's geographic location.

#### *Schuh Group*

The Schuh Group segment, including e-commerce operations, accounted for approximately 13% of the Company's net sales in Fiscal 2017. For Fiscal 2017, same store sales decreased 2%, comparable direct sales increased 6% and comparable sales, including both store and direct sales, decreased 1%. Earnings from operations attributable to Schuh Group was \$20.5 million in Fiscal 2017, with an operating margin of 5.5%.

At January 28, 2017, Schuh Group operated 128 Schuh stores, averaging approximately 4,875 square feet, which include both street-level and mall locations in the United Kingdom and the Republic of Ireland and mall locations in Germany. Schuh Group opened three net new stores in Fiscal 2017 and plans to open approximately seven net new Schuh stores in Fiscal 2018. Schuh stores target men and women in the 15 to 30 age group, selling a broad range of branded casual and athletic footwear along with a meaningful private label offering.

#### *Johnston & Murphy Group*

The Johnston & Murphy Group segment, including retail stores, e-commerce and catalog operations and wholesale distribution, accounted for approximately 10% of the Company's net sales in Fiscal 2017. Same store sales for Johnston & Murphy retail operations increased 1%, comparable direct sales increased 8% and comparable sales, including both store and direct sales, increased 2% for Fiscal 2017. Earnings from operations attributable to Johnston & Murphy Group was \$19.7 million in Fiscal 2017, with an operating margin of 6.8%. The majority of Johnston & Murphy wholesale sales are of the Genesco-owned Johnston & Murphy brand, and all of the group's retail sales are of Johnston & Murphy branded products.

**Johnston & Murphy Retail Operations.** At January 28, 2017, Johnston & Murphy operated 177 retail shops and factory stores throughout the United States and in Canada averaging approximately 1,900 square feet and selling footwear, apparel and accessories primarily for men in the 35 to 55 age group, targeting business and professional customers. Women's footwear and accessories are sold in select Johnston & Murphy locations. Johnston & Murphy retail shops are located primarily in better malls and airports nationwide and sell a broad range of men's dress and casual footwear, apparel and accessories. The Company also sells Johnston & Murphy products directly to consumers through an e-commerce website and a direct mail catalog. Retail prices for Johnston & Murphy footwear generally range from \$100 to \$275. Footwear accounted for 64% of Johnston & Murphy retail sales in Fiscal 2017, with the balance consisting primarily of apparel and accessories. Johnston & Murphy Group added four net new shops and factory stores in Fiscal 2017 and plans to open approximately four net new shops and factory stores in Fiscal 2018.

**Johnston & Murphy Wholesale Operations.** Johnston & Murphy men's and women's footwear and accessories are sold at wholesale, primarily to better department and independent specialty stores. Johnston & Murphy's wholesale customers offer the brand's footwear for dress, dress casual, and casual occasions, with the majority of styles offered in these

channels selling from \$100 to \$195. Additionally, the Company offers the Trask brand, with men's and women's footwear and leather accessories offered primarily through better independent retailers and department stores, an e-commerce website and catalog. Suggested retail prices for Trask footwear range from \$195 to \$495.

#### *Licensed Brands*

The Licensed Brands segment accounted for approximately 4% of the Company's net sales in Fiscal 2017. Earnings from operations attributable to Licensed Brands was \$4.6 million in Fiscal 2017, with an operating margin of 4.3%. Licensed Brands sales include footwear marketed under the Dockers® brand, for which Genesco has had the exclusive men's footwear license in the United States since 1991. See "Licenses" below. Dockers footwear is marketed 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. Suggested retail prices for Dockers footwear generally range from \$50 to \$90. The Company sold Keuka Footwear, Inc. and the related SureGrip Footwear brand, a slip-resistant occupational footwear business operated within the Licensed Brands segment since Fiscal 2011, in the fourth quarter of Fiscal 2017. The Company also sells footwear under other licenses and in March 2015 entered into a License Agreement to source and distribute certain men's and women's footwear under the G.H. Bass trademark and related marks.

For further information on the Company's business segments, see Note 14 to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **Manufacturing and Sourcing**

The Company relies on independent third-party manufacturers for production of its footwear products sold at wholesale. The Company sources footwear and accessory products from foreign manufacturers located in Bangladesh, Brazil, Canada, China, Dominican Republic, El Salvador, France, Germany, Hong Kong, India, Indonesia, Italy, Mexico, Pakistan, Portugal, Peru, Romania, Taiwan, Tunisia and Vietnam. The Company's retail operations sell primarily branded products from third parties who source primarily overseas.

#### **Competition**

Competition is intense in the footwear, headwear, sports apparel and accessory industries. The Company's retail footwear, headwear, sports apparel and accessory competitors range from small, locally owned stores to regional and national department stores, discount stores, specialty chains and online retailers. The Company also competes with hundreds of footwear wholesale operations in the United States and throughout the world, most of which are relatively small, specialized operations, but some of which are large, more diversified companies. Some of the Company's competitors have resources that are not available to the Company. The Company's success depends upon its ability to remain competitive with respect to the key factors of style, price, quality, comfort, brand loyalty, customer service, store location and atmosphere, technology, infrastructure and speed of delivery to support e-commerce and the ability to offer distinctive products.

#### **Licenses**

The Company owns its Johnston & Murphy® and H.S. Trask® brands and owns or licenses the trade names of its retail concepts either directly or through wholly-owned subsidiaries. The Dockers® footwear line, introduced in Fiscal 1993, is sold under a license agreement granting the Company the exclusive right to sell men's footwear under the trademark in the United States, Canada and Mexico and in certain other Latin American countries. The Dockers license agreement's current term expires on November 30, 2018. Net sales of Dockers products were approximately \$67 million in Fiscal 2017 and approximately \$78 million in Fiscal 2016. The Company licenses certain of its footwear brands, mostly in foreign markets. License royalty income was not material in Fiscal 2017.

### **Wholesale Backlog**

Most of the orders in the Company's wholesale divisions are for delivery within 150 days. Because most of the Company's business is at-once, the backlog at any one time is not necessarily indicative of future sales. As of February 25, 2017, the Company's wholesale operations had a backlog of orders, including unconfirmed customer purchase orders, amounting to approximately \$34.9 million, compared to approximately \$32.8 million on February 27, 2016. The backlog is somewhat seasonal, reaching a peak in the spring. The Company maintains in-stock programs for selected product lines with anticipated high volume sales.

### **Employees**

Genesco had approximately 27,200 employees at January 28, 2017, approximately 150 of whom were employed in corporate staff departments and the balance in operations. Retail stores employ a substantial number of part-time employees, and approximately 19,775 of the Company's employees were part-time at January 28, 2017.

### **Seasonality**

The Company's business is seasonal with the Company's investment in inventory and accounts receivable normally reaching peaks in the spring and fall of each year and a significant portion of the Company's net sales and operating earnings generated during the fourth quarter.

### **Properties**

At January 28, 2017, the Company operated 2,794 retail footwear, headwear and sports apparel and accessory stores and leased departments throughout the United States and in Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany. New shopping center store leases in the United States, Puerto Rico and Canada typically are for a term of approximately 10 years. New store leases in the United Kingdom, the Republic of Ireland and Germany typically have terms of between 10 and 20 years. Both typically provide for rent based on a percentage of sales against a fixed minimum rent based on the square footage leased.

The general location, use and approximate size of the Company's principal properties are set forth below:

| <u>Location</u>                               | <u>Owned/Leased</u>  | <u>Segment</u>          | <u>Use</u>  | <u>Approximate Area Square Feet</u> |
|---|----------------------|-------------------------|---|-------------------------------------|
| Lebanon, TN                                   | Owned                | Journeys Group          | Distribution warehouse                            | 320,000                             |
| Indianapolis, IN                              | Leased               | Lids Sports Group       | Distribution warehouse                            | 311,600                             |
| Nashville, TN                                 | Leased               | Various                 | Executive & footwear operations offices           | 306,455 *                           |
| Indianapolis, IN                              | Leased/<br>Subleased | Lids Sports Group       | Distribution warehouse                            | 271,825 **                          |
| Bathgate, Scotland                            | Owned                | Schuh Group             | Distribution warehouse                            | 244,644                             |
| Chapel Hill, TN                               | Owned                | Licensed Brands         | Distribution warehouse                            | 182,000                             |
| Fayetteville, TN                              | Owned                | Johnston & Murphy Group | Distribution warehouse                            | 178,500                             |
| Zionsville, IN                                | Owned                | Lids Sports Group       | Administrative offices                            | 150,000                             |
| Deans Industrial Estate, Livingston, Scotland | Owned                | Schuh Group             | Distribution warehouse and administrative offices | 106,813                             |
| Nashville, TN                                 | Owned                | Journeys Group          | Distribution warehouse                            | 63,000                              |
| Mississauga, Ontario, Canada                  | Leased               | Lids Sports Group       | Distribution warehouses                           | 43,611                              |

\* The Company occupies approximately 97% of the building and subleases the remainder of the building.

\*\* The Company occupies approximately 25% of the building and subleases the remainder of the building.

The lease on the Company's Nashville office expires in April 2022. The Company believes that all leases of properties that are material to its operations may be renewed, or that alternative properties are available, on terms not materially less favorable to the Company than existing leases.

### **Environmental Matters**

The Company's former manufacturing operations and the sites of those operations as well as the sites of its current operations are subject to numerous federal, state, and local laws and regulations relating to human health and safety and the environment. These laws and regulations address and regulate, among other matters, wastewater discharge, air quality and the generation, handling, storage, treatment, disposal, and transportation of solid and hazardous wastes and releases of hazardous substances into the environment. In addition, third parties and governmental agencies in some cases have the power under such laws and regulations to require remediation of environmental conditions and, in the case of governmental agencies, to impose fines and penalties. Several of the facilities owned by the Company (currently or in the past) are located in industrial areas and have historically been used for extensive periods for industrial operations such as tanning, dyeing, and manufacturing. Some of these operations used materials and generated wastes that would be considered regulated substances under current environmental laws and regulations. The Company currently is involved in certain administrative and judicial environmental proceedings relating to the Company's former facilities. See Item 3, "Legal Proceedings" and Note 13 to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

## **ITEM 1A, RISK FACTORS**

Our business is subject to significant risks. You should carefully consider the risks and uncertainties described below and the other information in this Form 10-K, including our Consolidated Financial Statements and the notes to those statements. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we do not presently know about or that we currently consider immaterial may also affect our business operations and financial performance. If any of the events described below actually occur, our business, financial condition or results of operations could be adversely affected in a material way. This could cause the trading price of our stock to decline, perhaps significantly, and you may lose part or all of your investment.

### **Poor economic conditions and other factors can affect consumer spending and may significantly harm our business, affecting our financial condition, liquidity, and results of operations.**

The success of our business depends to a significant extent upon the level of consumer spending in general and on our product category. A number of factors may affect the level of consumer spending on merchandise that we offer, including, among other things:

- general economic, industry and weather conditions;
- energy costs, which affect gasoline and home heating prices;
- the level of consumer debt;
- pricing of products;
- interest rates;
- tax rates, refunds and policies;
- war, terrorism and other hostilities; and
- consumer confidence in future economic conditions.

Adverse economic conditions and any related decrease in consumer demand for discretionary items could have a material adverse effect on our business, results of operations and financial condition. The merchandise we sell generally consists of discretionary items. Reduced consumer confidence and spending may result in reduced demand for discretionary items and may force us to take inventory markdowns, decreasing sales and making expense leverage difficult to achieve. Demand can also be influenced by other factors beyond our control. For example, sales in the Lids Sports Group segment have historically been affected by developments in team sports, and could be adversely impacted by player strikes or other interruptions, as well as by the performance and reputation of certain teams and players.

Moreover, while the Company believes that its operating cash flows and its borrowing capacity under committed lines of credit will be more than adequate for its anticipated cash requirements, if the economy were to experience a renewed downturn, or if one or more of the Company's revolving credit banks were to fail to honor its commitments under the Company's credit lines, the Company could be required to modify its operations for decreased cash flow or to seek alternative sources of liquidity, and such alternative sources might not be available to the Company.

These same factors could impact our wholesale customers, limiting their ability to buy or pay for merchandise offered by the Company.

### **Our business involves a degree of fashion risk.**

The majority of our businesses serve a fashion-conscious customer base and depend upon the ability of our buyers and merchandisers to react to fashion trends, to purchase inventory that reflects such trends, and to manage our inventories appropriately in view of the potential for sudden changes in fashion, consumer taste, or other drivers of demand, including the performance and popularity of individual sports teams and athletes. Failure to execute any of these

activities successfully could result in adverse consequences, including lower sales, product margins, operating income and cash flows.

**Our business and results of operations are subject to a broad range of uncertainties arising out of world and domestic events.**

Our business and results of operations are subject to uncertainties arising out of world and domestic events, which may impact not only consumer demand, but also our ability to obtain the products we sell, most of which are produced outside the countries in which we operate. These uncertainties may include a global economic slowdown, changes in consumer spending or travel, increase in fuel prices, and the economic consequences of natural disasters, military action or terrorist activities and increased regulatory and compliance burdens related to governmental actions in response to a variety of factors, including but not limited to national security and anti-terrorism concerns and concerns about climate change. Any future events arising as a result of terrorist activity or other world events may have a material adverse impact on our business, including the demand for and our ability to source products, and consequently on our results of operations and financial condition.

**The increasing scope of our non-U.S. operations exposes our performance to risks including foreign economic conditions and exchange rate fluctuations.**

Our performance depends in part on general economic conditions affecting all countries in which we do business. The British decision to exit the European Union could impact consumer demand, currency rates and supply chain. We are dependent on foreign manufacturers for the products we sell, and our inventory is subject to cost and availability of foreign materials and labor. In addition to the other risks disclosed herein, demand for our product offering in our non-U.S. operations is also subject to local market conditions. As a result, there can be no assurance that Schuh's or our Canadian operations' future performance will not be adversely affected by economic conditions in their markets.

As we expand our international operations, we also increase our exposure to exchange rate fluctuations. Sales from stores outside the U.S. are denominated in the currency of the country in which these operations or stores are located and changes in foreign exchange rates affect the translation of the sales and earnings of these businesses into U.S. dollars for financial reporting purposes. Additionally, inventory purchase agreements may also be denominated in the currency of the country where the vendor resides.

**Our business is intensely competitive and increased or new competition could have a material adverse effect on us.**

The retail footwear, headwear, sports apparel and accessory markets are intensely competitive. We currently compete against a diverse group of retailers, including other regional and national specialty stores, department and discount stores, small independents and e-commerce retailers, which sell products similar to and often identical to those we sell. Our branded businesses, selling footwear at wholesale, also face intense competition, both from other branded wholesale vendors and from private label initiatives of their retailer customers. A number of different competitive factors could have a material adverse effect on our business, results of operations and financial condition, including:

- increased operational efficiencies of competitors;
- competitive pricing strategies;
- expansion by existing competitors;
- expansion of direct-to-consumer by our vendors;
- entry by new competitors into markets in which we currently operate; and
- adoption by existing retail competitors of innovative store formats or sales methods.

**Use of social media may adversely impact our reputation or subject us to fines or other penalties.**

There has been a substantial increase in the use of social media platforms and similar devices, including blogs, social media websites, and other forms of internet-based communications, which allow individuals access to a broad audience of consumers and other interested persons. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our associates or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our reputation or subject us to fines or other penalties.

Consumers value readily available information concerning retailers and their goods and services and often act on such information without further investigation and without regard to its accuracy. Information concerning us may be posted on social media platforms and similar devices at any time and may be adverse to our reputation or business. The harm may be immediate without affording us an opportunity for redress or correction. Damage to our reputation could result in declines in customer loyalty and sales, affect our vendor relationships, development opportunities and associate retention and otherwise adversely affect our business.

**If we are unsuccessful in establishing and protecting our intellectual property, the value of our brands could be adversely affected.**

Our ability to remain competitive is dependent upon our continued ability to secure and protect trademarks, patents and other intellectual property rights in the U.S. and internationally for all of our lines of business. We rely on a combination of trade secret, patent, trademark, copyright and other laws, license agreements and other contractual provisions and technical measures to protect our intellectual property rights; however, some countries' laws do not protect intellectual property rights to the same extent U.S. laws do.

Our business could be significantly harmed if we are not able to protect our intellectual property, or if a court found us to be infringing on other persons' intellectual property rights. Any future intellectual property lawsuits or threatened lawsuits in which we are involved, either as a plaintiff or as a defendant, could cost us a significant amount of time and money and distract management's attention from operating our business. If we do not prevail on any intellectual property claims, then we may have to change our manufacturing processes, products or trade names, any of which could reduce our profitability.

**We are dependent on third-party vendors for the merchandise we sell.**

We do not manufacture the merchandise we sell. This means that our product supply is subject to the ability and willingness of third-party suppliers to deliver merchandise we order on time and in the quantities and of the quality we need. In addition, a material portion of our retail footwear sales consists of products marketed under brands, belonging to unaffiliated vendors, which have fashion significance to our customers. Our core retail hat and sports apparel businesses are dependent upon products bearing sports and other logos, each generally controlled by a single licensee/vendor. If those vendors were to decide not to sell to us or to limit the availability of their products to us, or if they become unable because of economic conditions, work stoppages, strikes, political unrest, raw materials supply disruptions, or any other reason to supply us with products, we could be unable to offer our customers the products they wish to buy and could lose their business to competitors. Additionally, manufacturers are required to remain in compliance with certain wage, labor and environment-related laws and regulations. Delayed compliance or complete failure to comply with such laws and regulations by our vendors could adversely affect our ability to obtain products generally or at favorable costs, affecting our overall ability to maintain and manage inventory levels.

**An increase in the cost or a disruption in the flow of our imported products may significantly decrease our sales and profits.**

Merchandise originally manufactured and imported from overseas makes up a large proportion of our total inventory. A disruption in the shipping of our imported merchandise or an increase in the cost of those products may significantly decrease our sales and profits. We may be unable to meet our customers' demands or pass on price increases to our

customers. In addition, if imported merchandise becomes more expensive or unavailable, the transition to alternative sources may not occur in time to meet demand. Products from alternative sources may also be of lesser quality or more expensive than those we currently import. Risks associated with our reliance on imported products include:

disruptions in the shipping and importation of imported products because of factors such as:

- raw material shortages, work stoppages, strikes and political unrest;
- problems with oceanic shipping, including shipping container shortages and delays in ports;
- increased customs inspections of import shipments or other factors that could result in penalties causing delays in shipments;
- economic crises, natural disasters, international disputes and wars; and
- increases in the cost of purchasing or shipping foreign merchandise resulting from:
  - imposition of additional cargo or safeguard measures;
  - denial by the United States of “most favored nation” trading status to or the imposition of quotas or other restriction on imports from a foreign country from which we purchase goods;
  - import duties, import quotas and other trade sanctions; and
  - increases in shipping rates.

A significant amount of the inventory we sell is imported from the People’s Republic of China, which has historically been subject to efforts to increase duty rates or to impose restrictions on imports of certain products.

A small portion of the products we buy abroad is priced in foreign currencies and, therefore, we are affected by fluctuating currency exchange rates. In the past, we have entered into foreign currency exchange contracts with major financial institutions to hedge these fluctuations. We might not be able to effectively protect ourselves in the future against currency rate fluctuations, and our financial performance could suffer as a result. Even dollar-denominated foreign purchases may be affected by currency fluctuations, as suppliers seek to reflect appreciation in the local currency against the dollar in the price of the products that they provide. You should read Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information about our foreign currency exchange rate exposure and hedging activities.

**Increased operating costs could have an adverse effect on our results.**

Increased operating costs, including those resulting from potential increases in the minimum wage or wage increases reflecting competition in relevant labor markets, store occupancy costs, and other expense items, including healthcare costs, may reduce our operating margin and, by making it more difficult to identify new store locations that we believe will meet our investment return requirements, slow our growth. In addition, other employment and healthcare law changes may increase the cost of provided retirement, pension and healthcare benefits expenses. Increases in the Company’s overall employment costs could have a material adverse effect on the Company’s business, results of operations and financial and competitive position.

**The operation of the Company’s business is heavily dependent on its information systems.**

We depend on a variety of information technology systems for the efficient functioning of our business and security of information. Much information essential to our business is maintained electronically, including competitively sensitive information and potentially sensitive personal information about customers and employees. Our insurance policies may not provide coverage for security breaches and similar incidents or may have coverage limits which may not be adequate to reimburse us for losses caused by security breaches. We also rely on certain hardware and software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to the Company by independent software developers. The inability of these developers or the Company to continue to maintain and upgrade these information systems and software programs could disrupt or reduce the efficiency of our operations. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or



adequate support of existing systems could also disrupt or reduce the efficiency of our operations or leave the Company vulnerable to security breaches.

We also rely heavily on our information technology staff. If we cannot meet our staffing needs in this area, we may not be able to fulfill our technology initiatives or to provide maintenance on existing systems.

**We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to fraud or theft, subject us to potential liability and potentially disrupt our business.**

As a retailer who accepts payments using a variety of methods, including credit and debit cards, PayPal, and gift cards, the Company is subject to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs or accelerate these costs. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which could increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could disrupt our business.

The payment methods that we offer also subject us to potential fraud and theft by persons who seek to obtain unauthorized access to or exploit any weaknesses that may exist in the payment systems. The payment card industry established October 1, 2015 as the date on which it shifted liability for certain transactions to retailers who are not able to accept EMV card transactions. The Company did not implement the EMV technology and receive certification prior to October 1, 2015, and accordingly has been liable for costs incurred by payment card issuing banks and other third parties as a result of fraudulent use of credit card information improperly obtained from information captured by us until such time as the technology has been implemented and certified. The Company expects to complete the implementation and receive certification in its second quarter of Fiscal 2018.

**A privacy breach could have a material adverse effect on the Company's business and reputation.**

We rely heavily on digital technologies for the successful operation of our business, including electronic messaging, digital marketing efforts and the collection and retention of customer data and employee information. We also rely on third parties to process credit card transactions, perform online e-commerce and social media activities and retain data relating to the Company's financial position and results of operations, strategic initiatives and other important information. Despite the security measures we have in place, our facilities and systems and those of our third-party service providers may be vulnerable to cyber-security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Any misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information, whether by us or by our third-party service providers, could adversely affect our business and operations, including loss of sales generated through our websites, severely damaging our reputation and our relationships with our customers, suppliers, employees and investors and expose us to risks of litigation and liability.

In addition, we may incur significant remediation costs in the event of a cyber-security breach or incident, including liability for stolen customer or employee information, repairing system damage or providing credit monitoring or other benefits to affected customers or employees. We may also incur increased costs to comply with various applicable laws or industry standards regarding use and/or unauthorized disclosure of personal information. These and other cyber-security-related compliance, prevention and remediation costs may adversely impact our financial condition and results of operations.

**The loss of, or disruption in, one of our distribution centers and other factors affecting the distribution of merchandise, could have a material adverse effect on our business and operations.**

Each of our operations uses a single distribution center to handle all or a significant amount of its merchandise. Most of our operations' inventory is shipped directly from suppliers to our operations' distribution centers, where the inventory is then processed, sorted and shipped to our stores or to our wholesale customers. We depend on the orderly operation of this receiving and distribution process, which depends, in turn, on adherence to shipping schedules and effective management of the distribution centers. Although we believe that our receiving and distribution process is efficient and well positioned to support our current business and our expansion plans, we cannot offer assurance that we have anticipated all of the changing demands that our expanding operations will impose on our receiving and distribution system, or that events beyond our control, such as disruptions in operations due to fire or other catastrophic events, labor disagreements or shipping problems (whether in our own or in our third party vendors' or carriers' businesses), will not result in delays in the delivery of merchandise to our stores or to our wholesale customers or retail customers (e-commerce). In addition, we add capacity to distribution centers by either leasing or building new distribution centers or adding capacity at existing centers. Failure to execute on these initiatives may cause disruption in our business. We also make changes in our distribution processes from time to time in an effort to improve efficiency and maximize capacity. We cannot assure that these changes will not result in unanticipated delays or interruptions in distribution. We depend upon UPS for shipment of a significant amount of merchandise. An interruption in service by UPS for any reason could cause temporary disruptions in our business, a loss of sales and profits, and other material adverse effects.

Our freight cost is impacted by changes in fuel prices through surcharges. Fuel prices and surcharges affect freight cost both on inbound freight from vendors to our distribution centers and outbound freight from our distribution centers to our stores and wholesale customers. Increases in fuel prices and surcharges and other factors may increase freight costs and thereby increase our cost of goods sold.

**Any acquisitions we make or new businesses we launch, as well as any dispositions of assets or businesses, involve a degree of risk.**

Acquisitions have been a component of the Company's growth strategy in recent years and we expect that we may continue to engage in acquisitions or launch new businesses to grow our revenues and meet our other strategic objectives. If any future acquisitions are not successfully integrated with our business, our ongoing operations could be adversely affected. Additionally, acquisitions or new businesses may not achieve desired profitability objectives or result in any anticipated successful expansion of the businesses or concepts, causing lower than expected earnings and cash flow and potentially requiring impairment of goodwill and other intangibles. Although we review and analyze assets or companies we acquire, such reviews are subject to uncertainties and may not reveal all potential risks. Additionally, although we attempt to obtain protective contractual provisions, such as representations, warranties and indemnities, in connection with acquisitions, we cannot offer assurance that we can obtain such provisions in our acquisitions or that they will fully protect us from unforeseen costs of, or liabilities associated with, the acquisitions. We may also incur significant costs and diversion of management time and attention in connection with pursuing possible acquisitions even if the acquisition is not ultimately consummated.

Additionally, we may decide to divest assets or businesses that are no longer material to our core business. Following such divestitures, we may incur liabilities relating to our previous ownership of the assets or business that we sell. Any required payments on retained liabilities or indemnification obligations with respect to past or future asset or business divestitures could have a material adverse effect on our business or results of operations.

Further, acquisitions and dispositions are often structured such that the purchase price paid or received by us, as applicable, is subject to post-closing adjustments, whether as a result of net working capital adjustments, contingent payments (i.e., earn-outs) or otherwise. Any such adjustments could result in a material change in the consideration paid to or received by us, as applicable, in such transactions.

**We face a number of risks in opening new stores.**

We expect to open new stores, both in regional malls, where most of the operational experience of our U.S. businesses lies, and in other venues including outlet centers, major city street locations, airports and tourist destinations. We cannot offer assurances that we will be able to open as many stores as we have planned, that any new store will achieve similar operating results to those of our existing stores or that new stores opened in markets in which we operate will not have a material adverse effect on the revenues and profitability of our existing stores. The success of our planned expansion will be dependent upon numerous factors, many of which are beyond our control, including the following:

- our ability to identify suitable markets and individual store sites within those markets;
- the competition for suitable store sites;
- our ability to negotiate favorable lease terms for new stores and renewals (including rent and other costs) with landlords in part due to the consolidation in the commercial real estate market;
- our ability to obtain governmental and other third-party consents, permits and licenses needed to construct and operate our stores;
- the ability to build and remodel stores on schedule and at acceptable cost;
- the availability of employees to staff new stores and our ability to hire, train, motivate and retain store personnel;
- the effect of changes to laws and regulations, including minimum wage, over-time, and employee benefits laws on store expenses;
- the availability of adequate management and financial resources to manage an increased number of stores;
- our ability to adapt our distribution and other operational and management systems to an expanded network of stores;
- our ability to attract customers and generate sales sufficient to operate new stores profitably; and
- the effect of changes in consumer shopping patterns, including an accelerated shift to online shopping at the expense of in-store shopping, during the term of a lease.

Additionally, the results we expect to achieve during each fiscal quarter are dependent upon opening new stores on schedule. If we fall behind, we will lose expected sales and earnings between the planned opening date and the actual opening and may further complicate the logistics of opening stores, possibly resulting in additional delays, seasonally inappropriate product assortments, and other undesirable conditions.

**Our results of operations are subject to seasonal and quarterly fluctuations, which could have a material adverse effect on the market price of our stock.**

Our business is seasonal, with a significant portion of our net sales and operating income generated during the fourth quarter, which includes the holiday shopping season. Because of this seasonality, we have limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in our operations or strategies in other quarters. A significant shortfall in results for the fourth quarter of any year could have a material adverse effect on our annual results of operations and on the market price of our stock. Our quarterly results of operations also may fluctuate significantly based on such factors as:

- the timing of new store openings and renewals;
- the amount of net sales contributed by new and existing stores;
- the timing of certain holidays and sales events;

- changes in our merchandise mix;
- general economic, industry and weather conditions that affect consumer spending; and
- actions of competitors, including promotional activity.

**Changes in our effective income tax rate could adversely affect our net earnings.**

A number of factors influence our effective income tax rate, including changes in tax law, including the possible disallowance of border tax deductions for imported merchandise, tax treaties, interpretation of existing laws, and our ability to sustain our reporting positions on examination. Changes in any of those factors could change our effective tax rate, which could adversely affect our net earnings and liquidity. In addition, our operations outside of the United States may cause greater volatility in our effective tax rate.

**A failure to increase sales at our existing stores and in our e-commerce businesses may adversely affect our stock price and impact our results of operations.**

A number of factors have historically affected, and will continue to affect, our comparable sales results, including:

- consumer trends, such as less disposable income due to the impact of economic conditions and tax policies;
- the lack of new fashion trends to drive demand in certain of our businesses and the ability of those businesses to adjust to fashion changes on a timely basis;
- closing of department stores that anchor malls;
- competition;
- declining mall traffic due to changing customer preferences in the way they shop;
- timing of holidays including sales tax holidays and the timing of tax refunds;
- general regional and national economic conditions;
- inclement weather;
- changes in our merchandise mix;
- our ability to distribute merchandise efficiently to our stores;
- timing and type of sales events, promotional activities or other advertising;
- other external events beyond our control;
- our ability to adapt to changing customer preferences in the ways they digitally shop;
- new merchandise introductions; and
- our ability to execute our business strategy effectively.

