

GUESS INC
Form 10-Q
June 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended May 5, 2018

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

For the transition period from _____ to _____
Commission file number: 1-11893
GUESS?, INC.

(Exact name of registrant as specified in its charter)
Delaware 95-3679695
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

(Registrant’s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the 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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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.

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

As of June 4, 2018, the registrant had 80,942,889 shares of Common Stock, \$.01 par value per share, outstanding.

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GUESS?, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	May 5, 2018 (unaudited)	Feb 3, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$232,492	\$367,441
Accounts receivable, net	243,138	259,996
Inventories	434,922	428,304
Other current assets	73,320	52,964
Total current assets	983,872	1,108,705
Property and equipment, net	286,915	294,254
Goodwill	37,405	38,481
Other intangible assets, net	5,519	5,977
Deferred tax assets	65,884	68,386
Restricted cash	232	241
Other assets	141,354	139,590
	\$1,521,181	\$1,655,634
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations and borrowings	\$3,363	\$2,845
Accounts payable	219,174	264,438
Accrued expenses	171,252	200,562
Total current liabilities	393,789	467,845
Long-term debt and capital lease obligations	37,217	39,196
Deferred rent and lease incentives	79,899	81,564
Other long-term liabilities	130,948	127,964
	641,853	716,569
Redeemable noncontrolling interests	5,071	5,590
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, \$.01 par value. Authorized 150,000,000 shares; issued 142,313,028 and 141,623,687 shares, outstanding 80,956,964 and 81,371,118 shares, as of May 5, 2018 and February 3, 2018, respectively	810	813
Paid-in capital	506,162	498,249
Retained earnings	1,098,291	1,132,173
Accumulated other comprehensive loss	(108,790)	(93,062)
Treasury stock, 61,356,064 and 60,252,569 shares as of May 5, 2018 and February 3, 2018, respectively	(638,782)	(621,354)
Guess?, Inc. stockholders' equity	857,691	916,819
Nonredeemable noncontrolling interests	16,566	16,656

Total stockholders' equity	874,257	933,475
	\$1,521,181	\$1,655,634

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF LOSS
 (in thousands, except per share data)
 (unaudited)

	Three Months Ended	
	May 5, 2018	Apr 29, 2017
Product sales	\$501,505	\$438,320
Net royalties	19,784	16,025
Net revenue	521,289	454,345
Cost of product sales	347,351	309,703
Gross profit	173,938	144,642
Selling, general and administrative expenses	198,219	166,855
Net gains on lease terminations	(152)	—
Asset impairment charges	759	2,762
Loss from operations	(24,888)	(24,975)
Other income (expense):		
Interest expense	(739)	(414)
Interest income	977	871
Other income (expense), net	(2,614)	1,888
	(2,376)	2,345
Loss before income tax benefit	(27,264)	(22,630)
Income tax benefit	(6,277)	(1,403)
Net loss	(20,987)	(21,227)
Net earnings attributable to noncontrolling interests	234	66
Net loss attributable to Guess?, Inc.	\$(21,221)	\$(21,293)
Net loss per common share attributable to common stockholders (Note 3):		
Basic	\$(0.27)	\$(0.26)
Diluted	\$(0.27)	\$(0.26)
Weighted average common shares outstanding attributable to common stockholders (Note 3):		
Basic	79,901	83,010
Diluted	79,901	83,010
Dividends declared per common share	\$0.225	\$0.225

