GENESCO INC
Form 10-Q
September 13, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarter Ended August 4, 2018

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from to

Commission File No. 1-3083

Genesco Inc.
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation or organization)	62-0211340 (I.R.S. Employer Identification No.)
Genesco Park, 1415 Murfreesboro Road Nashville, Tennessee (Address of principal executive offices)	37217-2895 (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
Emerging growth company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

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

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

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

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

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

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

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

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

Genesco Inc.
and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(In thousands)

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

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

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

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

Net cash paid for:				
Interest	$1,105	$1,112	$1,724	$2,105
Income taxes	9,431	21,868	9,961	24,144

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

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

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

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

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

Note 1
Summary of Significant Accounting Policies

Basis of Presentation
The Condensed Consolidated Financial Statements and Notes contained in this report are unaudited but reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 2, 2019 ("Fiscal 2019") and of the fiscal year ended February 3, 2018 ("Fiscal 2018"). The results of operations for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") have been condensed or omitted. The Condensed Consolidated Balance Sheet as of February 3, 2018 has been derived from the audited financial statements at that date. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto for Fiscal 2018, which are contained in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") on April 4, 2018.

Nature of Operations
Genesco Inc. and its subsidiaries (collectively, the "Company") business includes the sourcing and design, marketing and distribution of footwear and accessories through retail stores in the U.S., Puerto Rico and Canada primarily under the Journeys, Journeys Kidz, Little Burgundy and Johnston & Murphy banners and under the Schuh banner in the United Kingdom, the Republic of Ireland and Germany; through catalogs and e-commerce websites including the following: journeys.com, journeyskidz.com, journeys.ca, schuh.co.uk, littleburgundyshoes.com, johnstonmurphy.com and trask.com, and at wholesale, primarily under the Company's Johnston & Murphy brand, the Trask brand, the licensed Dockers brand and other brands that the Company licenses for footwear. The Company's business also includes Lids Sports Group, which operates headwear and accessory stores in the U.S., Puerto Rico and Canada primarily under the Lids banner; the Lids Locker Room and Lids Clubhouse businesses, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating under various trade names; licensed team merchandise departments in Macy's department stores operated under the name Locker Room by Lids and on macys.com, under a license agreement with Macy's; certain e-commerce operations including lids.com, lids.ca, lidslockerroom.com and lidsclubhouse.com. Including both the footwear businesses and the Lids Sports Group business, at August 4, 2018, the Company operated 2,657 retail stores and leased departments in the U.S., Puerto Rico, Canada, the United Kingdom, the Republic of Ireland and Germany.
During the six months ended August 4, 2018 and July 29, 2017, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz and Little Burgundy retail footwear chains, e-commerce and catalog operations; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised as described in the preceding paragraph; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce and catalog operations and wholesale distribution of products under the Johnston & Murphy® and H.S. Trask® brands; and (v) Licensed Brands, comprised of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company; G.H. Bass Footwear operated under a license from G-III Apparel Group,

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

Note 1
Summary of Significant Accounting Policies, Continued
Ltd., which was terminated in January 2018; and other brands.

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

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

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

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

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

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

Note 1
Summary of Significant Accounting Policies, Continued

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

	August 4, 2018		
	As Reported	Balances without the adoption of ASC 606	Effect of Change Higher/(Lower)
Inventories	$606,748	$610,454	$ (3,706)
Prepaids and other current assets	79,338	79,467	(129)
Total current assets	774,355	778,190	(3,835)
Deferred income taxes	23,126	24,313	(1,187)
Total Assets	1,367,796	1,372,818	(5,022)
Other accrued liabilities	53,307	61,564	(8,257)
Total current liabilities	318,119	326,376	(8,257)
Total liabilities	543,638	551,895	(8,257)
Retained earnings	603,536	600,279	3,257
Accumulated other comprehensive loss	(42,744)	(42,722)	(22)
Total equity	824,158	820,923	3,235
Total Liabilities and Equity	1,367,796	1,372,818	(5,022)