Our comparable sales have fluctuated in the past, and we believe such fluctuations may continue. The unpredictability of our comparable sales may cause our revenue and results of operations to vary from quarter to quarter, and an unanticipated change in revenues or operating income may cause our stock price to fluctuate significantly.

**We are subject to regulatory proceedings and litigation and to regulatory changes that could have an adverse effect on our financial condition and results of operations.**

We are party to certain lawsuits, governmental investigations, and regulatory proceedings, including the proceedings arising out of alleged environmental contamination relating to historical operations of the Company and various suits involving current operations as disclosed in Item 3, "Legal Proceedings" and Note 13 to the Consolidated Financial Statements. If these or similar matters are resolved against us, our results of operations, our cash flows, or our financial condition could be adversely affected. The costs of defending such lawsuits and responding to such investigations and regulatory proceedings may be substantial and their potential to distract management from day-to-day business is significant. Moreover, with retail operations in 50 states, Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany, we are subject to federal, state, provincial, territorial, local and foreign regulations, which impose costs and risks on our business. Numerous states and municipalities as well as the federal government of the U.S. are proposing or implementing changes to minimum wage, overtime, employee leave, and other requirements that will increase costs. Changes in regulations could make compliance more difficult and costly, and violations could result in liability for damages or penalties.

**If we lose key members of management or are unable to attract and retain the talent required for our business, our operating results could suffer.**

Our performance depends largely on the efforts and abilities of members of our management team. Our executives have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected future loss of services of one or more key members of our management team could have an adverse effect on our business. In addition, future performance will depend upon our ability to attract, retain and motivate qualified employees, including store personnel and field management. If we are unable to do so, our ability to meet our operating goals may be compromised. Finally, our stores are decentralized, are managed through a network of geographically dispersed management personnel and historically experience a high degree of turnover. If we are for any reason unable to maintain appropriate controls on store operations due to turnover or other reasons, including the ability to control losses resulting from inventory and cash shrinkage, our sales and operating margins may be adversely affected. There can be no assurance that we will be able to attract and retain the personnel we need in the future.

**Goodwill recorded with acquisitions is subject to impairment which could reduce the Company's profitability.**

Deterioration in the Company's market value, whether related to the Company's operating performance or to disruptions in the equity markets or deterioration in the operating performance of the business unit with which goodwill is associated, could require the Company to recognize the impairment of some or all of the \$271.2 million of goodwill on its Consolidated Balance Sheets at January 28, 2017, resulting in the reduction of net assets and a corresponding non-cash charge to earnings in the amount of the impairment.

In connection with acquisitions, the Company records goodwill on its Consolidated Balance Sheets. This asset is not amortized but is subject to an impairment test at least annually, which consists of either a qualitative assessment on a reporting unit level, or a two-step impairment test if necessary, that is 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 at the beginning of its fourth quarter, or more frequently if events or circumstances indicate that the value of the asset might be impaired.

**Pension funding and costs are dependent upon several economic assumptions which if changed may cause our future earnings and cash flow to fluctuate significantly.**

The impact of our pension plan on our U.S. generally accepted accounting principles earnings may be volatile in that the amount of expense we record for our pension plan may materially change from year to year because those calculations are sensitive to funding levels as well as changes in several key economic assumptions, including interest rates, rates of

return on plan assets, and other actuarial assumptions including participant mortality estimates. Changes in these factors also affect our plan funding, cash flow and shareholders' equity. In addition, the funding of our pension plan may be subject to changes caused by legislative or regulatory actions.

We will make contributions to fund the pension plan when considered necessary or advantageous to do so. The macro-economic factors discussed above, including the return on assets and the minimum funding requirements established by government funding or taxing authorities, or established by other agreement, may influence future funding requirements. A significant decline in the fair value of the assets in our pension plan, or other adverse changes to our pension plan could require us to make significant funding contributions and affect cash flows in future periods.

**ITEM 1B, UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2, PROPERTIES**

See Item 1, "Business — Properties".

### **ITEM 3, LEGAL PROCEEDINGS**

#### **Environmental Matters**

##### *New York State Environmental Matters*

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

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

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

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

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

##### *Whitehall Environmental Matters*

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

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

#### *Accrual for Environmental Contingencies*

Related to all outstanding environmental contingencies, the Company had accrued \$4.4 million as of January 28, 2017, \$14.5 million as of January 30, 2016 and \$14.1 million as of January 31, 2015. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. The Company paid \$10.0 million of the accrued total at January 30, 2016 in August 2016. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets because it relates to former facilities operated by the Company. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.6 million in Fiscal 2017, \$0.8 million in Fiscal 2016 and \$2.8 million in Fiscal 2015. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations and represent changes in estimates.

#### **Other Matters**

On February 22, 2017, a former employee of a subsidiary of the Company filed a putative class and collective action, *Shumate v. Genesco, Inc., et al.*, in the U.S. district Court for the Southern District of Ohio, alleging violations of the federal Fair Labor Standards Act and Ohio wages and hours leave including failure to pay minimum wages and overtime to the subsidiary's store managers and seeking back pay, damages, penalties, and declaratory and injunctive relief. The Company disputes the material allegations in the complaint and intends to defend the matter.

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.

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 (collectively, "Visa") seeking to recover \$13.3 million in non-compliance fines and issuer reimbursement assessments collected from the Company in connection with the intrusion. In May 2016, the Company and Visa reached an agreement to settle the litigation. The Company recognized a pretax gain of \$9.0 million in connection with the settlement in the second quarter of Fiscal 2017.

In addition to the matters specifically described in this Item 3, 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.

**ITEM 4, MINE SAFETY DISCLOSURES**

Not applicable.

#### **ITEM 4A, EXECUTIVE OFFICERS OF THE REGISTRANT**

The officers of the Company are generally elected at the first meeting of the Board of Directors following the annual meeting of shareholders and hold office until their successors have been chosen and qualified or until their earlier resignation or removal. The name, age and office of each of the Company's executive officers and certain information relating to the business experience of each are set forth below:

**Robert J. Dennis**, 63, *Chairman, President and Chief Executive Officer*. Mr. Dennis joined the Company in 2004 as chief executive officer of the Company's acquired Hat World business. Mr. Dennis was named senior vice president of the Company in June 2004 and executive vice president and chief operating officer, with oversight responsibility for all the Company's operating divisions, in October 2005. Mr. Dennis was named president of the Company in October 2006 and chief executive officer in August 2008. Mr. Dennis was named chairman in February 2010, which became effective April 1, 2010. Mr. Dennis joined Hat World in 2001 from Asbury Automotive, where he was employed in senior management roles beginning in 1998. Mr. Dennis was with McKinsey and Company, an international consulting firm, from 1984 to 1997, and became a partner in 1990.

**Mimi Eckel Vaughn**, 50, *Senior Vice President - Finance and Chief Financial Officer*. Ms. Vaughn joined the Company in September 2003 as vice president of strategy and business development. She was named senior vice president, strategy and business development in October 2006, senior vice president of strategy and shared services in April 2009 and senior vice president - finance and chief financial officer in February 2015. Prior to joining the Company, Ms. Vaughn was executive vice president of business development and marketing, and acting chief financial officer from 2000 to 2001, for Link2Gov Corporation in Nashville. From 1993 to 1999, she was a consultant at McKinsey and Company in Atlanta.

**David E. Baxter**, 50, *Senior Vice President*. Mr. Baxter joined the Company in June 2016 as president and chief executive officer of the Lids Sports Group and a senior vice president of the Company. From 2014 until he joined the Company in 2016, Mr. Baxter was a business consultant specializing in sports licensing. From 2006 to 2014, he was president, Sports Licensed Division, adidas/Reebok. Mr. Baxter was named vice president, Sports Performance, adidas America in 2010.

**Jonathan D. Caplan**, 63, *Senior Vice President*. Mr. Caplan rejoined the Company in 2002 as chief executive officer of the branded group and president of Johnston & Murphy and was named senior vice president of the Company in November 2003. Mr. Caplan first joined the Company in June 1982 and served as president of Genesco's Laredo-Code West division from December 1985 to May 1992. After that time, Mr. Caplan was president of Stride Rite's Children's Group and then its Ked's Footwear division, from 1992 to 1996. He was vice president, new business development and strategy, for Service Merchandise Corporation from 1997 to 1998. Prior to rejoining Genesco in October 2002, Mr. Caplan served as president and chief executive officer of Hi-Tec Sports North America beginning in 1998.

**James C. Estepa**, 65, *Senior Vice President*. Mr. Estepa joined the Company in 1985 and in February 1996 was named vice president operations of Genesco Retail, which included the Jarman Shoe Company, Journeys, Boot Factory and General Shoe Warehouse. Mr. Estepa was named senior vice president operations of Genesco Retail in June 1998. He was named president of Journeys in March 1999. Mr. Estepa was named senior vice president of the Company in April 2000. He was named president and chief executive officer of the Genesco Retail Group in 2001, assuming additional responsibilities of overseeing the Company's former Underground Station segment.

**Roger G. Sisson**, 53, *Senior Vice President, Secretary and General Counsel*. Mr. Sisson joined the Company in 1994 as assistant general counsel and was elected secretary in February 1994. He was named general counsel in January 1996, vice president in November 2003, and senior vice president in October 2006.

**Parag D. Desai**, 42, *Senior Vice President of Strategy and Shared Services*. Mr. Desai joined the Company in 2014 as senior vice president of strategy and shared services. Prior to joining the Company, Mr. Desai spent 14 years with

McKinsey and Company, including seven years as a partner. Previously, Mr. Desai also held business development and technology positions at Outpace Systems and Booz Allen & Hamilton.

**Paul D. Williams**, 62, *Vice President and Chief Accounting Officer*. Mr. Williams joined the Company in 1977, was named director of corporate accounting and financial reporting in 1993 and chief accounting officer in April 1995. He was named vice president in October 2006.

**Matthew N. Johnson**, 52, *Vice President and Treasurer*. Mr. Johnson joined the Company in 1993 as manager, corporate finance and was elected assistant treasurer in December 1993. He was elected treasurer in June 1996. He was named vice president finance in October 2006 and renamed treasurer in April 2011 after a period of service as chief financial officer of one of the Company's divisions. Prior to joining the Company, Mr. Johnson was a vice president in the corporate and institutional banking division of The First National Bank of Chicago.

## PART II

### **ITEM 5, MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market Information**

The Company's common stock is listed on the New York Stock Exchange (Symbol: GCO). The following table sets forth for the periods indicated the high and low sales prices of the common stock as shown in the New York Stock Exchange Composite Transactions listed in the Wall Street Journal.

#### Fiscal Year ended January 30, 2016

|             | High     | Low      |
|-------------|----------|----------|
| 1st Quarter | \$ 74.74 | \$ 65.59 |
| 2nd Quarter | 70.47    | 61.07    |
| 3rd Quarter | 65.78    | 54.03    |
| 4th Quarter | 66.16    | 50.64    |

#### Fiscal Year ended January 28, 2017

|             | High     | Low      |
|-------------|----------|----------|
| 1st Quarter | \$ 72.63 | \$ 60.81 |
| 2nd Quarter | 69.94    | 57.23    |
| 3rd Quarter | 74.21    | 47.66    |
| 4th Quarter | 72.00    | 51.91    |

There were approximately 2,400 common shareholders of record on March 10, 2017.

The Company has not paid cash dividends in respect of its Common Stock since 1973. The Company's ability to pay cash dividends in respect of its common stock is subject to various restrictions. See Notes 6 and 8 to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Sources of Liquidity" for information regarding restrictions on dividends and redemptions of capital stock.

#### **Recent Sales of Unregistered Securities**

None.

#### **Issuer Purchases of Equity Securities**

None.

#### **Equity Compensation Plan Information**

Refer to Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" included elsewhere in this report.

## **ITEM 6, SELECTED FINANCIAL DATA**

### **Financial Summary**

In Thousands except per common share data, Financial Statistics and Other Data (End of Year)

|   | Fiscal Year End |              |              |              |              |
|---|-----------------|--------------|--------------|--------------|--------------|
|   | 2017            | 2016         | 2015         | 2014         | 2013         |
| <b>Results of Operations Data</b>   |                 |              |              |              |              |
| Net sales   | \$ 2,868,341    | \$ 3,022,234 | \$ 2,859,844 | \$ 2,624,972 | \$ 2,604,817 |
| Depreciation and amortization   | 75,768          | 79,011       | 74,326       | 67,135       | 63,697       |
| Earnings from operations  | 141,960         | 151,251      | 167,266      | 163,435      | 169,863      |
| Earnings from continuing operations before income taxes                   | 151,414         | 151,533      | 156,989      | 158,860      | 164,832      |
| Earnings from continuing operations                                       | 97,859          | 95,381       | 99,373       | 92,982       | 112,897      |
| Provision for discontinued operations, net                                | (428)           | (812)        | (1,648)      | (329)        | (462)        |
| Net earnings  | \$ 97,431       | \$ 94,569    | \$ 97,725    | \$ 92,653    | \$ 112,435   |
| <b>Per Common Share Data</b>  |                 |              |              |              |              |
| Earnings from continuing operations                                       |                 |              |              |              |              |
| Basic   | \$ 4.87         | \$ 4.17      | \$ 4.23      | \$ 3.99      | \$ 4.78      |
| Diluted   | 4.85            | 4.15         | 4.19         | 3.94         | 4.69         |
| Discontinued operations   |                 |              |              |              |              |
| Basic   | (0.02)          | (0.04)       | (0.07)       | (0.01)       | (0.02)       |
| Diluted   | (0.02)          | (0.04)       | (0.07)       | (0.02)       | (0.01)       |
| Net earnings  |                 |              |              |              |              |
| Basic   | 4.85            | 4.13         | 4.16         | 3.98         | 4.76         |
| Diluted   | 4.83            | 4.11         | 4.12         | 3.92         | 4.68         |
| <b>Balance Sheet and Cash Flow Data</b>                                   |                 |              |              |              |              |
| Total assets  | \$ 1,448,906    | \$ 1,541,190 | \$ 1,582,890 | \$ 1,438,987 | \$ 1,325,976 |
| Long-term debt  | 82,905          | 111,765      | 28,958       | 33,433       | 50,586       |
| Non-redeemable preferred stock  | 1,060           | 1,077        | 1,274        | 1,305        | 3,924        |
| Common equity   | 919,993         | 954,079      | 995,533      | 914,885      | 817,936      |
| Capital expenditures  | 93,970          | 100,652      | 103,111      | 98,456       | 71,737       |
| <b>Financial Statistics</b>   |                 |              |              |              |              |
| Earnings from operations as a percent of net sales                        | 4.9%            | 5.0%         | 5.8%         | 6.2%         | 6.5%         |
| Book value per share (common equity divided by common shares outstanding) | \$ 46.31        | \$ 43.70     | \$ 41.43     | \$ 38.25     | \$ 34.09     |
| Working capital (in thousands)  | \$ 428,781      | \$ 476,469   | \$ 441,742   | \$ 451,297   | \$ 407,073   |
| Current ratio   | 2.4             | 2.5          | 2.1          | 2.5          | 2.5          |
| Percent long-term debt to total capitalization                            | 8.2%            | 10.5%        | 2.8%         | 3.5%         | 5.8%         |
| <b>Other Data (End of Year)</b>   |                 |              |              |              |              |
| Number of retail outlets*   | 2,794           | 2,852        | 2,824        | 2,568        | 2,459        |
| Number of employees   | 27,200          | 27,500       | 27,325       | 22,250       | 22,700       |

\* Includes 36 Little Burgundy stores added in Fiscal 2016 that were acquired on November 3, 2015. Also includes 151, 185, 190 and 26 Locker Room by Lids leased departments in Macy's stores in Fiscal 2017, 2016, 2015 and 2014, respectively.

Reflected in earnings from continuing operations for Fiscal 2017 was a gain of \$12.3 million from the sale of SureGrip Footwear and a gain of \$2.4 million from the sale of Lids Team Sports, for Fiscal 2016 was a gain of \$4.7 million from the sale of Lids Team Sports and for Fiscal 2015 was a charge of \$7.1 million for an indemnification asset write-off.

Also reflected in earnings from continuing operations for Fiscal 2017, 2016, 2015, 2014 and 2013 were asset impairment and other charges (gains) of (\$0.8) million, \$7.9 million, \$2.3 million, \$1.3 million and \$17.0 million, respectively. See Note 3 to the Consolidated Financial Statements for additional information regarding these charges.

Long-term debt includes current obligations. See Note 6 to the Consolidated Financial Statements for additional information regarding the Company's debt.\*

The Company has not paid dividends on its Common Stock since 1973. See Notes 6 and 8 to the Consolidated Financial Statements and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Sources of Liquidity" for a description of limitations on the Company's ability to pay dividends.

\*In accordance with ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", the Company has reclassified its deferred financing costs for term loans from other noncurrent assets to long-term debt on a retrospective basis. In connection with the adoption of ASU 2015-03, deferred financing costs of \$0.3 million, \$0.2 million, \$0.3 million and \$0.1 million as of January 30, 2016, January 31, 2015, February 1, 2014 and February 2, 2013, respectively, were reclassified to long-term debt from noncurrent assets.

## **ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward Looking Statements**

This discussion and the notes to the Consolidated Financial Statements, as well as Item 1, "Business", include certain forward-looking statements, which include statements regarding our intent, belief or expectations and all statements other than those made solely with respect to historical fact. Actual results could differ materially from those reflected by the forward-looking statements in this discussion and a number of factors may adversely affect the forward-looking statements and the Company's future results, liquidity, capital resources or prospects. These include, but are not limited to, the level and timing of promotional activity necessary to maintain inventories at appropriate levels, the timing and amount of non-cash asset impairments related to retail store fixed assets and intangible assets of acquired businesses, the effectiveness of our omnichannel initiatives, costs associated with changes in minimum wage and overtime requirements, the level of chargebacks from credit card users for fraudulent purchases or other reasons, 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, weakness in shopping mall traffic and challenges to the viability of malls where the Company operates stores, related to planned closings of department stores or other factors, the imposition of tariffs on imported products or the disallowance of tax deductions on imported products, changes in buying patterns by significant wholesale customers, bankruptcies or deterioration in financial condition of significant wholesale customers or the inability of wholesale customers or consumers to obtain credit, 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, the effects of the British decision to exit the European Union, including potential effects on consumer demand, currency exchange rates, and the supply chain, 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, and 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 that may affect period-to-period comparisons in the Company's Lids Sports Group retail businesses. Additional factors that could affect the Company's prospects and cause differences from expectations include the 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, and the cost and outcome of litigation, investigations and environmental matters involving the Company. For a full discussion of risk factors, see Item 1A, "Risk Factors".

### **Overview**

#### *Description of Business*

The Company's business includes the sourcing and design, marketing and distribution of footwear and accessories through retail stores, including Journeys<sup>®</sup>, Journeys Kidz<sup>®</sup>, Shi by Journeys<sup>®</sup>, Little Burgundy<sup>®</sup>, 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<sup>®</sup> brand, the H.S.Trask<sup>®</sup> brand, the licensed Dockers<sup>®</sup> brand, and other brands that the Company licenses for men's footwear. The Company's wholesale footwear brands are distributed to more than 1,225 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 Locker Room by Lids and on macys.com under a

license agreement with Macy's, and (iv) e-commerce operations. Including both the footwear businesses and the Lids Sports business, at January 28, 2017, the Company operated 2,794 retail stores and leased departments in the U.S., Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany.

During Fiscal 2017, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of Journeys, Journeys Kidz, Shi by Journeys, Little Burgundy 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 (An athletic team dealer business operating as Lids Team Sports was sold in the fourth quarter of Fiscal 2016.) (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, which was sold in the fourth quarter of Fiscal 2017; G.H. Bass Footwear operated under a license from G-III Apparel Group, Ltd.; and other brands.

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 2,050 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages five to 12. These stores average approximately 1,500 square feet. Shi by Journeys retail footwear stores sell footwear and accessories to fashion-conscious women in their early 20's to mid 30's. These stores average approximately 2,150 square feet. The Journeys Group stores are primarily in malls and factory outlet centers throughout the United States, Puerto Rico and Canada. The Company's Canadian subsidiary acquired the Little Burgundy retail footwear chain in Canada during the fourth quarter of Fiscal 2016. Little Burgundy is being operated under the Journeys Group. Little Burgundy retail footwear stores sell footwear and accessories to fashion-oriented men and women in the 18 to 34 age group ranging from students to young professionals. These stores average approximately 1,900 square feet. With the 36 Little Burgundy stores, Journeys Group now operates 80 stores in Canada. Journeys also sells footwear and accessories through direct-to-consumer catalog and e-commerce operations.

The Schuh retail footwear stores sell a broad range of branded casual and athletic footwear along with a meaningful private label offering primarily for 15 to 30 year old men and women. The stores, which average approximately 4,875 square feet, include both street-level and mall locations in the United Kingdom, the Republic of Ireland and Germany. During the second quarter of Fiscal 2017, the Schuh Group opened its third Schuh store in Germany. The Schuh Group now operates three stores 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. The Lids Sports Group operates 147 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 January 28, 2017, the Company had 151 Locker Room by Lids leased departments averaging approximately 675 square feet. The Lids Sports Group also sells headwear and accessories through e-commerce operations. In addition, the Lids Sports Group operated Lids Team Sports, an athletic team dealer business that was sold in the fourth quarter of Fiscal 2016.

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 1,575 square feet and are located primarily in better malls and in airports throughout the United States and in Canada. As of January 28, 2017, Johnston & Murphy operated seven stores in Canada. The Company also has license and distribution agreements for wholesale and retail sales of Johnston & Murphy 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 November 30, 2018. The Company sold SureGrip Footwear, a slip-resistant occupational footwear business operated within the Licensed Brands segment since Fiscal 2011, in the fourth quarter of Fiscal 2017. The Company also sells footwear under other licenses and in March 2015 entered into a License Agreement to source and distribute certain men's and women's footwear under the G.H. Bass trademark and related marks.

### *Strategy*

The Company's long-term strategy has been to seek organic growth by: 1) 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. As a result of the degree of penetration of many of our concepts in their current geographic markets and the increasing trend of consumer purchases through e-commerce channels, the Company anticipates opening fewer new stores in the future as well as closing certain stores, perhaps reducing the overall square footage from current levels, and has enhanced its investments in technology and infrastructure to support omnichannel retailing.

To supplement its organic growth potential, the Company has made acquisitions, including the acquisition of the Schuh Group in June 2011, Little Burgundy in December 2015, and several smaller acquisitions of businesses in the Lids Sports Group's markets, and expects to consider acquisition opportunities, either to augment its existing businesses or to enter new businesses that it considers compatible with its existing businesses, core expertise and strategic profile. Acquisitions involve a number of risks, including, among others, inaccurate valuation of the acquired business, the assumption of undisclosed liabilities, the failure to integrate the acquired business appropriately, and distraction of management from existing businesses. The Company seeks to mitigate these risks by applying appropriate financial metrics in its valuation analysis and developing and executing plans for due diligence and integration that are appropriate to each acquisition. The Company also seeks appropriate opportunities to extend existing brands and retail concepts. For example, the Schuh Group opened its third Schuh store in Germany in the second quarter of Fiscal 2017. 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 Item 1A, "Risk Factors". Among the most important of these factors are those related to consumer demand. Conditions in the 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 decreased 5.1% during Fiscal 2017 compared to Fiscal 2016. The decrease reflected a 13% decrease in Lids Sports Group sales, reflecting the sale of the Lids Team Sports business in the fourth quarter of Fiscal 2016, an 8% decrease in Schuh Group sales, reflecting primarily the depreciation in the British Pound, and a 3% decrease in Licensed Brands sales, partially offset by a 4% increase in Johnston & Murphy Group sales, while Journeys Group sales remained flat for Fiscal 2017. Gross margin increased as a percentage of net sales from 47.8% in Fiscal 2016 to 49.4% in Fiscal 2017, reflecting gross margin increases as a percentage of net sales in Schuh Group, Lids Sports Group and Johnston & Murphy Group, partially offset by decreased gross margin as a percentage of net sales in Journeys Group and Licensed Brands. Selling and administrative expenses increased as a percentage of net sales from 42.5% in Fiscal 2016 to 44.5% in Fiscal 2017, reflecting increased expenses as a percentage of net sales in Journeys Group, Lids Sports Group, Licensed Brands and Corporate, partially offset by decreased expenses as a percentage of net sales in Schuh Group and Johnston & Murphy Group. Earnings from operations decreased as a percentage of net sales from 5.0% in Fiscal 2016 to 4.9% in Fiscal 2017, reflecting decreased earnings in Journeys Group and Licensed Brands, partially offset by improved earnings from operations in Schuh Group, Lids Sports Group and Johnston & Murphy Group.

### **Significant Developments**

#### *Sale of SureGrip Footwear*

On December 25, 2016, the Company completed the sale of all the stock of the Company's subsidiary, Keuka Footwear, Inc., that operates the SureGrip occupational, slip-resistant footwear business, operated within the Licensed Brands Group, to Shoes for Crews, LLC. The Company recognized a gain on the sale, in Fiscal 2017, estimated at \$12.3 million, net of transaction-related expenses before tax and subject to post-closing working capital adjustments.

#### *Pension Plan Partial Buyout*

In June 2016, the Company's board of directors authorized an offer to vested former employees and active employees over the age of 62 in the Company's defined benefits pension plan to buy out their future benefits under the plan for a lump sum cash payment. The Company made the buyout offer in the third quarter of Fiscal 2017, and completed it in the fourth quarter of Fiscal 2017. The Company incurred a one-time charge to earnings of \$2.5 million in the fourth quarter of Fiscal 2017 in connection with the pension plan buyout. The Company initiated the buyout offer in an effort to lower the Company's risk exposure to the pension plan by lowering the Plan's assets and liabilities.

#### *Sale of Lids Team Sports Business*

On January 19, 2016, the Company completed the sale of the assets of the Lids Team Sports business, which has operated within its Lids Sports Group segment, to BSN Sports, LLC. In Fiscal 2016, the Company recognized a gain on the sale estimated at \$4.7 million, net of transaction-related expenses before tax. In Fiscal 2017, the Company recognized an additional pretax gain of \$2.4 million on the sale of Lids Team Sports related to final working capital adjustments. The sale of Lids Team Sports is not a strategic shift that will have a major effect on operations and financial results, and therefore this business has not been presented as a discontinued operation in the Company's Consolidated Financial Statements.

#### *Indemnification Asset Write-off*

During the third quarter 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 taken by Schuh at the time of the Company's acquisition of Schuh, which were favorably resolved during the third quarter of Fiscal 2015.

#### *Change in EVA Incentive Plan*

Under the Company's EVA Incentive Plan, bonus awards in excess of a specified cap in any one year were 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 Fiscal 2016, the Company completed the acquisition of Little Burgundy, a small retail footwear chain in Canada for a total purchase price of \$35.1 million. The stores acquired are operated within the Journeys Group. During Fiscal 2015, the Company completed acquisitions of primarily small retail chains and one small wholesale business for a total purchase price of \$34.9 million. The stores acquired in Fiscal 2015 are operated within the Lids Sports Group. The wholesale business acquired in Fiscal 2015 was operated within Lids Team Sports, which was sold on January 19, 2016.

#### *Asset Impairment and Other Charges*

The Company recorded a pretax gain to earnings of \$0.8 million in Fiscal 2017, including a gain of \$8.9 million for network intrusion expenses as a result of a litigation settlement and a gain of \$0.8 million for other legal matters, partially offset by \$6.4 million for retail store asset impairments and \$2.5 million for pension settlement expense.

The Company recorded a pretax charge to earnings of \$7.9 million in Fiscal 2016, including \$3.1 million for retail store asset impairments, \$2.5 million for asset write-downs, \$2.2 million for network intrusion expenses and \$0.1 million for other legal matters.

The Company recorded a pretax charge to earnings of \$2.3 million in Fiscal 2015, including \$3.1 million for network intrusion expenses, \$1.9 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.

#### *Postretirement Benefit Liability Adjustments*

The return on pension plan assets was \$12.5 million for Fiscal 2017, compared to an expected return of \$5.6 million. The discount rate used to measure benefit obligations decreased from 4.30% to 3.95% in Fiscal 2017. As a result of the lump sums paid as part of the vested terminated pension plan buyout and higher than expected asset returns, partially offset by a decrease in the discount rate, the pension liability reflected in the Consolidated Balance Sheets decreased to \$6.3 million compared to \$10.0 million at the end of Fiscal 2016. There was a decrease in the pension liability adjustment of \$3.6 million (net of tax) in accumulated other comprehensive income in equity. Depending upon future interest rates and returns on plan assets and other factors, there can be no assurance that additional adjustments in future periods will not be required.

#### *Discontinued Operations*

In Fiscal 2017, Fiscal 2016 and Fiscal 2015, the Company recorded an additional charge to earnings of \$0.7 million (\$0.4 million net of tax), \$1.3 million (\$0.8 million net of tax) and \$2.7 million (\$1.6 million net of tax), respectively, reflected in discontinued operations, primarily for anticipated costs of environmental remedial alternatives related to

former facilities operated by the Company. For additional information, see Notes 3 and 13 to the Consolidated Financial Statements.

## **Critical Accounting Policies**

### *Inventory Valuation*

As discussed in Note 1 to the Consolidated Financial Statements, the Company values its inventories at the lower of cost or market.

In its footwear wholesale operations and its Schuh Group segment, cost is determined using the first-in, first-out ("FIFO") 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 for footwear wholesale. 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 segment employs the moving average cost method for valuing inventories and applies 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 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 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. A change of 10% from the recorded provisions for markdowns, shrinkage and damaged goods would have changed inventory by \$1.6 million at January 28, 2017.