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended	
	May 5, 2018	Apr 29, 2017
Net loss	\$ (20,987) \$ (21,227)	
Other comprehensive income (loss) ("OCI"):		
Foreign currency translation adjustment		
Gains (losses) arising during the period	(24,572)	12,835
Derivative financial instruments designated as cash flow hedges		
Gains arising during the period	7,492	446
Less income tax effect	(1,024)	(322)
Reclassification to net loss for (gains) losses realized	1,879	(661)
Less income tax effect	(263)	85
Defined benefit plans		
Foreign currency and other adjustments	343	(14)
Less income tax effect	(32)	1
Net actuarial loss amortization	152	117
Prior service credit amortization	(7)	(7)
Less income tax effect	(20)	(21)
Total comprehensive loss	(37,039)	(8,768)
Less comprehensive income (loss) attributable to noncontrolling interests:		
Net earnings	234	66
Foreign currency translation adjustment	(324)	1,362
Amounts attributable to noncontrolling interests	(90)	1,428
Comprehensive loss attributable to Guess?, Inc.	\$ (36,949)	\$ (10,196)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	May 5, 2018	Apr 29, 2017
Cash flows from operating activities:		
Net loss	\$(20,987)	\$(21,227)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	15,706	14,586
Amortization of other long-term and intangible assets	793	425
Share-based compensation expense	3,958	3,963
Unrealized forward contract (gains) losses	(2,584)	360
Net loss on disposition of property and equipment and long-term assets	615	3,458
Other items, net	6,810	(453)
Changes in operating assets and liabilities:		
Accounts receivable	46,957	32,480
Inventories	(32,700)	(32,906)
Prepaid expenses and other assets	(14,024)	(9,428)
Accounts payable and accrued expenses	(77,518)	(18,855)
Deferred rent and lease incentives	(196)	24
Other long-term liabilities	5,594	(2,374)
Net cash used in operating activities	(67,576)	(29,947)
Cash flows from investing activities:		
Purchases of property and equipment	(19,004)	(18,846)
Changes in other assets	—	(703)
Acquisition of businesses, net of cash acquired	(104)	(175)
Net cash settlement of forward contracts	(941)	490
Purchases of investments	(828)	—
Net cash used in investing activities	(20,877)	(19,234)
Cash flows from financing activities:		
Repayment of capital lease obligations and borrowings	(538)	(143)
Dividends paid	(18,246)	(18,946)
Noncontrolling interest capital contribution	—	962
Issuance of common stock, net of tax withholdings on vesting of stock awards	4,120	(6)
Purchase of treasury stock	(23,620)	(17,827)
Net cash used in financing activities	(38,284)	(35,960)
Effect of exchange rates on cash, cash equivalents and restricted cash	(8,221)	5,415
Net change in cash, cash equivalents and restricted cash	(134,958)	(79,726)
Cash, cash equivalents and restricted cash at the beginning of the year	367,682	397,650
Cash, cash equivalents and restricted cash at the end of the period	\$232,724	\$317,924
Supplemental cash flow data:		
Interest paid	\$211	\$270
Income taxes paid	\$8,403	\$3,729

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

May 5, 2018

(unaudited)

(1) Basis of Presentation and New Accounting Guidance

Description of the Business

Guess?, Inc. (the “Company” or “GUESS?”) designs, markets, distributes and licenses a leading lifestyle collection of contemporary apparel and accessories for men, women and children that reflect the American lifestyle and European fashion sensibilities. The Company’s designs are sold in GUESS? owned stores, to a network of wholesale accounts that includes better department stores, selected specialty retailers and upscale boutiques and through the Internet. GUESS? branded products, some of which are produced under license, are also sold internationally through a series of retail store licensees and wholesale distributors.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated balance sheets as of May 5, 2018 and February 3, 2018, the condensed consolidated statements of loss, comprehensive loss and cash flows for the three months ended May 5, 2018 and April 29, 2017. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three months ended May 5, 2018 are not necessarily indicative of the results of operations to be expected for the full fiscal year. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended February 3, 2018.

The three months ended May 5, 2018 had the same number of days as the three months ended April 29, 2017. All references herein to “fiscal 2019,” “fiscal 2018” and “fiscal 2017” represent the results of the 52-week fiscal year ending February 2, 2019, the 53-week fiscal year ended February 3, 2018 and the 52-week fiscal year ended January 28, 2017, respectively.

Reclassifications

The Company has made certain reclassifications to prior year amounts to conform to the current period presentation within the accompanying notes to the condensed consolidated financial statements.

Net Gains on Lease Terminations

During the three months ended May 5, 2018, the Company recorded net gains on lease terminations of approximately \$0.2 million related primarily to the early termination of certain lease agreements in North America. There were no net gains on lease terminations during the three months ended April 29, 2017.

New Accounting Guidance

Changes in Accounting Policies

In May 2014, the FASB issued a comprehensive new revenue recognition standard which superseded previous existing revenue recognition guidance. The standard is intended to clarify the principles of recognizing revenue and create common revenue recognition guidance between GAAP and International Financial Reporting Standards. The standard also requires expanded disclosures surrounding revenue recognition. During fiscal 2017, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. The Company adopted this guidance (including clarification guidance issued) effective February 4, 2018 using the modified retrospective method and, as a result, recorded a cumulative adjustment to increase retained earnings by approximately \$5.8 million, net of taxes. The adjustment