	Three Months Ended August 4, 2018		
	As Reported	Balances without the adoption of ASC 606	Effect of Change Higher/(Lower)
Net sales	$653,892	$653,811	$ 81
Selling and administrative expenses	319,042	316,564	2,478
Earnings from operations	1,361	3,758	(2,397)
Earnings from continuing operations before income taxes	259	2,656	(2,397)
Income tax expense	92	648	(556)
Earnings from continuing operations	167	2,008	(1,841)
Net earnings (loss)	(15)	1,826	(1,841)

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

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

Note 1
Summary of Significant Accounting Policies, Continued

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

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

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

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

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

Note 1
Summary of Significant Accounting Policies, Continued

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

Cash and Cash Equivalents
The Company had total available cash and cash equivalents of $49.8 million, $39.9 million and $43.5 million as of August 4, 2018, February 3, 2018 and July 29, 2017, respectively, of which approximately $11.3 million, $21.2 million and $14.8 million was held by the Company's foreign subsidiaries as of August 4, 2018, February 3, 2018 and July 29, 2017, respectively. The Company's strategic plan does not require the repatriation of foreign cash in order to fund its operations in the U.S., and it is the Company's current intention to indefinitely reinvest its foreign cash and cash equivalents outside of the U.S. If the Company were to repatriate foreign cash to the U.S., it would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation. There were no cash equivalents included in cash and cash equivalents at August 4, 2018, February 3, 2018 and July 29, 2017. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. At August 4, 2018, substantially all of the Company’s domestic cash was invested in deposit accounts at FDIC-insured banks. The majority of payments due from banks for domestic customer credit card transactions process within 24 - 48 hours and are accordingly classified as cash and cash equivalents in the Condensed Consolidated Balance Sheets.

At August 4, 2018, February 3, 2018 and July 29, 2017, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately $17.8 million, $14.2 million and $37.3 million, respectively. These amounts are included in accounts payable in the Condensed Consolidated Balance Sheets.

Concentration of Credit Risk and Allowances on Accounts Receivable
The Company’s footwear wholesale businesses sell primarily to department stores and independent retailers across the United States. Receivables arising from these sales are not collateralized. Customer credit risk is affected by conditions or occurrences within the economy and the retail industry as well as by customer specific factors. In the footwear wholesale businesses, one customer accounted for 20% and one customer accounted for 8% of the Company’s total trade receivables balance, while no other customer accounted for more than 7% of the Company’s total trade receivables balance as of August 4, 2018.

Leases
The Company occasionally receives reimbursements from landlords to be used towards construction of a store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of $28.4 million, $29.0 million and $27.0 million at August 4, 2018, February 3, 2018 and July 29, 2017, respectively, and deferred rent of

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$60.2 million, $59.3 million and $55.4 million, at August 4, 2018, February 3, 2018 and July 29, 2017, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

The Condensed Consolidated Balance Sheets include asset retirement obligations related to leases of $12.4 million, $11.5 million and $10.9 million as of August 4, 2018, February 3, 2018 and July 29, 2017, respectively.

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

Fair Values

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

Debt fair values were estimated using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments and would be classified in Level 2 as defined in Note 5.

Carrying amounts reported on the Condensed Consolidated Balance Sheets for cash, cash equivalents, receivables and accounts payable approximate fair value due to the short-term maturity of these instruments.

Selling and Administrative Expenses
Selling and administrative expenses include all operating costs of the Company excluding (i) those related to the transportation of products from the supplier to the warehouse, (ii) for its retail operations, those related to the transportation of products from the warehouse to the store and from the warehouse to the customer and (iii) costs of its distribution facilities which are allocated to its retail operations. Wholesale costs of distribution are included in selling and administrative expenses
on the Condensed Consolidated Statements of Operations in the amount of $1.3 million and $1.2 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and $2.8 million for each of the first six months of Fiscal 2019 and Fiscal 2018.