### *Impairment of Long-Lived Assets*

As discussed in Note 1 to the Consolidated Financial Statements, 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.

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. 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 annual test, which was completed at the beginning of the fourth quarter, 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.

During the quarter ended January 28, 2017, the Company voluntarily changed the date of its annual goodwill impairment test and other intangible assets impairment test from the last day of the fiscal year to the first day of the fourth fiscal quarter. This voluntary change is preferable under the circumstances as it aligns with the Company's five-year strategic planning cycle that is completed in early October. This voluntary change in accounting principle was not made to delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require the application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

If the carrying value of the business 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 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, including those disclosed in Note 13 to the Company's Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.6 million reflected in Fiscal 2017, \$0.8 million reflected in Fiscal 2016 and \$2.8 million reflected in Fiscal 2015. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its accrued liability in relation to each proceeding is a 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 provisions, that some or all liabilities will be adequate or that the amounts of any such additional provisions or any such inadequacy will not have a material adverse effect upon the Company's financial condition or results of operations.

#### *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 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. Actual amounts of markdowns have not differed materially from estimates. Actual returns and claims in any future period may differ from historical experience.

#### *Income Taxes*

As part of the process of preparing 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 actual 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 Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income. 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 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 other 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 January 28, 2017, the Company had a deferred tax valuation allowance of \$4.3 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. See Note 9 to the Company’s Consolidated Financial Statements for additional information regarding income taxes.

#### *Postretirement Benefits Plan Accounting*

Full-time employees who had at least 1,000 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 limited 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 their 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.

Long Term Rate of Return Assumption – Pension expense increases as the expected rate of return on pension plan assets decreases. The Company estimates that the pension plan assets will generate a long-term rate of return of 6.05%. To develop this assumption, the Company considered historical asset returns, the current asset allocation and future expectations of asset returns. The expected long-term rate of return on plan assets is based on a long-term investment policy of 50% U.S. equities, 13% international equities, 35% U.S. fixed income securities and 2% cash equivalents. For Fiscal 2017, if the expected rate of return had been decreased by 1%, net pension expense would have increased by \$0.9 million, and if the expected rate of return had been increased by 1%, net pension expense would have decreased by \$0.9 million.

Discount Rate – Pension liability and future pension expense increase as the discount rate is reduced. The Company discounted future pension obligations using a rate of 3.95%, 4.30% and 3.55% for Fiscal 2017, 2016 and 2015, respectively. The discount rate at January 28, 2017 was determined based on a yield curve of high quality corporate bonds with cash flows matching the Company's plans' expected benefit payments. For Fiscal 2017, if the discount rate had been increased by 0.5%, net pension expense would have decreased by \$0.1 million, and if the discount rate had been decreased by 0.5%, net pension expense would have increased by \$0.2 million. In addition, if the discount rate had been increased by 0.5%, the projected benefit obligation would have decreased by \$4.5 million and the accumulated benefit obligation would have decreased by \$4.5 million. If the discount rate had been decreased by 0.5%, the projected benefit obligation would have been increased by \$4.8 million and the accumulated benefit obligation would have increased by \$4.8 million.

Amortization of Gains and Losses – 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. At the end of Fiscal 2017, the Company had unrecognized actuarial losses of \$15.4 million. 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 ten years. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension plan will impact future pension expense and liabilities, including increasing or decreasing unrecognized actuarial gains and losses.

The Company recognized expense for its defined benefit pension plans of \$2.3 million, \$3.9 million and \$2.6 million in Fiscal 2017, 2016 and 2015, respectively. Fiscal 2017 includes a settlement charge of \$2.5 million as a result of the pension plan buyout. The Company's pension expense is expected to increase in Fiscal 2018 by approximately \$0.4 million before considering the settlement charge due to a lower expected return on assets. Additionally, the amortization period for gains and losses has increased due to the lump sum buyout which included active participants over age 62.

### **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—Fiscal 2017 Compared to Fiscal 2016**

The Company's net sales for Fiscal 2017 decreased 5.1% to \$2.87 billion from \$3.02 billion in Fiscal 2016. The decrease in net sales was a result of decreased sales in Lids Sports Group, reflecting the sale of the Lids Team Sports business in the fourth quarter of Fiscal 2016, and decreased sales in Schuh Group and Licensed Brands, partially offset

by increased sales in Johnston & Murphy Group, while Journeys Group sales remained flat for Fiscal 2017. Net sales of the Company's businesses other than Lids Team Sports decreased less than 1% for Fiscal 2017. Gross margin decreased 1.8% to \$1.42 billion in Fiscal 2017 from \$1.44 billion in Fiscal 2016, but increased as a percentage of net sales from 47.8% in Fiscal 2016 to 49.4% in Fiscal 2017, primarily reflecting increased gross margin as a percentage of net sales in the Lids Sports Group, Schuh Group and Johnston & Murphy Group, partially offset by decreased gross margin as a percentage of net sales in Journeys Group and Licensed Brands. Selling and administrative expenses in Fiscal 2017 decreased 0.6% from Fiscal 2016 but increased as a percentage of net sales from 42.5% to 44.5%, primarily reflecting expense increases in Journeys Group, Lids Sports Group, Licensed Brands and Corporate, partially offset by decreased expenses in Schuh Group and Johnston & Murphy Group. 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 Fiscal 2017 were \$151.4 million, compared to \$151.5 million for Fiscal 2016. Pretax earnings for Fiscal 2017 included an asset impairment and other gain of \$0.8 million, including an \$8.9 million gain for network intrusion expenses as result of a litigation settlement and a \$0.8 million gain for other legal matters, partially offset by \$6.4 million for retail store asset impairments and \$2.5 million pension settlement expense. Pretax earnings for Fiscal 2017 also included a gain of \$12.3 million on the sale of SureGrip Footwear and a \$2.4 million gain on the sale of Lids Team Sports. Pretax earnings for Fiscal 2016 included asset impairment and other charges of \$7.9 million, including \$3.1 million for retail store asset impairments, \$2.5 million for asset write-downs, \$2.2 million for expenses related to the computer network intrusion announced in December 2010 and \$0.1 million for other legal matters. Pretax earnings for Fiscal 2016 also included a gain of \$4.7 million on the sale of Lids Team Sports and \$1.5 million in expense related to the deferred purchase price obligation related to the Schuh acquisition.

Net earnings for Fiscal 2017 were \$97.4 million (\$4.83 diluted earnings per share) compared to \$94.6 million (\$4.11 diluted earnings per share) for Fiscal 2016. Net earnings for Fiscal 2017 included a \$0.4 million (\$0.02 diluted loss per share) charge to earnings (net of tax), primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company. Net earnings for Fiscal 2016 included a \$0.8 million (\$0.04 diluted loss per share) charge to earnings (net of tax), 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 35.4% for Fiscal 2017 compared to 37.1% for Fiscal 2016 and 36.7% for Fiscal 2015. The effective tax rate for Fiscal 2017 was lower compared to Fiscal 2016 due to the release of tax reserves. The effective tax rate for Fiscal 2016 benefited from increased foreign earnings and lowering of foreign tax rates combined with a release of \$1.3 million in valuation allowance on foreign net operating losses no longer required, while the effective tax rate for Fiscal 2015 benefited from 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 the Company resolved favorably during Fiscal 2015. See Note 9 to the Consolidated Financial Statements for additional information.

#### *Journeys Group*

|                          | <b>Fiscal Year Ended</b> |              | %       |
|--------------------------|--------------------------|--------------|---------|
|                          | <b>2017</b>              | 2016         |         |
|                          | (dollars in thousands)   |              |         |
| Net sales                | <b>\$ 1,251,646</b>      | \$ 1,251,637 | — %     |
| Earnings from operations | <b>\$ 85,875</b>         | \$ 126,248   | (32.0)% |
| Operating margin         | <b>6.9%</b>              | 10.1%        |         |

Net sales from Journeys Group were flat at \$1.25 billion for Fiscal 2017 and 2016. Journeys Group's comparable sales were down 4% in Fiscal 2017 which includes a 5% decrease in same store sales and a 12% increase in comparable direct



sales. Average Journeys stores operated (i.e. the sum of the number of stores open on the first day of the fiscal year and the last day of each fiscal month during the year divided by thirteen) increased 4% during Fiscal 2017. The comparable store sales decrease reflected an 8% decrease in footwear unit comparable sales while the average price per pair of shoes increased 3%. The store count for Journeys Group was 1,249 stores at the end of Fiscal 2017, including 230 Journeys Kidz stores, 39 Shi by Journeys stores, 95 Underground by Journeys stores, 44 Journeys stores in Canada and 36 Little Burgundy stores in Canada, compared to 1,222 stores at the end of Fiscal 2016, including 200 Journeys Kidz stores, 46 Shi by Journeys stores, 98 Underground by Journeys stores, 39 Journeys stores in Canada and 36 Little Burgundy stores in Canada, acquired in the fourth quarter of Fiscal 2016.

Journeys Group earnings from operations for Fiscal 2017 decreased 32.0% to \$85.9 million, compared to \$126.2 million for Fiscal 2016. The decrease in earnings from operations was primarily due to increased expenses as a percentage of net sales as Journeys Group could not leverage store-related expenses, primarily occupancy, advertising and credit card expenses, and to decreased gross margin as a percentage of net sales, reflecting increased markdowns.

#### *Schuh Group*

|                          | Fiscal Year Ended      |            | %      |
|--------------------------|------------------------|------------|--------|
|                          | 2017                   | 2016       |        |
|                          | (dollars in thousands) |            |        |
| Net sales                | \$ 372,872             | \$ 405,674 | (8.1)% |
| Earnings from operations | \$ 20,530              | \$ 19,124  | 7.4 %  |
| Operating margin         | 5.5%                   | 4.7%       |        |

Net sales from the Schuh Group decreased 8.1% to \$372.9 million for Fiscal 2017, compared to \$405.7 million for Fiscal 2016. The sales decrease reflects primarily a decrease of \$49.3 million in sales due to the depreciation of the British Pound and a 1% decrease in comparable sales which includes a 2% decrease in same store sales and a 6% increase in comparable direct sales, partially offset by a 10% increase in average stores operated. Schuh Group operated 128 stores at the end of Fiscal 2017 compared to 125 stores at the end of Fiscal 2016.

Schuh Group earnings from operations increased 7.4% to \$20.5 million in Fiscal 2017 compared to \$19.1 million for Fiscal 2016. Earnings for Fiscal 2016 included \$1.5 million in compensation expense related to a deferred purchase price obligation in connection with the Schuh acquisition. The increase in earnings from operations was primarily due to the absence of the deferred purchase price expense, which contributed 40 basis points to the operating margin improvement as a percentage of sales. The remaining operating margin improvement was due to increased gross margin as a percentage of net sales, reflecting less promotional activity, changes in sales mix and improved margin in certain product categories. The operating margin improvement from gains on foreign currency was offset by increased expenses, primarily occupancy, depreciation and bonus expense. Schuh Group's earnings from operations for Fiscal 2017 were negatively impacted by \$4.1 million due to changes in foreign exchange rates.

#### *Lids Sports Group*

|                          | Fiscal Year Ended      |            | %       |
|--------------------------|------------------------|------------|---------|
|                          | 2017                   | 2016       |         |
|                          | (dollars in thousands) |            |         |
| Net sales                | \$ 847,510             | \$ 975,504 | (13.1)% |
| Earnings from operations | \$ 41,563              | \$ 17,040  | 143.9 % |
| Operating margin         | 4.9%                   | 1.7%       |         |

Net sales from the Lids Sports Group decreased 13.1% to \$847.5 million for Fiscal 2017 from \$975.5 million for Fiscal 2016. A 14% reduction in sales due to the sale of the Lids Team Sports business in the fourth quarter of Fiscal 2016 accounted for all of the decline in sales for the segment. Comparable sales increased 3% for Fiscal 2017, which

includes a 4% increase in same store sales and a 2% increase in comparable direct sales, while the average number of Lids Sports Group stores operated decreased 3%, excluding leased departments. The comparable sales increase reflected a 4% increase in the average price per hat, while comparable store hat units sold decreased 1%. Lids Sports Group operated 1,240 stores at the end of Fiscal 2017, including 112 Lids stores in Canada, 207 Lids Locker Room and Clubhouse stores, which include 35 Locker Room stores in Canada, and 151 Locker Room by Lids leased departments at Macy's, compared to 1,332 stores at the end of Fiscal 2016, including 113 Lids stores in Canada and 228 Lids Locker Room and Clubhouse stores, which include 38 Locker Room stores in Canada, and 185 Locker Room by Lids leased departments at Macy's.

Lids Sports Group earnings from operations for Fiscal 2017 increased 143.9% to \$41.6 million compared to \$17.0 million for Fiscal 2016. The increase was due to increased gross margin as a percentage of net sales, reflecting the sale of the lower margin Lids Team Sports business and decreased shipping and warehouse expense and decreased promotional activity in the retail business. The improvement in gross margin more than offset increased expenses as a percentage of net sales, resulting from (i) the sale of Lids Team Sports, which had lower expenses, (ii) increased store-related expenses, primarily occupancy and credit card expenses, and (iii) increased bonus expenses.

#### *Johnston & Murphy Group*

|                          | Fiscal Year Ended      |            | %     |
|--------------------------|------------------------|------------|-------|
|                          | 2017                   | 2016       |       |
|                          | (dollars in thousands) |            |       |
| Net sales                | <b>\$ 289,324</b>      | \$ 278,681 | 3.8%  |
| Earnings from operations | <b>\$ 19,682</b>       | \$ 17,761  | 10.8% |
| Operating margin         | <b>6.8%</b>            | 6.4%       |       |

Johnston & Murphy Group net sales increased 3.8% to \$289.3 million for Fiscal 2017 from \$278.7 million for Fiscal 2016. The increase reflected primarily a 2% increase in comparable sales which includes a 1% increase in same store sales and an 8% increase in comparable direct sales, a 1% increase in average stores operated for Johnston & Murphy retail operations and a 5% increase in Johnston & Murphy wholesale sales. Unit sales for the Johnston & Murphy wholesale business increased 6% in Fiscal 2017 while the average price per pair of shoes decreased 2% for the same period. Retail operations accounted for 71.4% of the Johnston & Murphy Group's sales in Fiscal 2017, down slightly from 71.7% in Fiscal 2016. The comparable sales increase in Fiscal 2017 reflects a 2% increase in footwear unit comparable sales while the average price per pair of shoes for Johnston & Murphy retail operations decreased 3%. The store count for Johnston & Murphy retail operations at the end of Fiscal 2017 included 177 Johnston & Murphy shops and factory stores, including seven stores in Canada, compared to 173 Johnston & Murphy shops and factory stores, including seven stores in Canada, at the end of Fiscal 2016.

Johnston & Murphy earnings from operations for Fiscal 2017 increased 10.8% to \$19.7 million from \$17.8 million for Fiscal 2016, primarily due to increased net sales, a slight increase in gross margin as a percentage of net sales, and decreased expenses as a percentage of net sales, reflecting slightly lower store-related expenses, primarily selling salaries and occupancy expenses and an increase as a percent of the total in wholesale which carries lower expenses than retail.

#### *Licensed Brands*

|                          | Fiscal Year Ended      |            | %       |
|--------------------------|------------------------|------------|---------|
|                          | 2017                   | 2016       |         |
|                          | (dollars in thousands) |            |         |
| Net sales                | <b>\$ 106,372</b>      | \$ 109,826 | (3.1)%  |
| Earnings from operations | <b>\$ 4,566</b>        | \$ 9,236   | (50.6)% |
| Operating margin         | <b>4.3%</b>            | 8.4%       |         |

Licensed Brands' net sales decreased 3.1% to \$106.4 million for Fiscal 2017 from \$109.8 million for Fiscal 2016. The sales decrease reflects decreased sales of Dockers and Chaps Footwear, partially offset by the addition of sales for G.H. Bass Footwear. SureGrip Footwear, which was sold in the fourth quarter, had net sales of \$15.6 million in Fiscal 2017. The sales decrease in Dockers and Chaps Footwear reflects weakness in the department store and footwear chain channels. Unit sales for Dockers Footwear decreased 6% for Fiscal 2017 and the average price per pair of shoes decreased 8% for the same period.

Licensed Brands' earnings from operations for Fiscal 2017 decreased 50.6%, from \$9.2 million for Fiscal 2016 to \$4.6 million, primarily due to increased expenses as a percentage of net sales, reflecting increased expenses associated with the start-up of the Bass Footwear licensed business and increased shipping and warehouse, freight and royalty expenses, and to decreased gross margin as a percentage of net sales, reflecting sales of products with lower initial margins.

#### *Corporate, Interest Expenses and Other Charges*

Corporate and other expense for Fiscal 2017 was \$30.3 million compared to \$38.2 million for Fiscal 2016. Corporate expense in Fiscal 2017 included a \$0.8 million gain in asset impairment and other charges, primarily for a gain on network intrusion expenses as a result of a litigation settlement and a gain for other legal matters, partially offset by retail store asset impairments and pension settlement expenses. Corporate expense in Fiscal 2016 included \$7.9 million in asset impairment and other charges, primarily for retail store asset impairments, asset write-downs, network intrusion expenses and other legal matters. Excluding the gains and charges listed above, corporate and other expense increased primarily due to increased bonus accruals and bank fees, partially offset by foreign exchange gains, life insurance proceeds and decreased professional fees.

Net interest expense increased 19.2% from \$4.4 million in Fiscal 2016 to \$5.2 million in Fiscal 2017 primarily due to increased revolver borrowings compared to the previous year as a result of the Little Burgundy acquisition in the fourth quarter of Fiscal 2016 and share repurchases.

#### **Results of Operations—Fiscal 2016 Compared to Fiscal 2015**

The Company's net sales for Fiscal 2016 increased 5.7% to \$3.02 billion from \$2.86 billion in Fiscal 2015. The increase in net sales was a result of increased sales in Journeys Group, Lids Sports Group and Johnston & Murphy Group, while Schuh Group and Licensed Brands sales remained flat for Fiscal 2016. Gross margin increased 3.1% to \$1.44 billion in Fiscal 2016 from \$1.40 billion in Fiscal 2015, but decreased as a percentage of net sales from 49.0% in Fiscal 2015 to 47.8% in Fiscal 2016, primarily reflecting decreased gross margin as a percentage of net sales in the Lids Sports Group, Schuh Group and Johnston & Murphy Group, offset slightly by increased gross margin as a percentage of net sales in Journeys Group and Licensed Brands. Selling and administrative expenses in Fiscal 2016 increased 4.3% from Fiscal 2015 but decreased as a percentage of net sales from 43.0% to 42.5%, primarily reflecting expense decreases in Schuh Group, Lids Sports Group and Johnston & Murphy Group, partially offset by increased expenses in Journeys Group and Licensed Brands. 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 pretax earnings for Fiscal 2016 were \$151.5 million, compared to \$157.0 million for Fiscal 2015. Pretax earnings for Fiscal 2016 included asset impairment and other charges of \$7.9 million, including \$3.1 million for retail store asset impairments, \$2.5 million for asset write-downs, \$2.2 million for expenses related to the computer network intrusion announced in December 2010 and \$0.1 million for other legal matters. Pretax earnings for Fiscal 2016 also included a gain of \$4.7 million on the sale of Lids Team Sports and \$1.5 million in expense related to the deferred purchase price obligation related to the Schuh acquisition. Pretax earnings for Fiscal 2015 included asset impairment and other charges of \$2.3 million, including \$3.1 million for expenses related to the computer network intrusion, \$1.9 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. Pretax earnings for Fiscal 2015 also 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 year and \$7.3 million in expense related to the deferred purchase price obligation related to the Schuh acquisition.

Net earnings for Fiscal 2016 were \$94.6 million (\$4.11 diluted earnings per share) compared to \$97.7 million (\$4.12 diluted earnings per share) for Fiscal 2015. Net earnings for Fiscal 2016 included a \$0.8 million (\$0.03 diluted loss per share) charge to earnings (net of tax), primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company. Net earnings for Fiscal 2015 included a \$1.6 million (\$0.07 diluted loss per share) charge to earnings (net of tax), primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company. The Company recorded an effective federal income tax rate of 37.1% for Fiscal 2016 compared to 36.7% for Fiscal 2015. The effective tax rate for Fiscal 2016 benefited from increased foreign earnings and lowering of foreign tax rates combined with a release of \$1.3 million in valuation allowance on foreign net operating losses no longer required. The tax rate for Fiscal 2015 was lower 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 Fiscal 2015. See Note 9 to the Consolidated Financial Statements for additional information.

### *Journeys Group*

|                          | Fiscal Year Ended      |              | %<br>Change |
|--------------------------|------------------------|--------------|-------------|
|                          | 2016                   | 2015         |             |
|                          | (dollars in thousands) |              |             |
| Net sales                | \$ 1,251,637           | \$ 1,179,476 | 6.1%        |
| Earnings from operations | \$ 126,248             | \$ 114,784   | 10.0%       |
| Operating margin         | 10.1%                  | 9.7%         |             |

Net sales from Journeys Group increased 6.1% to \$1.25 billion for Fiscal 2016 from \$1.18 billion for Fiscal 2015. The increase reflects primarily a 5% increase in comparable sales which includes a 5% increase in same store sales and an 18% increase in comparable direct sales, and a 1% increase in average Journeys stores operated (i.e. the sum of the number of stores open on the first day of the fiscal year and the last day of each fiscal month during the year divided by thirteen). The comparable store sales increase reflected a 4% increase in average price per pair of shoes, while footwear unit comparable sales remained flat. The store count for Journeys Group was 1,222 stores at the end of Fiscal 2016, including 200 Journeys Kidz stores, 46 Shi by Journeys stores, 98 Underground by Journeys stores, 39 Journeys stores in Canada and 36 Little Burgundy stores in Canada, acquired in the fourth quarter of Fiscal 2016, compared to 1,182 stores at the end of Fiscal 2015, including 189 Journeys Kidz stores, 49 Shi by Journeys stores, 110 Underground by Journeys stores and 35 Journeys stores in Canada.

Journeys Group earnings from operations for Fiscal 2016 increased 10.0% to \$126.2 million, compared to \$114.8 million for Fiscal 2015. The increase in earnings from operations was primarily due to increased net sales and increased gross margin as a percentage of net sales, reflecting higher initial margins due to changes in sales mix.

### *Schuh Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2016                   | 2015       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 405,674             | \$ 406,947 | (0.3)%      |
| Earnings from operations | \$ 19,124              | \$ 10,110  | 89.2 %      |
| Operating margin         | 4.7%                   | 2.5%       |             |

Net sales from the Schuh Group decreased 0.3% to \$405.7 million for Fiscal 2016, compared to \$406.9 million for Fiscal 2015. The sales decrease reflects primarily a decrease of \$33.0 million in sales due to the depreciation of the British Pound, offset by a 12% increase in average stores operated and a 3% increase in comparable sales which includes a 1% increase in same store sales and a 13% increase in comparable direct sales. Schuh Group operated 125 stores, including ten Schuh Kids stores at the end of Fiscal 2016 compared to 108 stores, including six Schuh Kids stores at the end of Fiscal 2015.

Schuh Group earnings from operations increased 89.2% to \$19.1 million in Fiscal 2016 compared to \$10.1 million for Fiscal 2015. Earnings included \$1.5 million for Fiscal 2016 and \$7.3 million for Fiscal 2015 in compensation expense related to a deferred purchase price obligation in connection with the Schuh acquisition in Fiscal 2014. Earnings also included \$11.8 million for Fiscal 2015 related to accruals for a contingent bonus payment for Schuh employees provided for in the Schuh acquisition. The increase in earnings from operations was primarily due to decreased expenses as a percentage of net sales, reflecting the decreases in deferred purchase price expense and contingent bonus expense referred to above. The decrease in expense more than offset the decreased gross margin as a percentage of net sales, which reflected increased shipping and warehouse expense and increased promotional activity.

#### *Lids Sports Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2016                   | 2015       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 975,504             | \$ 902,661 | 8.1 %       |
| Earnings from operations | \$ 17,040              | \$ 48,970  | (65.2)%     |
| Operating margin         | 1.7%                   | 5.4%       |             |

Net sales from the Lids Sports Group increased 8.1% to \$975.5 million for Fiscal 2016 from \$902.7 million for Fiscal 2015. The increase primarily reflects a 6% increase in comparable sales, reflecting a 3% increase in same store sales and a 46% increase in comparable direct sales for Fiscal 2016 and a 2% increase in average Lids Sports Group stores operated, excluding leased departments. The comparable sales increase reflected a 14% increase in comparable store hat units sold while the average price per hat decreased 7% reflecting aggressive promotional activity to clear excess inventory positions throughout the year. Lids Sports Group operated 1,332 stores at the end of Fiscal 2016, including 113 Lids stores in Canada, 228 Lids Locker Room and Clubhouse stores, which include 38 Locker Room stores in Canada, and 185 Locker Room by Lids leased departments at Macy's, compared to 1,364 stores at the end of Fiscal 2015 including 117 Lids stores in Canada and 242 Lids Locker Room and Clubhouse stores, which include 37 Locker Room stores in Canada, and 190 Locker Room by Lids leased departments at Macy's.

Lids Sports Group earnings from operations for Fiscal 2016 decreased 65.2% to \$17.0 million compared to \$49.0 million for Fiscal 2015. The decrease in operating income was primarily due to decreased gross margin as a percentage of net sales, reflecting promotional activity, changes in sales mix and increased shipping and warehouse expenses.

#### *Johnston & Murphy Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2016                   | 2015       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 278,681             | \$ 259,675 | 7.3%        |
| Earnings from operations | \$ 17,761              | \$ 14,856  | 19.6%       |
| Operating margin         | 6.4%                   | 5.7%       |             |

Johnston & Murphy Group net sales increased 7.3% to \$278.7 million for Fiscal 2016 from \$259.7 million for Fiscal 2015. The increase reflected primarily a 6% increase in comparable sales which includes a 5% increase in same store sales and an 11% increase in comparable direct sales, a 1% increase in average stores operated for Johnston & Murphy retail operations and an 8% increase in Johnston & Murphy wholesale sales. Unit sales for the Johnston & Murphy wholesale business increased 6% in Fiscal 2016 while the average price per pair of shoes was flat for the same period. Retail operations accounted for 71.7% of the Johnston & Murphy Group's sales in Fiscal 2016, down slightly from 72.0% in Fiscal 2015. The comparable sales increase in Fiscal 2016 reflects 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. The store count for Johnston & Murphy retail operations at the end of Fiscal 2016 included 173 Johnston & Murphy shops and factory stores, including seven stores in Canada, compared to 170 Johnston & Murphy shops and factory stores, including seven stores in Canada, at the end of Fiscal 2015.

Johnston & Murphy earnings from operations for Fiscal 2016 increased 19.6% to \$17.8 million from \$14.9 million for Fiscal 2015, primarily due to increased net sales and decreased expenses as a percentage of net sales, due primarily to decreased advertising expenses and occupancy costs.

#### *Licensed Brands*

|                          | Fiscal Year Ended      |            | % Change |
|--------------------------|------------------------|------------|----------|
|                          | 2016                   | 2015       |          |
|                          | (dollars in thousands) |            |          |
| Net sales                | \$ 109,826             | \$ 110,115 | (0.3)%   |
| Earnings from operations | \$ 9,236               | \$ 10,459  | (11.7)%  |
| Operating margin         | 8.4%                   | 9.5%       |          |

Licensed Brands' net sales decreased 0.3% to \$109.8 million for Fiscal 2016 from \$110.1 million for Fiscal 2015. The small sales decrease reflects decreased sales of Dockers Footwear, offset by increased sales of SureGrip Footwear and Chaps Footwear. The sales decrease in Dockers Footwear reflects weakness in the department store channel. Unit sales for Dockers Footwear decreased 6% for Fiscal 2016, while the average price per pair of shoes increased 2% for the same period.

Licensed Brands' earnings from operations for Fiscal 2016 decreased 11.7%, from \$10.5 million for Fiscal 2015 to \$9.2 million, primarily due to 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 Fiscal 2016 was \$38.2 million compared to \$31.9 million for Fiscal 2015. Corporate expense in Fiscal 2016 included \$7.9 million in asset impairment and other charges, primarily for retail store asset impairments, asset write-downs, network intrusion expenses and other legal matters. Corporate expense in Fiscal 2015 included \$2.3 million 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. Excluding the charges listed above, corporate and other expense increased primarily due to increased compensation expense and professional fees, partially offset by decreased foreign exchange losses.

Net interest expense increased 36.4% from \$3.2 million in Fiscal 2015 to \$4.4 million in Fiscal 2016 primarily due to increased revolver borrowings compared to the previous year as a result of the share repurchase program, Little Burgundy acquisition and increased borrowings 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.

|  | Jan. 28, 2017 | Jan. 30, 2016         | Jan. 31, 2015 |
|--|---------------|-----------------------|---------------|
|  |               | (dollars in millions) |               |
| Cash and cash equivalents                    | \$ 48.3       | \$ 133.3              | \$ 112.9      |
| Working capital                              | \$ 428.8      | \$ 476.5              | \$ 441.7      |
| Long-term debt (includes current maturities) | \$ 82.9       | \$ 111.8              | \$ 29.0       |

### *Working Capital*

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

Cash provided by operating activities was \$161.5 million in Fiscal 2017 compared to \$145.1 million in Fiscal 2016. The \$16.4 million increase from operating activities from Fiscal 2016 reflects an increase in cash flow from changes in other accrued liabilities, accounts payable, accounts receivable and prepaids and other current assets of \$54.6 million, \$22.0 million, \$8.0 million and \$6.6 million, respectively, partially offset by a \$73.2 million decrease in cash flow from changes in inventory.