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related primarily to changes in the presentation of advertising contributions received from the Company's licensees and the related advertising expenditures incurred by the Company. Under previous guidance, the Company recorded advertising contributions received from its licensees and the related advertising expenditures incurred by the Company on a net basis in its consolidated balance sheet. To the extent that the advertising contributions exceeded the Company's advertising expenditures for its licensees, the excess contribution was treated as a deferred liability and was included in accrued expenses in the Company's consolidated balance sheet. Under the new revenue recognition standard, advertising contributions and related advertising expenditures related to the Company's licensing business are recorded on a gross basis in the Company's condensed consolidated statements of loss. This change resulted in an increase to net revenue and selling, general, and administrative ("SG&A") expenses of \$2.3 million and \$3.3 million, respectively, during the three months ended May 5, 2018 compared to the same prior-year period. Other minor differences related to the timing of revenue recognition from the Company's e-commerce operations, which are now recognized when merchandise is transferred to a common carrier rather than upon receipt by the customer, and a minimal change in the valuation of the amount that is deferred related to points earned under the Company's loyalty programs. Additionally, allowances for wholesale sales returns and wholesale markdowns are now presented as accrued expenses rather than as reductions to accounts receivable and the estimated cost associated with the allowance for sales returns is presented within other current assets rather than included in inventories in the Company's consolidated balance sheet. Refer to Note 2 for the Company's expanded disclosures on revenue recognition.

In January 2016, the FASB issued authoritative guidance which requires equity investments not accounted for under the equity method of accounting or consolidation accounting to be measured at fair value, with subsequent changes in fair value recognized in net income. In February 2018, the FASB issued additional clarification guidance which made targeted improvements to address certain aspects of recognition, measurement, presentation and disclosure requirements for financial instruments. The Company adopted this guidance (including the clarification guidance) effective February 4, 2018. The adoption of this guidance did not result in a cumulative-effect adjustment as of the beginning of the current year and did not have a material impact on the Company's consolidated financial statements or related disclosures.

In October 2016, the FASB issued authoritative guidance which amends the accounting for income taxes on intra-entity transfers of assets other than inventory. This guidance requires that entities recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The income tax consequences on intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company adopted this guidance effective February 4, 2018. The adoption of this guidance did not have an impact on the Company's consolidated financial statements or related disclosures.

In March 2017, the FASB issued authoritative guidance related to the presentation of net periodic pension cost in the income statement. This guidance requires that the service cost component of net periodic pension cost be presented in the same line as other compensation costs arising from services rendered by the employees during the period. The other non-service components of net periodic pension cost are required to be presented in the income statement separately from the service cost component and outside of earnings from operations. This guidance also allows for the service cost component to be eligible for capitalization when applicable. The Company adopted this guidance effective February 4, 2018 on a retrospective basis for the presentation of the service cost component and other non-service components of net periodic pension cost in the income statement and on a prospective basis for capitalization of the service cost component. As a result, the Company reclassified \$0.5 million from SG&A expenses to other expense during the three months ended April 29, 2017 resulting in an improvement for operating loss of \$0.5 million. Other than the change in presentation of other non-service components of net periodic pension cost within the Company's consolidated statements of loss, the adoption of this guidance did not have an impact on the Company's consolidated financial statements and related disclosures.

In May 2017, the FASB issued authoritative guidance that provides clarification on accounting for modifications in share-based payment awards. The Company adopted this guidance effective February 4, 2018. The adoption of this guidance did not have an impact on the Company's consolidated financial statements or related disclosures.

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Recently Issued Accounting Guidance

In February 2016, the FASB issued a comprehensive new lease standard which will supersede previous lease guidance. The standard requires a lessee to recognize assets and liabilities related to long-term leases that were classified as operating leases under previous guidance in its balance sheet. An asset would be recognized related to the right to use the underlying asset and a liability would be recognized related to the obligation to make lease payments over the term of the lease. The standard also requires expanded disclosures surrounding leases. The standard is effective for fiscal periods beginning after December 15, 2018, which will be the Company's first quarter of fiscal 2020, and requires modified retrospective adoption, with early adoption permitted. The Company has selected a lease management system and is in the process of implementing processes and controls to enable the preparation of the required financial information for this standard. The Company expects that this adoption will result in material increases in assets and liabilities in its consolidated balance sheet as well as enhanced disclosures.

In June 2016, the FASB issued authoritative guidance related to the measurement of credit losses on financial instruments. This guidance is effective for fiscal years beginning after December 15, 2019, which will be the Company's first quarter of fiscal 2021. Early adoption is permitted for fiscal periods beginning after December 15, 2018, which will be the Company's first quarter of fiscal 2020. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued authoritative guidance to simplify the testing for goodwill impairment by removing step two from the goodwill testing. Under current guidance, if the fair value of a reporting unit is lower than its carrying amount (step one), an entity would calculate an impairment charge by comparing the implied fair value of goodwill with its carrying amount (step two). The implied fair value of goodwill was calculated by deducting the fair value of the assets and liabilities of the respective reporting unit from the reporting unit's fair value as determined under step one. This guidance instead provides that an impairment charge should be recognized based on the difference between a reporting unit's fair value and its carrying value. This guidance also does not require a qualitative test to be performed on reporting units with zero or negative carrying amounts. However, entities need to disclose any reporting units with zero or negative carrying amounts that have goodwill and the amount of goodwill allocated to each. This guidance is effective for fiscal years beginning after December 15, 2019, which will be the Company's first quarter of fiscal 2021, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In August 2017, the FASB issued authoritative guidance to better align the results of hedge accounting with an entity's risk management activities. This guidance updates the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. This guidance is effective for fiscal years beginning after December 15, 2018, which will be the Company's first quarter of fiscal 2020, and requires a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with early adoption permitted. The updated presentation and disclosure guidance is required only on a prospective basis. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