Buying, Merchandising and Occupancy Costs
The Company records buying, merchandising and occupancy costs in selling and administrative expense on the Condensed Consolidated Statements of Operations. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Retail store occupancy costs

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

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

Cooperative Advertising
Cooperative advertising costs recognized in selling and administrative expenses on the Condensed Consolidated Statements of Operations were $0.2 million and $0.6 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and $1.0 million and $1.8 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively. During the first six months of Fiscal 2019 and Fiscal 2018, the Company’s cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

Vendor Allowances
Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were $2.2 million and $1.7 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and $4.3 million and $4.4 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively. During the first six months of Fiscal 2019 and Fiscal 2018, the Company’s cooperative advertising reimbursements received were not in excess of the costs incurred.

Foreign Currency Translation
The functional currency of the Company's foreign operations is the applicable local currency. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date. Income and expense accounts are translated at monthly average exchange rates. The unearned gains and losses resulting
from such translation are included as a separate component of accumulated other comprehensive loss within shareholders' equity. Gains and losses from certain foreign currency transactions are
reported as an item of income and resulted in a net loss of $0.4 million and $0.2 million for the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and a net loss of $0.7 million and $0.5 million for the first six months of Fiscal 2019 and Fiscal 2018, respectively.

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

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

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

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

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

Income Taxes

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

New Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

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

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

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

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715)" ("ASC 715"). The standard requires the sponsors of benefit plans to present service cost in the same line item or items as other current employee compensation costs, and present the remaining components of net benefit cost in one or more separate line items outside of income from operations, while also limiting the components of net benefit cost eligible to be capitalized to service cost. The
standard will require the Company to present the non-service pension costs as a component of expense below operating income. The amendments to this standard allow a practical expedient that
permits an employer to use the amounts disclosed in its employee benefits footnote for the prior comparative period as the estimation basis for applying the retrospective presentation. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

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

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

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

New Accounting Pronouncements Not Yet Adopted
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. In July 2018, ASU 2018-10, "Codification Improvements to Topic 842, Leases," was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. Furthermore, in July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements," which provides an optional transition method in addition to the existing modified retrospective transition method by allowing a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company intends to adopt this guidance in the first quarter of Fiscal 2020 using the optional transition method provided by ASU 2018-11. 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.

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Note 2
Goodwill and Other Intangible Assets

Goodwill

The changes in the carrying amount of goodwill by segment were as follows:

(In Thousands)	Schuh Group	Journeys Group	Total Goodwill
Balance, February 3, 2018	$89,915	$10,393	$100,308
Effect of foreign currency exchange rates	(7,178)	(482)	$(7,660)
Balance, August 4, 2018	$82,737	9,911	$92,648

As required under ASC 350, the Company annually assesses its goodwill and indefinite lived trade names for impairment and on an interim basis if indicators of impairment are present. The Company's annual assessment date of goodwill and indefinite lived trade names is the first day of the fourth quarter.

Other Intangibles
Other intangibles by major classes were as follows:

	Leases		Customer Lists		Other*		Total	
(In Thousands)	Aug. 4, 2018	Feb. 3, 2018	Aug. 4, 2018	Feb. 3, 2018	Aug. 4, 2018	Feb. 3, 2018	Aug. 4, 2018	Feb. 3, 2018
Gross other intangibles	$14,715	$14,981	$2,008	$2,130	$2,037	$2,122	$18,760	$19,233
Accumulated amortization	(13,700)	(13,714)	(2,008)	(2,130)	(1,655)	(1,595)	(17,363)	(17,439)
Net Other Intangibles	$1,015	$1,267	$—	$—	$382	$527	$1,397	$1,794

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

The amortization of intangibles, including trademarks, was $0.0 million for each of the second quarters of Fiscal 2019 and 2018 and $0.1 million for each of the first six months of Fiscal 2019 and Fiscal 2018. The amortization of intangibles, including trademarks, is expected to be $0.2 million for Fiscal 2019 and less than $0.1 million for each of Fiscal 2020, 2021, 2022 and 2023.