The \$54.6 million increase in cash flow from other accrued liabilities when comparing the change from Fiscal 2017 and 2016 with the change from Fiscal 2016 and 2015 reflects the reduction of Schuh acquisition related accruals due to payments in Fiscal 2016. The \$22.0 million increase in cash flow from accounts payable reflects changes in buying patterns and payment terms negotiated with individual vendors and is related to the increase in inventory. The \$8.0 million increase in cash from accounts receivable reflects lower wholesale sales in Fiscal 2017 compared to increased wholesale sales and increased receivables related to the sale of Lids Team Sports in Fiscal 2016. The \$6.6 million increase in prepaids and other current assets primarily reflects increases in Fiscal 2016 for prepaid taxes and rent. The \$73.2 million decrease in cash flow from inventory primarily reflects an increase in Journeys Group and Lids Sports Group inventory.

The \$45.4 million increase in inventories at January 28, 2017 from January 30, 2016 levels primarily reflects increases in Journeys Group, Lids Sports Group and Johnston & Murphy Group.

Accounts receivable at January 28, 2017 decreased \$1.4 million compared to January 30, 2016 primarily due to decreased sales in the Licensed Brands business.

Cash provided by operating activities was \$145.1 million in Fiscal 2016 compared to \$189.8 million in Fiscal 2015. The \$44.7 million decrease from operating activities from Fiscal 2015 reflects a decrease in cash flow from changes in other accrued liabilities and other assets and liabilities combined, accounts payable and prepaids and other current assets of \$52.7 million, \$25.1 million and \$9.1 million, respectively, partially offset by a \$58.8 million increase in cash flow from changes in inventory.

The \$52.7 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 \$25.1 million decrease in cash flow from accounts payable reflects changes in buying patterns and payment terms negotiated with individual vendors and is related to the reduction in inventory. The \$9.1 million decrease in cash flow from prepaids and other current assets reflects changes in prepaid taxes and increased prepaid rent from store growth. The \$58.8 million increase in cash flow from inventory reflects a reduction in Lids Sports Group inventory, partially offset primarily by an increase in Journeys Group inventory.

The \$27.8 million decrease in inventories at January 30, 2016 from January 31, 2015 levels reflects decreases in Lids Sports Group, partially offset by increased inventory in Journeys Group, Johnston & Murphy Group and Licensed Brands.

Accounts receivable at January 30, 2016 increased \$6.7 million compared to January 31, 2015 due to increased footwear wholesale sales and the Company's processing of payroll for former Lids Team Sports employees during a transitional period following the sale of the Lids Team Sports business, for which the Company was due reimbursement from the buyer of that business.

#### *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 from operations and availability under its credit facilities will be sufficient to cover its working capital, capital expenditures and stock repurchases for the foreseeable future.

On December 4, 2015, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement dated as of January 31, 2014 (the "Credit Facility") by the among the company, certain subsidiaries of the Company party thereto, as other Borrowers, with the lenders party thereto and Bank of America, N.A., as agent, providing for a revolving credit facility in the aggregate principal amount of \$400.0 million, including a \$70.0 million sublimit for the issuance of letters of credit and a domestic swingline subfacility of up to \$40.0 million, a revolving credit subfacility for the benefit of GCO Canada, Inc. in an aggregate amount not to exceed \$70.0 million, which includes a \$5.0 million sublimit for the issuance of letters of credit, and revolving credit subfacility for the benefit of Genesco (UK) Limited in an aggregate amount not to exceed \$50.0 million, which includes a \$10.0 million sublimit for the issuance of letters of credit and a swingline subfacility of up to \$10.0 million. The facility has a five-year term from January 31, 2014. Any swingline loans and any letters of credit and borrowings under the Canadian 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, as amended, the Canadian revolving credit facility may be increased up to no more than \$85.0 million.

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

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

The Credit Facility also provides that a first-in, last-out tranche could be added to the revolving credit facility at the option of the Company subject to, among other things, the receipt of commitments for such tranche. For additional information on the Company's Credit Facility, see Note 6 to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

In May 2015, Schuh Group Limited entered into a Form of Amended and Restated Facilities Agreement and Working Capital Facility Letter ("UK Credit Facilities") which replaced the former A, B and C term loans with a new Facility A of £17.5 million and a Facility B of £11.6 million (which was the former Facility C loan) as well as provided an additional revolving credit facility, Facility C, of £22.5 million and a working capital facility of £2.5 million. 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 \$19.3 million in UK term loans and \$13.8 million in UK revolver loans outstanding at January 28, 2017. The UK Credit Facilities contain certain covenants at the Schuh level including a minimum interest coverage covenant of 4.50x and thereafter, a maximum leverage covenant initially set at 2.25x declining over time at various rates to 1.75x beginning in April 2017 and a minimum cash flow coverage of 1.00x. The Company was in compliance with all the covenants at January 28, 2017. The UK Credit Facilities are secured by a pledge of all the assets of Schuh and its subsidiaries.

The Company's revolving credit borrowings averaged \$100.1 million during Fiscal 2017 and \$49.6 million during Fiscal 2016, as cash on hand, cash generated from operations and revolver borrowings primarily funded seasonal working capital requirements, capital expenditures and stock repurchases for Fiscal 2017 and Fiscal 2016. The borrowings outstanding during Fiscal 2017 reflect funds borrowed for the acquisition of Little Burgundy in the fourth quarter of Fiscal 2016, the Schuh deferred purchase price payments in the second quarter of Fiscal 2016 and stock repurchases made throughout Fiscal 2017.

There were \$11.2 million of letters of credit outstanding and \$49.9 million of revolver borrowings outstanding, including \$20.1 million (£16.0 million) related to Genesco (UK) Limited and \$29.8 million (C\$39.1 million) related to GCO Canada, under the Credit Facility at January 28, 2017. 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. 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 \$298.2 million at January 28, 2017. Because Excess Availability exceeded \$25.0 million or 10.0% of the Loan Cap, the Company was not required to comply with this financial covenant at January 28 2017.

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

The Company's Credit Facility prohibits the payment of dividends and other restricted payments unless as of the date of the making of any Restricted Payment (as defined in the Credit Facility) or consummation of any Acquisition (as defined in the Credit Facility), (a) no Default (as defined in the Credit Facility) or Event of Default (as defined in the Credit Facility) exists or would arise after giving effect to such Restricted Payment or Acquisition, and (b) either (i) the Borrowers (as defined in the Credit Facility) have pro forma projected Excess Availability for the following six month period equal to or greater than 25% of the Loan Cap, after giving pro forma effect to such Restricted Payment or Acquisition, or (ii) (A) the Borrowers have pro forma projected Excess Availability for the following six month period of less than 25% of the Loan Cap but equal to or greater than 15% of the Loan Cap, after giving pro forma effect to the Restricted Payment or Acquisition, and (B) the Fixed Charge Coverage Ratio (as defined in the Credit Facility), on a pro-forma basis for the twelve months preceding such Restricted Payment or Acquisition, will be equal to or greater than 1.0:1.0 and (c) after giving effect to such Restricted Payment or Acquisition, the Company and the other Borrowers under the Credit Facility are Solvent (as defined in the Credit Facility). Notwithstanding the foregoing, the company may make cash dividends on preferred stock up to \$500,000 in any fiscal year absent a continuing Event of Default. The Company's management does not expect availability under the Credit Facility to fall below the requirements listed above during Fiscal 2018.

#### *Off-Balance Sheet Arrangements*

None.

### Contractual Obligations

The following tables set forth aggregate contractual obligations and commitments as of January 28, 2017.

| Contractual Obligations                            | Payments Due by Period |                   |                   |                   |                   |
|--|------------------------|-------------------|-------------------|-------------------|-------------------|
|  | Total                  | Less than 1 year  | 1 - 3 years       | 3 - 5 years       | More than 5 years |
| Long-Term Debt Obligations                         | \$ 82,905              | \$ 9,175          | \$ 51,445         | \$ 22,285         | \$ —              |
| Operating Lease Obligations                        | 1,379,877              | 245,160           | 407,086           | 325,619           | 402,012           |
| Purchase Obligations <sup>(1)</sup>                | 646,603                | 646,603           | —                 | —                 | —                 |
| Long-Term Obligations – Schuh <sup>(2)</sup>       | 615                    | 268               | 221               | 126               | —                 |
| Other Long-Term Liabilities                        | 1,077                  | 177               | 353               | 353               | 194               |
| <b>Total Contractual Obligations<sup>(3)</sup></b> | <b>\$ 2,111,077</b>    | <b>\$ 901,383</b> | <b>\$ 459,105</b> | <b>\$ 348,383</b> | <b>\$ 402,206</b> |

| Commercial Commitments              | Amount of Commitment Expiration Per Period |                  |             |             |                   |
|-------------------------------------|--|------------------|-------------|-------------|-------------------|
|                                     | Total Amounts Committed                    | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| Letters of Credit                   | \$ 11,203                                  | \$ 11,203        | \$ —        | \$ —        | \$ —              |
| <b>Total Commercial Commitments</b> | <b>\$ 11,203</b>                           | <b>\$ 11,203</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ —</b>       |

(1) Represents open purchase orders for inventory.

(2) Includes interest on the UK term loans. For additional information, see Note 6 to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

(3) Excludes unrecognized tax benefits of \$5.4 million due to their uncertain nature in timing of payments, if any.

The total accrued benefit liability for pension and other postretirement benefit plans as of January 28, 2017, was \$15.2 million. This amount is impacted by, among other items, pension expense, funding levels, plan amendments, changes in plan demographics and assumptions, and the investment return on plan assets. Because the accrued liability does not represent expected liquidity needs, the Company did not include this amount in the contractual obligations table. There is no requirement for the Company to make a pension plan contribution. See Note 10 to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data".

### Capital Expenditures

Capital expenditures were \$94.0 million, \$100.7 million and \$103.1 million for Fiscal 2017, 2016 and 2015, respectively. The \$6.7 million decrease in Fiscal 2017 capital expenditures as compared to Fiscal 2016 is primarily due to decreases in capital expenditures of Lids Sports Group and Schuh Group, partially offset by increased capital expenditures in Journeys Group. The \$2.4 million decrease in Fiscal 2016 capital expenditures as compared to Fiscal 2015 is primarily due to decreases in capital expenditures of Lids Sports Group partially offset by increased retail capital expenditures in Journeys Group.

Total capital expenditures in Fiscal 2018 are expected to be approximately \$135 million to \$145 million. These include retail capital expenditures of approximately \$124 million to \$134 million to open approximately 60 Journeys Group stores, including five in Canada, 35 Journeys Kidz stores and five Little Burgundy stores, ten Schuh stores, nine Johnston & Murphy shops and factory stores, and 22 Lids Sports Group stores, including 20 Lids stores, with six stores in Canada, and two Clubhouse stores, and to complete approximately 295 major store renovations. In addition, retail capital expenditures include \$33 million for the expansion of the Journeys Group's warehouse. The planned amount of capital expenditures in Fiscal 2018 for wholesale operations and other purposes is approximately \$11 million, including approximately \$5 million for new systems.

### *Future Capital Needs*

The Company expects that cash on hand and cash provided by operations and borrowings under its Credit Facilities will be sufficient to support seasonal working capital, capital expenditure requirements and stock repurchases during Fiscal 2018. The approximately \$3.3 million of costs associated with discontinued operations that are expected to be paid during the next twelve months are expected to be funded from cash on hand, cash generated from operations and borrowings under the Credit Facility.

The Company had total available cash and cash equivalents of \$48.3 million and \$133.3 million as of January 28, 2017 and January 30, 2016, respectively, of which approximately \$22.9 million and \$24.1 million was held by the Company's foreign subsidiaries as of January 28, 2017 and January 30, 2016, respectively. The Company's strategic plan does not require the repatriation of foreign cash in order to fund its operations in the U.S., and it is the Company's current intention to indefinitely reinvest its foreign cash and cash equivalents outside of the U.S. If the Company were to repatriate foreign cash to the U.S., it would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation.

### *Common Stock Repurchases*

The weighted shares outstanding reflects the effect of the Company's Board-approved share repurchase program. The Company repurchased 2,155,869 shares at a cost of \$133.3 million during Fiscal 2017. The Company has repurchased 275,300 shares in the first quarter of Fiscal 2018, through March 24, 2017, at a cost of \$16.2 million. The Company has \$24.0 million remaining as of March 24, 2017 under its current \$100.0 million share repurchase authorization. The Company repurchased 2,383,384 shares at a cost of \$144.9 million during Fiscal 2016. The Company repurchased 64,709 shares at a cost of \$4.6 million during Fiscal 2015.

### **Environmental and Other Contingencies**

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Item 3, "Legal Proceedings" and Note 13 to the Company's Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.6 million reflected in Fiscal 2017, \$0.8 million reflected in Fiscal 2016 and \$2.8 million reflected in Fiscal 2015. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its accrued liability in relation to each proceeding is a best estimate of the 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 provisions, that some or all liabilities may not be adequate or that the amounts of any such additional provisions or any such inadequacy will not have a material adverse effect upon the Company's financial condition or results of operations.

### **Financial Market Risk**

The following discusses the Company's exposure to financial market risk.

**Outstanding Debt of the Company** – The Company has \$19.3 million of outstanding U.K. term loans at a weighted average interest rate of 2.64% as of January 28, 2017. A 100 basis point increase in interest rates would increase annual interest expense by \$0.2 million on the \$19.3 million term loans. The Company has \$13.8 million of outstanding U.K. revolver borrowings at a weighted average interest rate of 2.60% as of January 28, 2017. A 100 basis point increase in interest rates would increase annual interest expense by \$0.1 million on the \$13.8 million revolver borrowings. The Company has \$49.9 million of outstanding U.S. revolver borrowings at a weighted average interest rate of 2.10% as of

January 28, 2017. A 100 basis point increase in interest rates would increase annual interest expense by \$0.5 million on the \$49.9 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 January 28, 2017. As a result, the Company considers the interest rate market risk implicit in these investments at January 28, 2017 to be low.

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

Accounts Receivable – The Company’s accounts receivable balance at January 28, 2017 is concentrated primarily in two of its footwear wholesale businesses, which sell primarily to department stores and independent retailers across the United States. In the footwear wholesale businesses, one customer each accounted for 15%, 13% and 10% of the Company’s total trade receivables balance, while no other customer accounted for more than 7% of the Company’s total trade receivables balance as of January 28, 2017. The Company monitors the credit quality of its customers and establishes an allowance for doubtful accounts based upon factors surrounding credit risk of specific customers, historical trends and other information, as well as customer specific factors; however, credit risk is affected by conditions or occurrences within the economy and the retail industry, as well as company-specific information.

Foreign Currency Exchange Risk – The Company is exposed to translation risk because certain of its foreign operations utilize the local currency as their functional currency and those financial results must be translated into United States dollars. As currency exchange rates fluctuate, translation of the Company's financial statements of foreign businesses into United States dollars affects the comparability of financial results between years. Schuh Group's net sales and earnings from operations for Fiscal 2017 were negatively impacted by \$49.3 million and \$4.1 million, respectively, due to the decline in foreign exchange rates.

### **New Accounting Principles**

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 simplifies the measurement of goodwill by eliminating the second step from the goodwill impairment test, which requires the comparison of the implied fair value of goodwill with the current carrying amount of goodwill. Instead, under the amendments in this guidance, an entity shall perform a goodwill impairment test by comparing the fair value of each reporting unit with its carrying amount and an impairment charge is to be recorded for the amount, if any, in which the carrying value exceeds the reporting unit’s fair value. This guidance should be applied prospectively and is effective for public business entities that are United States Securities and Exchange Commission filers for fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The update addresses several aspects of the accounting for share-based compensation transactions including: (a) income tax consequences when awards vest or are settled, (b) classification of awards as either equity or liabilities, (c) a policy election to account for forfeitures as they occur rather than on an estimated basis and (d) classification of excess tax impacts on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. If the Company had adopted the standard in Fiscal 2017, reported earnings per share would have decreased \$0.03 per share for Fiscal 2017. The Company will adopt ASU 2016-09 in the first quarter of Fiscal 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases". The standard's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, which would be the beginning of our Fiscal 2020 or February 2019. Early adoption is

permitted. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its Consolidated Financial Statements and related disclosures and is expecting a material impact because the Company is party to a significant number of lease contracts.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. ASU 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. As of January 28, 2017, the Company has \$21.2 million of current deferred tax assets that will be reclassified to noncurrent deferred tax assets on its Consolidated Balance Sheets. The Company is currently assessing which transition method will be adopted.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." ASU 2015-11 requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect that the adoption of this guidance will have a material impact on its Consolidated Financial Statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs". In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". ASU 2015-03 will require that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the debt. ASU 2015-15 allows an entity to present debt issuance costs associated with a revolving line of credit arrangement as an asset, regardless of whether a balance is outstanding. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03 or ASU 2015-15. These ASU's are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early adoption permitted. ASU 2015-03 required the Company to reclassify its deferred financing costs associated with its long-term debt from other noncurrent assets to long-term debt on a retrospective basis. The Company adopted these ASUs in the first quarter of Fiscal 2017. The \$0.3 million in deferred financing costs related to the Company's term loans were reclassified to long-term debt from noncurrent assets as of January 30, 2016.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and merges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. ASU 2014-09 was originally effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, however, in August 2015, the FASB deferred this ASU for one year, which would be the beginning of our Fiscal 2019 or February 2018. The amendment is to be applied either retrospectively to each prior reporting period presented or with the cumulative effect recognized at the date of initial adoption as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets on the balance sheet). Based on an evaluation of the standard as a whole, the Company has identified catalog costs, customer incentives and principal versus agent considerations as the areas that will most likely be affected by the new revenue recognition guidance. The Company continues to evaluate the adoption of this standard, including the transition method, and will provide updates in Fiscal 2018 related to the expected impact of adopting this standard.

## **Inflation**

The Company does not believe inflation has had a material impact on sales or operating results during periods covered in this discussion.

**ITEM 7A, 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 Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**ITEM 8, FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

INDEX TO FINANCIAL STATEMENTS

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**Report of Independent Registered Public Accounting Firm  
On Internal Control over Financial Reporting**

The Board of Directors and Shareholders  
Genesco Inc.

We have audited Genesco Inc. and Subsidiaries' internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Genesco Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Genesco Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Genesco Inc. and Subsidiaries as of January 28, 2017 and January 30, 2016, and the related consolidated statements of operations, comprehensive income, cash flows, and equity for each of the three fiscal years in the period ended January 28, 2017, and our report dated March 29, 2017 expressed an unqualified opinion thereon. Our audits also included the financial statement schedule listed in the Index at Item 15.

/s/ Ernst & Young LLP

Nashville, Tennessee  
March 29, 2017



## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Genesco Inc.

We have audited the accompanying consolidated balance sheets of Genesco Inc. and Subsidiaries (the “Company”) as of January 28, 2017 and January 30, 2016, and the related consolidated statements of operations, comprehensive income, cash flows and equity for each of the three fiscal years in the period ended January 28, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Genesco Inc. and Subsidiaries at January 28, 2017 and January 30, 2016, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of January 28, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated March 29, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee  
March 29, 2017

**Genesco Inc.**  
**and Subsidiaries**  
Consolidated Balance Sheets  
In Thousands, except share amounts

| <b>Assets</b>   | <b>As of Fiscal Year End</b> |                             |
|---|------------------------------|-----------------------------|
|   | <b>January 28,<br/>2017</b>  | <b>January 30,<br/>2016</b> |
| <b>Current Assets:</b>  |                              |                             |
| Cash and cash equivalents   | \$ 48,301                    | \$ 133,288                  |
| Accounts receivable, net of allowances of \$3,073 at January 28, 2017 and \$2,960 at January 30, 2016               | 43,525                       | 47,265                      |
| Inventories   | 563,677                      | 529,758                     |
| Deferred income taxes   | 21,194                       | 28,965                      |
| Prepays and other current assets  | 61,470                       | 60,810                      |
| <b>Total current assets</b>   | <b>738,167</b>               | <b>800,086</b>              |
| Property and equipment:   |                              |                             |
| Land  | 7,773                        | 8,038                       |
| Buildings and building equipment  | 52,673                       | 51,768                      |
| Computer hardware, software and equipment   | 179,926                      | 183,985                     |
| Furniture and fixtures  | 211,833                      | 209,337                     |
| Construction in progress  | 33,660                       | 16,190                      |
| Improvements to leased property   | 366,186                      | 359,591                     |
| Property and equipment, at cost   | 852,051                      | 828,909                     |
| Accumulated depreciation  | (521,440)                    | (505,581)                   |
| Property and equipment, net   | 330,611                      | 323,328                     |
| Deferred income taxes   | 85                           | 959                         |
| Goodwill  | 271,222                      | 281,385                     |
| Trademarks, net of accumulated amortization of \$5,574 at January 28, 2017 and \$5,039 at January 30, 2016          | 84,327                       | 86,740                      |
| Other intangibles, net of accumulated amortization of \$16,200 at January 28, 2017 and \$15,947 at January 30, 2016 | 2,392                        | 3,569                       |
| Other noncurrent assets   | 22,102                       | 45,123                      |
| <b>Total Assets</b>   | <b>\$ 1,448,906</b>          | <b>\$ 1,541,190</b>         |

**Genesco Inc.  
and Subsidiaries**  
Consolidated Balance Sheets  
In Thousands, except share amounts

| <b>Liabilities and Equity</b>                 | <b>As of Fiscal Year End</b> |                             |
|---|------------------------------|-----------------------------|
|   | <b>January 28,<br/>2017</b>  | <b>January 30,<br/>2016</b> |
| <b><i>Current Liabilities:</i></b>            |                              |                             |
| Accounts payable                              | \$ 170,751                   | \$ 154,241                  |
| Accrued employee compensation                 | 31,128                       | 23,666                      |
| Accrued other taxes                           | 23,101                       | 24,508                      |
| Accrued income taxes                          | 7,568                        | 16,349                      |
| Current portion – long-term debt              | 9,175                        | 14,182                      |
| Other accrued liabilities                     | 64,333                       | 79,282                      |
| Provision for discontinued operations         | 3,330                        | 11,389                      |
| <b>Total current liabilities</b>              | <b>309,386</b>               | <b>323,617</b>              |
| Long-term debt                                | 73,730                       | 97,583                      |
| Pension liability                             | 6,265                        | 9,957                       |
| Deferred rent and other long-term liabilities | 135,291                      | 149,020                     |
| Provision for discontinued operations         | 1,713                        | 4,230                       |
| <b>Total liabilities</b>                      | <b>526,385</b>               | <b>584,407</b>              |
| Commitments and contingent liabilities        |                              |                             |
| <b>Equity</b>                                 |                              |                             |
| Non-redeemable preferred stock                | 1,060                        | 1,077                       |
| Common equity:                                |                              |                             |
| Common stock, \$1 par value:                  |                              |                             |
| Authorized: 80,000,000 shares                 |                              |                             |
| Issued/Outstanding:                           |                              |                             |
| January 28, 2017 – 20,354,272/19,865,808      |                              |                             |
| January 30, 2016 – 22,322,799/21,834,335      | 20,354                       | 22,323                      |
| Additional paid-in capital                    | 237,677                      | 224,004                     |
| Retained earnings                             | 731,111                      | 768,222                     |
| Accumulated other comprehensive loss          | (51,292)                     | (42,613)                    |
| Treasury shares, at cost (488,464 shares)     | (17,857)                     | (17,857)                    |
| <b>Total Genesco equity</b>                   | <b>921,053</b>               | <b>955,156</b>              |
| Noncontrolling interest – non-redeemable      | 1,468                        | 1,627                       |
| <b>Total equity</b>                           | <b>922,521</b>               | <b>956,783</b>              |
| <b>Total Liabilities and Equity</b>           | <b>\$ 1,448,906</b>          | <b>\$ 1,541,190</b>         |

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

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

|   | <b>Fiscal Year</b> |              |              |
|---|--------------------|--------------|--------------|
|   | <b>2017</b>        | 2016         | 2015         |
| Net sales   | \$ 2,868,341       | \$ 3,022,234 | \$ 2,859,844 |
| Cost of sales   | 1,450,815          | 1,578,768    | 1,459,433    |
| Selling and administrative expenses                     | 1,276,368          | 1,284,322    | 1,230,864    |
| Asset impairments and other, net                        | (802)              | 7,893        | 2,281        |
| <b>Earnings from operations</b>                         | <b>141,960</b>     | 151,251      | 167,266      |
| Gain on sale of SureGrip Footwear                       | (12,297)           | —            | —            |
| Gain on sale of Lids Team Sports                        | (2,404)            | (4,685)      | —            |
| Indemnification asset write-off                         | —                  | —            | 7,050        |
| Interest expense, net:                                  |                    |              |              |
| Interest expense  | 5,294              | 4,414        | 3,337        |
| Interest income   | (47)               | (11)         | (110)        |
| <b>Total interest expense, net</b>                      | <b>5,247</b>       | 4,403        | 3,227        |
| Earnings from continuing operations before income taxes | 151,414            | 151,533      | 156,989      |
| Income tax expense                                      | 53,555             | 56,152       | 57,616       |
| Earnings from continuing operations                     | 97,859             | 95,381       | 99,373       |
| Provision for discontinued operations, net              | (428)              | (812)        | (1,648)      |
| <b>Net Earnings</b>                                     | <b>\$ 97,431</b>   | \$ 94,569    | \$ 97,725    |
| Basic earnings per common share:                        |                    |              |              |
| Continuing operations                                   | \$ 4.87            | \$ 4.17      | \$ 4.23      |
| Discontinued operations                                 | (0.02)             | (0.04)       | (0.07)       |
| Net earnings  | \$ 4.85            | \$ 4.13      | \$ 4.16      |
| Diluted earnings per common share:                      |                    |              |              |
| Continuing operations                                   | \$ 4.85            | \$ 4.15      | \$ 4.19      |
| Discontinued operations                                 | (0.02)             | (0.04)       | (0.07)       |
| Net earnings  | \$ 4.83            | \$ 4.11      | \$ 4.12      |

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

**Genesco Inc.  
and Subsidiaries**  
Consolidated Statements of Comprehensive Income  
In Thousands, except as noted

|   | <b>Fiscal Year</b> |           |           |
|---|--------------------|-----------|-----------|
|   | <b>2017</b>        | 2016      | 2015      |
| Net earnings  | <b>\$ 97,431</b>   | \$ 94,569 | \$ 97,725 |
| Other comprehensive income (loss):  |                    |           |           |
| Pension liability adjustment net of tax of \$2.4 million,<br>\$6.3 million and \$4.0 million for 2017, 2016 and<br>2015, respectively | <b>3,618</b>       | 9,756     | (6,343)   |
| Postretirement liability adjustment net of tax of \$0.4<br>million for all periods  | <b>(674)</b>       | 666       | (644)     |
| Foreign currency translation adjustments  | <b>(11,623)</b>    | (12,459)  | (16,822)  |
| Total other comprehensive loss  | <b>(8,679)</b>     | (2,037)   | (23,809)  |
| <b>Comprehensive Income</b>   | <b>\$ 88,752</b>   | \$ 92,532 | \$ 73,916 |

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

**Genesco Inc.**  
**and Subsidiaries**  
Consolidated Statements of Cash Flows  
In Thousands

|  | Fiscal Year      |                   |                   |
|--|------------------|-------------------|-------------------|
|  | 2017             | 2016              | 2015              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                  |                   |                   |
| Net earnings   | \$ 97,431        | \$ 94,569         | \$ 97,725         |
| Adjustments to reconcile net earnings to net cash provided by operating activities:                                |                  |                   |                   |
| Depreciation and amortization  | 75,768           | 79,011            | 74,326            |
| Amortization of deferred note expense and debt discount  | 839              | 820               | 692               |
| Deferred income taxes  | 5,394            | (2,125)           | 5,212             |
| Provision for accounts receivable  | 442              | 637               | 390               |
| Indemnification asset write-off  | —                | —                 | 7,050             |
| Impairment of long-lived assets  | 6,409            | 3,125             | 1,890             |
| Restricted stock expense   | 13,481           | 13,758            | 13,392            |
| Provision for discontinued operations  | 701              | 1,333             | 2,711             |
| Gain on sale of Lids Team Sports   | (2,404)          | (4,685)           | —                 |
| Gain on sale of SureGrip Footwear  | (12,297)         | —                 | —                 |
| Loss on pension buyout   | 2,456            | —                 | —                 |
| Tax benefit of stock options and restricted stock  | (313)            | (150)             | (3,061)           |
| Other  | 1,599            | 3,708             | 894               |
| Effect on cash from changes in working capital and other assets and liabilities, net of acquisitions/dispositions: |                  |                   |                   |
| Accounts receivable  | 1,362            | (6,669)           | (1,325)           |
| Inventories  | (45,396)         | 27,827            | (30,955)          |
| Prepays and other current assets   | (2,258)          | (8,879)           | 179               |
| Accounts payable   | 24,527           | 2,505             | 27,646            |
| Other accrued liabilities  | (16,302)         | (70,890)          | 52,694            |
| Other assets and liabilities   | 10,062           | 11,223            | (59,696)          |
| <b>Net cash provided by operating activities</b>   | <b>161,501</b>   | <b>145,118</b>    | <b>189,764</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                  |                   |                   |
| Capital expenditures   | (93,970)         | (100,652)         | (103,111)         |
| Acquisitions, net of cash acquired   | (22)             | (35,063)          | (34,918)          |
| Proceeds from asset sales and sale of businesses   | 23,053           | 59,915            | 336               |
| <b>Net cash used in investing activities</b>   | <b>(70,939)</b>  | <b>(75,800)</b>   | <b>(137,693)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                  |                   |                   |
| Payments of long-term debt   | (6,591)          | (24,920)          | (31,583)          |
| Proceeds from issuance of long-term debt   | —                | 27,417            | 26,253            |
| Borrowings under revolving credit facility   | 340,920          | 401,276           | 280,950           |
| Payments on revolving credit facility  | (357,685)        | (311,067)         | (280,950)         |
| Tax benefit of stock options and restricted stock  | 313              | 150               | 3,061             |
| Shares repurchased   | (140,499)        | (137,648)         | (4,635)           |
| Change in overdraft balances   | (8,349)          | (600)             | 3,489             |
| Additions to deferred note cost  | —                | (655)             | —                 |
| Exercise of stock options  | 1,018            | 1,442             | 2,009             |
| Other  | (3,594)          | (2,950)           | (43)              |
| <b>Net cash used in financing activities</b>   | <b>(174,467)</b> | <b>(47,555)</b>   | <b>(1,449)</b>    |
| Effect of foreign exchange rate fluctuations on cash   | (1,082)          | (1,342)           | 2,798             |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>(84,987)</b>  | <b>20,421</b>     | <b>53,420</b>     |
| Cash and cash equivalents at beginning of period   | 133,288          | 112,867           | 59,447            |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 48,301</b> | <b>\$ 133,288</b> | <b>\$ 112,867</b> |
| Net cash paid for:   |                  |                   |                   |
| Interest   | \$ 4,263         | \$ 3,408          | \$ 2,632          |
| Income taxes   | 52,384           | 58,940            | 42,816            |