(2) Revenue Recognition

Significant Accounting Policies and Practices

Products Transferred at a Point in Time

The Company recognizes the majority of its revenue from its direct-to-consumer (brick-and-mortar retail stores and concessions as well as e-commerce) and wholesale distribution channels at a point in time when it satisfies a performance obligation and transfers control of the product to the respective customer. For the Company's brick-and-mortar retail stores and concessions, revenue is typically recognized at the point of sale. Revenue generated from the Company's e-commerce sites is recognized when merchandise is transferred to a common carrier. This is a change compared to the Company's treatment under previous guidance where revenue

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from the Company's e-commerce sites was recognized based on the estimated customer receipt date. This change had an immaterial impact on revenue for the first quarter of fiscal 2019. Revenue generated from the Company's wholesale distribution channel is recognized when control transfers to the customer, which generally occurs upon shipment. The amount of revenue that is recognized is based on the transaction price, which represents the invoiced amount and includes estimates of variable consideration such as allowances for sales returns, markdowns and loyalty award obligations, where applicable. The amount of variable consideration included in the transaction price may be constrained and is included only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period.

The Company accepts payments at its brick-and-mortar retail locations and its e-commerce sites in the form of cash, credit cards, gift cards and loyalty points, where applicable. Payment terms, typically less than one year, are offered to the Company's wholesale customers and do not include a significant financing component. The Company extends credit to wholesale customers based upon an evaluation of the customer's financial condition and credit history and generally requires no collateral but does obtain credit insurance when considered appropriate. As of May 5, 2018, approximately 51% of the Company's total net trade receivables and 63% of its European net trade receivables were subject to credit insurance coverage, certain bank guarantees or letters of credit for collection purposes. The Company's credit insurance coverage contains certain terms and conditions specifying deductibles and annual claim limits. The Company maintains allowances for doubtful accounts for estimated losses that result from the inability of its wholesale customers to make their required payments. The Company bases its allowances on analysis of the aging of accounts receivable at the date of the financial statements, assessments of historical and current collection trends, an evaluation of the impact of current economic conditions and whether the Company has obtained credit insurance or other guarantees. Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and records a provision for doubtful accounts based on these evaluations. The Company's credit losses for the periods presented were immaterial and did not significantly exceed management's estimates. Refer to Note 5 for further information regarding the Company's allowance for doubtful accounts.

Shipping and handling costs associated with outbound freight incurred to transfer a product to a customer are accounted for as fulfillment costs and are included in SG&A expenses. Sales and usage-based taxes collected from customers and remitted directly to governmental authorities are excluded from net revenues. This is consistent with the presentation of such amounts in previous years.

The Company does not have significant contract balances related to its direct-to-consumer or wholesale distribution channels other than the allowance for sales returns and markdowns as well as liabilities related to its gift cards and loyalty programs. The Company also does not have significant contract acquisition costs related to its direct-to-consumer or wholesale distribution channels.

Sales Return Allowances

The Company accrues for estimated sales returns in the period in which the related revenue is recognized. To recognize the financial impact of sales returns, the Company estimates the amount of goods that will be returned based on historical experience and current trends and reduces sales and cost of sales accordingly. The Company's policy allows retail customers in certain regions a grace period to return merchandise following the date of sale. Substantially all of these returns are considered to be resalable at a price that exceeds the cost of the merchandise. The Company adopted the new revenue recognition standard effective as of the first quarter of fiscal 2019, and accordingly, has included the allowance for sales returns in accrued expenses and the estimated cost associated with such sales returns within other current assets in its condensed consolidated balance sheet. Prior to the adoption of the new revenue recognition standard, the Company recorded the allowance for wholesale sales returns against accounts receivable and the estimated cost of inventory associated with the allowance for sales returns in inventories. The allowance for retail sales returns was included in accrued expenses which is consistent with the current presentation. As of May 5, 2018, the Company included \$24.3 million in accrued expenses related to the allowance for sales returns and \$9.8 million in other current assets related to the estimated cost of such sales returns. As of February 3, 2018, the Company included \$25.0 million and \$2.9 million in accounts receivable and

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accrued expenses, respectively, related to the allowance for sales returns and \$11.9 million in inventories related to the estimated cost of such sales returns.