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Note 3
Asset Impairments and Other Charges and Discontinued Operations

Asset Impairments and Other Charges

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

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

The Company recorded pretax charges of $1.0 million in the second quarter of Fiscal 2019, including $0.9 million for retail store asset impairments and $0.6 million for legal and other matters, partially offset by a $(0.5) million gain related to Hurricane Maria. The Company recorded pretax charges of $2.6 million in the first six months of Fiscal 2019, including $2.2 million for retail store asset impairments and $1.0 million for legal and other matters, partially offset by a $(0.6) million gain related to Hurricane Maria.

The Company recorded pretax charges of $0.1 million and $0.2 million in the second quarter and first six months of Fiscal 2018, respectively, for retail store asset impairments.

Discontinued Operations

Accrued Provision for Discontinued Operations

In thousands	Facility Shutdown Costs
Balance January 28, 2017	$ 5,043
Additional provision Fiscal 2018	552
Charges and adjustments, net	(1,986)
Balance February 3, 2018	3,609
Additional provision Fiscal 2019	277
Charges and adjustments, net	(246)
Balance August 4, 2018*	3,640
Current provision for discontinued operations	1,939
Total Noncurrent Provision for Discontinued Operations	$ 1,701

*Includes a $3.0 million environmental provision, including $1.9 million in current provision for discontinued operations (see Note 8).

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Note 4
Inventories

In thousands	August 4, 2018	February 3, 2018
Wholesale finished goods	$49,824	$52,924
Retail merchandise	556,924	489,701
Total Inventories	$606,748	$542,625

Note 5
Fair Value

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. This topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

The following table presents the Company's assets and liabilities measured at fair value on a nonrecurring basis as of August 4, 2018 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	Long-Lived Assets Held and Used	Level 1	Level 2	Level 3	Total Losses
Measured as of May 5, 2018	$ 552	$ —	$ —	$552	$1,274
Measured as of August 4, 2018	384	—	—	384	928
Sub-total asset impairment YTD					$2,202

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Note 5
Fair Value, Continued

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded $0.9 million and $2.2 million of impairment charges as a result of the fair value measurement of its long-lived assets held and used during the three and six months ended August 4, 2018, respectively. These charges are reflected in asset impairments and other, net on the Condensed Consolidated Statements of Operations.

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

Note 6
Defined Benefit Pension Plans and Other Benefit Plans

The following table summarizes the components of net periodic benefit cost related to the Company's pension and postretirement health care and life insurance plans:

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
In thousands	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Service cost	$112	$137	$220	$231
Interest cost	$756	$818	$82	$90
Expected return on plan assets	(1,049)	(1,125)	—	—
Amortization of losses	196	207	14	34
Total other components of net periodic benefit cost	$(97)	$(100)	$96	$124
Net Periodic Benefit Cost	$15	$37	$316	$355

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Note 6
Defined Benefit Pension Plans and Other Benefit Plans, Continued

Components of Net Periodic Benefit Cost

In thousands	Pension Benefits Six Months Ended August 4, 2018	Pension Benefits Six Months Ended July 29, 2017	Other Benefits Six Months Ended August 4, 2018	Other Benefits Six Months Ended July 29, 2017
Service cost	$225	$275	$473	$440
Interest cost	1,510	1,642	175	175
Expected return on plan assets	(2,100)	(2,255)	—	—
Amortization of losses	385	422	49	72
Total other components of net periodic benefit cost	(205)	(191)	224	247
Net Periodic Benefit Cost	$20	$84	$697	$687

The service cost component of net periodic benefit cost is recorded in selling and administrative expenses in the Consolidated Statements of Operations, while the other components are recorded in other components of net periodic benefit cost in the Consolidated Statements of Operations.

There is no cash contribution required for the pension plan in calendar 2018.