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

**Genesco Inc.**  
**and Subsidiaries**  
Consolidated Statements of Equity

| In Thousands  | Non-<br>Redeemable<br>Preferred<br>Stock | Common<br>Stock  | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Shares | Non<br>Controlling<br>Interest<br>Non-<br>Redeemable | Total<br>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                |
| <b>Balance January 31, 2015</b>                             | <b>1,274</b>                             | <b>24,515</b>    | <b>208,888</b>                   | <b>820,563</b>       | <b>(40,576)</b>                               | <b>(17,857)</b>    | <b>1,970</b>   | <b>998,777</b>    |
| Net earnings  | —  | —                | —                                | 94,569               | —   | —                  | —  | 94,569            |
| Other comprehensive loss                                    | —  | —                | —                                | —                    | (2,037)                                       | —                  | —  | (2,037)           |
| Exercise of stock options                                   | —  | 35               | 1,273                            | —                    | —   | —                  | —  | 1,308             |
| Issue shares – Employee Stock Purchase Plan                 | —  | 3                | 131                              | —                    | —   | —                  | —  | 134               |
| Employee and non-employee restricted stock                  | —  | —                | 13,758                           | —                    | —   | —                  | —  | 13,758            |
| Restricted stock issuance                                   | —  | 239              | (239)                            | —                    | —   | —                  | —  | —                 |
| Restricted shares withheld for taxes                        | —  | (66)             | 66                               | (4,408)              | —   | —                  | —  | (4,408)           |
| Tax benefit of stock options and restricted stock exercised | —  | —                | (90)                             | —                    | —   | —                  | —  | (90)              |
| Shares repurchased  | —  | (2,383)          | —                                | (142,502)            | —   | —                  | —  | (144,885)         |
| Other   | (197)                                    | (20)             | 217                              | —                    | —   | —                  | —  | —                 |
| Noncontrolling interest – loss                              | —  | —                | —                                | —                    | —   | —                  | (343)  | (343)             |
| <b>Balance January 30, 2016</b>                             | <b>1,077</b>                             | <b>22,323</b>    | <b>224,004</b>                   | <b>768,222</b>       | <b>(42,613)</b>                               | <b>(17,857)</b>    | <b>1,627</b>   | <b>956,783</b>    |
| Net earnings  | —  | —                | —                                | 97,431               | —   | —                  | —  | 97,431            |
| Other comprehensive loss                                    | —  | —                | —                                | —                    | (8,679)                                       | —                  | —  | (8,679)           |
| Exercise of stock options                                   | —  | 27               | 991                              | —                    | —   | —                  | —  | 1,018             |
| Employee and non-employee restricted stock                  | —  | —                | 13,481                           | —                    | —   | —                  | —  | 13,481            |
| Restricted stock issuance                                   | —  | 236              | (236)                            | —                    | —   | —                  | —  | —                 |
| Restricted shares withheld for taxes                        | —  | (56)             | 56                               | (3,435)              | —   | —                  | —  | (3,435)           |
| Tax benefit of stock options and restricted stock exercised | —  | —                | (657)                            | —                    | —   | —                  | —  | (657)             |
| Shares repurchased  | —  | (2,156)          | —                                | (131,107)            | —   | —                  | —  | (133,263)         |
| Other   | (17)                                     | (20)             | 38                               | —                    | —   | —                  | —  | 1                 |
| Noncontrolling interest – loss                              | —  | —                | —                                | —                    | —   | —                  | (159)  | (159)             |
| <b>Balance January 28, 2017</b>                             | <b>\$ 1,060</b>                          | <b>\$ 20,354</b> | <b>\$ 237,677</b>                | <b>\$ 731,111</b>    | <b>\$ (51,292)</b>                            | <b>\$ (17,857)</b> | <b>\$ 1,468</b>                                      | <b>\$ 922,521</b> |

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

## **Note 1**

### **Summary of Significant Accounting Policies**

#### ***Nature of Operations***

Genesco Inc. and its subsidiaries (collectively the "Company") business includes the sourcing and design, marketing and distribution of footwear and accessories through retail stores in the U.S., Puerto Rico and Canada primarily under the Journeys, Journeys Kidz, Shi by Journeys, Little Burgundy, 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), [journeys.ca](http://journeys.ca), [shibyjourneys.com](http://shibyjourneys.com), [schuh.co.uk](http://schuh.co.uk), [littleburgundyshoes.com](http://littleburgundyshoes.com), [johnstonmurphy.com](http://johnstonmurphy.com) and [trask.com](http://trask.com) and 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. 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 of Locker Room by Lids and on [macys.com](http://macys.com), under a license agreement with Macy's; and certain e-commerce operations including [lids.com](http://lids.com), [lids.ca](http://lids.ca), [lidslockerroom.com](http://lidslockerroom.com), [lidsclubhouse.com](http://lidsclubhouse.com) and [neweracap.com](http://neweracap.com). Including both the footwear businesses and the Lids Sports Group business, at January 28, 2017, the Company operated 2,794 retail stores and leased departments in the U.S., Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany.

During Fiscal 2017, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys, Little Burgundy 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 (An athletic team dealer business operating as Lids Team Sports was sold in the fourth quarter of Fiscal 2016.); (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce and catalog operations and wholesale distribution of products under the Johnston & Murphy<sup>®</sup> and H.S. Trask<sup>®</sup> brands; and (v) Licensed Brands, comprised of Dockers<sup>®</sup> Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip<sup>®</sup> Footwear, which was sold in the fourth quarter of Fiscal 2017; G.H. Bass Footwear operated under a license from G-III Apparel Group, Ltd.; and other brands.

#### ***Principles of Consolidation***

All subsidiaries are consolidated in the consolidated financial statements. All significant intercompany transactions and accounts have been eliminated.



## **Note 1**

### **Summary of Significant Accounting Policies, Continued**

#### ***Fiscal Year***

The Company's fiscal year ends on the Saturday closest to January 31. As a result, Fiscal 2017, 2016 and 2015 were 52-week years with 364 days. Fiscal 2017 ended on January 28, 2017, Fiscal 2016 ended on January 30, 2016 and Fiscal 2015 ended on January 31, 2015.

#### ***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 and its Schuh Group segment, cost is determined using the FIFO 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 for footwear wholesale. 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 segment employs the moving average cost method for valuing inventories and applies 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 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.

## Note 1

### **Summary of Significant Accounting Policies, Continued**

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 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. 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.

## Note 1

### **Summary of Significant Accounting Policies, Continued**

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 annual test, which was completed at the beginning of the fourth quarter, 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.

During the quarter ended January 28, 2017, the Company voluntarily changed the date of its annual goodwill impairment test and other intangible assets impairment test from the last day of the fiscal year to the first day of the fourth fiscal quarter. This voluntary change is preferable under the circumstances as it aligns with the Company's five-year strategic planning cycle that is completed in early October. This voluntary change in accounting principle was not made to delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require the application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

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 in Fiscal 2017, \$0.8 million in Fiscal 2016 and \$2.8 million in Fiscal 2015.

## Note 1

### **Summary of Significant Accounting Policies, Continued**

These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's accruals, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its accrued liability in relation to each proceeding is a 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 provisions, that some or all liabilities will be adequate or that the amounts of any such additional provisions or any such inadequacy will not have a material adverse effect upon the Company's financial condition, cash flows, or results of operations. See also Notes 3 and 13.

#### *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. Actual amounts of markdowns have not differed materially from estimates. Actual returns and claims in any future period may differ from historical experience.

#### *Income Taxes*

As part of the process of preparing the 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 actual 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 Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income or other sources.

## Note 1

### **Summary of Significant Accounting Policies, Continued**

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 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 January 28, 2017, the Company had a deferred tax valuation allowance of \$4.3 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.

#### *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 limited medical and life insurance benefits. The Company funds at least the minimum amount required by the Employee Retirement Income Security Act.

## Note 1

### **Summary of Significant Accounting Policies, Continued**

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, respectively, in their 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 10 years.

#### ***Cash and Cash Equivalents***

The Company had total available cash and cash equivalents of \$48.3 million and \$133.3 million as of January 28, 2017 and January 30, 2016, respectively, of which approximately \$22.9 million and \$24.1 million was held by the Company's foreign subsidiaries as of January 28, 2017 and January 30, 2016, respectively. The Company's strategic plan does not require the repatriation of foreign cash in order to fund its operations in the U.S., and it is the Company's current intention to indefinitely reinvest its foreign cash and cash equivalents outside of the U.S. If the Company were to repatriate foreign cash to the U.S., it would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation. There were no cash equivalents included in cash and cash equivalents at January 28, 2017 and January 30, 2016. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less.

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

## **Note 1**

### **Summary of Significant Accounting Policies, Continued**

At January 28, 2017 and January 30, 2016, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$36.7 million and \$45.0 million, respectively. These amounts are included in accounts payable in the 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. In the footwear wholesale businesses, one customer each accounted for 15%, 13% and 10% of the Company's total trade receivables balance, while no other customer accounted for more than 7% of the Company's total trade receivables balance as of January 28, 2017.

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 \$74.9 million, \$76.2 million and \$71.0 million for Fiscal 2017, 2016 and 2015, 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 Consolidated Statements of Operations.

## **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.

The Consolidated Balance Sheets include asset retirement obligations related to leases of \$10.3 million and \$10.6 million as of January 28, 2017 and January 30, 2016, respectively.

#### ***Acquisitions***

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 Little Burgundy in December 2015, Schuh Group Ltd. in June 2011, Hat World Corporation in April 2004 and various other small acquisitions. The Consolidated Balance Sheets include goodwill of \$181.6 million for the Lids Sports Group, \$79.8 million for the Schuh Group and \$9.8 million for Journeys Group at January 28, 2017, and \$180.9 million for the Lids Sports Group, \$90.3 million for the Schuh Group, \$9.4 million for Journeys Group and \$0.8 million for Licensed Brands at January 30, 2016. 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.



## Note 1

### Summary of Significant Accounting Policies, Continued

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.

In connection with acquisitions, the Company records goodwill on its Consolidated Balance Sheets. This asset is not amortized but is subject to an impairment test 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 at the beginning of its fourth quarter, or more frequently if events or circumstances indicate that the value of the asset might be impaired. During the quarter ended January 28, 2017, the Company voluntarily changed the date of its annual goodwill impairment test and other intangible assets impairment test from the last day of the fiscal year to the first day of the fourth fiscal quarter. This voluntary change is preferable under the circumstances as it aligns with the Company's five-year strategic planning cycle that is completed in early October.

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.

#### *Fair Value of Financial Instruments*

The carrying amounts and fair values of the Company's financial instruments at January 28, 2017 and January 30, 2016 are:

| <u>In thousands</u>      | <u>January 28, 2017</u> |                   | <u>January 30, 2016</u> |                   |
|--------------------------|-------------------------|-------------------|-------------------------|-------------------|
|                          | <u>Carrying Amount</u>  | <u>Fair Value</u> | <u>Carrying Amount</u>  | <u>Fair Value</u> |
| U.S. Revolver Borrowings | \$ 49,879               | \$ 50,396         | \$ 58,344               | \$ 58,480         |
| UK Term Loans            | 19,230                  | 19,541            | 28,603                  | 28,901            |
| UK Revolver Borrowings   | 13,796                  | 13,956            | 24,818                  | 24,630            |

Debt fair values were determined 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.

## **Note 1**

### **Summary of Significant Accounting Policies, Continued**

Carrying amounts reported on the 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 and unallocated retail costs of distribution are included in selling and administrative expenses in the amounts of \$6.2 million, \$9.6 million and \$9.1 million for Fiscal 2017, 2016 and 2015, respectively.

#### ***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.

## **Note 1**

### **Summary of Significant Accounting Policies, Continued**

#### ***Gift Cards***

The Company has a gift card program that began in calendar 1999 for its Lids Sports Group operations and calendar 2000 for its footwear operations. 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. Gift card breakage recognized as revenue was \$1.4 million, \$1.2 million and \$1.0 million for Fiscal 2017, 2016 and 2015, respectively. The Consolidated Balance Sheets include an accrued liability for gift cards of \$17.7 million and \$16.9 million at January 28, 2017 and January 30, 2016, respectively.

#### ***Buying, Merchandising and Occupancy Costs***

The Company records buying, 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. Retail occupancy costs recorded in selling and administrative expense were \$450.9 million, \$432.9 million and \$413.6 million for Fiscal 2017, 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 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 Consolidated Statements of Operations.

#### ***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 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.

## **Note 1**

### **Summary of Significant Accounting Policies, Continued**

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 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 \$76.7 million, \$73.7 million and \$67.0 million for Fiscal 2017, 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 Consolidated Balance Sheets include prepaid assets for direct response advertising costs of \$1.2 million at January 28, 2017 and \$2.0 million at January 30, 2016.

## **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 were \$3.6 million, \$3.4 million and \$3.3 million for Fiscal 2017, 2016 and 2015, respectively. During Fiscal 2017, 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.

## **Note 1**

### **Summary of Significant Accounting Policies, Continued**

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 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 \$8.5 million, \$6.4 million and \$4.1 million for Fiscal 2017, 2016 and 2015, respectively. During Fiscal 2017, 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 11).

#### ***Foreign Currency Translation***

The functional currency of the Company's foreign operations is the applicable local currency. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date. Income and expense accounts are translated at monthly average exchange rates. The unearned gains and losses resulting from such translation are included as a separate component of accumulated other comprehensive loss within shareholders' equity. Gains and losses from certain foreign currency transactions are reported as an item of income and resulted in a net (gain) loss of \$(1.2) million, \$2.7 million and \$2.4 million for Fiscal 2017, 2016 and 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.

## Note 1

### Summary of Significant Accounting Policies, Continued

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 (see Note 12).

#### *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 January 28, 2017 consisted of \$9.4 million of cumulative pension liability adjustment, net of tax, a cumulative post retirement liability adjustment of \$1.6 million, net of tax, and a cumulative foreign currency translation adjustment of \$40.3 million.

The following table summarizes the components of accumulated other comprehensive loss for the year ended January 28, 2017:

|   | Foreign<br>Currency<br>Translation | Unrecognized<br>Pension/<br>Postretirement<br>Benefit Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|------------------------------------|---|---|
| <b>(In thousands)</b>   |                                    |   |   |
| Balance January 30, 2016  | \$ (28,706)                        | \$ (13,907)   | \$ (42,613)   |
| Other comprehensive income (loss) before reclassifications:                         |                                    |   |   |
| Foreign currency translation adjustment   | (13,412)                           | —   | (13,412)  |
| Gain on intra-entity foreign currency transactions<br>(long-term investment nature) | 1,789                              | —   | 1,789   |
| Net actuarial gain  | —                                  | 3,949   | 3,949   |
| Amounts reclassified from AOCI:   |                                    |   |   |
| Amortization of net actuarial loss (1)  | —                                  | 935   | 935   |
| Income tax expense  | —                                  | 1,940   | 1,940   |
| Current period other comprehensive income (loss), net of tax                        | (11,623)                           | 2,944   | (8,679)   |
| <b>Balance January 28, 2017</b>   | <b>\$ (40,329)</b>                 | <b>\$ (10,963)</b>  | <b>\$ (51,292)</b>  |

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

## Note 1

### **Summary of Significant Accounting Policies, Continued**

#### ***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 14).

#### ***New Accounting Principles***

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 simplifies the measurement of goodwill by eliminating the second step from the goodwill impairment test, which requires the comparison of the implied fair value of goodwill with the current carrying amount of goodwill. Instead, under the amendments in this guidance, an entity shall perform a goodwill impairment test by comparing the fair value of each reporting unit with its carrying amount and an impairment charge is to be recorded for the amount, if any, in which the carrying value exceeds the reporting unit’s fair value. This guidance should be applied prospectively and is effective for public business entities that are United States Securities and Exchange Commission filers for fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The update addresses several aspects of the accounting for share-based compensation transactions including: (a) income tax consequences when awards vest or are settled, (b) classification of awards as either equity or liabilities, (c) a policy election to account for forfeitures as they occur rather than on an estimated basis and (d) classification of excess tax impacts on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. If the Company had adopted the standard in Fiscal 2017, reported earnings per share would have decreased \$0.03 per share for Fiscal 2017. The Company will adopt ASU 2016-09 in the first quarter of Fiscal 2018.

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



## **Note 1**

### **Summary of Significant Accounting Policies, Continued**

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. ASU 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. As of January 28, 2017, the Company has \$21.2 million of current deferred tax assets that will be reclassified to noncurrent deferred tax assets on its Consolidated Balance Sheets. The Company is currently assessing which transition method will be adopted.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." ASU 2015-11 requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect that the adoption of this guidance will have a material impact on its Consolidated Financial Statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs". In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements". ASU 2015-03 will require that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the debt. ASU 2015-15 allows an entity to present debt issuance costs associated with a revolving line of credit arrangement as an asset, regardless of whether a balance is outstanding. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03 or ASU 2015-15. These ASU's are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early adoption permitted. ASU 2015-03 required the Company to reclassify its deferred financing costs associated with its long-term debt from other noncurrent assets to long-term debt on a retrospective basis. The Company adopted these ASUs in the first quarter of Fiscal 2017. The \$0.3 million in deferred financing costs related to the Company's term loans were reclassified to long-term debt from noncurrent assets as of January 30, 2016.

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

**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 was originally effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, however, in August 2015, the FASB deferred this ASU for one year, which would be the beginning of our Fiscal 2019 or February 2018. The amendment is to be applied either retrospectively to each prior reporting period presented or with the cumulative effect recognized at the date of initial adoption as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets on the balance sheet). Based on an evaluation of the standard as a whole, the Company has identified catalog costs, customer incentives and principal versus agent considerations as the areas that will most likely be affected by the new revenue recognition guidance. The Company continues to evaluate the adoption of this standard, including the transition method, and will provide updates in Fiscal 2018 related to the expected impact of adopting this standard.

## Note 2

### Acquisitions, Intangible Assets and Sale of Businesses

#### Acquisitions

During Fiscal 2016, the Company completed the acquisition of Little Burgundy, a small retail footwear chain in Canada for a total purchase price of \$35.1 million. The stores acquired are operated within the Journeys Group. During Fiscal 2015, the Company completed acquisitions of primarily small retail chains and one small wholesale business for a total purchase price of \$34.9 million. The stores acquired in Fiscal 2015 are operated within the Lids Sports Group. The wholesale business acquired in Fiscal 2015 was operated within Lids Team Sports, which was sold on January 19, 2016.

#### Other Intangible Assets

Other intangibles by major classes were as follows:

| In thousands                 | Leases           |                  | Customer Lists   |                  | Other*           |                  | Total            |                  |
|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                              | Jan. 28,<br>2017 | Jan. 30,<br>2016 | Jan. 28,<br>2017 | Jan. 30,<br>2016 | Jan. 28,<br>2017 | Jan. 30,<br>2016 | Jan. 28,<br>2017 | Jan. 30,<br>2016 |
| Gross other intangibles      | \$ 14,625        | \$ 14,841        | \$ 1,958         | \$ 2,622         | \$ 2,009         | \$ 2,053         | \$ 18,592        | \$ 19,516        |
| Accumulated amortization     | (12,938)         | (12,637)         | (1,956)          | (2,264)          | (1,306)          | (1,046)          | (16,200)         | (15,947)         |
| <b>Net Other Intangibles</b> | <b>\$ 1,687</b>  | <b>\$ 2,204</b>  | <b>\$ 2</b>      | <b>\$ 358</b>    | <b>\$ 703</b>    | <b>\$ 1,007</b>  | <b>\$ 2,392</b>  | <b>\$ 3,569</b>  |

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

The amortization of intangibles, including trademarks, was \$0.9 million, \$2.9 million and \$3.3 million for Fiscal 2017, 2016 and 2015, respectively. The amortization of intangibles, including trademarks, will be \$0.2 million and \$0.1 million for Fiscal 2018 and 2019, respectively, and less than \$0.1 million for Fiscal 2020, 2021 and 2022.

#### Sale of Businesses

On December 25, 2016, the Company completed the sale of all the stock of the Company's subsidiary, Keuka Footwear, Inc., that operates the SureGrip occupational, slip-resistant footwear business, operated within the Licensed Brands Group, to Shoes for Crews, LLC. The Company recognized a gain on the sale, in Fiscal 2017, estimated at \$(12.3) million, net of transaction-related expenses before tax and subject to post-closing working capital adjustments.

On January 19, 2016, the Company completed the sale of the assets of the Lids Team Sports business, which has operated within its Lids Sports Group segment, to BSN Sports, LLC. The Company recognized a gain on the sale, in Fiscal 2016, estimated at \$(4.7) million, net of transaction-related expenses before tax.

**Note 2**

**Acquisitions, Intangible Assets and Sale of Businesses, continued**

In Fiscal 2017, the Company recognized an additional pretax gain of \$(2.4) million on the sale of Lids Team Sports related to final working capital adjustments.

The sales of SureGrip Footwear and Lids Team Sports were not strategic shifts that will have a major effect on operations and financial results, and therefore the businesses were not presented as discontinued operations in the Company's Consolidated Financial Statements.

### **Note 3**

#### **Asset Impairments and Other Charges and Discontinued Operations**

##### Asset Impairments and Other Charges

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

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

The Company recorded a pretax gain to earnings of \$(0.8) million in Fiscal 2017, including a gain of \$(8.9) million for network intrusion expenses as a result of a litigation settlement and a gain of \$(0.7) million for other legal matters, partially offset by \$6.4 million for retail store asset impairments and \$2.5 million for pension settlement expense.

The Company recorded a pretax charge to earnings of \$7.9 million in Fiscal 2016, including \$3.1 million for retail store asset impairments, \$2.5 million for asset write-downs, \$2.2 million for network intrusion expenses and \$0.1 million for other legal matters.

The Company recorded a pretax charge to earnings of \$2.3 million in Fiscal 2015, including \$3.1 million for network intrusion expenses, \$1.9 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

In Fiscal 2017, Fiscal 2016 and Fiscal 2015, the Company recorded an additional charge to earnings of \$0.7 million (\$0.4 million net of tax), \$1.3 million (\$0.8 million net of tax) and \$2.7 million (\$1.6 million net of tax), respectively, reflected in discontinued operations, primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company (see Note 13).

### Note 3

#### Asset Impairments and Other Charges and Discontinued Operations, Continued

##### Accrued Provision for Discontinued Operations

| <u>In thousands</u>   |           | <u>Facility<br/>Shutdown<br/>Costs</u> |
|---|-----------|--|
| 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                              |           | 1,333                                  |
| Charges and adjustments, net                                  |           | (473)                                  |
| Balance January 30, 2016                                      |           | 15,619                                 |
| Additional provision Fiscal 2017                              |           | 701                                    |
| Charges and adjustments, net                                  |           | (11,277)                               |
| Balance January 28, 2017*                                     |           | 5,043                                  |
| <b>Current provision for discontinued operations</b>          |           | <b>3,330</b>                           |
| <b>Total Noncurrent Provision for Discontinued Operations</b> | <b>\$</b> | <b>1,713</b>                           |

\*Includes a \$4.4 million environmental provision, including \$3.3 million in current provision for discontinued operations.

### Note 4

#### Inventories

| <u>In thousands</u>      | <u>January 28,<br/>2017</u> | <u>January 30,<br/>2016</u> |
|--------------------------|-----------------------------|-----------------------------|
| Raw materials            | \$ 389                      | \$ 469                      |
| Wholesale finished goods | 61,575                      | 58,773                      |
| Retail merchandise       | 501,713                     | 470,516                     |
| <b>Total Inventories</b> | <b>\$ 563,677</b>           | <b>\$ 529,758</b>           |

## 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 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 (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

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

|   | Long-Lived<br>Assets<br><u>Held and Used</u> | Level 1 | Level 2 | Level 3   | Impairment<br>Charges |
|---|--|---------|---------|-----------|-----------------------|
| Measured as of April 30, 2016             | \$ 694                                       | \$ —    | \$ —    | \$ 694    | \$ 3,436              |
| Measured as of July 30, 2016              | 618  | —       | —       | 618       | 1,017                 |
| Measured as of October 29, 2016           | 480  | —       | —       | 480       | 579                   |
| Measured as of January 28, 2017           | 206  | —       | —       | 206       | 1,377                 |
| <b>Total Asset Impairment Fiscal 2017</b> |  |         |         | <b>\$</b> | <b>6,409</b>          |

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded \$6.4 million of impairment charges as a result of the fair value measurement of its long-lived assets held and used and tested on a nonrecurring basis during the twelve months ended January 28, 2017. These charges are reflected in asset impairments and other, net on the Consolidated Statements of Operations.

## Note 5

### Fair Value, continued

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

## Note 6

### Long-Term Debt

| <u>In thousands</u>                               | <b>January 28,<br/>2017</b> | January 30,<br>2016 |
|---|-----------------------------|---------------------|
| U.S. Revolver borrowings                          | \$ 49,879                   | \$ 58,344           |
| UK term loans                                     | 19,345                      | 28,896              |
| UK revolver borrowings                            | 13,796                      | 24,818              |
| Deferred note expense on term loans               | (115)                       | (293)               |
| Total long-term debt                              | <b>82,905</b>               | 111,765             |
| Current portion                                   | <b>9,175</b>                | 14,182              |
| <b>Total Noncurrent Portion of Long-Term Debt</b> | <b>\$ 73,730</b>            | <b>\$ 97,583</b>    |

Long-term debt maturing during each of the next five years ending in January each year is \$9.2 million, \$51.4 million, \$22.4 million, \$0.0 million and \$0.0 million, respectively.

The Company had \$49.9 million of revolver borrowings outstanding under the Credit Facility at January 28, 2017, which includes \$20.1 million (£16.0 million) related to Genesco (UK) Limited and \$29.8 million (C\$39.1 million) related to GCO Canada, and had \$19.3 million (£15.4 million) in term loans outstanding and \$13.8 million (£11.0 million) in revolver loans outstanding under the U.K. Credit Facilities (described below) at January 28, 2017. The Company had outstanding letters of credit of \$11.2 million under the Credit Facility at January 28, 2017. These letters of credit support product purchases and lease and insurance indemnifications.

#### ***U. S. Credit Facility:***

On December 4, 2015, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement, dated as of January 31, 2014 (the "Credit Facility") by and among the Company, certain subsidiaries of the Company party thereto, as other borrowers, the lenders party thereto and Bank of America, N.A., as agent (the "Agent"). The Credit Facility provides revolving credit in the aggregate principal amount of \$400.0 million and replaces the previous \$375.0 million revolving credit facility. The Credit Facility expires January 31, 2019.



## Note 6

### Long-Term Debt, continued

Deferred financing costs incurred of \$3.1 million related to the Credit Facility were capitalized and are being amortized over five years. These costs are included in other non-current assets on the Consolidated Balance Sheets.

The material terms of the Credit Facility are as follows:

#### Availability

The Credit Facility is a revolving credit facility in the aggregate principal amount of \$400.0 million, including a \$70.0 million sublimit for the issuance of letters of credit and a domestic swingline subfacility of up to \$40.0 million, a revolving credit subfacility for the benefit of GCO Canada, Inc. in an aggregate amount not to exceed \$70.0 million, which includes a \$5.0 million sublimit for the issuance of letters of credit, and revolving credit subfacility for the benefit of Genesco (UK) Limited in an aggregate amount not to exceed \$50.0 million, which includes a \$10.0 million sublimit for the issuance of letters of credit and a swingline subfacility of up to \$10.0 million. Any swingline loans and any letters of credit and borrowings under the Canadian and UK 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 \$85.0 million.

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

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

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

## Note 6

### Long-Term Debt, Continued

#### Collateral

The loans and other obligations under the Credit Facility are secured by a perfected first priority lien and security interest in all tangible and intangible assets and excludes real estate and leaseholds of the Company and certain subsidiaries of the Company, including a pledge of 65% of the Company's interest in Genesco (UK) Limited.

The assets of Genesco (UK) Limited will not be pledged as collateral unless the additional \$50.0 million sublimit increase is exercised and once pledged, will only serve to secure the obligations of GCO Canada, Inc. and Genesco (UK) Limited and their respective subsidiaries.

#### Interest and Fees

The Company's borrowings under the Credit Facility bear interest at varying rates that, at the Company's option, can be based on:

##### Domestic Facility:

(a) adjusted LIBOR plus the applicable margin (as defined and based on average Excess Availability during the prior quarter), or (b) the domestic Base Rate (defined as the higher of (i) the Bank of America prime rate, (ii) the federal funds rate plus 0.50% or (iii) LIBOR for an interest period of thirty days plus 1.0%) plus the applicable margin.