Markdown Allowances

Costs associated with customer markdowns are recorded as a reduction to revenues and any amounts unapplied to existing receivables are included in accrued expenses. These markdown allowances resulted from seasonal negotiations with the Company's wholesale customers, as well as historical trends and the evaluation of the impact of current economic conditions. The Company adopted the new revenue recognition standard effective as of the first quarter of fiscal 2019, and accordingly, has included the allowance for markdowns in accrued expenses in its condensed consolidated balance sheet. As of May 5, 2018, the Company included \$9.5 million in accrued expenses related to the allowance for markdowns. As of February 3, 2018, the Company included \$10.8 million in accounts receivable related to the allowance for markdowns.

Gift Cards

Gift card breakage is income recognized due to the non-redemption of a portion of gift cards sold by the Company for which a liability was recorded in prior periods. Gifts cards are mainly used in the U.S. and Canada. The Company issues its gift cards in the U.S. and Canada through one of its subsidiaries and is not required by law to escheat the value of unredeemed gift cards to the state in which the subsidiary is domiciled. Estimated breakage amounts are accounted for under the redemption recognition method and are classified as additional net revenues as the gift cards are redeemed. The Company's gift card breakage rate is approximately 6.1% and 5.1% for the U.S. retail business and Canadian retail business, respectively, based upon historical redemption patterns, which represents the cumulative estimated amount of gift card breakage from the inception of the electronic gift card program in late 2002. Based upon historical redemption trends, the Company recognizes estimated gift card breakage as a component of net revenue in proportion to actual gift card redemptions, over the period that remaining gift card values are redeemed. Any future revisions to the estimated breakage rate may result in changes in the amount of breakage income recognized in future periods. There have been no changes to the Company's accounting for gift card breakage upon adoption of the new revenue recognition standard effective as of the first quarter of fiscal 2019. During each of the three months ended May 5, 2018 and April 29, 2017, the Company recognized \$0.1 million of gift card breakage to revenue. As of May 5, 2018 and February 3, 2018, the Company included \$4.8 million and \$5.2 million in accrued expenses related to its gift card liability, respectively.

Loyalty Programs

The Company has customer loyalty programs in North America, Europe and Asia which cover all of its brands. Under certain of the programs, primarily in the U.S. and Canada, customers accumulate points based on purchase activity. Once a loyalty program member achieves a certain point level, the member earns awards that may only be redeemed for merchandise. Unredeemed points generally expire after six months without additional purchase activity and unredeemed awards generally expire after two months. Where applicable, the Company allocates a portion of the transaction price from sales in its direct-to-consumer channel to its loyalty program by using historical redemption rates to estimate the value of future award redemptions. This amount is accrued in current liabilities and recorded as a reduction of net revenue in the period which the related revenue is recognized. During each of the three months ended May 5, 2018 and April 29, 2017, activity related to the Company's loyalty programs increased (decreased) net revenue by \$(0.3) million and \$0.3 million, respectively. The aggregate dollar value of the loyalty program accruals included accrued expense was \$4.5 million and \$3.8 million as of May 5, 2018 and February 3, 2018, respectively. Future revisions to the estimated liability may result in changes to net revenue.

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Intellectual Property Transferred Over Time

The Company's trademark license agreements represent symbolic licenses that are dependent on the Company's continued support over the term of the license agreement. The amount of revenue that is recognized from the licensing arrangements is based on sales-based royalty and advertising fund contributions as well as specific fixed payments, where applicable.

The typical license agreement requires that the licensee pay the Company the greater of a royalty based on a percentage of the licensee's net sales of licensed products or a guaranteed annual minimum royalty that typically increases over the term of the license agreement. Generally, licensees are also required to make contributions to advertising funds, as a percentage of their sales, over the term of the licensing agreement, and may elect to make additional contributions to support specific brand-building initiatives. The Company recognizes revenue from sales-based royalty and advertising fund contributions when the related sales occur which is consistent with the timing of when the performance obligation is satisfied. The Company adopted the new revenue recognition standard effective as of the first quarter of fiscal 2019, and accordingly, has recorded advertising contributions in revenue on a gross basis separate from any related advertising expenditures made by the Company which are recorded in SG&A expenses in the Company's condensed consolidated statements of loss. Prior to the adoption of the new revenue recognition standard, the Company recorded advertising contributions received from its licensees and the related advertising expenditures incurred by the Company on a net basis in its consolidated balance sheet. Under previous guidance, to the extent that the advertising contributions exceed the Company's advertising expenditures for its licensees, the excess contribution was treated as a deferred liability and was included in accrued expenses in the Company's condensed consolidated balance sheet. Refer to Note 1 for detail regarding the impact of this change on the Company's condensed consolidated balance sheet and its condensed consolidated statements of loss as a result of the adoption of the new revenue recognition standard. The Company records royalty and advertising payments received on the Company's purchases of licensed product as a reduction of the cost of the licensed product.