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Note 7
Earnings Per Share

(In thousands, except per share amounts)	For the Three Months Ended August 4, 2018			For the Three Months Ended July 29, 2017		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Earnings (loss) from continuing operations	$167			$(3,875)		
Basic EPS from continuing operations						
Income (loss) available to common shareholders	167	19,342	$ 0.01	(3,875)	19,152	$(0.20)
Effect of Dilutive Securities from continuing operations						
Dilutive share-based awards(1)		64			—	
Employees' preferred stock(2)		36			—	
Diluted EPS from continuing operations						
Income (loss) available to common shareholders plus assumed conversions	$167	19,442	$ 0.01	$(3,875)	19,152	$(0.20)

(1) Due to the loss from continuing operations, restricted share-based awards are excluded from the diluted earnings per share calculation for the second quarter ended July 29, 2017.

(2) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Because no dividends are paid on this stock, these shares are assumed to be converted in the diluted earnings per share calculation for the second quarter ended August 4, 2018. Due to the loss from continuing operations, these shares are not assumed to be converted for the second quarter ended July 29, 2017.

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Note 7
Earnings Per Share, Continued

(In thousands, except per share amounts)	For the Six Months Ended August 4, 2018 Income (Numerator)	Shares (Denominator)	Per Share Amount	For the Six Months Ended July 29, 2017 Income (Numerator)	Shares (Denominator)	Per Share Amount
Loss from continuing operations	$(2,141)			$(2,878)		
Basic EPS from continuing operations						
Income (loss) available to common shareholders	(2,141)	19,310	$(0.11)	(2,878)	19,171	$(0.15)
Effect of Dilutive Securities from continuing operations						
Dilutive share-based awards(1)		—			—	
Employees' preferred stock(2)		—			—	
Diluted EPS from continuing operations						
Income (loss) available to common shareholders plus assumed conversions	$(2,141)	19,310	$(0.11)	$(2,878)	19,171	$(0.15)

(1) Due to the loss from continuing operations, restricted share-based awards are excluded from the diluted earnings per share calculation for the six months ended August 4, 2018 and July 29, 2017.

(2) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Due to the loss from continuing operations, these shares are not assumed to be converted for the six months ended August 4, 2018 and July 29, 2017.

The weighted shares outstanding reflects the effect of the Company's Board-approved share repurchase program. The Company did not repurchase any shares of common stock under the share repurchase program during the three and six months ended August 4, 2018 and the three months ended July 29, 2017, but repurchased 275,300 shares of common stock during the six months ended July 29, 2017 for $16.2 million. The Company has $24.0 million remaining under its current $100.0 million share repurchase authorization.

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Note 8
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 and implementing an interim remedial measure 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 to be between $1.7 million and $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, 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.

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Note 8
Legal Proceedings, Continued

In April 2015, the Company received from the EPA a Notice of Potential Liability and Demand for Costs (the "Notice") 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 which was paid in May 2017. The Company's environmental insurance carrier has reimbursed the Company for 75% of the settlement amount, subject to a $500,000 self-insured retention. The Company does not expect any additional cost related to the matter.

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 $3.0 million as of August 4, 2018, $3.0 million as of February 3, 2018 and $3.2 million as of July 29, 2017. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets because they relate to former facilities operated by the Company. The Company has made pretax accruals for certain of these contingencies, including approximately $0.3 million and $0.1 million in the second quarters of Fiscal 2019 and Fiscal 2018, respectively, and $0.3 million in both the first six months of Fiscal 2019 and Fiscal 2018. 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 ("FLSA") and Ohio wages and hours law 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. On April 21, 2017, a former

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Note 8
Legal Proceedings, Continued

employee of the same subsidiary filed a putative class and collective action, Ward v. Hat World, Inc., in the Superior Court for the State of Washington, alleging violations of the FLSA and certain Washington wages and hours laws, including, among others, failure to pay overtime to certain loss prevention investigators, and seeking back pay, damages, attorneys' fees and other relief. A total of seven loss prevention investigators elected to join the suit at the expiration of the opt-in period. The Company has removed the case to federal court and the court has approved its transfer to the U.S. District Court for the Southern District of Indiana. The Company disputes the material allegations in each of these complaints and intends to defend the matters.