##### Canadian Sub-Facility:

(a) For loans made in Canadian dollars, the bankers' acceptances ("BA") rate plus the applicable margin, or (b) the Canadian Prime Rate (defined as the highest of the (i) Bank of America Canadian Prime Rate, (ii) the Bank of America (Canada Branch) overnight rate plus 0.50%, and (iii) the BA rate for a one month interest period plus 1.0%) plus the applicable margin.

(a) For loans made in U.S. dollars, LIBOR plus the applicable margin, or (b) the U.S. Index Rate (defined as the highest of the (i) Bank of America (Canada branch) U.S. dollar base rate, (ii) the Federal Funds rate plus 0.50%, and (iii) LIBOR for an interest period of thirty days plus 1.0%) plus the applicable margin.

##### UK Sub-Facility:

(a) adjusted LIBOR plus the applicable margin, plus any mandating cost, if applicable

##### Swingline Loans:

Domestic swingline loans - domestic Base Rate plus the applicable margin.

UK swingline loans - UK Base Rate (being the "base rate" of the local Bank of America branch in the jurisdiction of the currency chosen) plus the applicable margin.

## **Note 6**

### **Long-Term Debt, Continued**

The initial applicable margin for Base Rate loans and U.S. Index rate loans and Canadian Prime Rate loans was 0.50% and the initial applicable margin for LIBOR loans, BA equivalent loans and UK swingline loans was 1.50%.

Thereafter, the applicable margin is subject to adjustment based on “Excess Availability” for the prior quarter. The term “Excess Availability” means, as of any given date, the excess (if any) of the Loan Cap (being the lesser of the total commitments and the Borrowing Base) over the outstanding credit extensions under the Credit Facility.

Interest on the Company’s borrowings is payable monthly in arrears for domestic Base Rate loans (including domestic swingline loans), U.S. Index rate loans, Canadian Prime Rate loans and UK swingline loans and at the end of each interest rate period (but not less often than quarterly) for LIBOR loans and BA equivalent loans.

The Company is also required to pay a commitment fee on the actual daily unused portions of the Credit Facility at a rate of 0.25% per annum.

#### Currency

Loans to GCO Canada, Inc. may be made in U.S. dollars or Canadian dollars. Loans to Genesco (UK) Limited may be made in U.S. dollars, Euros, Pounds Sterling or any other freely transferable currencies approved by the Agent and applicable lenders.

#### Certain Covenants

The Company is not required to comply with any financial covenants unless Excess Availability is less than the greater of \$25.0 million or 10.0% of the Loan Cap. If and during such time as Excess Availability is less than the greater of \$25.0 million or 10.0% of the Loan Cap, the Credit Facility requires the Company to meet a minimum fixed charge coverage ratio of (a) an amount equal to consolidated EBITDA less capital expenditures and taxes paid in cash, in each case for such period, to (b) fixed charges for such period, of not less than 1.0:1.0. Excess Availability was \$298.2 million at January 28, 2017. Because Excess Availability exceeded \$25.0 million or 10.0% of the Loan Cap, the Company was not required to comply with this financial covenant at January 28, 2017.

The Credit Facility also permits the Company to incur up to \$500.0 million of senior debt provided that certain terms and conditions are met.

## **Note 6**

### **Long-Term Debt, Continued**

In addition, the Credit Facility contains certain covenants that, among other things, restrict additional indebtedness, liens and encumbrances, loans and investments, acquisitions, dividends and other restricted payments, transactions with affiliates, asset dispositions, mergers and consolidations, prepayments or material amendments of other indebtedness and other matters customarily restricted in such agreements.

#### *Cash Dominion*

The Credit Facility also contains cash dominion provisions that apply in the event that the Company's Excess Availability is less than the greater of \$30.0 million or 12.5% of the Loan Cap or there is an event of default under the Credit Facility.

#### *Events of Default*

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.

Certain of the lenders under the Credit Facility or their affiliates have provided and may in the future provide certain commercial banking, financial advisory, and investment banking services in the ordinary course of business for the Company, its subsidiaries and certain of its affiliates, for which they receive customary fees and commissions.

#### ***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 ("UK Credit Facilities") which replaced the former A, B and C term loans with a new Facility A of £17.5 million and a Facility B of £11.6 million (which was the former Facility C loan) as well as provided an additional revolving credit facility, Facility C, of £22.5 million and a working capital facility of £2.5 million. 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.

## Note 6

### Long-Term Debt, Continued

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 January 28, 2017. The UK Credit Facilities are secured by a pledge of all the assets of Schuh and its subsidiaries.

## Note 7

### Commitments Under Long-Term Leases

#### *Operating Leases*

The Company leases its office space and all of its retail store locations, certain distribution centers and transportation equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through 2030. The store leases in the United States, Puerto Rico and Canada typically have initial terms of approximately 10 years. The stores leases in the United Kingdom, the Republic of Ireland and Germany typically have initial terms of between 10 and 20 years. Generally, most of the leases require the Company to pay taxes, insurance, maintenance costs and contingent rentals based on sales. Approximately 4% of the Company's leases contain renewal options.

Rental expense under operating leases of continuing operations was:

| <u>In thousands</u>         | <u>2017</u>       | <u>2016</u>       | <u>2015</u>       |
|-----------------------------|-------------------|-------------------|-------------------|
| Minimum rentals             | \$ 264,129        | \$ 255,083        | \$ 250,077        |
| Contingent rentals          | 9,957             | 11,044            | 9,217             |
| Sublease rentals            | (1,863)           | (825)             | (852)             |
| <b>Total Rental Expense</b> | <b>\$ 272,223</b> | <b>\$ 265,302</b> | <b>\$ 258,442</b> |

**Note 7****Commitments Under Long-Term Leases, Continued**

Minimum rental commitments payable in future years are:

| <b>Fiscal Years</b> | <b>In thousands</b> |
|---------------------|---------------------|
| 2018                | \$ 245,159          |
| 2019                | 215,230             |
| 2020                | 191,857             |
| 2021                | 172,763             |
| 2022                | 152,855             |
| Later years         | 402,013             |
| <b>Total</b>        | <b>\$ 1,379,877</b> |

For leases that contain predetermined fixed escalations of the minimum rentals, the related rental expense is recognized on a straight-line basis and the cumulative expense recognized on the straight-line basis in excess of the cumulative payments is included in deferred rent and other long-term liabilities on the Consolidated Balance Sheets. 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 recorded as deferred rent and amortized as a reduction of rent expense over the initial lease term. Tenant allowances of \$25.4 million for both Fiscal 2017 and 2016, and deferred rent of \$51.9 million and \$48.0 million for Fiscal 2017 and 2016, respectively, are included in deferred rent and other long-term liabilities on the Consolidated Balance Sheets.

## Note 8

### Equity

#### *Non-Redeemable Preferred Stock*

| Class  | Shares<br>Authorized | Number of Shares |        |        | Amounts in Thousands |                 |                 |
|--|----------------------|------------------|--------|--------|----------------------|-----------------|-----------------|
|  |                      | 2017             | 2016   | 2015   | 2017                 | 2016            | 2015            |
| Employees' Subordinated<br>Convertible Preferred | 5,000,000            | <b>37,646</b>    | 38,196 | 44,836 | <b>1,129</b>         | 1,146           | 1,345           |
| Stated Value of Issued<br>Shares                 |                      |                  |        |        | <b>1,129</b>         | 1,146           | 1,345           |
| Employees' Preferred<br>Stock Purchase Accounts  |                      |                  |        |        | <b>(69)</b>          | (69)            | (71)            |
| <b>Total Non-Redeemable<br/>Preferred Stock</b>  |                      |                  |        |        | <b>\$ 1,060</b>      | <b>\$ 1,077</b> | <b>\$ 1,274</b> |

#### *Subordinated Serial Preferred Stock:*

The Company's charter permits the Board of Directors to issue Subordinated Serial Preferred Stock (3,000,000 shares, in aggregate, are authorized) in as many series, each with as many shares and such rights and preferences as the board may designate. The Company has shares authorized for \$2.30 Series 1, \$4.75 Series 3, \$4.75 Series 4, Series 6 and \$1.50 Subordinated Cumulative Preferred stocks in amounts of 64,368 shares, 40,449 shares, 53,764 shares, 800,000 shares and 5,000,000 shares, respectively. All of these preferred stocks were mandatorily redeemed by the Company in Fiscal 2014. As a result, there are no outstanding shares for any preferred issues of stock other than Employees' Subordinated Convertible Preferred stock shown in the table above.

#### *Preferred Stock Transactions*

| In thousands                    | Non-Redeemable<br>Employees'<br>Preferred Stock | Employees'<br>Preferred<br>Stock<br>Purchase<br>Accounts | Total<br>Non-Redeemable<br>Preferred Stock |
|---------------------------------|---|--|--|
| Balance February 2, 2014        | \$ 1,382  | \$ (77)  | \$ 1,305                                   |
| Other stock conversions         | (37)  | 6  | (31)                                       |
| Balance January 31, 2015        | 1,345   | (71)   | 1,274                                      |
| Other stock conversions         | (199)   | 2  | (197)                                      |
| Balance January 30, 2016        | 1,146   | (69)   | 1,077                                      |
| Other stock conversions         | (17)  | —  | (17)                                       |
| <b>Balance January 28, 2017</b> | <b>\$ 1,129</b>                                 | <b>\$ (69)</b>   | <b>\$ 1,060</b>                            |

## Note 8

### Equity, Continued

#### ***Employees' Subordinated Convertible Preferred Stock:***

Stated and liquidation values are 88 times the average quarterly per share dividend paid on common stock for the previous eight quarters (if any), but in no event less than \$30 per share. Each share of this issue of preferred stock is convertible into one share of common stock and has one vote per share.

#### ***Common Stock:***

Common stock-\$1 par value. Authorized: 80,000,000 shares; issued: January 28, 2017 – 20,354,272 shares; January 30, 2016 –22,322,799 shares. There were 488,464 shares held in treasury at January 28, 2017 and January 30, 2016. Each outstanding share is entitled to one vote. At January 28, 2017, common shares were reserved as follows: 37,646 shares for conversion of preferred stock and 2,556,824 shares for the 2009 Amended and Restated Stock Incentive Plan.

For the year ended January 31, 2017, 26,696 shares of common stock were issued for the exercise of stock options at an average weighted exercise price of \$38.13, for a total of \$1.0 million; 236,364 shares of common stock were issued as restricted shares as part of the Amended and Restated 2009 Genesco Inc. Equity Incentive Plan (the "2009 Plan"); 23,252 shares were issued to directors in exchange for their services; 55,563 shares were withheld for taxes on restricted stock vested in Fiscal 2017; 43,998 shares of restricted stock were forfeited in Fiscal 2017; and 591 shares were issued in miscellaneous conversions of Employees' Subordinated Convertible Preferred Stock. In addition, the Company repurchased and retired 2,155,869 shares of common stock at an average weighted market price of \$61.81 for a total of \$133.3 million.

For the year ended January 30, 2016, 35,542 shares of common stock were issued for the exercise of stock options at an average weighted exercise price of \$36.81, for a total of \$1.3 million; 219,404 shares of common stock were issued as restricted shares as part of the 2009 Plan; 2,470 shares of common stock were issued for the purchase of shares under the Employee Stock Purchase Plan ("ESPP") at an average weighted market price of \$54.22, for a total of \$0.1 million; 19,769 shares were issued to directors in exchange for their services; 65,783 shares were withheld for taxes on restricted stock vested in Fiscal 2016; 27,221 shares of restricted stock were forfeited in Fiscal 2016; and 6,640 shares were issued in miscellaneous conversions of Employees' Subordinated Convertible Preferred Stock. In addition, the Company repurchased and retired 2,383,384 shares of common stock at an average weighted market price of \$60.79 for a total of \$144.9 million.



## **Note 8**

### **Equity, Continued**

For the year ended January 31, 2015, 68,616 shares of common stock were issued for the exercise of stock options at an average weighted exercise price of \$26.49, for a total of \$1.8 million; 185,416 shares of common stock were issued as restricted shares as part of the 2009 Plan; 2,688 shares of common stock were issued for the purchase of shares under the ESPP at an average weighted market price of \$71.01, for a total of \$0.2 million; 16,396 shares were issued to directors in exchange for their services; 88,003 shares were withheld for taxes on restricted stock vested in Fiscal 2015; 13,999 shares of restricted stock were forfeited in Fiscal 2015; and 1,233 shares were issued in miscellaneous conversions of Employees' Subordinated Convertible Preferred Stock. In addition, the Company repurchased and retired 64,709 shares of common stock at an average weighted market price of \$71.63 for a total of \$4.6 million.

#### ***Restrictions on Dividends and Redemptions of Capital Stock:***

The Company's charter provides that no dividends may be paid and no shares of capital stock acquired for value if there are dividend or redemption arrearages on any senior or equally ranked stock. Exchanges of subordinated serial preferred stock for common stock or other stock junior to such exchanged stock are permitted.

The Company's Credit Facility prohibits the payment of dividends and other restricted payments unless as of the date of the making of any Restricted Payment (as defined in the Credit Facility) or consummation of any Acquisition (as defined in the Credit Facility), (a) no Default (as defined in the Credit Facility) or Event of Default (as defined in the Credit Facility) exists or would arise after giving effect to such Restricted Payment or Acquisition, and (b) either (i) the Borrowers (as defined in the Credit Facility) have pro forma projected Excess Availability for the following six month period equal to or greater than 25% of the Loan Cap, after giving pro forma effect to such Restricted Payment or Acquisition, or (ii) (A) the Borrowers have pro forma projected Excess Availability for the following six month period of less than 25% of the Loan Cap but equal to or greater than 15% of the Loan Cap, after giving pro forma effect to the Restricted Payment or Acquisition, and (B) the Fixed Charge Coverage Ratio (as defined in the Credit Facility), on a pro forma basis for the twelve months preceding such Restricted Payment or Acquisition, will be equal to or greater than 1.0:1.0, and (c) after giving effect to such Restricted Payment or Acquisition, the Company and the other Borrowers under the Credit Facility are Solvent (as defined in the Credit Facility). Notwithstanding the foregoing, the Company may make cash dividends on preferred stock up to \$0.5 million in any fiscal year absent a continuing Event of Default. The Company's management does not expect availability under the Credit Facility to fall below the requirements listed above during Fiscal 2017. The Company's UK Credit Facility prohibits the payment of any dividends by Schuh or its subsidiaries to the Company.

**Note 8****Equity, Continued****Changes in the Shares of the Company's Capital Stock**

|  | <b>Common<br/>Stock</b> | <b>Employees'<br/>Preferred<br/>Stock</b> |
|--|-------------------------|---|
| Issued at February 1, 2014                   | 24,407,724              | 46,069                                    |
| Exercise of options                          | 68,616                  | —   |
| Issue restricted stock                       | 185,416                 | —   |
| Issue shares—Employee Stock Purchase Plan    | 2,688                   | —   |
| Shares repurchased                           | (64,709)                | —   |
| Other  | (84,373)                | (1,233)                                   |
| Issued at January 31, 2015                   | 24,515,362              | 44,836                                    |
| Exercise of options                          | 35,542                  | —   |
| Issue restricted stock                       | 219,404                 | —   |
| Issue shares—Employee Stock Purchase Plan    | 2,470                   | —   |
| Shares repurchased                           | (2,383,384)             | —   |
| Other  | (66,595)                | (6,640)                                   |
| Issued at January 30, 2016                   | 22,322,799              | 38,196                                    |
| Exercise of options                          | 26,696                  | —   |
| Issue restricted stock                       | 236,364                 | —   |
| Shares repurchased                           | (2,155,869)             | —   |
| Other  | (75,718)                | (550)                                     |
| Issued at January 28, 2017                   | 20,354,272              | 37,646                                    |
| Less shares repurchased and held in treasury | 488,464                 | —   |
| <b>Outstanding at January 28, 2017</b>       | <b>19,865,808</b>       | <b>37,646</b>                             |

## Note 9

### Income Taxes

The components of earnings from continuing operations before income taxes is comprised of the following:

| <u>In thousands</u>  | <u>2017</u>       | <u>2016</u>       | <u>2015</u>       |
|--|-------------------|-------------------|-------------------|
| United States  | \$ 129,819        | \$ 136,178        | \$ 150,682        |
| Foreign  | 21,595            | 15,355            | 6,307             |
| <b>Total Earnings from Continuing Operations before Income Taxes</b> | <b>\$ 151,414</b> | <b>\$ 151,533</b> | <b>\$ 156,989</b> |

Income tax expense from continuing operations is comprised of the following:

| <u>In thousands</u>                                     | <u>2017</u>      | <u>2016</u>      | <u>2015</u>      |
|---|------------------|------------------|------------------|
| Current   |                  |                  |                  |
| U.S. federal  | \$ 36,998        | \$ 46,515        | \$ 43,146        |
| International   | 5,245            | 3,542            | 292              |
| State   | 5,918            | 8,220            | 8,966            |
| <b>Total Current Income Tax Expense</b>                 | <b>48,161</b>    | <b>58,277</b>    | <b>52,404</b>    |
| Deferred  |                  |                  |                  |
| U.S. federal  | 2,980            | (1,249)          | 4,422            |
| International   | 1,182            | 868              | 636              |
| State   | 1,232            | (1,744)          | 154              |
| <b>Total Deferred Income Tax Expense (Benefit)</b>      | <b>5,394</b>     | <b>(2,125)</b>   | <b>5,212</b>     |
| <b>Total Income Tax Expense – Continuing Operations</b> | <b>\$ 53,555</b> | <b>\$ 56,152</b> | <b>\$ 57,616</b> |

Discontinued operations were recorded net of income tax expense (benefit) of approximately \$(0.3) million, \$(0.5) million and \$(1.1) million in Fiscal 2017, 2016 and 2015, respectively.

As a result of the exercise of stock options and vesting of restricted stock during Fiscal 2017, 2016 and 2015, the Company realized an additional income tax benefit of approximately \$0.3 million, \$0.2 million and \$3.1 million, respectively. These tax benefits are reflected as an adjustment to additional paid-in capital.

## Note 9

### Income Taxes, Continued

Deferred tax assets and liabilities are comprised of the following:

| <u>In thousands</u>                                       | <u>January 28,</u><br><u>2017</u> | <u>January 30,</u><br><u>2016</u> |
|---|-----------------------------------|-----------------------------------|
| Identified intangibles                                    | \$ (31,079)                       | \$ (29,763)                       |
| Prepays   | (3,274)                           | (3,390)                           |
| Convertible bonds   | (1,196)                           | (1,799)                           |
| Tax over book depreciation                                | (3,014)                           | —                                 |
| <b>Total deferred tax liabilities</b>                     | <b>(38,563)</b>                   | <b>(34,952)</b>                   |
| Options   | —                                 | 101                               |
| Deferred rent   | 5,488                             | 5,119                             |
| Pensions  | 3,396                             | 4,409                             |
| Expense accruals  | 10,413                            | 9,577                             |
| Uniform capitalization costs                              | 16,361                            | 14,644                            |
| Book over tax depreciation                                | —                                 | 9,778                             |
| Provisions for discontinued operations and restructurings | 2,179                             | 6,111                             |
| Inventory valuation                                       | 3,728                             | 3,954                             |
| Tax net operating loss and credit carryforwards           | 2,450                             | 2,493                             |
| Allowances for bad debts and notes                        | 491                               | 378                               |
| Deferred compensation and restricted stock                | 7,147                             | 6,706                             |
| Other   | 4,458                             | 3,825                             |
| Gross deferred tax assets                                 | 56,111                            | 67,095                            |
| Deferred tax asset valuation allowance                    | (4,305)                           | (3,352)                           |
| Deferred tax asset net of valuation allowance             | 51,806                            | 63,743                            |
| <b>Net Deferred Tax Assets</b>                            | <b>\$ 13,243</b>                  | <b>\$ 28,791</b>                  |

The deferred tax balances have been classified in the Consolidated Balance Sheets as follows:

|                                | <u>2017</u>      | <u>2016</u>      |
|--------------------------------|------------------|------------------|
| Net current asset              | \$ 21,194        | \$ 28,965        |
| Net non-current asset          | 85               | 959              |
| Net non-current liability      | (8,036)          | (1,133)          |
| <b>Net Deferred Tax Assets</b> | <b>\$ 13,243</b> | <b>\$ 28,791</b> |

## Note 9

### Income Taxes, Continued

Reconciliation of the United States federal statutory rate to the Company's effective tax rate from continuing operations is as follows:

|  | 2017          | 2016   | 2015   |
|--|---------------|--------|--------|
| U. S. federal statutory rate of tax                | <b>35.00%</b> | 35.00% | 35.00% |
| State taxes (net of federal tax benefit)           | <b>3.46</b>   | 2.82   | 3.80   |
| Foreign rate differential                          | <b>(2.93)</b> | (2.60) | (1.56) |
| Change in valuation allowance                      | <b>0.88</b>   | (0.58) | 0.57   |
| Permanent items                                    | <b>1.11</b>   | 2.19   | 2.13   |
| Uncertain federal, state and foreign tax positions | <b>(0.90)</b> | 1.23   | (3.06) |
| Other  | <b>(1.25)</b> | (1.00) | (0.18) |
| <b>Effective Tax Rate</b>                          | <b>35.37%</b> | 37.06% | 36.70% |

The provision for income taxes resulted in an effective tax rate for continuing operations of 35.37% for Fiscal 2017, compared with an effective tax rate of 37.06% for Fiscal 2016. The tax rate for Fiscal 2017 was lower primarily due to the release of tax reserves.

As of January 28, 2017, January 30, 2016 and January 31, 2015, the Company had a federal net operating loss carryforward, which was assumed in one of the prior year acquisitions, of \$0.0 million, \$1.0 million and \$1.2 million, respectively, which expire in fiscal years 2025 through 2030. The reduction of the federal net operating loss carryforward for Fiscal 2017 resulted from the SureGrip Footwear sale on December 25, 2016.

As of January 28, 2017, January 30, 2016 and January 31, 2015, the Company had state net operating loss carryforwards of \$0.4 million, \$0.5 million and \$0.0 million, respectively, which expire in fiscal years 2020 through 2037.

As of January 28, 2017, January 30, 2016 and January 31, 2015, the Company had state tax credits of \$0.4 million, \$0.6 million and \$0.4 million, respectively. These credits expire in fiscal years 2018 through 2024.

As of January 28, 2017, January 30, 2016 and January 31, 2015, the Company had foreign net operating loss carryforwards of \$7.3 million, \$7.4 million and \$6.8 million, respectively, which have no expiration.

As of January 28, 2017, the Company has provided a valuation allowance of approximately \$4.3 million on deferred tax assets associated primarily with foreign fixed assets for which management has determined it is more likely than not that the deferred tax assets will not be realized.

## Note 9

### Income Taxes, Continued

The \$0.9 million net increase in the valuation allowance during Fiscal 2017 from the \$3.4 million provided for as of January 30, 2016 relates to increases of \$0.8 million in foreign net operating losses and increases of \$0.1 million in fixed asset-related deferred tax assets that will likely never be realized. Management believes that it is more likely than not that the remaining deferred tax assets will be fully realized.

As of January 28, 2017, the Company has not provided for withholding or United States federal income taxes on approximately \$64.4 million of accumulated undistributed earnings of its foreign subsidiaries as they are considered by management to be indefinitely reinvested. If these undistributed earnings were not considered to be indefinitely reinvested, the related U.S. tax liability may be reduced by foreign income taxes paid on those earnings. The determination of the amount of unrecognized deferred tax liability related to these temporary differences is not practicable at this time as this could be significantly impacted by the source location and amount of the distribution, the underlying tax rate already paid on the earnings, foreign withholding taxes and the opportunity to use foreign tax credits.

The methodology in the Income Tax Topic of the Codification prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized in the financial statements.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for Fiscal 2017, 2016 and 2015.

| <b>In thousands</b>   | <b>2017</b>     | <b>2016</b>      | <b>2015</b>     |
|---|-----------------|------------------|-----------------|
| Unrecognized Tax Benefit – Beginning of Period                  | \$ 14,639       | \$ 3,997         | \$ 10,960       |
| Gross Increases (Decreases) – Tax Positions in a Prior Period   | (7,585)         | 9,328            | 231             |
| Gross Increases (Decreases) – Tax Positions in a Current Period | 491             | 1,403            | (287)           |
| Settlements   | (742)           | —                | —               |
| Lapse of Statutes of Limitations                                | (1,181)         | (89)             | (6,907)         |
| <b>Unrecognized Tax Benefit – End of Period</b>                 | <b>\$ 5,622</b> | <b>\$ 14,639</b> | <b>\$ 3,997</b> |

The amount of unrecognized tax benefits as of January 28, 2017, January 30, 2016 and January 31, 2015 which would impact the annual effective rate if recognized were \$2.5 million, \$3.9 million and \$2.7 million, respectively. The amount of unrecognized tax benefits may change during the next twelve months but the Company does not believe the change, if any, will be material to the Company's consolidated financial position or results of operations.

## **Note 9**

### **Income Taxes, Continued**

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense on the Consolidated Statements of Operations. Related to the uncertain tax benefits noted above, the Company recorded interest and penalties of approximately \$0.8 million benefit and \$0.0 million benefit, respectively, during Fiscal 2017, \$0.6 million expense and \$0.0 million benefit, respectively, during Fiscal 2016 and \$(0.1) million and \$0.0 million benefit, respectively, during Fiscal 2015. The Company recognized a liability for accrued interest and penalties of \$0.6 million and \$0.1 million, respectively, as of January 28, 2017, \$1.5 million and \$0.1 million, respectively, as of January 30, 2016 and \$0.8 million and \$0.1 million, respectively, as of January 31, 2015. The long-term portion of the unrecognized tax benefits and related accrued interest and penalties are included in deferred rent and other long-term liabilities on the Consolidated Balance Sheets.

Income tax reserves are determined using the methodology required by the Income Tax Topic of the Codification.

The Company and its subsidiaries file income tax returns in federal and in many state and local jurisdictions as well as foreign jurisdictions. With few exceptions, the Company's state and local income tax returns for fiscal years ended February 1, 2014 and beyond remain subject to examination. In addition, the Company has subsidiaries in various foreign jurisdictions that have statutes of limitation generally ranging from two to six years. The Company's US federal income tax return for the fiscal years ended January 31, 2015 and beyond remain subject to examination.

## **Note 10**

### **Defined Benefit Pension Plans and Other Postretirement Benefit Plans**

#### **Defined Benefit Pension Plans**

The Company previously sponsored a non-contributory, defined benefit pension plan. As of January 1, 1996, the Company amended the plan to change the pension benefit formula to a cash balance formula from the then existing benefit calculation based upon years of service and final average pay. The benefits accrued under the old formula were frozen as of December 31, 1995. Upon retirement, the participant will receive this accrued benefit payable as an annuity. In addition, the participant will receive as a lump sum (or annuity if desired) the amount credited to the participant's cash balance account under the new formula. Effective January 1, 2005, the Company froze the defined benefit cash balance plan which prevents any new entrants into the plan as of that date as well as affects the amounts credited to the participants' accounts as discussed below.

## **Note 10**

### **Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued**

Under the cash balance formula, beginning January 1, 1996, the Company credits each participants' account annually with an amount equal to 4% of the participant's compensation plus 4% of the participant's compensation in excess of the Social Security taxable wage base. Beginning December 31, 1996 and annually thereafter, the account balance of each active participant was credited with 7% interest calculated on the sum of the balance as of the beginning of the plan year and 50% of the amounts credited to the account, other than interest, for the plan year. The account balance of each participant who was inactive would be credited with interest at the lesser of 7% or the 30 year Treasury rate. Under the frozen plan, each participants' cash balance plan account will be credited annually only with interest at the 30 year Treasury rate, not to exceed 7%, until the participant retires. The amount credited each year will be based on the rate at the end of the prior year.

In June 2016, the Company's board of directors authorized an offer to vested former employees and active employees over the age of 62 in the Company's defined benefits pension plan to buy out their future benefits under the plan for a lump sum cash payment. The Company made the buyout offer in the third quarter of Fiscal 2017, and completed it in the fourth quarter of Fiscal 2017. The Company incurred a one-time charge to earnings of \$2.5 million in the fourth quarter of Fiscal 2017 in connection with the pension plan buyout.

#### **Other Postretirement Benefit Plans**

The Company provides health care benefits for early retirees and life insurance benefits for certain retirees not covered by collective bargaining agreements. Under the health care plan, early retirees are eligible for benefits until age 65. Employees who meet certain requirements are eligible for life insurance benefits upon retirement. The Company accrues such benefits during the period in which the employee renders service.

#### ***Obligations and Funded Status***

The measurement date of the assets and liabilities for the defined benefit pension plan and postretirement medical and life insurance plans is the month-end date that is closest to the Company's fiscal year end.