The Company's trademark license agreements customarily provide for a multi-year initial term ranging from three to ten years, and may contain options to renew prior to expiration for an additional multi-year period. Several of the Company's key license agreements provide for specified, fixed payments over and above the normal, ongoing royalty payments in consideration of the grant of the license rights. These payments are recognized ratably as revenue over the term of the license agreement and do not include a significant financing component. The unrecognized portion of upfront payments is included in deferred royalties in accrued expenses and other long-term liabilities depending on the short or long-term nature of the payments to be recognized. As of May 5, 2018, the Company had \$8.2 million and \$18.0 million of deferred royalties included in accrued expenses and other long-term liabilities, respectively. This compares to \$6.8 million and \$12.8 million of deferred royalties included in accrued expenses and other long-term liabilities, respectively, at February 3, 2018. During the three months ended May 5, 2018 and April 29, 2017, the Company recognized \$3.3 million and \$3.0 million in net royalties related to the amortization of the deferred royalties, respectively.

Contract balances related to the Company's licensing distribution channel consist primarily of royalty receivables and liabilities related to deferred royalties. Refer to Note 5 for further information on royalty receivables. The Company does not have significant contract acquisition costs related to its licensing operations.

Refer to Note 8 for further information on disaggregation of revenue by segment and country.

(3) Loss Per Share

Basic earnings (loss) per share represents net earnings (loss) attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. The Company considers any restricted stock units with forfeitable dividend rights that are issued and outstanding, but considered contingently returnable if certain service conditions are not met, as common equivalent shares outstanding. These restricted stock units are excluded from the weighted average number of common shares outstanding and basic earnings (loss) per share calculation until the respective service conditions have been met. Diluted earnings per share represent net earnings attributable to common stockholders divided by the weighted average number of common

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shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. The potentially dilutive impact of common equivalent shares outstanding is not included in the computation of diluted net loss per share as the impact of the shares would be antidilutive due to the net loss incurred for the period. Nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method since the nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, distributed and undistributed earnings attributable to nonvested restricted stockholders are excluded from net earnings (loss) attributable to common stockholders for purposes of calculating basic and diluted earnings (loss) per common share. However, net losses are not allocated to nonvested restricted stockholders because they are not contractually obligated to share in the losses of the Company.

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

	Three Months Ended	
	May 5, 2018	Apr 29, 2017
Net loss attributable to Guess?, Inc.	\$(21,221)	\$(21,293)
Less net earnings attributable to nonvested restricted stockholders	198	200
Net loss attributable to common stockholders	\$(21,419)	\$(21,493)
Weighted average common shares used in basic computations	79,901	83,010
Effect of dilutive securities:		
Stock options and restricted stock units (1)	—	—
Weighted average common shares used in diluted computations	79,901	83,010
Net loss per common share attributable to common stockholders:		
Basic	\$(0.27)	\$(0.26)
Diluted	\$(0.27)	\$(0.26)

(1) For the three months ended May 5, 2018 and April 29, 2017, there were 1,077,017 and 37,251, respectively, of potentially dilutive shares that were not included in the computation of diluted weighted average common shares and common equivalent shares outstanding because their effect would have been antidilutive given the Company's net loss.

For the three months ended May 5, 2018 and April 29, 2017, equity awards granted for 2,895,494 and 3,779,542, respectively, of the Company's common shares were outstanding but were excluded from the computation of diluted weighted average common shares and common equivalent shares outstanding because the assumed proceeds, as calculated under the treasury stock method, resulted in these awards being antidilutive. For the three months ended May 5, 2018, the Company also excluded 871,904 nonvested stock units which are subject to the achievement of performance-based conditions from the computation of diluted weighted average common shares and common equivalent shares outstanding because these conditions were not achieved as of May 5, 2018. For the three months ended April 29, 2017, the Company excluded 1,275,143 nonvested stock units which were subject to the achievement of performance-based or market-based vesting conditions from the computation of diluted weighted average common shares and common equivalent shares outstanding because these conditions were not achieved as of April 29, 2017.

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Share Repurchase Program

On June 26, 2012, the Company's Board of Directors authorized a program to repurchase, from time-to-time and as market and business conditions warrant, up to \$500 million of the Company's common stock. Repurchases under the program may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program, which may be discontinued at any time, without prior notice. During the three months ended May 5, 2018, the Company repurchased 1,118,808 shares under the program at an aggregate cost of \$17.6 million. During the three months ended May 5, 2018, the Company also paid an additional \$6.0 million for shares that were repurchased during the fourth quarter of fiscal 2018 but were settled during the first quarter of fiscal 2019. During the three months ended April 29, 2017, the Company repurchased 1,485,195 shares under the program at an aggregate cost of \$17.8 million. As of May 5, 2018, the Company had remaining authority under the program to purchase \$374.6 million of its common stock.