On May 19, 2017, two former employees of the same subsidiary filed a putative class and collective action, Chen and Salas v. Genesco Inc., et al., in the U.S. District Court for the Northern District of Illinois alleging violations of the FLSA and certain Illinois and New York wages and hours laws, including, among others, failure to pay overtime to store managers, and also seeking back pay, damages, statutory penalties, and declaratory and injunctive relief. On March 8, 2018, the court granted the Company's motion to transfer venue to the U.S. District Court for the Southern District of Indiana. On March 9, 2018, a former employee of the same subsidiary filed a putative class action in the Superior Court of the Commonwealth of Massachusetts claiming violations of the Massachusetts Overtime Law, M.G.L.C. 151§1A, by failing to pay overtime to employees classified as store managers, and seeking restitution, an incentive award, treble damages, interest, attorneys' fees and costs. The Company has reached an agreement in principle to settle the Chen and Salas and Massachusetts matters for payment of attorneys' fees and administrative costs totaling $410,000 plus total payments to members of the plaintiff class who opt to participate in the settlement of up to $790,000. The proposed settlement is subject to documentation and approval by the court. The Company does not expect that the proposed settlement will have a material adverse effect on its financial condition or results of operations.

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. On March 5, 2018, the court issued a proposed statement of decision in the first phase of the case, tentatively finding that the plaintiff is an "aggrieved employee" with regard to meal period and rest break claims only, and not with respect to any other violations alleged in the complaint and that she can represent other employees only with respect to meal and rest break claims. The Company disputes the material allegations in the complaint and intends to continue defending the matter.

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

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

Note 9
Business Segment Information

During the six months ended August 4, 2018 and July 29, 2017, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz and Little Burgundy retail footwear chains, e-commerce and catalog operations; (ii) Schuh Group, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised 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; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, e-commerce operations, 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; G.H. Bass Footwear operated under a license from G-III Apparel Group, Ltd., which was terminated in January 2018; and other brands.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1, under Item 8 in the Company's Annual Report on Form10-K for the fiscal year ended February 3, 2018).

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, bank fees, interest expense, interest income, asset impairment charges and other, including major litigation and major lease terminations and goodwill impairment charges.

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

Note 9
Business Segment Information, Continued

Three Months Ended
August 4, 2018

In thousands	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
Sales	$304,995	$98,159	$166,877	$68,441	$15,338	$84	$653,894
Intercompany Sales	—	—	—	—	(2)	—	(2)
Net sales to external customers	$304,995	$98,159	$166,877	$68,441	$15,336	$84	$653,892
Segment operating income (loss)	$7,661	$1,073	$1,152	$928	$(396)	$(8,018)	$2,400
Asset Impairments and other*	—	—	—	—	—	(1,039)	(1,039)
Earnings (loss) from operations	7,661	1,073	1,152	928	(396)	(9,057)	1,361
Other components of net periodic benefit cost	—	—	—	—	—	1	1
Interest expense	—	—	—	—	—	(1,113)	(1,113)
Interest income	—	—	—	—	—	10	10
Earnings (loss) from continuing operations before income taxes	$7,661	$1,073	$1,152	$928	$(396)	$(10,159)	$259
Total assets**	$483,954	$229,982	$333,994	$133,933	$23,593	$162,340	$1,367,796
Depreciation and amortization***	6,886	3,533	6,595	1,592	161	458	19,225
Capital expenditures	3,853	1,068	4,236	1,498	21	917	11,593

*Asset Impairments and other charge includes a $0.9 million charge for asset impairments, which includes $0.6 million for Lids Sports Group and $0.3 million for Journeys Group, and a $0.6 million charge for legal and other matters, partially offset by a $(0.5) million gain related to Hurricane Maria.

**Total assets for the Schuh Group and Journeys Group include $82.7 million and $9.9 million of goodwill, respectively. Goodwill for the Schuh Group and Journeys Group decreased by $7.2 million and $0.5 million, respectively, from February 3, 2018, due to foreign currency translation adjustments. Of the Company's $365.9 million of property and equipment, $50.1 million and $20.8 million relate to property and equipment in the United Kingdom and Canada, respectively.

***Includes $19.2 million in depreciation expense for the three months ended August 4, 2018.