**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued****Change in Benefit Obligation**

| <b>In thousands</b>                      | <b>Pension Benefits</b> |                   | <b>Other Benefits</b> |                 |
|--|-------------------------|-------------------|-----------------------|-----------------|
|  | <b>2017</b>             | <b>2016</b>       | <b>2017</b>           | <b>2016</b>     |
| Benefit obligation at beginning of year  | \$ 100,290              | \$ 125,764        | \$ 6,826              | \$ 6,886        |
| Service cost                             | 550                     | 450               | 704                   | 821             |
| Interest cost                            | 4,118                   | 4,263             | 286                   | 245             |
| Plan participants' contributions         | —                       | —                 | 158                   | 124             |
| Plan settlements                         | (13,862)                | —                 | —                     | —               |
| Curtailement gain                        | —                       | —                 | —                     | (755)           |
| Benefits paid                            | (8,308)                 | (8,841)           | (257)                 | (341)           |
| Actuarial (gain) loss                    | 4,159                   | (21,346)          | 1,226                 | (154)           |
| <b>Benefit Obligation at End of Year</b> | <b>\$ 86,947</b>        | <b>\$ 100,290</b> | <b>\$ 8,943</b>       | <b>\$ 6,826</b> |

**Change in Plan Assets**

| <b>In thousands</b>                             | <b>Pension Benefits</b> |                   | <b>Other Benefits</b> |                   |
|---|-------------------------|-------------------|-----------------------|-------------------|
|   | <b>2017</b>             | <b>2016</b>       | <b>2017</b>           | <b>2016</b>       |
| Fair value of plan assets at beginning of year  | \$ 90,333               | \$ 103,580        | \$ —                  | \$ —              |
| Actual gain (loss) on plan assets               | 12,531                  | (4,406)           | —                     | —                 |
| Plan settlements                                | (13,874)                | —                 | —                     | —                 |
| Employer contributions                          | —                       | —                 | 99                    | 217               |
| Plan participants' contributions                | —                       | —                 | 158                   | 124               |
| Benefits paid                                   | (8,308)                 | (8,841)           | (257)                 | (341)             |
| <b>Fair Value of Plan Assets at End of Year</b> | <b>\$ 80,682</b>        | <b>\$ 90,333</b>  | <b>—</b>              | <b>—</b>          |
| <b>Funded Status at End of Year</b>             | <b>\$ (6,265)</b>       | <b>\$ (9,957)</b> | <b>\$ (8,943)</b>     | <b>\$ (6,826)</b> |

## Note 10

### Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued

Amounts recognized in the Consolidated Balance Sheets consist of:

| <u>In thousands</u>          | Pension Benefits  |                   | Other Benefits    |                   |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
|                              | 2017              | 2016              | 2017              | 2016              |
| Current liabilities          | \$ —              | \$ —              | \$ (343)          | \$ (274)          |
| Noncurrent liabilities       | (6,265)           | (9,957)           | (8,600)           | (6,552)           |
| <b>Net Amount Recognized</b> | <b>\$ (6,265)</b> | <b>\$ (9,957)</b> | <b>\$ (8,943)</b> | <b>\$ (6,826)</b> |

Amounts recognized in accumulated other comprehensive income consist of:

| <u>In thousands</u>   | Pension Benefits |                  | Other Benefits  |                 |
|---|------------------|------------------|-----------------|-----------------|
|   | 2017             | 2016             | 2017            | 2016            |
| Net loss  | \$ 15,430        | \$ 21,415        | \$ 2,518        | \$ 1,417        |
| <b>Total Recognized in Accumulated Other Comprehensive Loss</b> | <b>\$ 15,430</b> | <b>\$ 21,415</b> | <b>\$ 2,518</b> | <b>\$ 1,417</b> |

Amounts for projected and accumulated benefit obligation and fair value of plan assets are as follows:

| <u>In thousands</u>            | January 28,<br>2017 | January 30,<br>2016 |
|--------------------------------|---------------------|---------------------|
| Projected benefit obligation   | \$ 86,947           | \$ 100,290          |
| Accumulated benefit obligation | 86,947              | 100,290             |
| Fair value of plan assets      | 80,682              | 90,333              |

### *Components of Net Periodic Benefit Cost*

#### Net Periodic Benefit Cost

| <u>In thousands</u>              | Pension Benefits |                 |                 | Other Benefits  |                 |               |
|----------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|---------------|
|                                  | 2017             | 2016            | 2015            | 2017            | 2016            | 2015          |
| Service cost                     | \$ 550           | \$ 450          | \$ 450          | \$ 704          | \$ 821          | \$ 526        |
| Interest cost                    | 4,118            | 4,263           | 4,664           | 286             | 245             | 226           |
| Expected return on plan assets   | (5,641)          | (5,785)         | (6,069)         | —               | —               | —             |
| Settlement loss recognized       | 2,456            | —               | —               | —               | —               | —             |
| Amortization:                    |                  |                 |                 |                 |                 |               |
| Prior service cost               | —                | —               | —               | —               | —               | —             |
| Losses                           | 810              | 4,948           | 3,546           | 125             | 189             | 102           |
| Net amortization                 | \$ 810           | \$ 4,948        | \$ 3,546        | \$ 125          | \$ 189          | \$ 102        |
| <b>Net Periodic Benefit Cost</b> | <b>\$ 2,293</b>  | <b>\$ 3,876</b> | <b>\$ 2,591</b> | <b>\$ 1,115</b> | <b>\$ 1,255</b> | <b>\$ 854</b> |

## Note 10

### Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued

#### *Reconciliation of Accumulated Other Comprehensive Income*

| <u>In thousands</u>   | Pension Benefits |                | Other Benefits |              |
|---|------------------|----------------|----------------|--------------|
|   | 2017             |                | 2017           |              |
| Net (gain) loss   | \$               | (2,729)        | \$             | 1,226        |
| Amortization of net actuarial loss  |                  | (3,256)        |                | (125)        |
| <b>Total Recognized in Other Comprehensive Income</b>                               | <b>\$</b>        | <b>(5,985)</b> | <b>\$</b>      | <b>1,101</b> |
| <b>Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income</b> | <b>\$</b>        | <b>(3,692)</b> | <b>\$</b>      | <b>2,216</b> |

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$0.9 million and \$0.0 million, respectively. The estimated net loss for the other postretirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$0.2 million.

#### *Weighted-average assumptions used to determine benefit obligations*

|                               | Pension Benefits |       | Other Benefits |       |
|-------------------------------|------------------|-------|----------------|-------|
|                               | 2017             | 2016  | 2017           | 2016  |
| Discount rate                 | 3.95%            | 4.30% | 3.98%          | 4.04% |
| Rate of compensation increase | NA               | NA    | —              | —     |

For Fiscal 2017 and 2016, the discount rate was based on a yield curve of high quality corporate bonds with cash flows matching the Company's planned expected benefit payments.

The decrease in the discount rate for Fiscal 2017 increased the accumulated benefit obligation by \$3.2 million and increased the projected benefit obligation by \$3.2 million. The increase in the discount rate for Fiscal 2016 decreased the accumulated benefit obligation by \$7.5 million and decreased the projected benefit obligation by \$7.5 million.

#### *Weighted-average assumptions used to determine net periodic benefit costs*

|  | Pension Benefits |       |       | Other Benefits |       |       |
|--|------------------|-------|-------|----------------|-------|-------|
|  | 2017             | 2016  | 2015  | 2017           | 2016  | 2015  |
| Discount rate                                    | 4.30%            | 3.55% | 4.40% | 4.04%          | 3.31% | 4.40% |
| Expected long-term rate of return on plan assets | 6.35%            | 6.35% | 6.75% | —              | —     | —     |
| Rate of compensation increase                    | NA               | NA    | NA    | —              | —     | —     |

## Note 10

### **Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued**

To develop the expected long-term rate of return on assets assumption, the Company considered historical asset returns, the current asset allocation and future expectations. Considering this information, the Company selected a 6.35% long-term rate of return on assets assumption.

#### *Assumed health care cost trend rates*

|   | 2017 | 2016 |
|---|------|------|
| Health care cost trend rate assumed for next year                                 | 8.0% | 7.5% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5%   | 5%   |
| Year that the rate reaches the ultimate trend rate                                | 2027 | 2021 |

The effect on disclosed information of one percentage point change in the assumed health care cost trend rate for each future year is shown below.

| In thousands                                  | 1% Increase<br>in Rates | 1% Decrease<br>in Rates |
|---|-------------------------|-------------------------|
| Aggregated service and interest cost          | \$ 142                  | \$ 237                  |
| Accumulated postretirement benefit obligation | \$ 1,427                | \$ 1,169                |

#### *Plan Assets*

The Company's pension plan weighted average asset allocations as of January 28, 2017 and January 30, 2016, by asset category are as follows:

|                       | Plan Assets         |                     |
|-----------------------|---------------------|---------------------|
|                       | January 28,<br>2017 | January 30,<br>2016 |
| <b>Asset Category</b> |                     |                     |
| Equity securities     | 65%                 | 64%                 |
| Debt securities       | 35%                 | 36%                 |
| Total                 | 100%                | 100%                |

The investment strategy of the trust is to ensure over the long-term an asset pool, that when combined with Company contributions, will support benefit obligations to participants, retirees and beneficiaries. Investment management responsibilities of plan assets are delegated to outside investment advisers and overseen by an Investment Committee comprised of members of the Company's senior management that are appointed by the Board of Directors. The Company has an investment policy that provides direction on the implementation of this strategy.

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued**

The investment policy establishes a target allocation for each asset class and investment manager. The actual asset allocation versus the established target is reviewed at least quarterly and is maintained within a +/- 5% range of the target asset allocation. Target allocations are 50% domestic equity, 13% international equity, 35% fixed income and 2% cash investments.

All investments are made solely in the interest of the participants and beneficiaries for the exclusive purposes of providing benefits to such participants and their beneficiaries and defraying the expenses related to administering the trust as determined by the Investment Committee. All assets shall be properly diversified to reduce the potential of a single security or single sector of securities having a disproportionate impact on the portfolio.

The Committee utilizes an outside investment consultant and investment managers to implement its various investment strategies. Performance of the managers is reviewed quarterly and the investment objectives are consistently evaluated.

At January 28, 2017 and January 30, 2016, there were no Company related assets in the plan. Generally, quoted market prices are used to value pension plan assets. Equities, some fixed income securities, publicly traded investment funds and U.S. government obligations are valued at the closing price reported on the active market on which the individual security is traded.

## Note 10

### **Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued**

The following tables present the pension plan assets by level within the fair value hierarchy as of January 28, 2017 and January 30, 2016.

| <b>January 28, 2017 (In thousands)</b>    | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|---|------------------|----------------|----------------|---------------|
| Equity Securities:                        |                  |                |                |               |
| International securities                  | \$ 10,367        | \$ —           | \$ —           | 10,367        |
| U.S. securities                           | 42,041           | —              | —              | 42,041        |
| Fixed Income Securities                   | 27,987           | —              | —              | 27,987        |
| Other:                                    |                  |                |                |               |
| Cash Equivalents                          | 426              | —              | —              | 426           |
| Other (includes receivables and payables) | (139)            | —              | —              | (139)         |
| <b>Total Pension Plan Assets</b>          | <b>\$ 80,682</b> | <b>\$ —</b>    | <b>\$ —</b>    | <b>80,682</b> |

| <b>January 30, 2016 (In thousands)</b>    | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|---|------------------|----------------|----------------|---------------|
| Equity Securities:                        |                  |                |                |               |
| International securities                  | \$ 11,464        | \$ —           | \$ —           | 11,464        |
| U.S. securities                           | 46,012           | —              | —              | 46,012        |
| Fixed Income Securities                   | 32,573           | —              | —              | 32,573        |
| Other:                                    |                  |                |                |               |
| Cash Equivalents                          | 291              | —              | —              | 291           |
| Other (includes receivables and payables) | (7)              | —              | —              | (7)           |
| <b>Total Pension Plan Assets</b>          | <b>\$ 90,333</b> | <b>\$ —</b>    | <b>\$ —</b>    | <b>90,333</b> |

### ***Cash Flows***

#### **Return of Assets**

There was no return of assets from the plan to the Company in Fiscal 2017 and no plan assets are projected to be returned to the Company in Fiscal 2018.

#### **Contributions**

There was no Employee Retirement Income Security Act of 1974, as amended ("ERISA") cash requirement for the plan in 2016 and none is projected to be required in 2017. It is the Company's policy to contribute enough cash to maintain at least an 80% funding level.

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued****Estimated Future Benefit Payments**

Expected benefit payments from the trust, including future service and pay, are as follows:

| Estimated future payments | Pension Benefits<br>(\$ in millions) | Other Benefits<br>(\$ in millions) |
|---------------------------|--------------------------------------|------------------------------------|
| 2017                      | \$ 7.3                               | \$ 0.3                             |
| 2018                      | 7.2                                  | 0.4                                |
| 2019                      | 7.0                                  | 0.4                                |
| 2020                      | 6.8                                  | 0.4                                |
| 2021                      | 6.6                                  | 0.5                                |
| 2022 – 2026               | 30.0                                 | 2.4                                |

**Section 401(k) Savings Plan**

The Company has a Section 401(k) Savings Plan available to employees who have completed one full year of service and are age 21 or older.

Since January 1, 2005, the Company has matched 100% of each employee's contribution of up to 3% of salary and 50% of the next 2% of salary. In addition, for those employees hired before December 31, 2004, who were eligible for the Company's cash balance retirement plan before it was frozen, the Company annually makes an additional contribution of 2 1/2 % of salary to each employee's account. In calendar 2005 and future years, participants are immediately vested in their contributions and the Company's matching contribution plus actual earnings thereon. The contribution expense to the Company for the matching program was approximately \$5.5 million for Fiscal 2017, \$6.0 million for Fiscal 2016 and \$5.5 million for Fiscal 2015.

## Note 11

### Earnings Per Share

| (In thousands, except per share amounts)  | For the Year Ended<br>January 28, 2017 |                         |                     | For the Year Ended<br>January 30, 2016 |                         |                     | For the Year Ended<br>January 31, 2015 |                         |                     |
|---|--|-------------------------|---------------------|--|-------------------------|---------------------|--|-------------------------|---------------------|
|   | Income<br>(Numerator)                  | Shares<br>(Denominator) | Per-Share<br>Amount | Income<br>(Numerator)                  | Shares<br>(Denominator) | Per-Share<br>Amount | Income<br>(Numerator)                  | Shares<br>(Denominator) | Per-Share<br>Amount |
| Earnings from continuing operations   | \$ 97,859                              |                         |                     | \$ 95,381                              |                         |                     | \$ 99,373                              |                         |                     |
| <b>Basic EPS from continuing operations</b>   |  |                         |                     |  |                         |                     |  |                         |                     |
| Income from continuing operations available to common shareholders                          | 97,859                                 | 20,076                  | \$ 4.87             | 95,381                                 | 22,880                  | \$ 4.17             | 99,373                                 | 23,507                  | \$ 4.23             |
| <b>Effect of Dilutive Securities from continuing operations</b>                             |  |                         |                     |  |                         |                     |  |                         |                     |
| Options and restricted stock  |  | 58                      |                     |  | 76                      |                     |  | 155                     |                     |
| Employees' preferred stock <sup>(1)</sup>   |  | 38                      |                     |  | 44                      |                     |  | 46                      |                     |
| <b>Diluted EPS from continuing operations</b>   |  |                         |                     |  |                         |                     |  |                         |                     |
| Income from continuing operations available to common shareholders plus assumed conversions | \$ 97,859                              | 20,172                  | \$ 4.85             | \$ 95,381                              | 23,000                  | \$ 4.15             | \$ 99,373                              | 23,708                  | \$ 4.19             |

- (1) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Because there are no dividends paid on this stock, these shares are assumed to be converted.

There were no outstanding options to purchase shares of common stock at the end of Fiscal 2017. All outstanding options to purchase shares of common stock at the end of Fiscal 2016 and 2015 were included in the computation of diluted earnings per share because the impact of doing so was dilutive.

The weighted shares outstanding reflects the effect of the Company's Board-approved share repurchase program. The Company repurchased 2,155,869 shares at a cost of \$133.3 million during Fiscal 2017. The Company has repurchased 275,300 shares in the first quarter of Fiscal 2018, through March 24, 2017, at a cost of \$16.2 million. The Company has \$24.0 million remaining as of March 24, 2017 under its current \$100.0 million share repurchase authorization. The Company repurchased 2,383,384 shares at a cost of \$144.9 million during Fiscal 2016. The Company repurchased 64,709 shares at a cost of \$4.6 million during Fiscal 2015.



## **Note 12**

### **Share-Based Compensation Plans**

The Company's stock-based compensation plans, as of January 28, 2017, are described below. 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.

#### ***Stock Incentive Plans***

The Company has two stock incentive plans. Under the 2009 Plan, effective as of June 22, 2011, the Company may grant options, restricted shares, performance awards and other stock-based awards to its employees, consultants and directors for up to 2.6 million shares of common stock. Under the 2005 Equity Incentive Plan (the "2005 Plan"), effective as of June 23, 2005, the Company was permitted to grant options, restricted shares and other stock-based awards to its employees and consultants as well as directors for up to 2.5 million shares of common stock. There will be no future awards under the 2005 Plan. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. Options granted under both plans primarily vest 25% per year over four years.

For Fiscal 2017, 2016 and 2015, the Company did not recognize any stock option related share-based compensation for its stock incentive plans as all such amounts were fully recognized in earlier periods. The Company did not capitalize any share-based compensation cost.

The Compensation—Stock Compensation Topic of the Codification requires that the cash flows resulting from tax benefits for tax deductions in excess of the compensation cost recognized for those options (excess tax benefit) be classified as financing cash flows. Accordingly, the Company classified excess tax benefits of \$0.3 million, \$0.2 million and \$3.1 million as financing cash inflows rather than as operating cash inflows on its Consolidated Statement of Cash Flows for Fiscal 2017, 2016 and 2015, respectively.

The Company did not grant any stock options in Fiscal 2017, 2016 or 2015.

## Note 12

### Share-Based Compensation Plans, Continued

A summary of stock option activity and changes for Fiscal 2017, 2016 and 2015 is presented below:

|                                      | Options         | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual Term | Aggregate Intrinsic<br>Value (in<br>thousands) <sup>(1)</sup> |
|--------------------------------------|-----------------|------------------------------------|---|---|
| Outstanding, February 1, 2014        | 130,854         | \$ 31.67                           |   |   |
| Granted                              | —               | —                                  |   |   |
| Exercised                            | (68,616)        | 26.49                              |   |   |
| Forfeited                            | —               | —                                  |   |   |
| Outstanding, January 31, 2015        | 62,238          | \$ 37.38                           |   |   |
| Granted                              | —               | —                                  |   |   |
| Exercised                            | (35,542)        | 36.81                              |   |   |
| Forfeited                            | —               | —                                  |   |   |
| Outstanding, January 30, 2016        | 26,696          | \$ 38.13                           |   |   |
| <b>Granted</b>                       | —               | —                                  |   |   |
| <b>Exercised</b>                     | <b>(26,696)</b> | <b>38.13</b>                       |   |   |
| <b>Forfeited</b>                     | —               | —                                  |   |   |
| <b>Outstanding, January 28, 2017</b> | —               | \$ —                               | —   | \$ —  |
| <b>Exercisable, January 28, 2017</b> | —               | \$ —                               | —   | \$ —  |

(1) Based upon the difference between the closing market price of the Company's common stock on the last trading day of the year and the grant price of in-the-money options.

The total intrinsic value, which represents the difference between the underlying stock's market price and the option's exercise price, of options exercised during Fiscal 2017, 2016 and 2015 was \$0.7 million, \$0.9 million and \$3.4 million, respectively.

As of January 28, 2017, the Company does not have any nonvested options under its stock incentive plans.

As of January 28, 2017, there was no unrecognized compensation costs related to stock options under the 2009 Plan. Cash received from option exercises under all share-based payment arrangements for Fiscal 2017, 2016 and 2015 was \$1.0 million, \$1.3 million and \$1.8 million, respectively.

## Note 12

### **Share-Based Compensation Plans, Continued**

#### ***Restricted Stock Incentive Plans***

##### **Director Restricted Stock**

The 2009 Plan permits grants to non-employee directors on such terms as the Board of Directors may approve. Restricted stock awards were made to independent directors on the date of the annual meeting of shareholders in each of Fiscal 2017, 2016 and 2015. The shares granted in each award vested on the first anniversary of the grant date, subject to the director's continued service through that date. The Board of Directors also approved a grant of 760 additional shares in Fiscal 2017 to two newly elected directors on the annual meeting date in Fiscal 2017 on the same terms as the Fiscal 2017 grant to all independent directors. In all cases, the director is restricted from selling, transferring, pledging or assigning the shares for three years from the grant date unless he or she earlier leaves the board. The Fiscal 2017, 2016 and 2015 grants were valued at \$97,500 for each year, per director based on the average closing price of the stock for the first five trading days of the month in which they were granted and vested on the first anniversary of the grant date. For Fiscal 2017, 2016 and 2015, the Company issued 13,734 shares, 12,978 shares and 11,592 shares, respectively, of director restricted stock.

In addition, the 2009 Plan permits an outside director to elect irrevocably to receive all or a specified portion of his annual retainers for board membership and any committee chairmanship for the following fiscal year in a number of shares of restricted stock (the "Retainer Stock"). Shares of the Retainer Stock are granted as of the first business day of the fiscal year as to which the election is effective, subject to forfeiture to the extent not earned upon the outside director's ceasing to serve as a director or committee chairman during such fiscal year. Once the shares are earned, the director is restricted from selling, transferring, pledging or assigning the shares for an additional three years. For Fiscal 2017, 2016 and 2015, the Company issued 8,758 shares, 6,791 shares and 4,804 shares, respectively, of Retainer Stock.

For Fiscal 2017, 2016 and 2015, the Company recognized \$1.4 million, \$1.4 million and \$1.1 million, respectively, of director restricted stock related share-based compensation in selling and administrative expenses in the accompanying Consolidated Statements of Operations.

##### **Employee Restricted Stock**

Under the 2009 Plan, the Company issued 236,364 shares, 219,404 shares and 185,416 shares of employee restricted stock in Fiscal 2017, 2016 and 2015, respectively. Shares of employee restricted stock issued in Fiscal 2017, 2016 and 2015 primarily vest 25% per year over four years, provided that on such date the grantee has remained continuously employed by the Company since the date of grant. In addition, the Company issued 2,523 restricted stock units to certain employees at no cost that vest over three years.

## Note 12

### Share-Based Compensation Plans, Continued

The fair value of employee restricted stock is charged against income as compensation cost over the vesting period. Compensation cost recognized in selling and administrative expenses in the accompanying Consolidated Statements of Operations for these shares was \$12.1 million, \$12.4 million and \$12.3 million for Fiscal 2017, 2016 and 2015, respectively.

A summary of the status of the Company's nonvested shares of its employee restricted stock as of January 28, 2017 is presented below:

| <b>Nonvested Restricted Shares</b>   | <b>Shares</b>    | <b>Weighted-Average<br/>Grant-Date<br/>Fair Value</b> |
|--------------------------------------|------------------|---|
| Nonvested at February 1, 2014        | 581,274          | \$ 52.21  |
| Granted                              | 185,416          | 80.85   |
| Vested                               | (177,694)        | 44.77   |
| Withheld for federal taxes           | (88,003)         | 45.27   |
| Forfeited                            | (13,999)         | 65.71   |
| Nonvested at January 31, 2015        | 486,994          | 66.70   |
| Granted                              | 219,404          | 66.43   |
| Vested                               | (141,795)        | 60.08   |
| Withheld for federal taxes           | (65,783)         | 60.62   |
| Forfeited                            | (27,221)         | 69.31   |
| Nonvested at January 30, 2016        | 471,599          | 69.26   |
| <b>Granted</b>                       | <b>236,364</b>   | <b>65.99</b>  |
| <b>Vested</b>                        | <b>(125,347)</b> | <b>67.23</b>  |
| <b>Withheld for federal taxes</b>    | <b>(55,563)</b>  | <b>67.52</b>  |
| <b>Forfeited</b>                     | <b>(43,051)</b>  | <b>70.60</b>  |
| <b>Nonvested at January 28, 2017</b> | <b>484,002</b>   | <b>\$ 68.27</b>                                       |

As of January 28, 2017, there was \$25.7 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements for restricted stock discussed above. That cost is expected to be recognized over a weighted average period of 1.79 years.

#### ***Employee Stock Purchase Plan***

The Company ended the ESPP in Fiscal 2016. The shares issued under the ESPP for Fiscal 2016 were the last shares issued under the ESPP. Under the ESPP, the Company was authorized to issue up to 1.0 million shares of common stock to qualifying full-time employees whose total annual base salary was less than \$90,000. Under the ESPP, the Company sold 2,470 shares and 2,688 shares to employees in Fiscal 2016 and 2015, respectively.

## **Note 13**

### **Legal Proceedings**

#### **Environmental Matters**

##### *New York State Environmental Matters*

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

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

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

In June 2016 the Company and the Village reached an agreement providing for the Village to continue to operate and maintain the well head treatment systems in accordance with the Record of Decision and to release its claims against the Company asserted in the Village Lawsuit in exchange for a lump-sum payment of \$10.0 million by the Company.

## **Note 13**

### **Legal Proceedings, Continued**

On August 25, 2016, the Village Lawsuit was dismissed with prejudice. The cost of the settlement with the Village and the estimated costs associated with the Company's compliance with the Consent Judgment were covered by the Company's existing provision for the site. The settlement with the Village did not have, and the Company expects that the Consent Judgment will not have, a material effect on its financial condition or results of operations.

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

#### *Whitehall Environmental Matters*

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

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

#### *Accrual for Environmental Contingencies*

Related to all outstanding environmental contingencies, the Company had accrued \$4.4 million as of January 28, 2017, \$14.5 million as of January 30, 2016 and \$14.1 million as of January 31, 2015. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. The Company paid \$10.0 million of the accrued total at January 30, 2016 in August 2016.

## **Note 13**

### **Legal Proceedings, Continued**

There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets because it relates to former facilities operated by the Company. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.6 million in Fiscal 2017, \$0.8 million in Fiscal 2016 and \$2.8 million in Fiscal 2015. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations and represent changes in estimates.

#### **Other Matters**

On February 22, 2017, a former employee of a subsidiary of the Company filed a putative class and collective action, *Shumate v. Genesco, Inc., et al.*, in the U.S district Court for the Southern District of Ohio, alleging violations of the federal Fair Labor Standards Act and Ohio wages and hours leave including failure to pay minimum wages and overtime to the subsidiary's store managers and seeking back pay, damages, penalties, and declaratory and injunctive relief. The Company disputes the material allegations in the complaint and intends to defend the matter.

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.

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.

### **Note 13**

#### **Legal Proceedings, Continued**

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 (collectively, "Visa") seeking to recover \$13.3 million in non-compliance fines and issuer reimbursement assessments collected from the Company in connection with the intrusion. In May 2016, the Company and Visa reached an agreement to settle the litigation. The Company recognized a pretax gain of \$9.0 million in connection with the settlement in the second quarter of Fiscal 2017.

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.



## **Note 14**

### **Business Segment Information**

During Fiscal 2017, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys, Little Burgundy 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, and certain e-commerce operations (an athletic team dealer business operating as Lids Team Sports was sold in the fourth quarter of Fiscal 2016); (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce operations, catalog and wholesale distribution of products under the Johnston & Murphy<sup>®</sup> and H.S. Trask<sup>®</sup> brands; and (v) Licensed Brands, comprised of Dockers<sup>®</sup> Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip<sup>®</sup> Footwear which was sold in the fourth quarter of Fiscal 2017; G. H. Bass Footwear operated under a license from G-III Apparel Group, Ltd.; and other brands.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

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

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

## Note 14

### Business Segment Information, Continued

#### Fiscal 2017

| In thousands  | Journeys Group      | Schuh Group       | Lids Sports Group | Johnston & Murphy Group | Licensed Brands   | Corporate & Other  | Consolidated        |
|---|---------------------|-------------------|-------------------|-------------------------|-------------------|--------------------|---------------------|
| Sales   | \$ 1,251,646        | \$ 372,872        | \$ 847,510        | \$ 289,324              | \$ 107,210        | \$ 617             | \$ 2,869,179        |
| Intercompany sales  | —                   | —                 | —                 | —                       | (838)             | —                  | (838)               |
| <b>Net sales to external customers</b>                                | <b>\$ 1,251,646</b> | <b>\$ 372,872</b> | <b>\$ 847,510</b> | <b>\$ 289,324</b>       | <b>\$ 106,372</b> | <b>\$ 617</b>      | <b>\$ 2,868,341</b> |
| Segment operating income (loss)                                       | \$ 85,875           | \$ 20,530         | \$ 41,563         | \$ 19,682               | \$ 4,566          | \$ (31,058)        | \$ 141,158          |
| Asset Impairments and other*  | —                   | —                 | —                 | —                       | —                 | 802                | 802                 |
| <b>Earnings (loss) from operations</b>                                | <b>85,875</b>       | <b>20,530</b>     | <b>41,563</b>     | <b>19,682</b>           | <b>4,566</b>      | <b>(30,256)</b>    | <b>141,960</b>      |
| Gain on sale of SureGrip Footwear                                     | —                   | —                 | —                 | —                       | —                 | 12,297             | 12,297              |
| Gain on sale of Lids Team Sports                                      | —                   | —                 | —                 | —                       | —                 | 2,404              | 2,404               |
| Interest expense  | —                   | —                 | —                 | —                       | —                 | (5,294)            | (5,294)             |
| Interest income   | —                   | —                 | —                 | —                       | —                 | 47                 | 47                  |
| <b>Earnings (loss) from continuing operations before income taxes</b> | <b>\$ 85,875</b>    | <b>\$ 20,530</b>  | <b>\$ 41,563</b>  | <b>\$ 19,682</b>        | <b>\$ 4,566</b>   | <b>\$ (20,802)</b> | <b>\$ 151,414</b>   |
| Total assets**  | \$ 404,773          | \$ 214,886        | \$ 519,912        | \$ 126,559              | \$ 40,357         | \$ 142,419         | \$ 1,448,906        |
| Depreciation and amortization   | 24,235              | 14,003            | 26,533            | 5,987                   | 995               | 4,015              | 75,768              |
| Capital expenditures  | 50,259              | 11,236            | 21,123            | 9,221                   | 760               | 1,371              | 93,970              |

\*Asset Impairments and other includes an \$(8.9) million gain for network intrusion expenses as a result of a litigation settlement and a \$(0.7) million gain for other legal matters, partially offset by a \$6.4 million charge for asset impairments, of which \$5.1 million is in the Lids Sports Group, \$0.8 million is in the Schuh Group and \$0.5 million is in the Journeys Group and a \$2.5 million charge for pension settlement expenses.