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(4) Stockholders' Equity and Redeemable Noncontrolling Interests

A reconciliation of common stock outstanding, treasury stock and the total carrying amount of total stockholders' equity, Guess?, Inc. stockholders' equity and stockholders' equity attributable to nonredeemable and redeemable noncontrolling interests for the fiscal year ended February 3, 2018 and three months ended May 5, 2018 is as follows (in thousands, except share data):

	Shares		Stockholders' Equity			Redeemable Noncontrolling Interests
	Common Stock	Treasury Stock	Guess?, Inc Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total	
Balance at January 28, 2017	84,069,492	56,440,482	\$969,222	\$ 11,772	\$980,994	\$ 4,452
Net earnings (loss)	—	—	(7,894)	3,993	(3,901)	—
Foreign currency translation adjustment	—	—	91,178	2,238	93,416	187
Loss on derivative financial instruments designated as cash flow hedges, net of income tax of \$2,738	—	—	(19,994)	—	(19,994)	—
Actuarial valuation loss and related amortization, prior service credit amortization and foreign currency and other adjustments on defined benefit plans, net of income tax of \$435	—	—	(1,647)	—	(1,647)	—
Issuance of common stock under stock compensation plans, net of tax effect	1,113,713	—	(1,257)	—	(1,257)	—
Issuance of stock under Employee Stock Purchase Plan	54,300	(54,300)	566	—	566	—
Share-based compensation	—	—	18,852	—	18,852	—
Dividends	—	—	(76,048)	—	(76,048)	—
Share repurchases	(3,866,387)	3,866,387	(56,159)	—	(56,159)	—
Noncontrolling interest capital contribution	—	—	—	11	11	951
Noncontrolling interest capital distribution	—	—	—	(1,358)	(1,358)	—
Balance at February 3, 2018	81,371,118	60,252,569	\$916,819	\$ 16,656	\$933,475	\$ 5,590
Cumulative adjustment from adoption of new accounting guidance	—	—	5,829	—	5,829	—
Net earnings (loss)	—	—	(21,221)	234	(20,987)	—
Foreign currency translation adjustment	—	—	(24,248)	(324)	(24,572)	(519)
Gain on derivative financial instruments designated as cash flow hedges, net of income tax of (\$1,287)	—	—	8,084	—	8,084	—
Actuarial valuation and prior service credit amortization and foreign currency and other adjustments on defined benefit plans, net of income tax of (\$52)	—	—	436	—	436	—
Issuance of common stock under stock compensation plans, net of tax effect	689,341	—	3,890	—	3,890	—
Issuance of stock under Employee Stock Purchase Plan	15,313	(15,313)	230	—	230	—
Share-based compensation	—	—	3,958	—	3,958	—

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Dividends	—	—	(18,499)	—	(18,499)	—
Share repurchases	(1,118,808)	1,118,808	(17,587)	—	(17,587)	—
Balance at May 5, 2018	80,956,964	61,356,064	\$857,691	\$ 16,566	\$874,257	\$ 5,071

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Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), net of related income taxes, for the three months ended May 5, 2018 and April 29, 2017 are as follows (in thousands):

	Three Months Ended May 5, 2018			
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Defined Benefit Plans	Total
Balance at February 3, 2018	\$(67,049)	\$(14,369)	\$(11,644)	\$(93,062)
Gains (losses) arising during the period	(24,248)	6,468	311	(17,469)
Reclassification to net loss for losses realized	—	1,616	125	1,741
Net other comprehensive income (loss)	(24,248)	8,084	436	(15,728)
Balance at May 5, 2018	\$(91,297)	\$(6,285)	\$(11,208)	\$(108,790)

	Three Months Ended Apr 29, 2017			
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Defined Benefit Plans	Total
Balance at January 28, 2017	\$(158,227)	\$ 5,400	\$(8,562)	\$(161,389)
Gains (losses) arising during the period	11,473	124	(13)	11,584
Reclassification to net loss for (gains) losses realized	—	(576)	89	(487)
Net other comprehensive income (loss)	11,473	(452)	76	11,097
Balance at April 29, 2017	\$(146,754)	\$ 4,948	\$(8,486)	\$(150,292)

Details on reclassifications out of accumulated other comprehensive income (loss) to net loss during the three months ended May 5, 2018 and April 29, 2017 are as follows (in thousands):

	Three Months Ended		Location of (Gain) Loss Reclassified from Accumulated OCI into Loss
	May 5, 2018	Apr 29, 2017	
Derivative financial instruments designated as cash flow hedges:			
Foreign exchange currency contracts	\$1,686	\$(618)	Cost of product sales
Foreign exchange currency contracts	201	(79)	Other income/expense
Interest rate swap	(8)	36	Interest expense
Less income tax effect	(263)	85	Income tax expense
	1,616	(576)	
Defined benefit plans:			
Net actuarial loss amortization (1)	152	117	Other income/expense
Prior service credit amortization (1)	(7)	(7)	Other income/expense
Less income tax effect	(20)	(21)	Income tax expense
	125	89	
Total reclassifications during the period	\$1,741	\$(487)	

- (1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic defined benefit pension cost. During the first quarter of fiscal 2019, the Company adopted new authoritative guidance which requires that the non-service components of net periodic defined benefit pension cost be presented outside of earnings (loss) from operations. The Company adopted this guidance on a retrospective basis and, as a result, reclassified these components from SG&A expenses to other income (expense) for the three months ended April 29, 2017. Refer to Note 13 for further information.

Redeemable Noncontrolling Interests

The Company is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest for its majority-owned subsidiary, Guess Brasil Comércio e Distribuição S.A. (“Guess

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Brazil”), which was established through a majority-owned joint venture during fiscal 2014. The put arrangement for Guess Brazil, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company beginning in the sixth year of the agreement, or sooner in certain limited circumstances, and every third anniversary from the end of the sixth year thereafter subject to certain time restrictions. The redemption value of the Guess Brazil put arrangement is based on a multiple of Guess Brazil’s earnings before interest, taxes, depreciation and amortization subject to certain adjustments and is classified as a redeemable noncontrolling interest outside of permanent equity in the Company’s condensed consolidated balance sheet. The carrying value of the redeemable noncontrolling interest related to Guess Brazil was \$1.5 million and \$1.6 million as of May 5, 2018 and February 3, 2018, respectively.

The Company is also party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest for its majority-owned subsidiary, Guess? CIS, LLC (“Guess CIS”), which was established through a majority-owned joint venture during fiscal 2016. The put arrangement for Guess CIS, representing 30% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company during the period beginning after the fifth anniversary of the agreement through December 31, 2025, or sooner in certain limited circumstances. The redemption value of the Guess CIS put arrangement is based on a multiple of Guess CIS’s earnings before interest, taxes, depreciation and amortization subject to certain adjustments and is classified as a redeemable noncontrolling interest outside of permanent equity in the Company’s condensed consolidated balance sheet. During fiscal 2018, the Company and the noncontrolling interest holder made additional capital contribution totaling \$3.2 million, of which \$2.2 million was paid by the Company and the remaining amount was paid by the noncontrolling interest holder to retain the same pro-rata interest in Guess CIS. The carrying value of the redeemable noncontrolling interest related to Guess CIS was \$3.6 million and \$4.0 million as of May 5, 2018 and February 3, 2018, respectively.

(5) Accounts Receivable

Accounts receivable is summarized as follows (in thousands):

	May 5, 2018	Feb 3, 2018
Trade	\$235,958	\$290,478
Royalty	8,742	5,504
Other	11,117	13,233
	255,817	309,215
Less allowances (1)	12,679	49,219
	\$243,138	\$259,996

As of February 3, 2018, the accounts receivable allowance included allowances for doubtful accounts, wholesale sales returns and wholesale markdowns. During the first quarter of fiscal 2019, the Company adopted a new revenue recognition standard on a modified retrospective basis which changed the presentation of allowances for wholesale sales returns and wholesale markdowns to be classified within accrued expenses rather than as a reduction to accounts receivable. Accordingly, the Company has included allowances of \$24.3 million and \$9.5 million related to wholesale sales returns and wholesale markdowns, respectively, in accrued expenses as of May 5, 2018. As of May 5, 2018, the accounts receivable allowance was only related to allowances for doubtful accounts. Refer to Notes 1 and 2 for further information regarding the impact from the adoption of the new revenue recognition standard on the Company’s condensed consolidated financial statements and related disclosures during the first quarter of fiscal 2019.

Accounts receivable consists of trade receivables relating primarily to the Company’s wholesale business in Europe and, to a lesser extent, to its wholesale businesses in the Americas and Asia, royalty receivables relating to its licensing operations, credit card and retail concession receivables related to its retail businesses and certain other receivables. Other receivables generally relate to amounts due to the Company that result from activities that are not related to the direct sale of the Company’s products or collection of royalties.

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(6)Inventories

Inventories consist of the following (in thousands):

	May 5, 2018	Feb 3, 2018
Raw materials	\$ 660	\$ 604
Work in progress	22	16
Finished goods (1)	434,240	427,684