\*\*Total assets for the Lids Sports Group, Schuh Group and Journeys Group include \$181.6 million, \$79.8 million and \$9.8 million of goodwill, respectively. Goodwill for Lids Sports Group and Journeys Group increased \$0.7 million and \$0.4 million, respectively, due to foreign currency translation adjustments. Goodwill for Schuh Group decreased by \$10.5 million due to foreign currency translation adjustments. Goodwill for Licensed Brands decreased \$0.8 million due to the sale of SureGrip Footwear in the fourth quarter of Fiscal 2017. Of the Company's \$330.6 million of long-lived assets, \$54.3 million and \$21.0 million relate to long-lived assets in the United Kingdom and Canada, respectively.

## Note 14

### Business Segment Information, Continued

#### Fiscal 2016

| In thousands  | Journeys Group      | Schuh Group       | Lids Sports Group | Johnston & Murphy Group | Licensed Brands   | Corporate & Other  | Consolidated        |
|---|---------------------|-------------------|-------------------|-------------------------|-------------------|--------------------|---------------------|
| Sales   | \$ 1,251,637        | \$ 405,674        | \$ 976,372        | \$ 278,681              | \$ 110,655        | \$ 912             | \$ 3,023,931        |
| Intercompany sales  | —                   | —                 | (868)             | —                       | (829)             | —                  | (1,697)             |
| <b>Net sales to external customers</b>                                | <b>\$ 1,251,637</b> | <b>\$ 405,674</b> | <b>\$ 975,504</b> | <b>\$ 278,681</b>       | <b>\$ 109,826</b> | <b>\$ 912</b>      | <b>\$ 3,022,234</b> |
| Segment operating income (loss)                                       | \$ 126,248          | \$ 19,124         | \$ 17,040         | \$ 17,761               | \$ 9,236          | \$ (30,265)        | \$ 159,144          |
| Asset Impairments and other*  | —                   | —                 | —                 | —                       | —                 | (7,893)            | (7,893)             |
| <b>Earnings (loss) from operations</b>                                | <b>126,248</b>      | <b>19,124</b>     | <b>17,040</b>     | <b>17,761</b>           | <b>9,236</b>      | <b>(38,158)</b>    | <b>151,251</b>      |
| Gain on sale of Lids Team Sports                                      | —                   | —                 | —                 | —                       | —                 | 4,685              | 4,685               |
| Interest expense  | —                   | —                 | —                 | —                       | —                 | (4,414)            | (4,414)             |
| Interest income   | —                   | —                 | —                 | —                       | —                 | 11                 | 11                  |
| <b>Earnings (loss) from continuing operations before income taxes</b> | <b>\$ 126,248</b>   | <b>\$ 19,124</b>  | <b>\$ 17,040</b>  | <b>\$ 17,761</b>        | <b>\$ 9,236</b>   | <b>\$ (37,876)</b> | <b>\$ 151,533</b>   |
| Total assets**  | \$ 349,021          | \$ 241,924        | \$ 517,284        | \$ 118,913              | \$ 50,718         | \$ 263,330         | \$ 1,541,190        |
| Depreciation and amortization   | 22,504              | 14,814            | 30,196            | 5,677                   | 911               | 4,909              | 79,011              |
| Capital expenditures  | 33,251              | 19,065            | 37,396            | 7,796                   | 774               | 2,370              | 100,652             |

\*Asset Impairments and other includes a \$3.1 million charge for asset impairments, of which \$2.7 million is in the Lids Sports Group and \$0.4 million is in the Schuh Group, a \$2.5 million charge for asset write-downs, a \$2.2 million charge for network intrusion expenses and a \$0.1 million charge for other legal matters.

\*\*Total assets for the Lids Sports Group, Schuh Group, Journeys Group and Licensed Brands include \$180.9 million, \$90.3 million, \$9.4 million and \$0.8 million of goodwill, respectively. Goodwill for Lids Sports Group decreased \$19.2 million due to the sale of Lids Team Sports in the fourth quarter of Fiscal 2016. Goodwill for Schuh Group decreased by \$5.7 million due to foreign currency translation adjustment. Goodwill for Journeys Group increased \$9.4 million due to the acquisition of Little Burgundy in the fourth quarter of Fiscal 2016. Of the Company's \$323.3 million of long-lived assets, \$64.7 million and \$18.3 million relate to long-lived assets in the United Kingdom and Canada, respectively.

## Note 14

### Business Segment Information, Continued

#### Fiscal 2015

| In thousands  | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|---|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales   | \$ 1,179,476   | \$ 406,947  | \$ 903,451        | \$ 259,675              | \$ 110,896      | \$ 970            | \$ 2,861,415 |
| Intercompany sales  | —              | —           | (790)             | —                       | (781)           | —                 | (1,571)      |
| <b>Net sales to external customers</b>                                | \$ 1,179,476   | \$ 406,947  | \$ 902,661        | \$ 259,675              | \$ 110,115      | \$ 970            | \$ 2,859,844 |
| Segment operating income (loss)                                       | \$ 114,784     | \$ 10,110   | \$ 48,970         | \$ 14,856               | \$ 10,459       | \$ (29,632)       | \$ 169,547   |
| Asset Impairments and other*  | —              | —           | —                 | —                       | —               | (2,281)           | (2,281)      |
| <b>Earnings (loss) from operations</b>                                | 114,784        | 10,110      | 48,970            | 14,856                  | 10,459          | (31,913)          | 167,266      |
| Indemnification asset write-off                                       | —              | —           | —                 | —                       | —               | (7,050)           | (7,050)      |
| Interest expense  | —              | —           | —                 | —                       | —               | (3,337)           | (3,337)      |
| Interest income   | —              | —           | —                 | —                       | —               | 110               | 110          |
| <b>Earnings (loss) from continuing operations before income taxes</b> | \$ 114,784     | \$ 10,110   | \$ 48,970         | \$ 14,856               | \$ 10,459       | \$ (42,190)       | \$ 156,989   |
| Total assets**  | \$ 292,536     | \$ 246,570  | \$ 660,833        | \$ 109,791              | \$ 47,066       | \$ 226,094        | \$ 1,582,890 |
| Depreciation and amortization   | 20,785         | 14,114      | 29,711            | 4,935                   | 725             | 4,056             | 74,326       |
| Capital expenditures  | 26,180         | 21,382      | 43,013            | 8,196                   | 979             | 3,361             | 103,111      |

\*Asset Impairments and other includes a \$1.9 million charge for asset impairments, of which \$1.7 million is in the Lids Sports Group and \$0.2 million is in the Johnston & Murphy Group, a \$3.1 million charge for network intrusion expenses and a \$0.7 million charge for other legal matters, partially offset by a gain of \$(3.4) million on a lease termination of a Lids store.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$200.1 million, \$96.0 million and \$0.8 million of goodwill, respectively. Goodwill for the Lids Sports Group includes \$17.7 million of additions in Fiscal 2015 resulting from several small acquisitions and the Schuh Group goodwill decreased by \$8.9 million due to foreign currency translation adjustment. Of the Company's \$305.8 million of long-lived assets, \$63.9 million and \$14.6 million relate to long-lived assets in the United Kingdom and Canada, respectively.

## Note 15

### Quarterly Financial Information (Unaudited)

| (In thousands,<br>except per share<br>amounts)                   | 1st Quarter           |                       | 2nd Quarter           |                       | 3rd Quarter            |                        | 4th Quarter            |                        | Fiscal Year  |              |
|--|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|--------------|--------------|
|  | 2017                  | 2016                  | 2017                  | 2016                  | 2017                   | 2016                   | 2017                   | 2016                   | 2017         | 2016         |
| Net sales  | \$ 648,793            | \$ 660,597            | \$ 625,557            | \$ 655,525            | \$ 710,822             | \$ 773,898             | \$ 883,169             | \$ 932,214             | \$ 2,868,341 | \$ 3,022,234 |
| Gross margin   | 329,697               | 326,333               | 314,737               | 320,091               | 355,635                | 373,886                | 417,457                | 423,156                | 1,417,526    | 1,443,466    |
| Earnings from<br>continuing<br>operations before<br>income taxes | 16,760 <sup>(1)</sup> | 15,609 <sup>(3)</sup> | 21,199 <sup>(5)</sup> | 11,568 <sup>(7)</sup> | 38,860 <sup>(9)</sup>  | 50,720 <sup>(11)</sup> | 74,595 <sup>(13)</sup> | 73,636 <sup>(15)</sup> | 151,414      | 151,533      |
| Earnings from<br>continuing<br>operations                        | 10,564                | 9,945                 | 14,504                | 7,593                 | 25,948                 | 32,855                 | 46,843                 | 44,988                 | 97,859       | 95,381       |
| Net earnings   | 10,410 <sup>(2)</sup> | 9,878 <sup>(4)</sup>  | 14,578 <sup>(6)</sup> | 7,520 <sup>(8)</sup>  | 25,895 <sup>(10)</sup> | 32,507 <sup>(12)</sup> | 46,548 <sup>(14)</sup> | 44,664 <sup>(16)</sup> | 97,431       | 94,569       |
| Diluted earnings<br>per common<br>share:                         |                       |                       |                       |                       |                        |                        |                        |                        |              |              |
| Continuing<br>operations   | 0.50                  | 0.42                  | 0.72                  | 0.32                  | 1.30                   | 1.43                   | 2.40                   | 2.07                   | 4.85         | 4.15         |
| Net earnings   | 0.50                  | 0.42                  | 0.72                  | 0.32                  | 1.30                   | 1.42                   | 2.39                   | 2.06                   | 4.83         | 4.11         |

- (1) Includes a net asset impairment and other charge of \$3.5 million (see Note 3).
- (2) Includes a loss of \$0.2 million, net of tax, from discontinued operations (see Note 3).
- (3) Includes a net asset impairment and other charge of \$2.6 million (see Note 3).
- (4) Includes a loss of \$0.1 million, net of tax, from discontinued operations (see Note 3).
- (5) Includes a net asset impairment and other credit of \$(7.9) million (see Note 3) and a gain of \$(2.5) million on the sale of Lids Team Sports (see Note 2).
- (6) Includes a gain of \$(0.1) million, net of tax, from discontinued operations (see Note 3).
- (7) Includes a net asset impairment and other charge of \$1.2 million (see Note 3).
- (8) Includes a loss of \$0.1 million, net of tax, from discontinued operations (see Note 3).
- (9) Includes a net asset impairment and other charge of \$0.6 million (see Note 3).
- (10) Includes a loss of \$0.0 million, net of tax, from discontinued operations (see Note 3).
- (11) Includes a net asset impairment and other charge of \$0.2 million (see Note 3).
- (12) Includes a loss of \$0.3 million, net of tax, from discontinued operations (see Note 3).
- (13) Includes a net asset impairment and other charge of \$3.0 million (see Note 3) and a loss of \$0.1 million on the sale of Lids Team Sports and a gain of \$(12.3) million on the sale of SureGrip Footwear (see Note 2).
- (14) Includes a loss of \$0.3 million, net of tax, from discontinued operations (see Note 3).
- (15) Includes a net asset impairment and other charge of \$3.9 million (see Note 3) and a gain of \$(4.7) million on the sale of Lids Team Sports (see Note 2).
- (16) Includes a loss of \$0.3 million, net of tax, from discontinued operations (see Note 3).

## **ITEM 9, CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A, CONTROLS AND PROCEDURES**

#### *Evaluation of disclosure controls and procedures.*

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and Board of Directors.

Based on their evaluation as of January 28, 2017, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (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 the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

#### *Management's annual report on internal control over financial reporting.*

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2017. In making this assessment, management used the criteria set forth in *Internal Control – Integrated Framework* (2013) drafted by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of January 28, 2017, the Company's internal control over financial reporting was effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm who also audited the Company's Consolidated Financial Statements, has issued an attestation report on the Company's effectiveness of internal control over financial reporting which is included herein.

#### *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 last fiscal quarter that have materially affected or are reasonable likely to materially affect the Company's internal control over financial reporting.

### **ITEM 9B, OTHER INFORMATION**

Not applicable.

### PART III

#### **ITEM 10, DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain information required by this item is incorporated herein by reference to the sections entitled “Election of Directors,” “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive proxy statement for its annual meeting of shareholders to be held June 22, 2017, to be filed with the Securities and Exchange Commission. Pursuant to General Instruction G(3), certain information concerning the executive officers of the Company appears under Item 4A, “Executive Officers of the Registrant” in this report following Item 4, “Mine Safety Disclosures” of Part I.

The Company has a code of ethics (the “Code of Ethics”) that applies to all of its directors, officers (including its chief executive officer, chief financial officer and chief accounting officer) and employees. The Company has made the Code of Ethics available and intends to post any legally required amendments to, or waivers of, such Code of Ethics on its website at <http://www.genesco.com>. Our website address is provided as an inactive textual reference only. The information provided on our website is not a part of this report, and therefore is not incorporated herein by reference.

#### **ITEM 11, EXECUTIVE COMPENSATION**

The information required by this item is incorporated herein by reference to the sections entitled “Director Compensation,” “Compensation Committee Report” and “Executive Compensation” in the Company’s definitive proxy statement for its annual meeting of shareholders to be held June 22, 2017, to be filed with the Securities and Exchange Commission.

#### **ITEM 12, SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Certain information required by this item is incorporated herein by reference to the section entitled “Security Ownership of Officers, Directors and Principal Shareholders” in the Company’s definitive proxy statement for its annual meeting of shareholders to be held June 22, 2017, to be filed with the Securities and Exchange Commission.

The following table provides certain information as of January 28, 2017 with respect to our equity compensation plans:

#### **EQUITY COMPENSATION PLAN INFORMATION\***

| Plan Category  | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup> | (b)<br>Weighted-average exercise price of outstanding options, warrants and rights | (c)<br>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(2)</sup> |
|--|---|--|---|
| Equity compensation plans approved by security holders     | 2,523   | \$ —   | 2,556,824   |
| Equity compensation plans not approved by security holders | —   | —  | —   |
| Total  | <u>2,523</u>  | <u>\$ —</u>  | <u>2,556,824</u>  |

(1) Restricted stock units issued to certain employees at no cost.

(2) Such shares may be issued as restricted shares or other forms of stock-based compensation pursuant to our stock incentive plans.

\* For additional information concerning our equity compensation plans, see the discussion in Note 1 in the Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies—Share-Based Compensation and Note 12 Share-Based Compensation Plans.

**ITEM 13, CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated herein by reference to the section entitled “Election of Directors” in the Company’s definitive proxy statement for its annual meeting of shareholders to be held June 22, 2017, to be filed with the Securities and Exchange Commission.

**ITEM 14, PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the section entitled “Audit Matters” in the Company’s definitive proxy statement for its annual meeting of shareholders to be held June 22, 2017, to be filed with the Securities and Exchange Commission.



## PART IV

### **ITEM 15, EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### **Financial Statements**

The following consolidated financial statements of Genesco Inc. and Subsidiaries are filed as part of this report under Item 8, Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets, January 28, 2017 and January 30, 2016

Consolidated Statements of Operations, each of the three fiscal years ended 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income, each of the three fiscal years ended 2017, 2016 and 2015

Consolidated Statements of Cash Flows, each of the three fiscal years ended 2017, 2016 and 2015

Consolidated Statements of Equity, each of the three fiscal years ended 2017, 2016 and 2015

Notes to Consolidated Financial Statements

#### **Financial Statement Schedules**

Schedule 2 — Valuation and Qualifying Accounts, each of the three fiscal years ended 2017, 2016 and 2015

All other schedules are omitted because the required information is either not applicable or is presented in the financial statements or related notes. These schedules begin on page 131.

#### **Exhibits**

- (2)
  - a. Agreement and Plan of Merger, dated as of February 5, 2004, by and among Genesco Inc., HWC Merger Sub, Inc. and Hat World Corporation. Incorporated by reference to Exhibit (2)a to the current report on Form 8-K filed April 9, 2004 (File No. 1-3083).
  - b. Stock Purchase Agreement, dated December 9, 2006, by and among Hat World, Inc., Hat Shack, Inc. and all the shareholders of Hat Shack, Inc. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed December 12, 2006 (File No. 1-3083).
  - c. Sale and Purchase Agreement, dated as of June 23, 2011, by and among Genesco Inc., Schuh Group Limited, Genesco (UK) Limited and the persons listed on Schedule 1 thereto. (Pursuant to Item 601(b)(2) of Regulation S-K, the schedules and exhibits from this agreement are omitted, but will be provided supplementally to the Commission upon request.) Incorporated by reference to Exhibit 2.1 to the current report on Form 8-K filed June 28, 2011 (File No. 1-3083).
  - d. £25 million Loan Note Instrument of Genesco (UK) Limited dated June 23, 2011. Incorporated by reference to Exhibit 2.2 to the current report on Form 8-K filed June 28, 2011 (File No. 1-3083).
- (3)
  - a. Amended and Restated Bylaws of Genesco Inc. Incorporated by reference to Exhibit 99.2 to the current report on Form 8-K filed November 12, 2015 (File No. 1-3083).
  - b. Restated Charter of Genesco Inc., as amended. Incorporated by reference to Exhibit 1 to the Genesco Inc. Registration Statement on Form 8-A/A filed with the SEC on May 1, 2003 (File No.1-3083).
- (4)
  - a. Form of Certificate for the Common Stock. Incorporated by reference to Exhibit 3 to the Genesco Inc. Registration Statement on Form 8-A/A filed with the SEC on May 1, 2003 (File No.1-3083).

- (10)
- a. First Amendment to Third Amended and Restated Credit Agreement, dated as of December 4, 2015, by and among Genesco Inc., certain subsidiaries of the Genesco Inc. party thereto, as Other Domestic Borrowers, GCO Canada Inc., Genesco (UK) Limited, the lenders party thereto and Bank of America, N.A., as Agent. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed December 7, 2015 (File No. 1-3083).
  - b. Amendment and Restatement Agreement dated November 1, 2013 between Schuh Group Limited as Parent and others as Borrowers and Guarantors, Lloyds Bank PLC as Arranger, Agent and Security Trustee. Incorporated by reference to Exhibit (10) b. to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (File No. 1-3083).
  - c. Form of Split-Dollar Insurance Agreement with Executive Officers. Incorporated by reference to Exhibit (10)a to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 1997 (File No.1-3083).
  - d. Genesco Inc. 2005 Equity Incentive Plan Amended and Restated as of October 24, 2007. Incorporated by reference to Exhibit (10)d to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008 (File No.1-3083).
  - e. Genesco Inc. Second Amended and Restated 2009 Equity Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed June 28, 2016 (File No. 1-3083)
  - f. Amended and Restated EVA Incentive Compensation Plan. Incorporated by reference to Exhibit (10)a to the Company's Quarterly Report on Form 10-Q for the quarter ended May 3, 2014 (File No. 1-3083).
  - g. Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit (10)c to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005 (File No.1-3083).
  - h. Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit (10)d to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005 (File No.1-3083).
  - i. Form of Restricted Share Award Agreement for Executive Officers. Incorporated by reference to Exhibit (10)e to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005 (File No.1-3083).
  - j. Form of Restricted Share Award Agreement for Officers and Employees. Incorporated by reference to Exhibit (10)f to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005 (File No.1-3083).
  - k. Form of Restricted Share Award Agreement. Incorporated by reference to Exhibit (10)a to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2009 (File No. 1-3083).
  - l. Form of Indemnification Agreement For Directors. Incorporated by reference to Exhibit (10)m to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993 (File No.1-3083).
  - m. Form of Non-Executive Director Indemnification Agreement. Incorporated by reference to Exhibit (10.1) to the current report on Form 8-K filed November 3, 2008 (File No. 1-3083).
  - n. Form of Officer Indemnification Agreement. Incorporated by reference to Exhibit (10.2) to the Company's Quarterly Report on Form 10-Q for the quarter ended November 1, 2008 (File No.1-3083).
  - o. Form of Employment Protection Agreement between the Company and certain executive officers dated as of February 26, 1997. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 1997 (File No.1-3083).
  - p. First Amendment to Form of Employment Protection Agreement. Incorporated by reference to Exhibit (10)s to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010 (File No.1-3083).
  - q. Transition Agreement dated as of February 23, 2016 between the Company and Kenneth Kocher. Incorporated by reference to Exhibit (10)q to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016 (File No. 1-3083).

- r. Trademark License Agreement, dated August 9, 2000, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10.1) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 30, 2004 (File No.1-3083).\*
  - s. Amendment No. 1 (Renewal) to Trademark License Agreement, dated October 18, 2004, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10.2) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 30, 2004 (File No.1-3083).\*
  - t. Amendment No. 2 (Renewal) to Trademark License Agreement, dated November 1, 2006, between Levi Strauss & Co. and Genesco. Inc. Incorporated by reference to Exhibit (10.1) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 28, 2006 (File No.1-3083).\*
  - u. Amendment No. 4 (Renewal) to Trademark License Agreement, dated May 15, 2009, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10)b to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2009 (File No.1-3083) \*
  - v. Amendment No. 5 (Renewal) to Trademark License Agreement, dated July 23, 2012, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10.1) to the Company's Current Report on Form 8-K filed July 25, 2012 (File No. 1-3083).\*
  - w. Genesco Inc. Deferred Income Plan dated as of July 1, 2000. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005. Amended and Restated Deferred Income Plan dated August 22, 2007. Incorporated by reference to Exhibit (10)r to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008 (File No.1-3083).
  - x. The Schuh Group Limited 2015 Management Bonus Scheme. Incorporated by reference to Exhibit (10)a to the Company's Quarterly Report on Form 10-Q for the quarter ended July 30, 2011 (File No.1-3083).
  - y. Basic Form of Exchange Agreement (Restricted Stock). Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed April 29, 2009 (File No. 1-3083).
  - z. Basic Form of Exchange Agreement (Unrestricted Stock). Incorporated by reference to Exhibit 10.2 to the current report on Form 8-K filed April 29, 2009 (File No. 1-3083).
  - aa. Form of Conversion Agreement. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed November 2, 2009 (File No. 1-3083).
  - bb. Form of Conversion Agreement. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed November 6, 2009 (File No. 1-3083).
- (21) Subsidiaries of the Company
  - (23) Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm included on page 129.
  - (24) Power of Attorney
  - (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

Exhibits (10)c through (10)k, (10)o through (10)q and (10)w through (10)x are Management Contracts or Compensatory Plans or Arrangements required to be filed as Exhibits to this Form 10-K.

\* Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been granted with respect to the omitted portion.

A copy of any of the above described exhibits will be furnished to the shareholders upon written request, addressed to Director, Corporate Relations, Genesco Inc., Genesco Park, Room 498, P.O. Box 731, Nashville, Tennessee 37202-0731, accompanied by a check in the amount of \$15.00 payable to Genesco Inc.

**ITEM 16, FORM 10-K SUMMARY**

None.

### **Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration statement (Form S-8 No. 333-08463) of Genesco Inc.,
- (2) Registration statement (Form S-8 No. 333-104908) of Genesco Inc.,
- (3) Registration statement (Form S-8 No. 333-40249) of Genesco Inc.,
- (4) Registration statement (Form S-8 No. 333-128201) of Genesco Inc.,
- (5) Registration statement (Form S-8 No. 333-160339) of Genesco Inc., and
- (6) Registration statement (Form S-8 No. 333-180463) of Genesco Inc.

of our reports dated March 29, 2017, with respect to the consolidated financial statements and schedule of Genesco Inc. and Subsidiaries and the effectiveness of internal control over financial reporting of Genesco Inc. and Subsidiaries included in this Annual Report (Form 10-K) of Genesco Inc. for the year ended January 28, 2017.

/s/ Ernst & Young LLP

Nashville, Tennessee

March 29, 2017

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 Eckel Vaughn

Mimi Eckel Vaughn  
Senior Vice President – Finance and  
Chief Financial Officer

Date: March 29, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 29th day of March, 2017.

/s/Robert J. Dennis

Robert J. Dennis

Chairman, President, Chief Executive Officer  
and a Director  
(Principal Executive Officer)

/s/Mimi Eckel Vaughn

Mimi Eckel Vaughn

Senior Vice President – Finance and  
Chief Financial Officer  
(Principal Financial Officer)

/s/Paul D. Williams

Paul D. Williams

Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

Directors:

Joanna Barsh\*

Thurgood Marshall, Jr. \*

Leonard L. Berry \*

Kathleen Mason \*

James W. Bradford\*

Kevin P. McDermott\*

Matthew C. Diamond \*

David M. Tehle\*

Marty G. Dickens \*

\*By /s/Roger G. Sisson

Roger G. Sisson  
Attorney-In-Fact

**Genesco Inc.  
and Subsidiaries**  
Valuation and Qualifying Accounts

**Year Ended January 28, 2017**

| In Thousands  | <u>Beginning<br/>Balance</u> | <u>Charged<br/>to Profit<br/>and Loss</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|---|-------------------|---------------------------|
| Reserves deducted from assets in the balance sheet: |                              |   |                   |                           |
| <b>Accounts Receivable Allowances</b>               | \$ 2,960                     | \$ 442                                    | \$ (329)          | \$ 3,073                  |
| <b>Markdown Reserves (1)</b>                        | <u>\$ 11,632</u>             | <u>\$ 3,322</u>                           | <u>\$ (2,088)</u> | <u>\$ 12,866</u>          |

**Year Ended January 30, 2016**

| In Thousands  | <u>Beginning<br/>Balance</u> | <u>Charged<br/>to Profit<br/>and Loss</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|---|-------------------|---------------------------|
| Reserves deducted from assets in the balance sheet: |                              |   |                   |                           |
| <b>Accounts Receivable Allowances</b>               | \$ 4,191                     | \$ 637                                    | \$ (1,868)        | \$ 2,960                  |
| <b>Markdown Reserves (1)</b>                        | <u>\$ 10,246</u>             | <u>\$ 6,560</u>                           | <u>\$ (5,174)</u> | <u>\$ 11,632</u>          |

**Year Ended January 31, 2015**

| In Thousands  | <u>Beginning<br/>Balance</u> | <u>Charged<br/>to Profit<br/>and Loss</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|---|-------------------|---------------------------|
| Reserves deducted from assets in the balance sheet: |                              |   |                   |                           |
| <b>Accounts Receivable Allowances</b>               | \$ 4,420                     | \$ 390                                    | \$ (619)          | \$ 4,191                  |
| <b>Markdown Reserves (1)</b>                        | <u>\$ 5,369</u>              | <u>\$ 6,000</u>                           | <u>\$ (1,123)</u> | <u>\$ 10,246</u>          |

(1) Reflects adjustment of merchandise inventories to realizable value. Charged to Profit and Loss column represents increases to the reserve and the Reductions column represents decreases to the reserve based on quarterly assessments of the reserve, except for Fiscal 2016, which also reflects \$4.7 million write-off of Lids Team Sports markdown reserve due to its sale in January 2016.

## **BOARD OF DIRECTORS**

Joanna Barsh  
Director Emeritus; Independent Consultant  
McKinsey & Company  
New York, New York  
Member of the compensation and nominating and governance committees

Leonard L. Berry  
University Distinguished Professor of Marketing, Presidential Professor for Teaching Excellence, Regents Professor  
Texas A&M University  
College Station, Texas  
Member of the compensation and nominating and governance committees

James W. Bradford  
Retired Dean, Owen Graduate School of Management  
Vanderbilt University  
Nashville, Tennessee  
Chairman of the nominating and governance committee, member of the compensation committee

Robert J. Dennis  
Chairman, President and Chief Executive Officer  
Genesco Inc.  
Nashville, Tennessee

Matthew C. Diamond  
Chief Executive Officer  
Defy Media, LLC  
New York, New York  
Chairman of the compensation committee

Marty G. Dickens  
Retired President  
AT&T -Tennessee  
Nashville, Tennessee  
Member of the audit and the nominating and governance committees

Thurgood Marshall, Jr.  
Partner  
Morgan, Lewis & Bockius LLP  
Washington, D.C.

Kathleen Mason  
Former President and Chief Executive Officer  
Tuesday Morning Corporation  
Dallas, Texas  
Member of the audit and compensation committees

Kevin P. McDermott  
Former Partner, KPMG LLP  
Nashville, Tennessee  
Chairman of the audit committee

David M. Tehle  
Retired Executive Vice President and Chief Financial Officer  
Dollar General Corporation  
Nashville, Tennessee  
Member of the audit committee



## **CORPORATE OFFICERS**

Robert J. Dennis  
Chairman, President and Chief Executive Officer  
13 years with Genesco

Mimi E. Vaughn  
Senior Vice President – Chief Financial Officer  
13 years with Genesco

James C. Estepa  
Senior Vice President - The Journeys Group  
32 years with Genesco

Jonathan D. Caplan  
Senior Vice President - Genesco Branded Group  
24 years with Genesco

David E. Baxter  
Senior Vice President – The Lids Sports Group  
1 year with Genesco

Parag Desai  
Senior Vice President – Strategy and Shared Services  
3 years with Genesco

Roger G. Sisson  
Senior Vice President - Corporate Secretary and General Counsel  
23 years with Genesco

Matthew N. Johnson  
Vice President and Treasurer  
24 years with Genesco

Paul D. Williams  
Vice President and Chief Accounting Officer  
40 years with Genesco

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Lids®

shī by JOURNEYS

JOURNEYS

Locker Room  
By Lids®

  
TRASK

JOHNSTON & MURPHY

under ground  
by JOURNEYS

 LITTLE  
BURGUNDY

schuh

  
DOCKERS

JOURNEYS  
Kidz

Lids  
Clubhouse

G.H. BASS & CO.  
EST. Bass 1876  
MAINE, USA

schuhkids